Letter from the President of the Board of ZE PAK S.A.

Dear Sir or Madame/Dear Shareholders,

I am writing this letter in order to encourage you to acquaint yourselves with the periodical report of ZE PAK SA on the past year published today. There, you will find all the data necessary to assess the current condition of our Capital Group, the Company, as well as certain indications about the future.

Contrary to expectations, 2014 was the year of rapid improvement in the external conditions of the manufacturers of energy sector's operation. Although the downward trend of prices in the wholesale market of electricity reversed, but these levels still were not satisfactory, unlike the ones observed as early as at the turn of 2011 and 2012. In addition, it should be emphasised that, in accordance with market practice, contracting of the sale of electricity for 2014 largely took place in advance as early as in 2013, when the prices were at levels significantly lower than those observed from the second quarter of 2014. The rising costs of CO_2 emission are significant burden, which can be prominently seen comparing the structure of the ZE PAK Group in 2014 in comparison to previous years. Certificates of green energy origin prices are still at very low levels. Despite the above conditions, the ZE PAK Group was still able to generate positive cash flows from operating activities in 2014.

Unfortunately, the influence of single events negatively affected the results achieved by us in the past year. A write-off related to the court decision on the amount of compensation related to PPAs for the Pątnów Power Plant II and change in provisions related to mining activity were of special significance. On the other hand, it should also be noted that the results would be slightly worse if not for a couple of events of a unique character, which had a positive impact on the achieved results. These events were the result of restructuring activities concerning optimisation of the employment structure and changing conditions of the collective labour agreement and the liquidation of the corporate collective labour agreement.

In 2014, net production of electricity in power plants of the ZE PAK Group was 10.09 TWh, which means a decrease by 4.1% in comparison with 2013. Last year, sales of electricity (own production plus re-sale of electricity purchased on the market) increased by 3.2% in comparison to 2013 and was 13.5 TWh. Prices from the sale of electricity achieved last year were lower by 8.1% in comparison to the price level achieved in 2013. The consolidated EBITDA profit of the Group for 2014 was PLN 507.4 million and net profit of PLN 78.5 million.

In August last year, we paid PLN 0.68 per share to our shareholders as a dividend.

The Group did not neglect the investment activities. Last year, we were focused on the process of modernization of two units in the Pątnów Power Plant – works are progressing as planned, and we expect that, by the end of this year, both upgraded and meeting the IED emission conditions units will be put into operation. This means that they will work more efficiently and their operation will be less burdensome for the environment, thanks to the lower emissivity.

This year, we are going to finalise preparations for the commencement of the investment involving the construction of a modern CCPP construction in the Konin Power Plant. Currently, we have launched the tender procedure regarding selection of the turnkey contractor for this investment.

You will be constantly informed about our current and future investment plans.

We are aware of the challenges posed by the next and further years. We are intently observing the changes taking place in the environment of the Group, especially those related to the climate policy and the future shape of legislative and legal solutions for the manufacturers of energy sector. We believe that our strategy is flexible enough to be adapted to changes affecting the sector, in which we operate. We expect – like the entire sector of conventional manufacturers of energy in Poland – that the plants providing predictable, stable energy supplies and ensuring the safety of the national energy system will be able to conduct their activities in a more stable market environment, and the economic efficiency will translate into satisfaction of the shareholders of, among others, our Company.

I would like to thank employees, all shareholders, business partners, and any other people positively involved in the activities of the ZE PAK Group in 2014.

Kind regards,

Katarzyna Muszkat

The President of the Board of ZE PAK S.A.

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board and Shareholders' Meeting of Zespół Elektrowni Pątnów – Adamów – Konin S.A.

1. We have audited the attached consolidated financial statements of the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group ('the Group'), for which the holding company is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin at Kazimierska 45 street, for the year ended 31 December 2014 containing, the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2014 to 31 December 2014 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').

2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act;
   - National Auditing Standards issued by the National Council of Statutory Auditors;

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2014 to 31 December 2014, as well as its financial position[3] as at 31 December 2014;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Directors' Report for the period from 1 January 2014 to 31 December 2014 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Sebastian Łyczba
Certified auditor no. 9946

Warsaw, 19 March 2015

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN S.A.
CAPITAL GROUP

LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

I. GENERAL NOTES

1. Background

The holding company of the Capital Group (hereinafter 'the Group' or 'the Capital Group') is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 29 December 1994. The Company's registered office is located in Konin at Kazimierska 45 Street.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000021374 on 21 June 2001.

The Company was issued with tax identification number (NIP) 665-00-01-645 on 17 September 1993 and statistical number (REGON) 310186795 on 14 December 2000.

The principal activities of the holding company are as follows:

- production and distribution of electric energy;
- production and distribution of heat (steam and hot water).

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are related to this of the holding company and include the following activities:

- execution of construction works and installations in the field of engineering;
- property management;
- repair and maintenance of electric appliances;
- research and technical analysis;
- holding activity;
- coal mining;
- purchase and delivery of biomass;
- IT services.

As at 31 December 2014, the Company's issued share capital amounted to 101,647 thousand zlotys. Equity as at that date amounted to 3,819,717 thousand zlotys.

(in PLN thousand)

In accordance with information in note 28 of summary of significant accounting policies and other explanatory notes ('the additional notes and explanations') of the attached consolidated financial statements, the ownership structure of the Company's issued share capital as at 31 December 2014 was as follows:

	Number of shares	Number of votes	Par value of shares	Percentage of issued share capital
Zygmunt Solorz - Żak (directly and indirectly) through: Elektrim S.A., Embud sp. z o.o., Argumenol Investment Company Limited.	26,200,867	26,200,867	52,401,734	51.55%
ING Otwarty Fundusz Emerytalny	5,068,410	5,068,410	10,136,820	9.97%
Other	19,554,270	19,554,270	39,108,540	38.48%
Total	50,823,547	50,823,547	101,647,094	100.00%

In accordance with information in note 28 of summary of significant accounting policies and other explanatory notes ('the additional notes and explanations') of the attached consolidated financial statements, the ownership structure of the Company's issued share capital as at 31 December 2013 was as follows:

	Number of shares	Number of votes	Par value of shares	Percentage of issued share capital
Zygmunt Solorz - Żak (indirectly) through: Elektrim S.A., Embud sp. z o.o., Polsat Media B.V.	26,200,867	26,200,867	52,401,734	51.55%
ING Otwarty Fundusz Emerytalny	5,069,361	5,069,361	10,138,722	9.97%
Other	19,553,319	19,553,319	39,106,638	38.48%
Total	50,823,547	50,823,547	101,647,094	100.00%

There were no movements in the share capital in the reporting period.

As at 19 March 2015, the holding company's Management Board was composed of:

Katarzyna Muszkat	Chairman
Anna Strižyk	Vice Chairman
Piotr Jarosz	Vice Chairman
Sławomir Sykucki	Vice Chairman

There were following changes in the Company's Management Board during the reporting period as well as during the period from the balance sheet date to the date of the opinion:

On 2 December 2014, Mr. Sławomir Sykucki was appointed by the Supervisory Board on the position of Vice Chairman.

2. Group Structure

As at 31 December 2014, the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion to the financial statements prepared for the year ended 31 December 2014 in accordance with Polish Accounting Act/IFRS	Name of authorised entity that audited financial statements
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„Elektrownia Pątnów II" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
PAK Kopalnia Węgla Brunatnego Konin S.A.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
PAK Kopalnia Węgla Brunatnego Adamów S.A.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK Infrastruktura" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
PAK-Volt S.A.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK – HOLDCO" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
„PAK Centrum Usług Informatycznych" sp. z o.o. / w likwidacji	full consolidation	no requirement to audit financial statements	-
„PAK Centrum Badań Jakości" sp. z o.o. w likwidacji	full consolidation	no requirement to audit financial statements	-
„PAK GÓRNICTWO" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
Energoinwest Serwis sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Ochrona Osob i Mienia „ASEKURACJA" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
„Aquakon" sp. z o.o.	full consolidation	no requirement to audit financial statements	-

Eko-Surowce sp. z o.o.	full consolidation	no requirement to audit financial statements	-
KWE sp. z o.o.	full consolidation	no requirement to audit financial statements	-
Centrum Zdrowia i Relaksu „Verano" sp. z o.o.	equity method	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
EL PAK Serwis sp. z o.o.	full consolidation	no requirement of audit financial statements	-

The list of consolidated companies changed when compared to the prior year due to incorporation of the company "EL PAK Serwis" sp. z o.o. and sale of 75% of shares in the company Centrum Zdrowia i Relaksu "Verano" sp. z o.o. by PAK Kopalnia Węgla Brunatnego Konin S.A.

3. Consolidated Financial Statements

3.1 Auditors’ opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by Supervisory Board of the holding company on 1 July 2014 to audit the Group’s financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 23 July 2014 with the holding company’s Management Board, we have audited the consolidated financial statements for the year ended 31 December 2014.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors’ unqualified opinion dated 19 March 2015, stating the following:

‘**To the Supervisory Board and Shareholders’ Meeting of Zespół Elektrowni Pątnów – Adamów – Konin S.A.**

1. We have audited the attached consolidated financial statements of the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group (‘the Group’), for which the holding company is Zespół Elektrowni Pątnów – Adamów – Konin S.A. (‘the Company‘) located in Konin at Kazimierska 45 street, for the year ended 31 December 2014 containing, the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2014 to 31 December 2014 and the summary of significant accounting policies and other explanatory notes (‘the attached consolidated financial statements’).

2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act;
   - National Auditing Standards issued by the National Council of Statutory Auditors;

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2014 to 31 December 2014, as well as its financial position[3] as at 31 December 2014;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Directors' Report for the period from 1 January 2014 to 31 December 2014 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).'

We conducted the audit of the consolidated financial statements during the period from 16 February 2015 to 19 March 2015. We were present at the holding company's head office from 16 February 2015 to 11 March 2015.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation 19 March 2015, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by Artur Żwak, key certified auditor no. 9894, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2013. The consolidated financial statements for the year ended 31 December 2013 were approved by the General Shareholders' Meeting on 25 June 2014.

The consolidated financial statements of the Group for the financial year ended 31 December 2013, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 11 July 2014 with the National Court Register.

[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in PLN thousand)

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2012 – 2014. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2014 and 31 December 2013.

	2014	2013	2012
Total assets	6,867,688	6,470,936	6,259,184
Shareholders' equity	3,819,717	3,782,616	3,541,952
Net profit/ loss	78,484	231,506	402,776
Return on assets (%)	1.14%	3.58%	6.43%
Net profit x 100% / Total assets			
Return on equity (%)	2.05%	6.12%	11.37%
Net profit x 100% / Shareholders' equity at the beginning of the period			
Profit margin (%)	2.93%	8.38%	14.79%
Net profit x 100% / Sales of finished goods, goods for resale and raw materials			
Liquidity I	0.98	1.06	0.97
Current assets / Short-term creditors			
Liquidity III	0.30	0.40	0.34
Cash and cash equivalents / Short-term creditors			
Debtors days	21 days	17 days	19 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			
Creditors days	24 days	19 days	23 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			

(in PLN thousand)

	2014	2013	2012
Inventory days	35 days	34 days	33 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	82.44%	83.43%	85.22%
(Equity + long-term provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio (%)	44.38%	41.54%	43.41%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation:			
Yearly average	0.00%	0.90%	3.70%
December to December	-1.00%	0.70%	2.40%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets decreased to 1.14% in 2014 in comparison with 3.58% in 2013 and with 6.43% in 2012.
- Return on equity decreased to 2.05% in 2014 in comparison with 6.12% in 2013 and with 11.37% in 2012.
- Profit margin decreased to 2.93% in 2014 in comparison with 8.38% in 2013 and with 14.79% in 2012.
- Liquidity I amounted to 0.98 as at 31 December 2014 and was lower in comparison with 1.06 as at 31 December 2013 and was at the same level like as at 31 December 2012.
- Liquidity III amounted to 0.30 as at 31 December 2014 and was lower in comparison with 0.40 as at 31 December 2013 and in comparison with 0.34 as at 31 December 2012.
- Debtors days ratio amounted to 21 days in 2014 and was higher in comparison with 17 days in 2013 and with 19 days in 2012.
- Creditors days ratio amounted to 24 days in 2014 and was higher in comparison with 19 days in 2013 and with 23 days in 2012.
- Inventory days ratio amounted to 35 days in 2014 and was higher in comparison with 34 days in 2013 and with 33 days in 2012.
- Stability of financing ratio amounted to 82.44% as at 31 December 2014 and was lower in comparison with 83.43% as at 31 December 2013 and with 85.22% as at 31 December 2012.
- Debt ratio amounted to 44.38% as at 31 December 2014 and was higher in comparison with 41.54% as at 31 December 2013 and with 43.41% as at 31 December 2012.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2014 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 6 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2014, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2014 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 10 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2014.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2014.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

In the audited consolidated financial statements for the year ended 31 December 2013 there was no goodwill.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 0 thousand zlotys as at 31 December 2014. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 28, 29 and 30 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2014 and include the financial data for the period from 1 January 2014 to 31 December 2014.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

The effects of the sale of part of the shares of Centrum Zdrowia i Relaksu "Verano" sp. z o.o. were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the ended 31 December 2014.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2014 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2014 to 31 December 2014 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Sebastian Łyczba
Certified auditor no. 9946

Warsaw, 19 March 2015

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN S.A. CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

ALONG WITH THE OPINION OF THE INDEPENDENT STATUTORY AUDITOR

(this is a translation of the document issued originally in Polish language. The Polish original should be referred to in matters of interpretation)

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Continued activities	13.1		
Sales revenues	13.6	**2 680 111**	**2 763 840**
Cost of goods sold		(2 452 160)	(2 254 096)
Gross profit/(loss) on sales		**227 951**	**509 744**
	13.2		
Other operating income	13.6	88 060	25 847
Selling and distribution expenses	13.6	(3 973)	(2 973)
Administrative expenses	13.3	(148 639)	(149 093)
Other operating expenses		(15 969)	(24 978)
Gross profit/(loss) on operating activities		**147 430**	**358 547**
	13.4		
Finance income	13.5	21 344	18 834
Finance costs		(70 789)	(77 626)
Profit before tax	15.1	**97 985**	**299 755**
Income tax expense		(19 501)	(68 249)
Net profit/ (loss) for the year from continuing operations		**78 484**	**231 506**
Discontinued operations			
Profit/ (loss) after tax for the year from discontinued operations		-	-
Net profit/ (loss) for the period		**78 484**	**231 506**
Net profit/loss attributable: to equity holders of the parent		81 977	216 946
to non-controlling interests		(3 493)	14 560
Earnings per share (in PLN)			
Basic from the profit for the financial year, attributable to shareholders of the parent company	17	1,61	4,27
Basic from the profit on continued activities, attributable to shareholders of the parent company	17	1,61	4,27
Diluted from the profit for the financial year, attributable to shareholders of the parent company	17	1,61	4,27
Diluted from the profit on continued activities, attributable to shareholders of the parent company	17	1,61	4,27

Accounting principles (policies) and additional explanatory notes to the consolidated financial statement are its integral part.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
for the year ended 31 December 2014

	Note	Year ended 31 December 2014	Year ended 31December 2013
Net profit for the period		**78 484**	**231 506**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges	*14*	1 346	11 712
Exchange differences on translation of foreign entities	*14*	77	41
Income tax on other comprehensive income	*15.1,14*	(256)	(2 225)
Other comprehensive income, net subject reclassified to profit / (loss) in subsequent reporting periods		1 167	9 528
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Profit/Losses on provisions for post-employment	*14*	(9 502)	(364)
Income tax concerning other comprehensive income	*15.1,14*	1 805	69
Other comprehensive income are not subject to reclassification of net profit / (loss) in subsequent reporting periods		**(7 697)**	**(295)**
Net other comprehensive income		**(6 530)**	**9 233**
Comprehensive income for the period		**71 954**	**240 739**
Total comprehensive income attributable to equity holders of the parent		75 447	226 179
Total comprehensive income attributable to non-controlling interests		(3 493)	14 560

Accounting principles (policies) and additional explanatory notes to the consolidated financial statement are its integral part.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of 31 December 2014

	Note	*31 December 2014*	*31 December 2013*
ASSETS			
Non-current assets			
Property, plant and equipment	*19*	5 299 618	4 990 212
Investment property		2 799	2 225
Intangible assets	*21*	82 263	31 455
Loans and receivables		-	-
Assets of removing overburden and other long-term mining assets	*22*	149 901	138 712
Other long-term financial assets	*23.1*	12 591	25 184
Other long-term non-financial assets	*23.2*	25 949	48 926
Amounts due from customers under long-term construction contracts		-	-
Deferred tax assets	*15.3*	112 870	101 992
Total non-current assets		**5 685 991**	**5 338 706**
Current assets			
Short-term intangible assets	*21*	176 957	151 262
Inventories	*25*	237 116	212 468
Trade and other receivables	*0*	253 977	197 847
Income tax receivables		12 742	22 049
short-term financial derivatives (assets)		-	-
Other short-term financial assets	*23.1*	94 748	96 340
Other short-term non-financial assets	*23.2*	39 434	7 501
Assets of removing overburden and other short -term mining assets	*22*	556	556
Amounts due from customers under long-term construction contracts	*13.8*	10 047	13 229
Cash and cash equivalents	*27*	356 120	430 978
Total current assets		**1 181 697**	**1 132 230**
Assets classified as held for sale		-	-
TOTAL ASSETS		**6 867 688**	**6 470 936**

		31 December 2014	*31December 2013*
Equity and liabilities			
Equity			
Issued capital	*28*	101 647	101 647
Treasury shares	*29*	-	-
Reserve capital	*30*	2 398 399	2 200 508
Revaluation reserve from valuation of hedging instruments	*30.1*	(17 741)	(18 831)
Other reserve capital		5 877	5 877
Retained earnings/Accumulated losses		1 249 448	1 276 436
Net profit/loss		81 977	216 946
Exchange differences on translation of foreign entities		110	33
Equity attributable to equity holders of the parent		**3 819 717**	**3 782 616**
Equity attributable to non-controlling interests	*30.3*	-	-
Total equity		**3 819 717**	**3 782 616**
Non-current liabilities			
Interest-bearing loans and borrowings	*31*	867 221	652 323
Long-term employee benefits	*24.1*	108 554	223 889
Trade and other long-term financial liabilities	*34.2*	103 742	60 041
Long-term financial derivatives (liabilities)	*34.4*	15 059	15 821
Long-term subsidies	*0*	63 832	49 286
Other long-term provisions and accruals	*32*	361 142	301 547
Amounts due to customers under long-term construction contracts	*13.8*	-	-
Deferred tax liability		322 319	313 170
Total non-current liabilities		**1 841 869**	**1 616 077**
Current liabilities			
Trade and other short-term financial liabilities	*34.1*	355 202	241 586
Current portion of interest-bearing loans and borrowings	*31*	348 553	405 724
Short-term financial derivatives (liabilities)	*34.4*	8 684	9 420
Other non-financial liabilities	*34.3*	134 015	143 931
Current income tax liability		1 970	1 326
Short-term employee benefits	*24.1*	38 553	22 988
	34.6	12 779	1 982

(in PLN thousand*10)

Short-term subsidies	*13.8*	20 245	8 070
Amounts due to customers under long-term construction contracts	*32*	286 101	237 216
Other short-term provisions and accruals			
		1 206 102	**1 072 243**
Total current liabilities		-	-
Liabilities directly associated with assets classified as held for sale"		**3 047 971**	**2 688 320**
Total liabilities		**6 867 688**	**6 470 936**
TOTAL EQUITY AND LIABILITIES			

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2014

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Cash flow from operating activities			
Profit /(loss) before tax		97 985	299 755
Adjustments for			
Depreciation and amortization	*27*	352 949	355 855
Interests and shares in profits		30 492	46 564
Profit/loss on foreign exchange differences		14 298	18 975
Profit/loss on investing activities		(14 986)	(5 580)
Increase/decrease in receivables	*27*	(82 536)	19 578
Increase/decrease in inventories	*27*	(24 647)	(24 143)
Increase/decrease in payables except for loans and borrowings	*27*	128 479	29 178
Change in provisions, prepayments, accruals and employee benefits	*27*	149 878	107 008
Income tax paid		(9 896)	(9 834)
Allowances for emission of CO_2		(228 337)	(176 444)
Other	*27*	(7)	(2 796)
Net cash flow from operating activities		**413 672**	**658 116**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		40 357	16 084
Purchase of property, plant and equipment and intangible assets		(616 608)	(311 236)
Proceeds and expenses relating to other financial assets		20 918	30 620
Purchase of other financial assets		-	(2 023)
Acquisition of subsidiary, after deducting cash acquired		-	-
Dividends received		5 522	5 075
Interest received		83	1 000
Other		(57)	-
Net cash flow from investing activities		**(549 785)**	**(260 480)**
Cash flow from financing activities			
Proceeds from issuance of shares		-	-
Purchase of treasury shares		-	-
Payment of finance lease liabilities		(17 413)	(18 783)

Proceeds from loans and borrowings and debt securities		412 912	80 169
Repayment of loans and borrowings and debt securities		(278 962)	(293 172)
Dividends paid		(34 560)	-
Interest paid		(53 871)	(46 883)
Other		31 958	(589)
Net cash flow from financing activities		**60 064**	**(279 258)**
Net increase/decrease in cash and cash equivalents		**(76 049)**	**118 378**
Cash and cash equivalents at the beginning of the period		**431 317**	**312 939**
Cash and cash equivalents at the end of the period, of which:	*27*	**355 268**	**431 317**
of restricted use		-	10 208

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Note	*Issued capital*	*Treasury shares*	*Reserve capital*	*Revaluation reserve- valuation of hedging instruments*	*Other reserve capital*	*Retained earnings/Accumulated losses*	*Exchange differences on translation of foreign entities*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2014		**101 647**	**-**	**2 200 508**	**(18 831)**	**5 877**	**1 493 382**	**33**	**3 782 616**	**-**	**3 782 616**
Net profit for the period		-	-	-	-	-	81 977	-	81 977	(3 493)	78 484
Total other comprehensive income		-	-	-	1 090	-	(7 697)	77	(6 530)	-	(6 530)
Total income for the period		**-**	**-**	**-**	**1 090**	**-**	**74 280**	**77**	**75 447**	**(3 493)**	**71 954**
Distribution of profits from previous years		-	-	197 891	-	-	(197 891)	-	-	-	-
Dividend paid		-	-	-	-	-	(34 560)	-	(34 560)	-	(34 560)
The effect of the settlement of a put option on the shares of non-controlling interests	*30.3*	-	-	-	-	-	(3 493)	-	(3 493)	3 493	-
Other changes		-	-	-	-	-	(293)	-	(293)	-	(293)
As of 31 December 2014		**101 647**	**-**	**2 398 399**	**(17 741)**	**5 877**	**1 331 425**	**110**	**3 819 717**	**-**	**3 819 717**

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

	Note	*Issued capital*	*Treasury shares*	*Reserve capital*	*Revaluation reserve- valuation of hedging instruments*	*Other reserve capital*	*Retained earnings/Accumulated losses*	*Exchange differences on translation of foreign entities*	*Total*	*Non-controlling interest*	*Total Equity*
As of 1 January 2013		**104 052**	**(31 280)**	**1 956 261**	**(28 318)**	**3 472**	**1 529 264**	**(8)**	**3 533 443**	**117**	**3 533 560**
Change in the accounting policy in connection with the implementation of IFRIC 20 - retrospective recognition		–	–	–	–	–	6 469	–	6 469	–	6 469
Change in connection with the final settlement of the purchase of KWB A and KWB K		–	–	–	–	–	**1 923**		**1 923**		**1 923**
Restated data as of 1 January 2013		**104 052**	**(31 280)**	**1 956 261**	**(28 318)**	**3 472**	**1 537 656**	**(8)**	**3 541 835**	**117**	**3 541 952**
Net profit for the period		–	–	–	–	–	216 946	–	216 946	14 560	231 506
Total other comprehensive income		–	–	–	9 487	–	(295)	41	9 233	–	9 233
Comprehensive income for the period		–	–	–	**9 487**	–	**216 651**	**41**	**226 179**	**14 560**	**240 739**
Distribution of previous years' profits		–	–	275 527	–	–	(275 527)	–	–	–	–
Redemption of treasury shares		(2 405)	31 280	(28 875)	–	–	–	–	–	–	–
Establishment of reserve capital from supplementary capital		–	–	(2 405)	–	2 405	–	–	–	–	–
Effect of settlement of put option on non-controlling shares	*30.3*	–	–	–	–	–	14 560	–	14 560	(14 560)	-
Repurchase of non-controlling share of Energoinwest		–	–	–	–	–	–	–		(117)	(117)
Other		–	–	–	–	–	42	–	42	–	42
As of 31 December 2013		**101 647**	–	**2 200 508**	**(18 831)**	**5 877**	**1 493 382**	**33**	**3 782 616**	–	**3 782 616**

THE RULES (POLICIES) OF ACCOUNTING AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ("the parent company", "the Company", "ZE PAK S.A.") and its subsidiaries (see Note 2). The Group's consolidated financial statement covers the year concluded on 31 December 2014 and includes comparative data for the year concluded on 31 December 2013. The parent company is entered into the Register of Entrepreneurs of the National Court Register kept by the District Court Poznań – Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register, under the KRS number 0000021374.

The parent company was assigned the statistical number (REGON) 310186795.

The duration of the parent and member companies of the Capital Group is unlimited.

The main activities of the Group are:

1. generation and sale of electricity,
2. generation and sale of heat (steam and hot water),
3. lignite extraction.

(in PLN thousand)

2. Composition of the Group

The Group consists of Zespół Elektrowni Pątnów – Adamów – Konin S.A. and the following subsidiaries:

Entity	Seat	Scope of activities	Percentage share of the Group in capital	
			As of 31 December 2014	As of 31 December 2013
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.*	62-510 Konin ul. Przemysłowa 158	Repair and construction services	100,00%	100,00%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń „EL PAK" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services with regard to servicing industrial automation systems and electrical equipment	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity from the unit 464 MW	100%**	100%**
„PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activities	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction works with regard to engineering structures not elsewhere classified	100,00%	100,00%
„PAK Centrum Usług Informatycznych" sp. z o.o. in liquidation	62-510 Konin ul. Kazimierska 45	IT services	100,00%	100,00%
„PAK Centrum Badań Jakości" sp. z o.o. in liquidation	62-510 Konin ul. Przemysłowa 158	Chemical tests and analyses	100,00%	100,00%
„PAK GÓRNICTWO"sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal mining	100%***	100%***
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Repair and construction services	100%****	100%****
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite mining	85,00%	85,00%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite mining	85,00%	85,00%

(in PLN thousand)

Ochrona Osób i Mienia „ASEKURACJA" sp. z o.o. in liquidation	62-540 Kleczew ul. 600-lecia 9	Protection of people and property	85%*****	85%*****
„Aquakon" sp. z o.o.	62-610 Sompolno Police	Production and sale of mineral waters	81,8%*****	66,6%*****
Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Railway transport of lignite, sale of lignite	85%*****	85%*****
KWE sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Wind farms, production of electricity	42,5%*****	42,5%*****
Centrum Zdrowia i Relaksu „Verano" sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Vacation and sanatorium services	21,25%*****	85%*****
PAK-Volt S.A.	00-834 Warszawa ul. Pańska 77/79	Sale of electricity	100,00%	100,00%
EL PAK Serwis sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and service of electric devices and machinery	100%******	-

** Affiliate – Przedsiębiorstwo Remontowe "PAK SERWIS" Sp. z o.o. with a foreign branch in Germany.*
*** indirect share by "PAK – HOLDCO" Sp. z o.o.*
**** indirect share by the PAK Centrum Badań Jakości Sp. z o.o. 6% as of 31 March 2014, on 20 May 2014, the PAK Centrum Badań Jakości Sp. z o.o. company sold its shares without remuneration to the PAK Górnictwo Sp. z o.o. company in order to their redemption without decreasing the initial capital.*
***** indirect share by Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o.*
****** indirect share by PAK KWB Konin (direct share of PAK KWB Konin in "Aquakon" Sp. z o.o. is 96.2%, in KWE Sp. z o.o. in liquidation 50%, in Centrum Zdrowia i Relaksu "Verano" 100% as of 31 December 2013, and 25% as of 31 December 2014).*
******* indirect share by "EL PAK" Sp. z o.o. 100% the company was established on 26 March 2014*

As of 31 December 2014, share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

During the year concluded on 31 December 2014, the composition of the Capital Group changed due to the creation of "EL PAK Serwis" Sp. z o.o. and the disposal of 75% of shares in the Centrum Zdrowia i Relaksu "Verano" Sp. z o.o. company by PAK KWB Konin.

3. Composition of the parent company's Management Board

In the financial year of 2014, the Company's Management Board composition was as follows:

- Katarzyna Muszkat — President of the Management Board
- Anna Striżyk — Vice-President of the Board
- Piotr Jarosz — Vice-President of the Management Board

On 2 December 2014, the Supervisory Board of the Company adopted a resolution appointing Mr Sławomir Sykucki to the Management Board of the Company and for the role of the Vice President of the Management Board. The Resolution became effective upon its adoption. By the date of approval of this statement that is on 19 March 2015, the composition of the Management Board was not subject to further changes.

4. Approval of the financial statement

This consolidated financial statement was approved for issuing by the Management Board on 19 March 2015.

5. Significant values based on professional judgement and estimates

5.1. Professional judgement

The preparation of the consolidated financial statement of the Group requires, from the Management Board of the parent company, the judgements, estimates and assumptions, which affect the reported income, costs, assets, liabilities and the related notes and disclosures related to contingent liabilities. Uncertainty about these assumptions and estimates may result in the significant impairment of balance sheet values of assets and liabilities in the future.

In the process of application of the rules (policies) of accounting, the Management Board made the following judgements that have the greatest impact on the presented balance sheet values of assets and liabilities.

Capitalisation of foreign exchange differences

According to the implementing investments, the Group's companies use sources of borrowing costs.

The borrowing costs, which can be directly allocated to the implementing investments, are capitalised in the value of the capital work in progress until the commissioning of the capital work to use.

The companies capitalise the foreign exchange differences related to the received credits and loans in the foreign currency to the extent, to which they represent an adjustment to the interest costs. The Group uses the cumulative approach in the scope of capitalisation of external financing costs. The cumulative approach considers an investment as a whole. That is why the amount of foreign exchange differences possible to be capitalised as an adjustment of external financing costs in the reporting period may be subject to changes together with fluctuations in exchange rates in the period of investment.

Classification of lease contracts

The Group classifies the lease as operating or financial one based on the assessment of the extent to which the risk and benefits of ownership of the leased asset come to the lessor and to the lessee. This assessment is based on the economic content of each transaction.

Identification of embedded derivatives

At each balance sheet date, the Group's management assesses whether under the contracts, there are economic characteristics and risk specific to the embedded derivative in a foreign currency, which are not closely related to the economic characteristics and risk of the host agreement.

5.2. Uncertainty of estimates

Basic assumptions concerning the future and other key sources of uncertainty occurring at the balance sheet date, to which vital risk of the significant adjustment of balance sheet value of assets and liabilities in the next financial year are related, are discussed below. The Group adopted assumptions and estimates concerning the future on the basis of the knowledge possessed during development of the financial statement. Occurring assumptions and estimates may be subject to change due to future events resulting from market fluctuations or fluctuation not controlled by the Group. Such fluctuations are reflected in estimates or assumptions at the moment of occurrence.

(in PLN thousand)

Loss in fixed assets

As a result of analyses conducted on 31 December 2014, the Group identified the existence of circumstances, which would indicate possible loss in value of a component of assets, in the form of balance sheet value of net assets of the Group, higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of conducted tests, it was stated that there is no necessity of recognition of impairment write-downs against property. Information about the conducted test was presented in note 19.

Provisions' evaluation due to employee benefits

Provisions due to employee benefits were estimated using actuarial methods. The assumptions adopted for that purpose were presented in note 24.1.

The estimate was developed on the basis of following main assumptions:

- discount rate 2,6%
- expected inflation rate 2,5%
- expected remuneration growth rate 3,0%

Changes in financial indexes, which are a basis of the estimation would change the balance of provisions with the amounts presented in the table below.

	(+) increase by 1 p.p.	(-) decrease by 1 p.p.
discount rate	(10,374)	13,061
remuneration growth rate	12,998	(9,630)

A component of deferred tax assets

The Group recognises a component of deferred tax assets on the basis of assumption that tax profit enabling to its use will be achieved. The deterioration of achieved tax results in the future would make this assumption unfounded.

Fair value of financial instruments

The fair value of financial instruments, for which there is no active market, is estimated using appropriate evaluation techniques. While choosing the appropriate methods and assumptions, the Group is driven by professional judgement. The way of estimation of the fair value of particular financial instruments was presented in note 10.16.

Capitalisation of stripping costs in the production phase

In duly justified cases specified by IFRIC 20, the Group capitalises stripping costs in the phase of production of an open pit. The basis of costs capitalisation is fulfilling the following conditions: it is plausible that the Group will achieve future economic benefits related to stripping, the Group is able to identify that a part of the coal deposit, to which the access was facilitated, and stripping costs concerning that part of the deposit may be reliably evaluated. The Group verifies estimates concerning the above criteria in order to ensure proper costs capitalisation periodically.

The settlement period for assets due to stripping and other mining assets

The Group verifies the specified settlement period of assets concerning stripping and other mining assets on the basis of current forecasts of the period of use of open pits.

Share based payments

In order to settle the employee shares, it was accepted that the date of start vesting for shares is the date of the Company's commercialisation, and the date of granting entitlements to shares is the date of final hanging lists with number of shares granted to PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A.'s employees. The fair value of the programme on the day of the acquisition of control was specified on the basis of the fair value of the PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. companies. The process of acquisition of shares by entitled employees begun in February 2013 and lasted until 20 October 2014. The price of shares redemption was specified in PAK KWB Konin and PAK KWB Adamów's shares sale agreements dated 28 May 2012 and was established at the level of the price of purchase of shares of the earlier purchased shares of mines index-linked by the consumption products and service prices rate.

Compensation for the termination of long-term contracts for sale of power and electricity

In note 35, the descriptions of essential contingent liabilities and essential legal proceedings, including these concerning compensations for the termination of long-term contracts for sale of power and electricity, were presented.

Revenue recognition

The Group uses the percentage of work completion method at settlement of long-term contracts. The use of this method requires from the Group the estimation of proportions of completed works to all services, which are to be performed.

On every balance sheet date, the Group revaluates budgeted estimates of total revenues and costs of realised projects. The projected contract-related loss is recognised as costs of the period, when it was recognised in accordance with IAS 11.

Depreciation rates

The amount of depreciation rates is determined on the basis of the projected period of economic usability of components of tangible fixed assets and intangible values. The Group verifies accepted periods of economic usability on the basis of current estimates annually.

Receivables impairment write-downs

At the balance sheet date, the Group evaluates whether there is objective evidence of loss in value of the component of receivables or the group of receivables. If value possible to recover the component of assets is lower than its balance sheet value, a given entity establishes an impairment write-down to the level of current value of planned cash flows.

The provision for liquidation of components of tangible fixed assets

The Group creates the provision for liquidation of components of tangible fixed assets in case of such obligation, or acceptance of such a liability by the Group's management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group revaluates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. The provision described in note 32.3.2.

The provision for liquidation of ash dumps

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economical analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of every reporting period, the Group revaluates values of the provision. The provision described in note 32.3.2.

Reclamation provisions and other related to mining activity

The Group creates both the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of estimates of future reclamation costs, as well as assumed dates of start and finish of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, and internal estimates of the Group, and is discounted on every balance sheet date. The provision described in note 32.3.3.

Evaluation of energy certificates

Due to the energy production from renewable energy sources, gas, and peak load co-generation, the Group recognises certificates of origin of energy according to the prices on the day, when their granting became certain. The Group evaluates certificates of origin to net value possible to achieve on every balance sheet date – on 31 December 2014 to the price amounting to 153,63 PLN/MWh. An impairment write-down is established in case when the sale price that is possible to achieve, which is diminished by disposition costs, is lower than the historical cost.

The provision for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (CER).

The Group recognises the provision for the redemption of greenhouse gases allowances and certified emission reductions. Due to the conclusion of the period related to the settlement of allocation of allowances of KPRU II, since 1 January 2013, another settlement period of 2013 – 2020 concerning allowances has been applicable. The assumption of this period is granting free EUA allowances to the Group resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation resulting from Article 10c of the ETS Directive based on granting additional free allowances, if declared investment expenses for investments reported to the National Investment Plan are paid.

The emission in the ZE PAK S.A. Group in 2014 amounted to 12 574 175 tonnes of CO2. The Group has units in the number of 1,623,110 purchased in 2013 for the purpose of redemption in 2014. In April 2014, the Group obtained free EUA resulting from Article 10a in a number of 312,468 EUA, and resulting from Article 10c in a number of 1,682,800 EUAs. We plan that the ZE PAK Group will obtain free EUAs for 2014 of Article 10c in a number of 2,241,959 EUAs.

In relation to the above, the Group additionally bought 6,352,701 EUAs in 2014 and 361,137 ERUs to comply with the obligation to redeem the emission for 2014.

As of 30 September 2014, the Company created the provision for allowances in relation to the actual size of emissions for the period between 1 January 2014 and 31 December 2014.

6. Basis for the development of the consolidated financial statement

This consolidated financial statement was developed under the historical cost convention, except for financial derivative instruments.

The balance sheet value of the recognised secured assets and liabilities is adjusted for the fair value changes, which may be attributed to the risk against which such assets and liabilities are secured.

This consolidated financial statement is presented in Polish zloty (PLN), and all values, unless it was shown otherwise, are expressed in thousands of PLN.

This consolidated financial statement was developed with the assumption of continuing the Group's companies business activity in the foreseeable future. At the date of authorisation of this financial statement, there are no reported circumstances indicating any risk to the continuation of the Group's companies' activity.

6.1. Statement of compliance

This consolidated financial statement was developed in accordance with the International Financial Reporting Standards ("IFRS"), adopted by the EU ("EU IFRS"). At the date of approval of this report for issuing, taking into account the EU's ongoing process of implementation of the IFRS standards and the Group's activities in the field of applied by the Group accounting policies, the IFRS policies differ from the EU IFRS ones. The company used the opportunity, present in case of the use of International Financial Reporting Standards, adopted by the EU, the application of IFRIC 21 only from annual periods beginning on 1 January 2015. At the same time the amendments to IFRS 2 and amendments to IFRS 3, being part of Amendments resulting from the review of IFRS 2010-2012 from annual periods beginning on 1 January 2016. EU IFRS, comprises standards and interpretations adopted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

The Group's companies keep their books of account in accordance with the policy (rules) specified in the Act of 29 September 1994 on accounting ("the Act"), as amended, and the regulations issued thereunder ("Polish accounting standards"). The consolidated financial statement includes adjustments, which are not included in the books of account of the Group's entities, were performed in order to reconcile their financial statements to comply with IFRS.

6.2. Functional currency and financial statements currency

The functional currency of the parent company and other companies included in this consolidated financial statement and the reporting currency of this consolidated financial statement is Polish zloty, except for the German branch of Przedsiębiorstwo Remontowe "PAK SERWIS" Sp. z o.o., for which euro is the functional curren-cy-cy.

7. Amendments to the used accounting policies and to comparative data

The rules (policies) of accounting applied to development of this consolidated financial statement are coherent with these applied to development of the consolidated financial statement of the Group for the year concluded on 31 December 2013, except for application of the following amended standards and new interpretations applicable for annual periods beginning on 1 January 2014:

- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*

The IFRS 10 standard replaces part of the previous standard IAS 27 "Consolidated and Separate Financial Statements" in the scope of consolidated financial statements and introduces a new definition of control. IFRS 10 may cause changes within the consolidated group in the scope of opportunities of units, which were subject to consolidation so far or vice versa, does not introduce changes in the scope of consolidation procedures and methods of settlements of transactions in the consolidated financial statement.

Application of these amendments affected neither the financial position, nor activities' results of the Group.

- IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*

IFRS 11 includes the issue of joint arrangements. It introduces two categories of joint contractual arrangements: joint activities and joint ventures as well as the appropriate methods of valuation.

The application of the standard may result in change of the method of valuation for the joint contractual arrangements (e.g. ventures previously classified as jointly controlled entities and valuated with the pro-rata method, may be classified as joint ventures, and at the same time, valuated with the equity method).

IAS 28 has been amended and provides guidance for the application of the equity method for joint ventures.

The application of these changes had no impact on the financial situation and the results of the Group's activity.

- IFRS 12 *Disclosure of information about shares in other entities*

The IFRS 12 standard contains a number of disclosures with regard to the involvement of the entity into subsidiaries, associates and joint ventures. The application of the standard may result in broader disclosures in the financial statement, including:

  - key financial information, including the risks associated with the Group's ventures
  - disclosure of the participation in the non-consolidated special entities and the risk associated with such ventures,
  - information about each venture, in which there are substantial non-controlling shares
  - disclosure of the significant judgement and assumptions adopted in the classification of individual ventures as subsidiaries, co-subsidiaries or associates.

The application of these changes had no impact on the financial situation and the results of the Group's activity.

- *Investment entities* - amendments to IFRS 10, IFRS 12 and IAS 27

The amendments introduce a concept of investment entities, which are not required to consolidate subsidiaries, and which, after the amendments, valuate their entities, and valuate subsidiaries in the fair value through profit or loss.

The application of these amendments had no impact on the financial situation and the results of the Group's activity.

- *Compensation of the financial assets and liabilities - amendments* to IAS 32

Amendments to IAS 32 clarify a concept and consequences of the enforceable right to compensate a component of the financial assets and financial liability as well as clarify the criteria of compensation for the gross account systems (such as clearing houses).

The application of these changes had no impact on the financial situation and the results of the Group's activity.

- Disclosures related to the recoverable value of non-financial assets - amendments to IAS 36

These amendments removed unintended consequences of IFRS 13 on disclosures required in accordance with IAS 36. In addition, these amendments introduce additional disclosures of the recoverable value for the assets or cash-generating units (CGU), for which the loss of value in the period when the use value is equal to the fair value reduced by selling costs, was recognised or reversed.

The application of these changes had no impact on the financial situation and the results of the Group's activity.

- *Renewal of derivatives and continuation of security accounting* - amendments to IAS 39

Amendments to IAS 39 involve security accounting after the renewal (novation) of derivatives, and they exempt from the need to discontinue security accounting when the novation meets certain criteria specified in IAS 39.

The application of these amendments had no impact on the financial situation, results of the Group's activity, and the scope of information presented in the Group's financial statement.

The Group did not decide for the early application of any other standard, interpretation, or amendment that were issued, but are not yet effective in the light of the European Union regulations.

8. New standards and interpretations which were issued but are not effective yet

- IFRS 9 *Financial Instruments* (issued on 24 July 2014) applicable for annual periods beginning on 1 January 2018 or later – until the date of approval of this financial statement, not approved by the EU,
- IFRIC 21 *Levies* (issued on 20 May 2013) – applicable for annual periods beginning on 1 January 2014 or later, in the EU, it is applicable at the latest annual periods beginning on 17 June 2014 or later,
- Amendments to IAS 19 *Defined benefit programmes: Employee Contributions* (issued on 21 November 2013) – applicable for annual periods beginning on 1 July 2014 or later, in the EU, it is applicable at the latest annual periods beginning on 1 February 2015 or later,
- *Amendments resulting from the IFRS review 2010-2012* (issued on 12 December 2013) – some amendments are applicable for annual periods beginning on 1 July 2014 or later, and some of them prospectively for the transactions occurring on 1 July 2014 or later, in the EU, it is applicable at the latest annual periods beginning on 1 February 2015 or later,
- *Amendments resulting from the IFRS review 2011-2013* (issued on 12 December 2013) – applicable for annual periods beginning on 1 July 2014 or later, in the EU, it is applicable at the latest annual periods beginning on 1 January 2015 or later,
- IFRS 14 *Regulatory deferral accounts* (issued on 30 January 2014) – applicable for annual periods beginning on 1 January 2016 or later – no decision, which concerns the date on which EFRAG will conduct the various stages of work leading to the approval of this standard – until the date of approval of this financial statement, unapproved by the EU,
- The amendments to IFRS 11 *Account for the acquisition of share in the common business activity* (issued on 6 May 2014) – applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU,

- The amendments to IAS 16 and IAS 38 *Explanation of allowable depreciation methods* (issued on 12 May 2014) – applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU,
- IFRS 15 *Revenue from contracts with customers* (issued on 28 May 2014) – applicable for annual periods beginning on 1 January 2017 or later – until the date of approval of this financial statement, unapproved by the EU,
- The amendments to IAS 16 and IAS 41 *Agriculture: crop plants* (issued on 30 June 2014) – applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU,
- The amendments to IAS 27 *Equity method in the separate financial statement* (issued on 12 August 2014) – applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU,
- The amendments to IFRS 10 and IAS 28 *Sales or transfers of assets between the investor and the associate or joint venture* (issued on 11 September 2014) – applicable for annual periods beginning on 1 January 2016 or later, the term was initially postponed by RMSR – no decision as to the date on which EFRAG will conduct the various stages of the work leading to the approval of these amendments – until the date of approval of this financial statement, unapproved by the EU,
- *Amendments resulting from the IFRS review 2012-2014* (issued on 25 September 2014) – applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU,
- The amendments to IFRS 10, IFRS 12 and IAS 28 *Investment entities*: *Application of the exception related to the consolidation* (issued on 18 December 2014) – applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU,
- The amendments to IAS 1 *Disclosures* (issued on 18 December 2014) - applicable for annual periods beginning on 1 January 2016 or later – until the date of approval of this financial statement, unapproved by the EU.

At the date of approval of this consolidated financial statement for issuing, the Management Board has not yet completed work on the evaluation of the impact of the introduction of these standards and interpretations on the rules (policies) applied by the Group in relation to the Group's activity or its financial results.

9. Change of estimates

During the period covered by the financial statement, the following changes of estimates, affecting the values shown in the financial statements, occurred:

- estimates in the assumptions for the valuation of actuarial provisions,
- estimates in the assumptions for the valuation of derivatives,
- estimates in the assumptions regarding the calculation of the revenue for compensation,
- estimates in the assumptions regarding the periods of economic usability of the capital work,
- estimates related to realisation of the deferred tax assets,
- estimates in the assumptions for the valuation of the provision for reclamation of the ash storage yard,
- estimates in the assumptions for the valuation of the provision due to liquidation of components of tangible fixed assets,
- estimates regarding the valuation of long-term contracts,
- estimates in the assumptions for the valuation of the provision for reclamation related to the mining activity

The impact of changes in estimates on the value of actuarial provisions was presented in note 5.2.

In case of the valuation of derivatives (IRS, options), the change in estimates is due to the market changes of risk factors on the interbank market, i.e. the exchange rate and market interest rates.

In the calculation of the revenue due to compensation, the change of estimates relates primarily to changes in the sale prices and purchase of energy on the Commodity Power Exchange and balancing market, the volume of energy production and purchase of energy in order to meet sale plans as well as the interest rate of the 5-year government bonds and the NBP deposit rate affecting the discount rate. The value of the annual adjustment due to the compensation for 2014 is estimated at plus (+) PLN 64.3 million. Using the above-specified assumptions for the previous year (January 2014), the value would be plus (+) 88.7 million. The main reason for the difference related to the adjustment is to realise higher revenue from the energy sale (an increase of 15% compared to the plan), (without compensation including the negative adjustment for 2008), while operating costs increased by 5% in relation to the plan. The period of economic usability of the capital work is subject to the verification at the end of each reporting period based on the expected period of functionality of the entity, verified with the Management Board's plans related to modernisation, sale and liquidation of the main components of assets. The effect of changes was contained in the year in which the verification was performed.

In terms of the deferred tax assets calculated on the tax loss of previous years reported by a subsidiary – "Elektrownia Pątnów II" Sp. z o.o., the efforts to facilitate the realisation of a recognised asset were taken. For this purpose, in the year concluded on 31 December 2010, a reduction of the tax depreciation rates, which had a positive impact on the planned tax results for the following 5 years, was made. In the future years, it is expected to take further optimisation actions with regard to the settlement of tax losses from the previous years. The Company prepares long-term forecasts of the tax results, on the basis of which it analyses the possibility of realisation of the assets on tax losses to be settled in subsequent years.

10. Significant accounting rules

10.1. Consolidation rules

This consolidated financial statement includes the financial statements of Zespół Elektrowni Pątnów – Adamów – Konin S.A. as well as financial statements of its subsidiaries prepared each time for the year concluded on 31 December 2014. The financial statements of the entities controlled by it (subsidiaries), after the adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the parent company's statement, using consistent accounting rules, based on uniform accounting policies for transactions and economic events of similar characteristics. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

All significant balances and transactions between the Group's entities, including unrealised profits arising from transactions within the Group, were entirely eliminated. Unrealised losses are eliminated, unless they prove the impairment. Subsidiaries are subject to consolidation from the date on which they are controlled by the Group and ceased to be consolidated from the date on which such control ends. The control of the parent company over an entity takes place when:

- it has power over a given entity,
- it is exposed to variable returns or has rights to variable returns due to its commitment to a given entity,
- it has the possibility to use the power to shape the level of generated returns.

The company verifies the fact of having control over other entities, if the situation, which indicates a change of one or more of the aforementioned control conditions, occurred.

If the company has less than a majority of the voting rights of the entity, but the held voting rights are sufficient to unilaterally manage the relevant activities of the entity, it means that it holds power over the entity. At the time of the assessment if the voting rights of a given entity are sufficient to provide power, the Company analyses all relevant circumstances, including:

- the size of the held package of voting rights in comparison to the scale of shares and the degree of dispersion of the voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders or other parties;
- rights under other contractual arrangements; and
- additional circumstances that may demonstrate that the Company has or does not have the possibility to manage relevant activities in the decision-making moments, including voting schemes observed at previous meetings of shareholders.

Changes in the parent company's ownership that do not result in the loss of control over the subsidiary are recognised as equity transactions. In such cases, in order to reflect changes in relative shares in the subsidiary, the Group adjusts the balance sheet value of the controlling and non-controlling shares. Any differences between the amount of the adjustment of non-controlling shares and the fair value of the paid or received amount are recognised in the equity and attributed to owners of the parent company.

10.2. Investments in associates and joint ventures

The associates are entities, which are influenced directly by the parent company or through its subsidiaries, and which are neither its subsidiaries nor joint ventures.

Joint ventures constitute contractual arrangements, under which two or more parties undertake a business activity that are subject to joint control.

The financial year of associates, joint ventures, and the parent company is the same. Associates and joint ventures apply accounting rules included in the Act. Before calculating the share of associates and joint ventures in net assets, the relevant adjustments to lead the financial data of these entities to the compliance with IFRS applied by the Group.

The Group's investments in associates and joint ventures are included in the consolidated financial statement using the equity method. According to the equity method, the investment in the associate or joint venture is initially recognised in accordance with the cost, and then adjusted to reflect the Group's share in the financial result and other complete revenue of the associate or joint venture. If the Group's share in losses of the associate or joint venture exceeds the value of its shares in this entity, the Group discontinues recognising its share in further losses. Additional losses are recognised only to the extent relevant to the legal or customary obligations adopted by the Group or payments made on behalf of the associate or joint venture.

An investment within the associate or joint venture is recognised using the equity method from the date on which the entity acquired the status of a joint venture or associate. On the day of making an investment in the associate or joint venture, the amount by which the value of the investment costs exceed the Group's share in the net fair value of the identifiable assets and liabilities of this entity is recognised as the value of the company and is included in the balance sheet value of the investment. The amount by which the Group's share in the net fair value of the identifiable assets and liabilities exceeds the cost of the investment is directly recognised in the financial result in the period in which the investment was made.

When assessing the need for recognition of the value impairment of the Group's investment in the associate or joint venture, the requirements of IAS 39 are applied. If necessary, the entire balance sheet amount of the investment is tested for the value impairment in accordance with IAS 36 "Value Impairment of Assets" as a single component of assets, comparing its recoverable value with the balance sheet value. The recognised value impairment is part of the balance sheet value of the investment. A reversal of the value impairment is recognised in accordance with IAS 36 to the extent that is relevant to the further increase in the recoverable value of the investment.

The Group ceases to apply the equity method on the day when the investment is no longer the associate or joint venture and when it is classified as the one for sale. The difference between the balance sheet value of the associate or joint venture at the date of cessation of the use of the equity method and the fair value of the retained shares and profits from the partial sale of shares in the entity is taken into account when calculating the profit or loss on the sale of the associate or joint venture.

The Group continues to apply the equity method, if the investment in the associate becomes an investment in a joint venture, or the other way around: if the investment in the joint venture becomes an investment in the associate. In case of such changes of the ownership shares, the revaluation is not performed.

If the Group reduces the share in the associate or joint venture, but it still settles the share using the equity method, it partially transfers to the financial result the profit or loss, which were previously recognised in other comprehensive income, corresponding to the decrease in the share, if the profit or loss is subject to reclassification to the financial result at the time of sale of the related assets or liabilities.

10.3. Calculation of items denominated in a foreign currency

Transactions denominated in currencies other than PLN are calculated into Polish zloty using the exchange rate applicable on the date of conclusion of the transaction.

At the balance sheet date, assets and liabilities denominated in currencies other than PLN are calculated into Polish zloty using the average exchange rate determined for a given currency by the Polish National Bank at the end of the reporting period. The foreign exchange differences, which arise from the calculation, are respectively recognised in the financial revenue item (costs), or in cases of the rules (policy) of accounting, capitalised in the value of assets. Assets and non-monetary liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate of the transaction date. Assets and non-monetary liabilities recognised at the fair value in a foreign currency are calculated according to the exchange rate of the date of valuation to the fair value. Profits or losses arising from the calculation of assets and non-monetary liabilities measured at the fair value are recognised in accordance with the recognition of profit or loss arising from changes in the fair value (i.e., respectively, in other comprehensive income, or profit or loss depending on where the change in fair value is recognised).

(in PLN thousand)

The following exchange rates were adopted for the purposes of the balance sheet valuation:

	31 December 2014	31 December 2013
EUR	4,2623	4,1472
GBP	5,4648	4,9828
USD	3,5072	3,0120

Affiliate – Przedsiębiorstwo Remontowe "PAK SERWIS" Sp. z o.o. with a foreign branch in Germany, for which euro is the reporting currency. At the balance sheet date, assets and liabilities of the branch are calculated into the Group's presentation currency at the exchange rate applicable at the balance sheet date, and their statements of comprehensive income are calculated at the weighted average exchange rate in a given period. The foreign exchange differences arising from this calculation are recognised in other comprehensive income and accumulated in a separate component of the equity. At the moment of selling the foreign entity, the deferred exchange rate differences accumulated in the equity, related to a given foreign entity, are recognised in the income statement.

The weighted average exchange rates for the respective periods were as follows:

	Year concluded on 31 December 2014	Year concluded on 31 December 2013
EUR	4,1893	4,2110

10.4. Tangible fixed assets

Tangible fixed assets are stated according to the acquisition cost/production cost reduced by the redemption and impairment write-downs for the loss in value. The initial value of fixed assets includes the acquisition cost increased by all costs directly related to the acquisition and adaptation of the components of assets to a condition for their intended use. The expense also includes the cost of replacing the individual components of machinery and devices when incurred, if the recognition criteria are met. Any costs incurred after the date when a fixed asset is put into operation, such as the maintenance and repair costs, encumber the profit or loss when incurred.

Fixed assets, at the time of their acquisition, are divided into components with a significant value, to which a separate period of the economic usability can be attributed. The costs of general overhauls are also classified as components.

The depreciation is calculated on a straight-line basis for an estimated useful life of a given component of assets, amounting to:

Type	**Period**
Buildings and structures	2 - 61 years
Machinery and technical devices	2 - 61 years
Means of transport	2 - 39 years

Other fixed assets	2 - 26 years

The residual value, useful life and redemption method of the assets' components are annually reviewed, and if necessary – adjusted with effect since the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

A given item of the tangible fixed assets may be removed from the balance sheet after its sale, or if any economic benefits, arising from the further use of such a component of assets, are expected. Any profits or losses resulting from removal of a given component of assets from the balance sheet (calculated as the difference between potential net income from the net sale and the balance sheet value of a given item) are recognised in the profit or loss of the period, in which such removal was made.

Commenced investments relate to fixed assets under construction or assembly, and are reported in accordance with the acquisition or production costs reduced by potential impairment write-downs for the loss in value. The fixed assets under construction are not subject to redemption until the completion of their construction and putting the fixed asset into operation. The element of the value of fixed assets under construction are also financial costs subject to capitalisation. The question of their capitalisation is described in more detail in note 10.12.

10.4.1. Fixed assets intended for sale

Fixed assets and their groups for sale are recognised as intended for sale when their balance sheet value is recovered rather by means of sale transaction rather than through their continuous use. This condition can be met only when the sale transaction is highly probable and the assets' component is available for immediate sale in its present condition. The classification of the assets' component as intended for sale assumes the intention of the company's management board to conduct the sale transaction within one year from the date of classification. The fixed assets classified as held for sale are valued at the lower of two values:

the balance sheet value or fair value reduced by costs related to the sale.

If the group wants to make a sale transaction, which resulted in losing control over its subsidiary, all assets and liabilities of this entity are classified as intended for sale, regardless of whether the Group keeps non-controlling shares after this transaction.

If the group is committed to implement the sale plans for the sale of investments in the joint venture or associate, or part of such an investment, an investment, or its part intended for sale are classified as intended for sale after the fulfilment of the above mentioned criteria, and the Group discontinues the use of the equity method of accounting for part of the investment classified as intended for sale. The other part of the investment in an associate or joint venture, which is not classified as intended for sale, is still settled using the equity method. The Group discontinues to use the equity method at the time of sale, if the sale transaction causes a loss of significant influence on the associate or joint venture.

After the sale transaction, the Group settles retained shares in accordance with IAS 39, unless these shares enable a further classification of this entity as an associate or joint venture; in such case, the Group still continues to apply the equity method.

10.5. Investment properties

The initial recognition of the investment property occurs according to the acquisition or production cost, including transaction costs. The balance sheet value of the investment properties includes the cost of replacing the individual components of the investment property at the time of its incurrence, if the recognition criteria are met, and it does not include costs of the current maintenance of these properties. After the initial recognition, the value of investment properties is reduced by redemption and impairment write-downs for the loss in value.

Investment properties are removed from the balance sheet upon their sale or permanent withdrawal of a given investment property from use when no future benefits of its sale are expected. Any profits or losses arising from removal of the investment property from the balance sheet are recognised in the income statement of the period in which this removal took place.

The transfer of assets to investment properties is made when there is a change in their use confirmed by the owner ceasing to use the assets' component or the conclusion of an operating leasing agreement.

The Group as investment properties presents post-mining lands for which the reclamation process was completed. Such lands, in accordance with the plans of companies executing extraction activities, will be sold in the future.

10.6. Assets concerning stripping and other mining assets

Assets concerning stripping and other mining assets include activated costs incurred in the pre-production phase of the mine, in particular:

- expenses related to the creation of an opening cut,
- the asset associated with the creation of the provision for reclamation, in the part in which it relates to the removed overburden within the frameworks of works connected with the excavation of an initial cut,
- the asset associated with the creation of provisions for large, one-off costs related to the areas on which open-pit mining proceeds.

In any case, the Group settles activated costs on a straight-line basis in the period of the economic usability of the duration of particular open pits (the exploitation period adopted for particular open pits). The adopted depreciation periods and depreciation methods are periodically reviewed, at least at the end of each financial year. The assets related to the removal of overburden and other mining assets with the economic usability of less than 12 months are classified within short-term assets.

The write-down of the settlement of mining assets is recognised as operating costs within the costs of depreciation.

10.7. Expenses related to exploration and evaluation of mineral resources

Within the mining assets item, the Group also presents expenses related to the exploration and evaluation of mineral resources.

The Group activates the expenses related to the exploration and evaluation of mineral resources until the end of the exploration works. The next step is to verify if the identified resources demonstrate the technical feasibility and economic viability of extracting. In the absence of viability of extracting, all the incurred expenses are written off in other operating costs.

Within the costs associated with the exploration and evaluation of mineral resources, the following element can be distinguished, among other things:

- topographical, geological, geochemical and geophysical analyses,
- drilling,
- open-pit mining works,
- sampling,
- acquisition of rights to explore.

10.8. Intangible assets

Intangible assets acquired in a separate or created transaction (if they meet the recognition criteria for development costs) are measured on initial recognition respectively at their acquisition or production cost. The acquisition cost of intangible assets acquired in a business combination transaction is equal to their fair value at the date of the combination. Following the initial recognition, intangible assets are stated at their acquisition or production cost reduced by redemption and impairment write-downs for the loss in value. The expenses incurred on the intangible assets produced internally, except for the activated assets incurred on the development works, are not activated and recognised in costs of the period, in which they were incurred.

The Group determines whether the useful life of intangible assets is definite or indefinite. Intangible assets with a definite useful life are depreciated during the period of use and are subjected to the value impairment tests whenever there are premises indicating their value loss. The depreciation period and method of intangible assets with a definite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected method of consuming the economic benefits from a given component of assets are recognised with a change of the period or depreciation method, and treated as changes in estimates. Depreciation write-downs for components of intangible assets with a definite useful life are recognised in profit or loss in the expense of the category consistent with the function of a component of intangible assets.

Intangible assets with an indefinite useful life and those that are not in use are subject to the annual value impairment test, with respect to particular assets or at the level of the cash generating unit.

Useful lives are annually reviewed and, if necessary, adjusted to the effect since the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

Research and development costs

Research costs are recognised in profit or loss at the time they are incurred. The expenses incurred on the development works executed within the framework of a given venture are transferred to a subsequent period, when it can be assumed that it will be recovered in the future. After the initial recognition of expenses on the development works, the historical cost model, which requires that the components of assets are included according to the acquisition/production costs reduced by the accumulated depreciation and accumulated impairment write-downs for the loss in value, is applied. The capitalised expenses are depreciated during the expected period of obtaining revenue from sale of a given venture.

A summary of the policies applied to the Group's intangible assets is as follows:

	Concessions, patents and licenses	*Computer software*	*Other*
Periods of use	5 years	2 years	5 years
Applied depreciation method	Straight-line method	Straight-line method	Straight-line method
Internally produced or acquired	Acquired	Acquired	Acquired
The value impairment test	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.

Profits or losses resulting from removal of intangible assets from the balance sheet are evaluated according to the difference between the income from the net sale and the balance sheet value of a given component of assets are recognised in the profit or loss, at the moment in which such removal was made.

The company also presents the received or acquired for its own needs CO2 emission allowances as intangible assets.

The detailed description of the accounting policy in respect of CO2 emission allowances was included in note 10.27.

10.9. Leasing

The Group as a lessee.

Financial lease agreements, which substantially transfer all risks and benefits related to holding a leased asset to the Company, are recognised in the financial statement at the lease commencement date at the lower of two following values: the fair value of the fixed asset constituting a subject of leasing, or the current value of minimal lease payments. Lease payments are allocated between the financial costs and reduction of the balance of the lease liabilities in a way that allows obtaining a constant interest rate on the remaining unpaid liability. Financial costs are recognised in profit or loss, unless the capitalisation requirements are met.

Fixed assets used under financial lease agreements are depreciated over the shorter of the two periods: the estimated useful life of the fixed asset or the lease term.

The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating costs in profit or loss on a straight-line basis over the lease term.

Conditional lease payments are recognised as a cost in the period in which they become due.

10.10. Valuation to the fair value

The Group values financial instruments such as instruments available for sale, derivative instruments and non-financial assets such as investment properties at the fair value, at each balance sheet date. In addition, the fair value of financial instruments valued in accordance with the depreciated cost was included in note 41.

The fair value is defined as the price that would be received from sale of an asset or paid in order to transfer a liability in the transaction conducted on normal sale conditions of a component of assets between market participants at the valuation date in the current market conditions. The valuation of fair value is based on the assumption that the sale transaction of a component of assets or the transfer of a liability occurs either:

- on the main market for a given component of assets or liability,
- in the absence of the main market, on the most advantageous market for a component of assets or liability.

Both the main and the most advantageous market must be available for the Group.

The fair value of a component of assets or liability is measured at the assumption that market participants, when determining the price of a component of assets or liability, act in their best economic interest.

The fair value of a component of non-financial assets takes into account the market participant's ability to generate economic benefits by making the greatest and the best use of the component of assets or its sale to another market participant that would provide the greatest and the best use of this component of assets.

The Group uses valuation techniques that are relevant to the circumstances and for which sufficient data to determine the fair value, with maximum use of relevant observable input data and minimal use of unobservable input data, are available.

All assets and liabilities that are valued at the fair value, or their fair value is disclosed in the financial statement, are classified in the fair value hierarchy as described below on the basis of the lowest level of input that is significant to the valuation of fair value treated as a whole:

- Level 1 – Quoted (unadjusted) market prices on the active market for identical assets and liabilities,
- Level 2 – Valuation techniques for which the lowest level of input data, which is significant to value the fair value as a whole, is directly or indirectly observable,
- Level 3 – Valuation techniques for which the lowest level of input data, which is significant to value the fair value as a whole, is unobservable.

At each balance sheet date, in case of assets and liabilities existing at each balance sheet date in the financial statement, the Group evaluates whether there were transfers between levels of the hierarchy by means of a re-evaluation of the classification into different levels, following materiality of input data from the lowest level, which is essential for the valuation to the fair value treated as a whole).

Summary of essential procedures for the valuation to fair value

The Management Board of the Group determines the rules and procedures for both systematic valuation of the fair value, e.g. unquoted investment properties and unquoted financial assets as well as the one-time valuation, e.g. in case of assets intended for sale within the abandoned activity.

In order to determine the fair value, independent experts are engaged to perform the valuation of significant assets such as properties, or assets available for sale and financial liabilities at the fair value. Internal valuation models are also used.

In order to perform the above valuations, independent experts, unrelated to the Group and with qualifications appropriate to conduct such valuations, as well as having current experience in such valuations in locations, where there are assets of the Group, are engaged.

For the purposes of disclosure of the valuation results of the fair value, the Group established classes of assets and liabilities based on the type, characteristics and risks of the various components of assets and liabilities and the level in the fair value hierarchy, as described above.

10.11. Loss in value of non-financial fixed assets

At the balance sheet date, the Group evaluates whether there are any prerequisites indicating that loss in value of the component of non-financial fixed assets may have occurred. In the event when there are such prerequisites, or in case of the necessity to conduct an annual impairment test, the Group estimates the recoverable value of a given component of assets or a cash generating unit, which the component of assets belongs to.

The recoverable value of a component of assets or a cash generating unit corresponds to the fair value reduced of effecting the sale of the given component of assets or respectively the cash generating unit, or its value in use, depending on which one is higher. The recoverable value is determined for an individual assets, unless a given component of assets does not independently generate cash inflows that are largely independent of those generated by other assets or groups of assets. If the balance sheet value of a component of assets is higher than its recoverable value, the loss in value occurs, and the write-down to the determined recoverable value is made.

In assessing the value in use, the projected cash flows are discounted to their current value using a discount rate prior to entailing the effects of taxation reflecting the current estimated value of money in time as well as the risk typical for a given component of assets. Impairment write-downs for the loss in value of assets used in the continued activity is recognised in the category of costs, which are consistent with the function of the component of assets, in case of which the loss in value was identified.

At each balance sheet date, the Group assesses whether there are any prerequisites indicating that the impairment write-down for the loss in value, which was recognised in previous periods, in relation to a given component of assets, is unnecessary and should be reduced. If such prerequisites exist, the Group estimates the recoverable value of the component of assets. The previously recognised impairment write-down for the loss in value is reversed only if, from the time of recognition of the impairment write-down, a change of the estimated values applied to determine the recoverable value of a given component of assets occurred. In this case, the balance sheet value of the component of assets is increased to its recoverable value. The increased amount cannot exceed the balance sheet value of the component of assets that would have been determined (after depreciation) if, in the previous years, the impairment write-down for the loss in value, in relation to this component of assets, was not recognised. A reversal of the impairment write-down for the loss in value of the component of assets is immediately recognised as income. After the reversal of the impairment write-down, in the following periods, the depreciation write-down related to a given component is adjusted in a way, which within the remaining period of use of this component of assets allows to systematically write down the verified the balance sheet value of the component of assets decreased by the residual value.

10.12. Borrowing costs

Borrowing costs are capitalised as part of the cost of production of fixed assets. Borrowing costs consist of interests calculated using the effective interest rate method, financial burdens arising from of financial lease agreement liabilities and foreign exchange differences resulting from the external financing to the amount corresponding to the adjustment of the cost of interest. In terms of foreign exchange differences, the cumulative approach is applied.

10.13. Financial assets

Financial assets are classified into the following categories:
- Financial assets maintained to the maturity date,
- Financial assets evaluated in the fair value by the financial result,
- Loans and receivables,
- Available-for-sale financial assets

Assets maintained to the maturity date

Financial assets maintained to the maturity date are the financial assets quoted in the active market, and which are not derivative instruments with definite or determinable payments as well as with the fixed maturity date, which the Group intends and has the possibility to hold to that time, other than:
- determined at the initial recognition as evaluated in the fair value by the financial result,
- determined as available-for-sale,
- meeting the definition of loans and receivables.

Financial assets maintained to the maturity date are evaluated at the depreciated cost using the effective interest rate method. Financial assets held to the maturity date are classified as long-term assets if their maturity exceeds 12 months from the balance sheet date.

Financial assets evaluated in the fair value by the financial result

The component of financial assets evaluated in the fair value by the financial result is a component that meets one of the following conditions:

a) it is classified as held for trading. The components of financial assets are classified as held for trading, if they are:
   - principally acquired for the purpose of selling in a short period of time,
   - part of the portfolio of identified financial instruments that are managed together and for which there is a probability to generate profit in a short period of time,
   - derivatives, except for the derivatives that are part of security accounting and financial guarantee contracts,

b) in accordance with IAS 39, classified into this category upon the initial recognition.

The financial assets evaluated in the fair value by the financial result are valued in the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the value of these financial instruments are recognised in the income statement as financial revenues or costs. If the contract contains one or more embedded derivatives, the whole contract can be classified as financial assets evaluated in the fair value by the financial result. It does not apply to cases where the embedded derivative does not significantly influence the cash flows of the contract or it is clear without conducting or after a superficial analysis that if a similar hybrid instrument was firstly considered then separating the embedded derivative would be prohibited. Financial assets at the initial recognition can be classified to the category evaluated in the fair value by the financial result if the following criteria are met: (i) this classification eliminates or significantly reduces inconsistency in terms of recognition or valuation (accounting mismatch); or (ii) assets are part of the group of financial assets, which are managed and evaluated on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial assets contain embedded derivatives that should be recognised separately. As of 31 December 2014 and 31 December 2013, no financial assets were classified to the categories evaluated in the fair value by the financial result.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are included in current assets, if their maturity date does not exceed 12 months from the balance sheet date. The granted loans and receivables with the maturity date exceeding 12 months from the balance sheet date are classified as fixed assets.

Available-for-sale assets

The available-for-sale financial assets are the financial assets which are not derivatives, and which were classified as available for sale or those that do not belong to any of the three previously mentioned categories. Financial assets available for sale are recognised in accordance with the fair value increased by the transaction costs that can be directly attributed to the acquisition or issue of the component of financial assets. In the event of a lack of exchange quotations on the active market and if it is not possible to reliably determine their fair value using alternative methods, the available-for-sale financial assets are evaluated at the acquisition cost adjusted by the impairment writ-down for the loss in value. The positive and negative differences between the fair value of the available-for-sale assets (if there is a market price established on the active market or if their fair value can be determined by some other reliable method), and their acquisition cost, after deduction of the deferred tax, are included in other comprehensive income. The decrease in value of the available-for-sale assets caused by the loss in value is recognised as a financial cost.

The acquisition and sale of the financial assets are recognised at the transaction date. At the time of the initial recognition, a component of financial assets is evaluated in the fair value, increased, in case of the component of assets not classified as the valuated in the fair value by the financial result, with the transaction costs, which can be directly attributed to the acquisition.

The component of financial assets is removed from the balance sheet when the Group loses control of the contractual rights that comprise a given financial instrument; it usually occurs when the instrument is sold or when all the cash flows attributed to the given instrument are transferred to an independent third party.

In the situation, in which the Group:

- has a legally enforceable right to compensate the recognised amounts and
- intends to settle on a net basis, or at the same time to realise the component of assets and settle the liability

a component of financial assets and financial liability are compensated and presented in the financial statement in the net amount.

The framework agreement described in IAS 32.50 does not constitute grounds for compensation, if both of the above described criteria are not met.

10.14. Loss in value of financial assets

At the balance sheet date, the Group evaluates whether there are objective prerequisites of the loss in value of the component of financial assets or the group of financial assets.

10.14.1.Assets recognised in accordance with the depreciated cost

If there are objective prerequisites that a loss in value of the granted loans and receivables, evaluated in accordance with the depreciated cost, occurred, then the cost of the impairment write-down for the loss in value equals to the difference between the balance sheet value of the component of financial assets (excluding future credit losses that have not been incurred yet), discounted using the initial (i.e. determined at the initial recognition) effective interest rate method. The balance sheet value of the component of assets is decreased using the account of impairment write-downs. The amount of the loss is recognised in profit or loss.

The Group firstly evaluates whether there are objective prerequisites of the loss in value of the individual financial assets, which are individually significant, as well as prerequisites of the loss in value of the financial assets that individually are not significant. If the conducted analysis shows that there are no objective prerequisites of the loss in value, regardless of whether it is significant or not, the Group includes this component to the group of financial assets with similar credit risk characteristics and jointly assesses in terms of the loss in value. The assets that are individually assessed for the loss in value, and for which the impairment write-down for the loss in value was recognised, or it was considered that the current write-down will not change, are not taken into account in the total assessment of the group of assets in terms of the loss in value.

If the impairment write-down for the loss in value decreased in the next period, and the decrease can be objectively associated with an event occurred after the impairment write-down recognition, then the previously recognised impairment write-down is reversed. The subsequent reversal of the impairment write-down for the loss in value is recognised in profit or loss to the extent, in which as of the date of reversal, the balance sheet value of the component of assets does not exceed its depreciated cost.

10.14.2.Financial assets stated at cost

If there are the objective prerequisites that the loss in value of the unquoted equity instrument, which is not stated in accordance with the fair value of the equity instrument because its fair value cannot be reliably determined, which is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment write-down for the loss in value is determined as the difference between the balance sheet value of the component of financial assets and the current value of the estimated future cash flows discounted using the current market rate of return for similar financial assets.

10.14.3.Available-for-sale financial assets

If there are the objective prerequisites that the loss in value of the available-for-sale component of financial assets, the amount constituting the difference between the acquisition cost of this component of assets (decreased by any repayments of the equity and depreciation) and its fair value, decreased by any impairment write-downs for the loss in value of this component, previously recognised in profit or loss, is derecognised from the equity and transferred to profit or loss. The reversal of the impairment write-down for the loss in value of the equity instruments classified as available for sale cannot be recognised in profit or loss. If the fair value of the debt instrument available for sale increases during the next period, and this increase can be objectively associated with an event occurred after recognition of the impairment write-down for the loss in value in profit or loss, then the amount of the reversible impairment write-down is recognised in profit or loss.

10.15. Other non-financial assets

The group recognises prepayments as other non-financial assets, if the following conditions are met:

- they result from past events – expenses incurred for the operational purpose of entities,
- their extent can be reliably determined,
- they will result in the impact of economic benefits to the entities in the future,
- they apply to future reporting periods.

Write-offs of active prepayments of costs can occur appropriately to the passage of time and the amount of benefits. The time and method of settlement is justified by the characteristics of the settled costs, taking into account the precautionary principle.

At the end of the reporting period, the Group verifies the active prepayments of costs in order to check whether the degree of certainty associated with the achievement of economic benefits by the entity, after the expiry of the current financial period, is sufficient to show a given item as a component of assets.

During the reporting period, the subject of prepayments are, among others:

- costs of property insurance,
- costs of current charges for perpetual usufruct of lands,
- property tax,
- deductions for social fund,
- subscriptions,
- other costs related to next reporting periods.

Other non-financial assets include, in particular, the public and law settlement receivables (except for the CIT settlements, which are presented in a separate item of the financial statement), as well as advance payments provided for future purchases of tangible fixed assets, intangible assets and inventories. The advance payments are presented according to the characteristics of the assets, to which they relate – respectively, as fixed or current assets. As non-monetary assets, the advance payments are not subject to discount.

10.16. Embedded derivatives

Embedded derivatives are separated from the contracts and treated as derivatives, if the following conditions are met:

- the economic characteristics and risks of the embedded instrument are not closely related to the economic characteristics and risks of the contract, to which a given instrument is embedded;
- a separate instrument with the same performance conditions as the embedded instrument would conform to the definition of the derivative;
- a hybrid (complex) instrument is not stated at the fair value, and the changes of its fair value are not recognised in profit or loss.

The embedded derivatives are stated in a similar way as separate derivatives, which are not treated as hedging instruments.

The extent in which, according to IAS 39, the economic characteristics and risks specific to the embedded derivative in a foreign currency are closely related to the economic characteristics and risks appropriate for the host agreement (the basic contract) also covers situations, in which the currency of the host agreement is a typical currency for the purchase or sale contracts of non-financial items on the market of a given transaction.

The Group assesses whether a given embedded derivative is separated at the time of its initial recognition.

10.17. Financial derivative instruments and securities

The derivatives used by the Group in order to secure against the risk related to the changes of interest rates and fluctuations in exchange rates are mainly the currency forward contracts and contracts for the interest rates change (interest rate swaps). Such derivatives are evaluated in the fair value. Derivatives are stated as assets when their fair value is positive, and as liabilities – when their value is negative.

Profits or losses for the fair value changes of derivatives, which do not comply with the security accounting principles are directly stated in the net financial result of the financial year.

The fair value of currency forward contracts is determined by the reference to the current forward rates (*forward*) for contracts with a similar maturity date. The fair value of contracts for the interest rate swaps is determined by the reference to the market value of similar instruments.

Within the security accounting, securities are classified as:

- the fair value security securing against the risk of changes in the fair value of a recognised component of assets of liabilities, or
- cash flow securities securing against the changes in cash flows, which can be attributed to a specific type of risk related to a recognised component of assets, liability or forecasted transaction, or
- hedging shares in the net assets within a foreign entity.

Hedging the currency risk of the substantiated future liability is settled as the cash flow security.

At the inception of the security, the Group formally determines and documents the hedging relationship as well as the risk management objective and strategy for establishing the security. The documentation includes identification of the hedging instrument, the secured item or transaction, the characteristics of the secured risk as well as a method of assessing the hedging instrument effectiveness in the compensation for the risk of changes of the fair value of the secured item or cash flows related to the secured risk.

It is expected that the security will be highly effective in the compensation for changes of the fair value or cash flows resulting from the secured risk. The security effectiveness is constantly assessed to determine whether it is highly effective within all the reporting periods for which it was established.

10.17.1.Fair value security

The fair value security is a security against changes in the fair value of a recognised component of assets or liability, or an unrecognised substantiated future liability, or a separated part of such a component of assets, liability, or substantiated future liability, which can be attributed to a specific type of risk, and which could influence profit or loss. In case of hedging the fair value, the balance sheet value of the secured item is adjusted with profits and/or losses for changes of the fair value resulting from the secured risk, the hedging instrument is evaluated to the fair value, and profits or losses for the hedging instrument and secured item are recognised in profit or loss.

If an unrecognised substantiated future liability is designated as a secured item, the subsequent cumulative changes of the fair value of the substantiated future liability resulting from the secured risk is recognised as a component of assets or liability, and occurring profits or losses are included in profit or loss. Changes of the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues to use the security accounting principles, if a hedging instrument expires, is sold, expired or executed, and if the security fails to fulfil the criteria of security accounting, or if the Group revokes the hedging relationship. Any adjustment to the balance sheet value of the secured financial instrument, to which the effective interest rate method is applied, is depreciated, and the write-offs are recognised in profit or loss. The depreciation can begin as soon as the adjustment is made, however, not later than at the time of ceasing the adjustment of the item secured with changes of the fair value resulting from the secured risk.

10.17.2.Cash flow security

The cash flow security is a security against the exposure to variability in cash flows, which can be attributed to a specific type of risk related to a recognised component of assets, liability or highly probable planned transaction, and which could influence profit or loss. The part of profits or losses related to the hedging instrument, which constitutes an effective security is recognised in other comprehensive income, and an ineffective part is recognised in profit or loss.

If a secured planned transaction subsequently results in the recognition of a component of financial assets or a financial liability, the associated profits or losses, which were included in other comprehensive income and accumulated in equity, are transferred to the income statement within the same period, or in the periods, during which the acquired component of assets or liability affect profit or loss.

If hedging the planned transaction subsequently results in the recognition of a component of non-financial assets or non-financial liability, or the planned transaction related to a component of non-financial assets or non-financial liability becomes a substantiated future liability, to which the fair value security will be applied, then, the profits or losses that were recognised in other comprehensive income are excluded from the equity and included in the acquisition cost or other balance sheet value of the component of assets of liability.

The profits or losses resulting from changes of the fair value of derivatives, which do not meet the conditions for the application of special security accounting principles, are directly recognised in the net financial result for the current year.

The Group discontinues to use the security accounting principles when the hedging instrument expires, or was sold, its use expired or it was executed, or the security no longer meets the conditions, which allow to apply special security accounting principles to it. In such a case, total profit or loss on the hedging instrument, which were recognised in other comprehensive income and accumulated in the equity, are still stated in the equity until the forecasted transaction occurs.

If the Group no longer expects that the forecasted transaction will occur, then the total net profit or loss, accumulated in the equity, are charged to the net financial result for the current period.

10.18. Inventories

Inventories are valued at the lower of the two values: the acquisition cost/production cost and the net sale price possible to achieve.

The costs incurred on bringing each component of inventories to its current location and condition – both with regard to the current and previous year – are recognised as follows:

Production fuel	• using the weighted average method;
Spare parts and other materials	• using the weighted average method.

The net sale price, which is possible to achieve, is an estimated sale price in the ordinary course of business decreased by costs of completion as well as the estimated costs necessary to complete the sale.

Certificates of origin of energy

Certificates of origin of energy acquired free of charge due to the energy production from renewable energy sources, gas, and peak load co-generation are presented according to the fair value on the day, when their granting became certain.

10.19. Delivery and service receivables and other receivables

The delivery and service receivables are recognised and stated according to initially invoiced amounts, including the write-down against doubtful receivables. The write-down against receivables is estimated when the recovery of the full amount of receivables is no longer probable.

When the impact of the time value of money is significant, the value of receivables is determined by discounting the forecasted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money. If a method of discounting was applied, then the increase in receivables due to the passage of time is recognised as financial revenues.

Other receivables include, in particular, receivables for settlements with employees.

Advance payments for future purchases of tangible fixed assets, intangible assets and inventories are included in the item of other non-financial assets. The advance payments are presented according to the characteristics of the assets, to which they relate – respectively, as fixed or current assets. As non-monetary assets, the advance payments are not subject to discount.

Budgetary receivables are presented as other non-financial assets, except for the receivables due to corporate income tax, which constitute a separate item in the financial statement.

10.20. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand as well as short-term deposits with the original maturity date that does not exceed three months.

The balance of cash and cash equivalents in the consolidated statement of cash flows consists of the above-mentioned cash and cash equivalents, decreased by the unpaid overdraft facilities.

10.21. Interest bank credits, loans and debt securities

At the time of the initial recognition, all bank credits, loans and debt securities are recognised in the fair value, decreased by the costs associated with obtaining a credit or loan.

After the initial recognition, the interest credits, loans and debt securities are evaluated in accordance with the depreciated cost.

While determining the depreciated cost, the costs associated with obtaining a credit or loan as well as discounts or premiums achieved in connection with the liability are taken into account.

Revenues and costs are recognised in profit or loss when the liabilities are derecognised from the balance, and also as a result of the settlement with the effective interest rate method.

10.22. Delivery and service liabilities and other financial liabilities

Short-term liabilities for deliveries and services are stated in the payable amount.

Financial liabilities, which are evaluated in the fair value by the financial result, include financial liabilities intended for trading as well as financial liabilities initially classified to the categories valuated to the fair value by the financial result. Financial liabilities are classified as intended for trading if they were acquired for the purpose of selling in the near future. Derivatives, including separated embedded instruments, are also classified as designed for trading unless they are considered effective hedging instruments. At the initial recognition, financial liabilities can be classified to the categories evaluated in the fair value by the financial result if the following criteria are met: (i) this classification eliminates or significantly reduces inconsistency of treatment when both the valuation and principles of recognising losses or profits are subject to other regulations; or (ii) liabilities are part of the group of financial liabilities, which are managed and evaluated on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial liabilities contain embedded derivatives that should be recognised separately. As of 31 December 2014 and 31 December 2013, no financial liabilities were classified to the categories evaluated in the fair value by the financial result.

The financial liabilities evaluated in the fair value by the financial result are valued in the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the fair value of these instruments are recognised in profit or loss as costs or financial revenues.

Other financial liabilities, which are not financial instruments evaluated in the fair value by the financial result, are valuated in accordance with the depreciated cost using the effective interest rate method.

The Group derecognises a financial liability when the liability expired – i.e. when the contractual liability was fulfilled, redeemed or expired. Replacing the existing debt instrument with the instrument of essentially different conditions made between the same entities is recognised by the Group as expiration of the original financial liability and recognition of a new financial liability. Similarly, significant modifications of the contractual provisions concerning an existing financial liability are recognised by the Group as expiration of the original one and recognition of a new financial liability. The differences resulting from such changes in balance sheet values are recognised in profit or loss.

10.23. Other non-financial liabilities

Other non-financial liabilities include, in particular, liabilities for the value added tax, other public-legal liabilities (except for liabilities due to the corporate income tax, which is recognised in a separate item of the financial statement), as well as liabilities for the received advance payments, which will be settled by the supply of goods, services or fixed assets. Other non-financial liabilities are recognised in the amount that requires payment.

10.24. Sharing profits for employee purposes and special funds

In accordance with the Polish economic practice, shareholders of entities can share profits to employee purposes in a form of making a transfer to the social fund or other special funds. In the financial statement, in accordance with IFRS, the part of the profit share is recognised as operating costs of the period, in which the profit share was approved by the Shareholders Meeting, considering the fact that the Group's Companies are not burdened with legal or customary obligation to this type of the profit share.

10.25. Share-based payments

Share-based payments is a transfer of equity instruments of the entity or their equivalents made by the entity or its shareholders to the third parties (including employees), who provided goods and services to a given company, unless the transfer is made for the purpose that is other than paying for goods and services provided for the entity.

The Group includes goods and services received or acquired within the framework of the share-based payment transactions in the equity instruments as well as the corresponding increase in the equity when it obtains these goods and services. If the goods or services obtained or acquired within the framework of the share-based payment transactions are not classified to be recognised as assets, the entity includes them as the cost.

The Group evaluates the obtained goods or services and the corresponding increase in the equity in the fair value of the obtained goods or services, unless it is impossible to reliably estimate their fair value. If the group is unable to reliably estimate the fair value of the obtained goods or services, it indirectly determines their value and the corresponding increase in equity by the reference to the fair value of the granted equity instruments.

The share-based payments resulting from the entitlement of the AK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. employees to the free of charge acquisition of the companies' shares on the basis of the Act of 30 August 1996 on the commercialisation and privatisation are recognised in accordance with the above rules. The Group recognises the costs of employee benefits due to this reason from the date of taking control over PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. On the other side, the Group recognises the share-based payment programmes in the item of the retained profits, at the same time, allocating a part to the non-controlling shareholders' equity.

10.26. Provisions

Provisions are created when the Group is burdened with the existing liability (the legal or customary expected one) resulting from past events, and when it is probable that the fulfilment of this liability will result in the necessity of the economic benefits outflow, and the amount of this liability can be reliably estimated. If the Group expects that the costs covered by the provision will be reimbursed, for example under the insurance contract, then the return is recognised as a separate component of assets, but only when it is virtually certain that the return of this will actually occur. The costs related to a given provision are stated in the income statement after the reduction by any return.

When the impact of the time value of money is significant, the value of the provision size is determined by discounting the forecasted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible risk related to a given liability. If a method of discounting was applied, then the increase in liabilities due to the passage of time is recognised as financial costs.

In particular, the Group creates the following provisions:

- ***Provisions for employee benefits after the employment period as well as anniversary premiums***

  In accordance with the remuneration systems, the Group's employees are entitled to the following benefits:
  - anniversary premiums paid to employees after working a specified number of years,
  - retirement or disability benefits, payable at the time of retirement,
  - survival benefits for families of deceased employees,
  - free coal for employees of PAK KWB Konin and PAK KWB Adamów

  As a result of changes in the Company Collective Labour Agreement, the pay-outs of anniversary premiums in the ZE PAK S.A., EL PAK Sp. z o.o. and PAK SERWIS Sp. z o.o. companies as well as free coal in ZE PAK S.A. were abolished. Therefore, on 31 December 2014 the provisions for these benefits were redeemed.

  At the balance sheet date, these companies recognised the short-term employee benefits related to anniversary premiums due to employees who would buy the right to pay of the anniversary premiums within 5 years from the date of the introduction of changes to the Company Collective Labour Agreement.

  The amount of benefits depends on the number of years of employment and the average salary of an employee. The Group creates provisions for these future liabilities for the purpose of allocating the costs to the periods that they concern. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments, which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data. Profits and losses of actuarial calculations are recognised in profit or loss.

- ***Provision for liquidation of components of fixed assets***

  The provision for liquidation of fixed assets is created in the event of the legal obligation occurrence or making the commitment by the management board of the Group. The provision is created on the basis of estimates of the future liquidation costs based on available offers related to the liquidation services of fixed assets, taking into account the rules of IFRIC 1. The discount effect is recognised in profit or loss.
  The planned date of inactivation of the unit number 6 in Elektrownia Pątnów I is August 2017.

- ***Provisions for liquidation of ash dumps***

  The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. This provision is created on the basis of the estimates of future costs of reclamation of ash dumps resulting from studies and technical-economic analyses, prepared by the management board of the Group, as well as the received external offerings for planned directions of reclamation.

- ***Provision for submission to the redemption of certificates of origin of energy***

  The provision for the obligation to present the redemption of certificates of origin of energy produced from renewable energy sources or in peak load co-generation is recognised as follows:
  - in a part covered by the certificates of origin held at the balance sheet date – in the value of the held certificates,
  - in the part uncovered by the certificates of origin at the balance sheet date – at the lower value of the market value of the certificates required to fulfil the obligation at the balance sheet date, and a possible penalty.

- ***Provisions for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (CERs)***

  The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production shows a shortage of emission allowances in respect of the allowances granted for the whole reporting period.
  The provision is created by net liabilities method, in the amount of:
  - in the part covered by the allowances held at the balance sheet date – in the value of the held allowances, i.e. purchased at the balance sheet value, received in the zero value.
  - in the part uncovered by the allowances at the balance sheet date – at the lower value of the market value of the allowances required to fulfil the obligation and a possible penalty.

  The Group creates the provision for the redemption of certified emission reductions CERs, at the time of the exchange transaction of CO2 emission allowances to CERs in the value at which CERs will be redeemed for a given year.
  Firstly, the Group redeems the certified emission reductions – CERs acquired through the exchange of CO2 emission allowances (EUA), then the allowances acquired free of charge under the National Allocation Plan of CO2 Allowances, and finally purchased allowances.
  At each balance sheet date, the Group's management board decides in which part the owned certified emission reductions CERs to fulfil the obligation of redemption for a given year will be allocated.

Reclamation provisions and other related to mining activity

- ***the provision for liquidation of facilities and mining areas***

  On the basis of the the Geological and Mining Law act, the companies executing extraction activities are obliged to reclaim the areas of extraction works. Due to this, the Group creates the provision both for costs of area reclamation related to current coal extraction on a given open pit and for costs of the final excavation reclamation in the state of advancement of coal extraction in particular open pits on every reporting date.
  The provision for the final excavation reclamation is created in correspondence with the assets' component (in the part in which it relates to the initial cut, on the basis of the volume of the final excavation), and in correspondence with the income statement (in the remaining part, taking into account the state of advancement of coal extraction in particular open pits on a given reporting date). In correspondence with the assets'

component, the Group also creates a provision for the external dump reclamation. The provision for reclamation costs associated with current coal mining is created in correspondence with the income statement.
The provision is created on the basis of estimation of future reclamation costs based on reports of independent experts estimating reclamation costs on the order of the company's management boards executing extraction activities. Estimates concerning projected reclamation costs are analysed periodically; on every reporting date, the size of provision is verified in accordance with current assumptions within discount rate, inflation, and the size of extraction. The provision write-down related to extraction of a given year charges operating costs (other costs by type), and the difference resulting from the provision discount from previous years influences financial costs. The use of the provision is settled in correspondence with financial costs at the end of every reporting period. The use of the provision in the part concerning taxes and charges is settled as a reduction of costs incurred during the reporting period of tax costs and charges, while the use of the provision in the part related to other liquidation and reclamation costs is settled as a reduction of other costs by type.

- ***The provision for costs related to the preparation of exploitation areas***

  The Group, within run activities, is obliged to restore to the original condition, or to rebuild damages caused by the mine operations. Due to this, the Group creates the provision for projected costs, to pay which it is obliged on the basis of concluded agreements. Estimates concerning projected costs related to the mine operations are updated on every reporting date. The creation of the provision is recognised, on the other side, within the framework of mining assets.

10.27. CO2 emission allowances

The obtained free CO2 emission allowances are presented in the financial statement at the nominal value as the allowances intended for own needs at the zero value within the intangible assets item. The emission allowances and their equivalents purchased by the Group for its own needs are stated as intangible assets. These allowances are valued at the acquisition cost. The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production shows a shortage of emission allowances in respect of the allowances granted for the reporting period.

The cost of the created provision is presented in the income statement, in the cost of sales.

The provision is created in the amount of:

– in a part covered by the allowances held at the balance sheet date – in the value of the held allowances, i.e. purchased at the balance sheet value, received in the zero value.

– in a part uncovered by the allowances held at the balance sheet date – at the lower value of the market value of the allowances required to fulfil the obligation at the balance sheet date and a possible penalty.

The Group creates the provision for the redemption of certified emission reductions CERs, at the time of the exchange transaction of CO2 emission allowances to CERs in the value, at which CERs will be redeemed for a given year.

Firstly, the Group redeems the certified emission reductions – CERs acquired through the exchange of CO2 emission allowances (EUA), then the allowances acquired free of charge, and finally purchased allowances.

At each balance sheet date, the Group's management board decides in which part the owned certified emission reductions CERs to fulfil the obligation of redemption for a given year will be allocated.

The Group presents information on the number and market value of the held emission allowances in the additional notes and explanations to the financial statement.

In case of the exchange of allowances to certified emission reductions – CERs (the attributable exchange rate is 1% of the obligation to redeem allowances for a given reporting period), the Group presents the effect of the exchange in the income statement within the operating activity as revenues from sales.

The result on sale of surplus of the allowances acquired free of charge is presented in the income statement, in other operating income.

The exchange transactions of EUA to CERs are presented in the cash flow statement, in the cash flows of the operating activity.

10.28. Revenues

Revenues are recognised to the extent that it is probable that the Group will obtain the economic benefits associated with the transaction, and the amount of revenues can be reliably valued. Revenues are recognised at the fair value of the received or receivable payment, after deduction of the value added tax (VAT) as well as excise tax, and discounts. Revenues are also recognised according to the below criteria.

10.28.1.Sale of goods and products

Revenues are recognised if the significant risk and benefits of the equity related to goods and products were transferred to the buyer and the amount of revenues can be reliably valued.

Sales revenues also include the sales revenues of green and red certificates. At the time of production, the certificates of origin intended for sale are included in the sales revenues, and therefore in order to avoid inflating revenues at the time of selling, the costs of selling certificates are recognised as an adjustment to sales revenues.

10.28.2.Provision of Services

Revenues from services are recognised on the basis of the extent of their completion.

The percentage progress status for the services completion is determined as a relation between the incurred costs and estimated costs, which are necessary to complete the order.

If it is impossible to reliably estimate the contract results, then the revenues generated due to this contract are recognised only to the amount of incurred costs which the Group expects to recover.

10.28.3.Contracts for construction services

The construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

If it is possible to reliably estimate the outcome of the contract for a construction service, the revenues and costs related to the contract for a construction service are recognised as the revenues and costs according to the extent of the contract execution at the end of the reporting period.

The level of progress of the contract performance is specified on the basis of determination of the share of the contract costs incurred for the executed works to the valuation date, within the estimated total cost of the contract.

When the outcome of contract cannot be reliably estimated:

a) revenues are recognised only to the extent of the incurred contract costs, for which there is a likelihood of their recovery; and

b) contract costs are recognised as a cost in the period in which they were incurred.

In the event, when it is probable that total contract costs will exceed total contract revenues, the expected loss should be recognised immediately as a cost.

The gross amount due from customers for contract works is recognised in the financial statement as assets and the gross amount due to customers for contract works – as liabilities.

10.28.4.Revenues from compensation for stranded costs

The Group receives compensation for the coverage of the stranded costs pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity. The revenue due to compensations is successively included in the obtained rights to compensations at the end of each financial year, to the end of the period of their application.

At every moment of the revenue recognition, the Group determines the estimated rate of stranded costs to the total amount of the received, returned, expected and discounted annual advance payments (including the received annual advance payments). The amount of revenue for a given financial year is the product of the indicator and amounts of the received advance payments, which were revised by the annual adjustments and reduced by the recognised in previous years' income for compensations.

The difference between the total amount of the included income and the total amount of the received advance payments to the total amount of stranded costs is recognised by the Group as:

- receivables, in the event of a negative difference between the total amount of the received advance payments and included compensation income,
- liabilities, in the event of a positive difference between the total amount of the received advance payments and included compensation income,

10.28.5.Government subsidies

If there is justified certainty that the subsidy will be obtained and all the related conditions will be fulfilled, then government subsidies are recognised according to their fair value.

When the subsidy relates to the cost item, then it is recognised as income proportionally to the costs, which the subsidy is to compensate. If the subsidy relates to a component of assets, then its fair value is recognised on the account of future periods' revenues, and then gradually, by equal annual write-offs, is recognised in profit or loss during the estimated useful life of the associated component of assets.

If the Group receives non-monetary subsidies, both the component of assets and subsidy are recognised at nominal value and gradually, by equal annual write-offs, are included in profit or loss during the estimated useful life of the received component of assets.

10.29. Costs

Cost of goods sold

The cost of goods sold includes:

- the production cost incurred during the reporting period, adjusted for the change in the level of products (finished products, semi-finished products and production in progress), as well as adjusted for the cost of manufacturing products for own needs,
- the value of sold goods and materials according to the acquisition cost,
- the creation of the impairment write-downs against the value of tangible fixed assets, intangible assets and inventories,
- the total costs of sale and overheads (shown as a profit or loss) incurred during the reporting period.

The production costs, which can be directly allocated to the revenues achieved by the entities, influence the financial result of the entities for the reporting period, in which the revenues occurred.

The production costs, which can be only indirectly allocated to the revenues and other benefits achieved by the entities, influence the financial result of the entities in the part, in which they relate to a given reporting period, providing their adequacy to the revenues and other economic benefits, including the valuation of fixed assets and inventories.

10.30. Other operating income and costs

Other operating income and costs include items mainly related to:

- the sale of tangible fixed assets, intangible assets,
- the creation and reversal of provisions, except for the provisions related to the financial operations or included in operating expenses,
- free transfer or receiving, including the way of donation of assets, as well as cash.
- the compensation, penalties and fines, as well as other costs not related to the usual business activity.

10.31. Revenues and financial costs

Revenues and financial costs especially include the revenues and costs related to:

- the sale of financial assets,
- the revaluation of financial instruments, except for the financial assets available for sale, the revaluation effects of which are included in the revaluation capital,
- the revenues due to the share in profits of other entities,
- the interest (including the valuation effect with the amortised cost),

- the changes in in the value of the provision resulted from the fact of approaching the date of incurring the cost (the unwinding of the discount effect),
- the foreign exchange differences which are a result of the operations performed during the reporting period and the balance sheet valuation of assets and liabilities at the end of the reporting period, except for the foreign exchange differences recognised in the initial value of the fixed asset, to the extent in which they are considered as an adjustment of the interest costs and foreign exchange differences,
- other items connected with the financial activity of the company.

The entities present revenues and costs for the foreign exchange rate differences after compensation, and the Group – separately for assets and liabilities.

The revenues and costs due to the interest are successively presented as they grow, including the effective interest rate method in relation to the net balance sheet value of a given financial instrument, based on the concept of materiality.

Dividends are recognised at the time of establishment of the shareholders' rights to these dividends.

10.32. Taxes

10.32.1.Current tax

The liabilities and receivables for the current tax for the current period and previous periods are evaluated in the amount of expected payment for tax authorities (subject to return from tax authorities), using the tax rates and regulations, which were legally or actually applicable as at the balance sheet date.

10.32.2.Deferred tax

For the purpose of financial reporting, the deferred tax is provided, using the balance liability method in relation to all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their balance sheet value presented in the financial statement.

The provision for the deferred tax is recognised in reference to all positive temporary differences:

- except for the situation, in which the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in case of positive temporary differences resulted from the investment in subsidiaries or associates and shares in joint ventures – except for the situations, in which dates of the reversal of temporary differences are subject to the investor's control and it is probable that, in the predictable future, temporary differences will not be reversed.

The assets for the deferred tax are recognised in relation to all negative temporary differences, as well as unused tax credits and unused tax losses transferred to future years, to the extent that it is probable that the taxable income, which allows using the above mentioned differences, assets and losses, will be achieved:

- except for the situation, in which the assets for the deferred tax related to negative temporary differences which arise from the initial recognition of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion, have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in the case of negative temporary differences resulted from the investment in subsidiaries or associates and shares in joint ventures, the assets' component for the deferred tax is recognised in the balance sheet only to the extent that it is probable that, in the predictable future, the above mentioned temporary differences will be reversed and the taxable income, which enables the negative temporary differences to be deducted, will be achieved.

The balance sheet value of the assets' component for the deferred tax is reviewed on every balance sheet date and reduced to the extent that it is no longer probable that the taxable income sufficient for a partial or complete realisation of the assets' component for the deferred tax will be achieved.

An unrecognised deferred tax asset is re-assessed on each balance sheet date, and is recognised at the amount reflecting the likelihood of achieving the future taxable income allowing to recover this component of assets.

The deferred tax assets and provisions for the deferred tax are evaluated using the tax rates expected to be applicable in the period, in which the assets' component is realised, or the provision is reversed, the basis for which will be tax rates (and tax regulations) applicable at the balance sheet date, or those which will certainly be effective on the balance sheet date in the future.

The income tax on items recognised outside the profit or loss is recognised outside the profit or loss: in other comprehensive income related to the items recognised in other comprehensive income or directly in the equity, relating to the items recognised directly in the equity.

The Group offsets the deferred income tax assets with the deferred income tax provisions only if it owes an executable legal right to compensate receivables with current tax liabilities, and the deferred income tax is related to the same taxpayer and the same tax authority.

10.32.3.Value added tax and excise tax

Revenues, costs, assets, and liabilities are recognised after deducting the value added tax, with the exception of:

- the situation, in which the value added tax paid at the time of the assets or services purchase is impossible to be recovered from tax authorities; then, it is recognised as part of the acquisition cost of the assets' component or cost item, as well as
- receivables and liabilities, which are stated with the amount of the value added tax.

The net amount of the value added tax recoverable or payable to tax authorities is included in the financial statement as part of receivables or liabilities.

The net amount of the value added tax and excise tax which are recoverable or payable to tax authorities are included in the financial statement as parts of receivables or liabilities.

10.33. Net profit per share

The net profit per share for each period is calculated dividing the net profit for a given period by the weighted average number of shares in a given reporting period.

10.34. Acquisition under joint control

A situation, in which a particular transaction or economic phenomenon, requiring inclusion in the statement drawn up in accordance with IFRS, are not regulated by the provisions of the various standards, was settled by IAS 8 point 10–12. These provisions impose on the entity, which draws up the statement in accordance with IFRS, the obligation to create its own list of accounting rules, indicating the characteristics of the following accounting principles: a faithful presentation of the financial position, results of operations and cash flows, reflection of the substance of the transaction, neutrality, caution, and completeness in all aspects.

According to the analyses conducted by the Company, the commonly used method for the settlement of such transactions is a pooling of interests method, and the Company applied such a method. At the bottom of this method, there is an assumption that merging entities, before and after the transaction, were controlled by the same shareholder. Therefore, the consolidated financial statement reflects the continuity of joint control and does not reflect any changes in the value of net assets to fair values (or recognition of new assets), or the valuation of the company's value, since none of the merging entities is not actually acquired. The settlement takes place on the day of the merger and the previous data is not adjusted.

10.35. Obligation to purchase non-controlling interests

The Company's obligation to redeem the employee shares is recognised at the date of taking control, and refers to situations in which employees have the option of selling shares. According to the selected policy, the non-controlling interests get the allocation of the result and other total revenue in the following reporting periods. At the end of every reporting period, the adjustment of non-controlling shares took place, as if their acquisition, while recognising the liability due to the option to redemption of shares, occurred. The difference between the value of the non-controlling shares derecognised at the reporting date and the recognized financial liability is included in the position of retained profits.

11. Acquisitions of ventures

In the period between 1 January 2014 and 31 December 2014, there were no new acquisitions of ventures.

12. Operating segments

For the purpose of management, the Group was divided into parts on the basis of manufactured products and provided services.

Therefore, there are following operating segments:

- The Generation Segment covering production of electricity both from conventional sources (including co-generation) and by combustion and co-combustion of biomass. Basic fuels used by the Generation Segment are lignite and biomass. The Generation Segment covers following entities:
    - Zespół Elektrowni "Pątnów – Adamów – Konin" S.A.
    - "Elektrownia Pątnów II" Sp. z o.o.
    - "PAK – HOLDCO" Sp. z o.o.
    - "PAK Infrastruktura" Sp. z o.o.
- The Generation Segment covering the extraction of lignite. In the Generation Segment, within the Capital Group ZE PAK S.A.:
    - "PAK GÓRNICTWO" Sp. z o.o.
    - "PAK Kopalnia Węgla Brunatnego Konin" S.A.
    - "PAK Kopalnia Węgla Brunatnego Adamów" S.A.
- The Renovation Segment performing services in the scope of construction and renovation services. The Segment covers activities of:
    - Przedsiębiorstwo Remontowe "PAK SERWIS" Sp. z o.o.
    - Przedsiębiorstwo Serwisu Automatyki i Urządzeń "EL PAK" Sp. z o.o.
    - "Energoinwest Serwis" Sp. z o.o.
    - "EL PAK Serwis" Sp. z o.o.
- The Sales Segment performing services of the sale of electricity. The Sales Segment also includes the "PAK-Volt" S.A. company.

The ZE PAK S.A.Group also performs other types of activities through the "PAK Centrum Usług Informatycznych w in liquidation" Sp. z o.o., and "PAK Centrum Badań Jakości w liquidation" Sp. z o.o. companies. EKO – Surowce Sp. z o.o. The business activity of these companies was aggregated in the Other column.

Transaction prices used in transactions between operating segments are determined on the basis of commercial principles, like in transactions with non-related entities.

Revenues due to transactions between segments are eliminated in the process of consolidation.

The Board monitors separate results of the operating activities of segments in order to decide on allocation of resources, evaluation of this allocation's outcomes, and the results of activities. The basis of assessment of the results of activities is profit or loss on the operating activity and EBITDA.

Segments' results for periods concluded on 31 December 2014 and 31 December 2013 are presented below:

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(in PLN thousand)

As of 31 December 2014

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	1 729 658	8 453	165 922	767 999	8 079	-	2 680 111
Sales revenue between segments	430 992	870 157	240 059	5	68 836	(1 610 049)	-
Sales revenue	**2 160 650**	**878 610**	**405 981**	**768 004**	**76 915**	**(1 610 049)**	**2 680 111**
Cost of goods sold	(2 055 391)	(845 788)	(341 128)	(749 877)	(71 364)	1 611 388	(2 452 160)
Gross profit	**105 259**	**32 822**	**64 853**	**18 127**	**5 551**	**1 339**	**227 951**
Other operating income	63 063	31 119	924	183	1 937	(9 166)	88 060
Selling and distribution expenses	(2 929)	(30)	-	(656)	(358)	-	(3 973)
Administrative expenses	(49 678)	(70 903)	(20 502)	(4 659)	(2 896)	(1)	(148 639)
Other operating expenses	(4 608)	(10 672)	(460)	(104)	(263)	138	(15 969)
Finance income	5 164	14 056	695	976	453	-	21 344
Finance costs	(41 742)	(29 762)	(98)	(1)	(1 825)	2 639	(70 789)
Profit before tax	**74 529**	**(33 370)**	**45 412**	**13 866**	**2 599**	**(5 051)**	**97 985**
Income tax expense	(14 989)	6 857	(9 211)	(2 986)	(679)	1 507	(19 501)
Net profit/loss for the period from continuing operations	**59 540**	**(26 513)**	**36 201**	**10 880**	**1 920**	**(3 544)**	**78 484**
Profit /loss from operating activities, without financial operations and income tax	**111 107**	**(17 664)**	**44 815**	**12 891**	**3 971**	**(7 690)**	**147 430**
Depreciation / Amortization	267 197	88 355	8 381	155	1 634	(5 167)	360 555
Change in impairment	(142)	(395)	-	-	-	-	(537)
(EBITDA)	**378 162**	**70 296**	**53 196**	**13 046**	**5 605**	**(12 857)**	**507 448**

(in PLN thousand)

As of 31 December 2013	**Generation**	**Mining**	**Renovation**	**Sale**	**Other**	**Consolidation adjustment**	**Total**
Sales revenue to external customers	1 867 335	13 223	83 723	798 757	802	-	2 763 840
Sales revenue between segments	471 787	947 852	137 683	5	21 089	(1 578 416)	-
Sales revenue	**2 339 122**	**961 075**	**221 406**	**798 762**	**21 891**	**(1 578 416)**	**2 763 840**
Cost of goods sold	(2 102 318)	(742 784)	(183 473)	(790 393)	(17 135)	1 582 007	(2 254 096)
Gross profit	**236 804**	**218 291**	**37 933**	**8 369**	**4 756**	**3 591**	**509 744**
Other operating income	13 941	12 127	1 019	583	50	(1 873)	25 847
Selling and distribution expenses	(2 350)	(28)	-	(595)	-	-	(2 973)
Administrative expenses	(47 735)	(78 829)	(16 942)	(4 757)	(2 703)	1 873	(149 093)
Other operating expenses	(13 087)	(11 770)	(110)	(1)	(10)	-	(24 978)
Finance income	6 398	8 867	1 398	1 865	306	-	18 834
Finance costs	(50 433)	(27 572)	(98)	(13)	-	490	(77 626)
Profit before tax	**143 538**	**121 086**	**23 200**	**5 451**	**2 399**	**4 081**	**299 755**
Income tax expense	(39 496)	(22 541)	(4 123)	(1 032)	(395)	(662)	(68 249)
Net profit/loss for the period from continuing operations	**104 042**	**98 545**	**19 077**	**4 419**	**2 004**	**3 419**	**231 506**
Profit /loss from operating activities, without financial operations and income tax	**187 573**	**139 791**	**21 900**	**3 599**	**2 093**	**3 591**	**358 547**
Depreciation / Amortization	272 978	81 877	5 141	123	2 183	(4 461)	357 841
Change in impairment	(341)	(197)					(538)
(EBITDA)	**460 210**	**221 471**	**27 041**	**3 722**	**4 276**	**(870)**	**715 850**

In the above table, in relation to the previous year's financial statement, the presentation of financial income for the consolidation adjustments – the financial income in the amount of minus PLN 41,402 thousand, which are mainly dividends, was recognised in the item of financial income, in the Generation segment.

(in PLN thousand)

13. Revenues and costs

13.1. Sales revenues

	Note	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Revenues by type			
Electricity		1 690 565	1 903 212
Electricity resold from the market		575 730	486 914
Energy certificates of origin		63 327	55 681
Construction contracts	*13.8*	147 735	57 411
Compensation related to PPAs termination		99 223	155 239
Heat		58 276	58 383
Other		46 161	48 255
Excise		(906)	(1 255)
Total revenues by type		2 680 111	2 763 840

by territory	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Poland	2 669 990	2 748 970
UE countries	2 870	13 417
Outside UE	7 251	1 453
Total sales revenues	2 680 111	2 763 840

13.2. Other operating revenues

	Year ended 31 December 2014	*Year ended 31 December 2013*
Compensations received	8 220	10 781
Reversal of write-downs against receivables	16	622
Grants received	7 971	1 997
Gain on the sale of non-financial fixed assets	8 972	3 480
Return of costs previously recognized as NKUP	805	-
Reversal of provisions for costs and losses and liabilities write-off	51 141	5 155
Other	10 935	3 812
Total other operating income	88 060	25 847

(in PLN thousand)

The largest items of redemption of provisions are: redemption of the provisions for employee tariff in ZE PAK in the amount of PLN 45,668 thousand and redemption of provision for liquidation in ZE PAK in the amount of PLN 2,572 thousand. Redemption of provision for employee tariff occurred after the Company's withdrawal from the Collective Labour Agreement for Energy Sector Employees, with effect from 1 January 2015.

In item of the subsidies settlement, the part of the deferred settlement of the revenue recognised in the sale-and-lease-back transactions in PAK KWB Konin in the amount of PLN 5,821 thousand was included.

The main components of the other item are: recovery of costs of the court proceeding in ZE PAK in the amount of PLN 2,281 thousand, PCC tax return on the purchased agricultural land in PAK KWB Konin in the amount of PLN 1,178 thousand.

13.3. Other operating costs

	Year ended *31 December 2014*	*Year ended* *31 December 2013*
Loss on the sale of property, plant and equipment	184	79
Creation of provisions	7 187	6 532
Impairment write-down against receivables	992	107
Compensations paid	-	242
Loss on liquidation of fixed assets	10	2 673
Electricity equivalents paid for pensioners and former employees	3 069	3 137
Electricity-related damages	603	1 780
Cost of social assets maintenance	109	258
Donations given	424	628
Cost of trade unions	186	194
Cost of shortages and damages	201	98
Other	3 004	9 250
Total other operating expenses	15 969	24 978

The largest components of the creation of provisions item are increasing the provision for coal benefit in PAK KWB Konin in the amount of PLN 3,146 thousand.

(in PLN thousand)

13.4. Finance income

	Year ended *31 December 2014*	*Year ended* *31 December 2013*
Interest income	7 192	10 834
Dividends	5 522	7 426
Foreign exchange gains	703	-
Other	7 927	574
Total Finance income	21 344	18 834

The dividends item presents mainly the dividend for PAK KWB Konin S.A. paid by the Centrum Zdrowia i Relaksu "Verano" Sp. z o.o. company in the amount of PLN 4,584 thousand.

The other item presents primarily the result of the sale of the shares in the Centrum Zdrowia i Relaksu "Verano" company by PAK KWB Konin in the amount of PLN 7,840 thousand to the Megadex Development Sp. z o.o. company made on 20 October 2014.

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13.5. Finance costs

	Year ended *31 December 2014*	*Year ended* *31 December 2013*
Interest expenses	29 319	47 570
Valuation and realization of financial derivatives	9 432	11 151
Foreign exchange losses	14 621	8 850
Power units utilisation provision discount	1 045	782
Revaluation of investments	3 950	-
Reclamation provision discount	10 464	7 914
Other	1 958	1 359
Total finance costs	70 789	77 626

(in PLN thousand)

13.6. Costs by type

	Note	*Year ended 31 December 2014*	*Year ended 31 December 2013*
Depreciation / Amortisation	*13.7*	360 555	357 841
Impairment write-downs against property, plant and equipment	*19,13.7*	(537)	(538)
Impairment write-downs against inventories		22 412	2 255
Materials		448 448	553 324
External services		178 732	122 980
Taxes and charges, excluding excise duty		231 378	216 645
Costs of allowances for emission of CO2		176 957	150 652
Employee benefits		556 640	597 479
Other costs by type		33 870	29 158
Cost of goods for resale and raw materials sold and resale of electricity from the market		589 212	455 765
Total cost by type		2 597 667	2 485 561
Items included in cost of goods sold		2 452 160	2 254 096
Items included in selling and distribution expenses		3 973	2 973
Items included in administrative expenses		148 639	149 093
Change in the stocks of finished goods		(26 260)	35 291
Cost of goods and services for internal needs		19 155	44 108

(in PLN thousand)

13.7. Depreciation costs and impairment write-downs included in the profit or loss

	Year ended 31 December 2014	*Year ended 31 December 2013*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	338 048	344 058
Depreciation of mining asset	13 184	8 838
Intangible assets depreciation	932	1 287
Depreciation of land exploited as open pit	1 391	-
Impairment of inventory	19 481	2 256
Impairment of tangible fixed assets	(537)	(538)
Impairment of intangible assets	-	-
	372 499	355 901
Items included in selling and distribution costs:		
Fixed assets depreciation	8	5
Intangible assets depreciation	-	-
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
	8	5
Items included in administrative costs		
Fixed assets depreciation	6 307	2 901
Intangible assets depreciation	685	752
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
	6 992	3 653

13.8. Contracts for a construction service

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013*
Revenues from contracts for construction services recognised in the period:	147,735	57,411
Revenues invoiced in the period:	163,205	52,817
Balance sheet valuation:	(15,470)	4,594
Costs applied in the period:	134,987	51,230
Expected losses due to the contracts recognised in the period:	(37)	427
Results due to performance of the contracts included in the period:	12,785	5,754

(in PLN thousand)

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013*
Gross amount payable by contracting parties due to works resulting from the contract:	10,047	13,229
Gross amount paid to contracting parties due to works resulting from the contract:	20,245	8,070

The Group's companies – Przedsiębiorstwo Remontowe "PAK Service" sp. z o.o. and Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych "EL PAK" sp. z o.o. – execute contracts for construction services.

Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych "EL PAK" sp. z o.o. provides services in the scope of industrial automation and electrical devices.

The main contracts executed by the company in the periods covered by this statement are as follows:

Przedsiębiorstwo Serwisu Automatyki i Urządzeń „EL PAK" sp. z o.o.

- TAURON Dystrybucja SA Replacement of 110kV circuit breakers in the Szczekociny 110/15kV electric power substation – the contract value: PLN 778 thousand
- ENEA Operator Modernization of the Dębina 13_136.1 MV station/MV columnar switchgear – the contract value: PLN 1,432 thousand
- ENEA Operator Modernization of compensatory systems in the 14_033.1 Zawada transformer/switching station – the contract value: PLN 826 thousand
- Mondi Świecie Changes in the 6 kV Main Switchgear in Combined Heat and Power Plant Mondi Świecie (Elektrociepłownia Mondi Świecie) – the contract value: PLN 1,498 thousand
- Elektromontaż SA The assembly works of cable lines, 110 kV equipment and fittings (with the option of materials delivery) in HM Głogów – the contract value: PLN 978 thousand
- PSE The development of the 110 kV switchgear in SE Adamów for connection of the industrial gases plant - the contract value: PLN 2,442 thousand
- APS Energia Prefabrication of auxiliary cabinets for SE Glinki – the contract value: PLN 480 thousand
- MP Production Construction of the 110/6 kV electric power substation SE Messer - the contract value PLN 2,030 thousand
- PGE Auxiliary transformer stands in Garwolin, Konstancin, Mińsk, Garwolin, Pomin 110/15 kV stations – the contract value: PLN 4,088 thousand
- Mondi Świecie Assembly of the system of power output from the new TZ5 and TB1 turbine set in Elektrociepłownia Mondi Świecie S.A. – the contract value: PLN 1,691 thousand
- REMAK-ROZRUCH Modernization of boilers on 1 and 2 in order to reduce NOx emissions in the Pątnów Power Plant – the contract value: PLN 6,650 thousand
- Turbo Care "Turnkey" modernisation of high-speed and medium-speed turbine sets with auxiliary equipment and pipeline systems of units no. 1 and 2 in the Pątnów Power Plant - the contract value: PLN 5,085 thousand

(in PLN thousand)

- REMAK-ROZRUCH Changes in the master and auxiliary circuits of 3 6 kVP1 and P2 switchgear bays related to the power supply to the NOx emission reducing system - the contract value: PLN 565 thousand
- REMAK-ROZRUCH DCS system software in the scope of K1 and K2 boiler islands in the Pątnów Power Plant - the contract value: PLN 600 thousand
- Przemysłówka SA Supplies, assembly, and start-up of the workshop facilities building installation in the Pątnów Power Plant - the contract value: PLN 1,150 thousand
- ControlTec Development of the Proman system for the needs of visualisation of the new water treatment station system - the contract value: PLN 600 thousand
- TAURON Dystrybucja Construction of the 110/20 kV Ustronie electric power substation with the reconstruction of the 110 kV line – the contract value: PLN 13,074 thousand
- ALSTOM Power Modernization of the 110 kV switching station in the Copper Smelter (Huta Miedzi) Głogów – the contract value: PLN 8,614 thousand
- The Port of Gdańsk Authority SA The transformer/switching station the Northern Port (GPZ Port Północny) in Gdańsk - the value of the contract: PLN 1,219 thousand
- TAURON Dystrybucja SA Replacement of 20 kV compensatory systems in the GPZ R-Bielawa transformer/switching station - the contract value: PLN 1,107 thousand

14. Components of other comprehensive income

Components of other comprehensive income are presented as follows:

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013*
Cash flow securities		
Profits (losses) for the period	(8,059)	586
Adjustment resulting from reclassification of profits (losses) included in the profit or the loss	9,405	11,126
Gross cash flow securities for the period	**1,346**	**11,712**
Income tax concerning cash flow securities	(256)	(2,225)
Net cash flow securities for the period	**1,090**	**9,487**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**(9,502)**	**(364)**
Income tax concerning actuarial profits (losses)	1,805	69

(in PLN thousand)

Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**(7,697)**	**(295)**
Gross exchange rate differences from foreign currency conversion	**77**	**41**
Income tax concerning exchange rate differences from foreign currency conversion	-	-
Net exchange rate differences from foreign currency conversion	**77**	**41**
Other gross comprehensive income	**(8,079)**	**11,389**
Income tax concerning other comprehensive income	**1,549**	**(2,156)**
Other net comprehensive income	**(6,530)**	**9,233**

15. Income tax

15.1. Tax load

The main components of tax load for the year concluded on 31 December 2014 and 31 December 2013 are as follows:

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013 (adjusted data)*
Included in the profit or the loss		
Current income tax		
Current income tax load	14,617	9,388
Deferred income tax load		
Related to creation and reversal of temporary differences	(179)	66,392
Other changes	5,063	(7,531)
Tax load in the consolidated profit or loss	**19,501**	**68,249**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(256)	(2,225)

(in PLN thousand)

Actuarial allowance concerning actuarial profits/losses	1,805	69
Tax advantage/(tax load) included in comprehensive income	**1,549**	**(2,156)**

In the year concluded on 31 December 2014, the other changes item included mainly the value resulting from the adjustment of declarations on corporate income tax in the Elektrownia Pątnów II Sp. z o.o. company in the amount of PLN 5,164 thousand.

15.2. Fixing of an effective tax rate

The agreement of income tax on the gross financial result before taxation according to the statutory tax rate with the income tax calculated according to the effective tax rate of the Group for the year concluded on 31 December 2014 and 31 December 2013 is as follows:

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013*
Gross profit before taxation from continuing operations	**97,985**	**299,755**
Tax according to statutory tax rate applying in Poland, adjusting to 19% (2011:19%)	18,617	56,953
Adjustment concerning the current income tax from previous years	(104)	-
Not included tax losses	210	10,786
Usage of the tax losses not recognised earlier	(174)	-
Costs permanently not constituting costs of obtaining revenues	4,279	1,405
Costs permanently not constituting the tax base	(748)	-
Change related to the different tax rate in Germany (30%)	(71)	311
Others	(2,508)	(1,206)
Tax according to the effective tax rate amounting 20% in 2014 and 23% in 2013	19,501	68,249
Income tax in the income statement	**19,501**	**68,249**

(in PLN thousand)

15.3. Deferred income tax

Deferred income tax results from the following items:

			Consolidated income statement for the year concluded on	
	31 December 2014	*31 December 2013*	*31 December 2014*	*31 December 2013*
Deferred tax asset				
Balance sheet provisions	140,858	140,439	(1,386)	10,023
Stripping assets and other mining assets and related provisions	(20)	4,476	(4,496)	(5,057)
Interest and foreign exchange differences	13,422	11,243	2,179	61
Security instruments	4,511	4,796	(29)	(47)
Valuation of non-terminated construction agreements	5,727	3,685	2,042	2,827
Tax loss from previous years	53,582	47,814	5,768	(22,321)
Impairment write-down against inventory	1,585	1,780	(195)	(25)
Impairment write-down against receivables	6,195	6,629	(434)	1,178
Impairment write-downs against property, plant and equipment	126	-	126	(142)
Difference between the balance sheet and the tax value of fixed assets	27	-	27	-
Settlements with employees	6,913	6,302	611	(358)
Others	35,104	5,727	29,377	3,234
Total	268,030	232,891	33,590	(10,627)
Provision under deferred tax				
Difference between the balance sheet value and the tax value of fixed assets	383,381	372,501	10,880	14,505
Receivables under PPAs	12,736	8,215	4,521	1,292
Energy certificates	25,787	23,846	1,941	3,398

(in PLN thousand)

Interest and exchange rate differences	1,897	1,021	876	(129)
Valuation of non-terminated construction agreements	3,502	3,335	167	2,201
Accrued receivables under contractual penalty fees	824	869	(45)	869
Mining asset	848	-	848	-
Purchased CO2 allowances	48,164	33,404	14,760	33,404
Others	340	877	(537)	225
Total	477,479	444,068	33,411	55,765

After compensating balances at the level of companies from the Corporate Group, deferred tax is presented as:

Asset:	**112,870**	**101,992**		
Provision:	**322,319**	**313,170**		
Differed income tax load: in the consolidated income statement:			**179**	**(66,392)**
Total deferred income tax load:			1 728	(68 548)
- in relation with comprehensive income			1 549	(2 156)
- in relation with the financial result			179	(66 392)

In the other item, the tax asset deferred on the main items consists of PLN 14,583 thousand of the provision for liability to the Zarządca Rozliczeń company in EPII, PLN 8,905 thousand is an evaluation of preferential loans in EPII, and PLN 5,186 thousand is an excess of the sale-and-lease-back transaction settled in time.

As of 31 December 2014, the "Elektrownia Pątnów II" sp. z o.o showed tax profit in the amount of PLN 24,102, and, as of 31 December 2013, in the amount of PLN 69,219.

Showed in the financial statement for 2013, tax profit in the amount of PLN 68,035, was adjusted in 2014.

Due to the obtained, on 25 March 2014, individual interpretations of the Director of the Fiscal Chamber in Poznań nos.: ILPB3/423-615/13-2/KS; ILPB3/423-615/13-3/KS; ILPB3/423-615/13-4/KS; ILPB3/423-615/13-5/KS; the company reviewed the presentation of tax expenses due to CO2 allowances, which resulted in adjustments of CIT 8 for 2010, 2011, 2012, and 2013 submitted on May 2014, as well as adjustments of settlements of tax losses on tax profits (CIT8/O) for 2012 and 2013.

As a result of obtained interpretations and another conducted review of costs due to CO2 allowances, the company moved tax costs due to acquisition of allowances in 2010 – 2013, recognising tax costs on date when the company presented expenses for allowances acquisition in its books of account.

Before the adjustment, the company showed allowances acquired in 2010 – 2012 as tax costs at the moment of their redemption.

Moreover, in the adjustment of CIT-8 for 2012 issued in May 2014, an additional fact that in December 2013, the company disposed 718,000 CERs, which purchased in June 2011, and in the period between February and May 2014, at buying cost of PLN 27,178,171.44.

At the moment of development of the financial statement for 2013, on account of above mentioned costs, the company estimated the receivable due to income tax in the amount of 19% of their value (in the amount of PLN 5,163,852.57) in the balance sheet. At the same time, such a receivable was included in 2013 in value of income tax, featured in the income statement for 2013.

The company moved the above mentioned receivable due to income tax to value of the tax asset due to cumulated loss to be settled in future periods in books of the current financial year.

With the accepted assumption of full opportunity to settle cumulated tax losses from previous years in tax profits of the future period, adjustments of CIT-8 for 2010 – 2013 did not affect value of balance sheet net results of the company for 2013.

Before 2012, the company recorded tax losses, which are deducted from tax profits starting from 2012. As a result of the adjustment, amounts of settled tax losses for 2010-2011 were subject to change.

Cumulated value of tax losses for 2009 – 2011 remaining to be settled as of 31 December 2014 amounted to PLN 150,120 (that value includes write-downs on cumulated loss made in relation to 2013).

In the current period, on the basis of forecast tax results and commenced optimisation activities, the company did not change the deferred tax asset in relation to tax losses from previous years.

As of 31 December 2013, cumulated value of tax losses for 2008-2011 amounted to PLN 230,991 (PLN 203,779 before adjustment).

As of 31 December 2013, the company analysed opportunities of settlement of tax loses on future incomes on the basis of the developed budget.

On the basis of the budget, due to lack of opportunity to deduct in whole tax losses for 2009 and 2011 (PLN 56,769 in total, included in the amount of PLN 203,779 thousand), the company made a write-down in the books of account for 2013 in relation to the deferred tax asset amounting to PLN 10,786. The amount of the write-down was not modified in 2014.

Tax losses, in accordance with the applicable Polish regulations of the tax law, may be deducted from future taxable income earned by the Company in next 5 years. However, the amount of deduction in any of these years must not exceed 50% of the loss amount.

Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o. conducts activities in Germany through the branch.

In 2008 – 2010, the company recorded tax losses. Cumulated value of losses for this period amounted to PLN 24,811 thousand.

On the basis of possessed budgets for subsequent years, the company analysed opportunities of settlement of tax losses. Value of tax losses for 2008 – 2009 amounted to PLN 18,087 thousand. The deferred tax asset was not recognised. This value amounted to PLN 5,426 thousand. For the year concluded on 31 December 2010, values of loss recorded by the German branch amounted to PLN 6,732 thousand.

Within this scope, the deferred tax asset also was not recognised – this value amounted to PLN 2,017 thousand.

(in PLN thousand)

In the year concluded on 31 December 2011, the branch recorded tax profit. Due to this, tax loss from previous years (not included in the asset earlier) was settled in the amount of PLN 4,214 thousand.

In the year concluded on 31 December 2012, the branch recorded tax profit. Due to this, tax loss from previous years (included in the asset of the amount of EUR 850 thousand earlier) was settled in the amount of PLN 3,586 thousand (an equivalent of EUR 859 thousand).

In the year concluded on 31 December 2012, the branch recorded tax profit amounting to PLN 1,936 thousand. (the equivalent of EUR 459 thousand). Due to this, tax loss from previous years (included in the asset of the amount of EUR 84 thousand earlier) was settled in the amount of achieved profit.

In the year concluded on 31 December 2014, the branch recorded tax profit amounting to PLN 1,263 thousand (the equivalent of EUR 301 thousand). Due to this, tax loss from previous years (included in the asset in whole earlier) was settled in the amount of achieved profit.

Furthermore, on the basis of developed budgets for future years, the asset of cumulated tax loss from previous years in the amount of PLN 74 thousand (the equivalent of EUR 17 thousand) was recognised.

As of 31 December 2014, value of the deferred tax asset of tax losses from previous years in Przedsiębiorstwo Remontowe "PAK Serwis" amounted to PLN 15,060 thousand (the equivalent of EUR 3,0533 thousand). The asset was subject to impairment write-downs in the amount of PLN 14,814 thousand (the equivalent of EUR 3,476 thousand).

In the financial year concluded on 31 December 2012, PAK Kopalnia Węgla Brunatnego Konin S.A. recorded tax loss in the amount of PLN 57.538 thousand, and in 2013, tax loss amounted to PLN 17,458 thousand.

As of 31 December 2014, tax profit amounted to PLN 16,768 thousand. The company settled the tax loss for 2012 in the amount of PLN 16,224 thousand.

PAK Kopalnia Węgla Brunatnego Adamów S.A. for the financial year concluded 31 December 2012 recorded tax loss in the amount of PLN 46,780 thousand.

In 2013, 50% of loss from 2012 that is PLN 23,390 thousand was deducted from income. In 2014, PLN 780 thousand were settled; as of 31December 2014, there was no current income tax load.

16. Social services fund assets and liabilities of the Intercompany Social Insurance Fund (MFŚS)

The Act of 4 March 1994 on the company social insurance fund with later amendments states that the Social Insurance Fund is formed by employers employing more than 20 full-time employees. The Group forms such a fund and makes periodical write-offs based on the amounts agreed with trade unions. In addition, the Group's companies contribute some social assets to the Fund. The aim of the Fund is to finance social activities, loans granted to the Group's employees and other social costs.

The subsidiaries of PAK KWB Konin and Adamów KWB PAK are not members of the Social Insurance Fund.

The Group compensated the assets of the Fund with their obligations to the Fund because these assets do not constitute separate assets of the Group. According to the above fact, the net balance as of 31 December 2014 is PLN 8,011 thousand (as of 31 December 2013 – PLN 9,390 thousand respectively).

The below tables present the analytics of assets, liabilities and costs of the Fund.

	31 December 2014	*31 December 2013*
Loans granted to the employees	9,770	13,688
Cash	8,179	7,522
Liabilities due to the Fund	(9,736)	(11,820)
Balance after compensation	8,213	9,390

	Year concluded on *31 December 2014*	Year concluded on *31 December 2013*
Write-offs for the Fund in the financial period	9,450	14,136

(in PLN thousand)

17. Profit per one share

Basic profit per one share is calculated with division of net profit for the period of the parent company's ordinary shareholders by weighted average of number of issued ordinary shares occurring during the period.

Diluted earnings per one share is calculated with division of net profit for the period of the parent company's ordinary shareholders by weighted average of number of issued ordinary shares occurring during the period corrected by weighted average of ordinary shares, which would be issued by converting all diluting potential equity instruments into ordinary shares.

Data concerning profit and shares that served to calculate basic and diluting earning per one share were presented below:

	Year ended *31 December 2014*	*Year ended* *31 December 2013*
Net profit from continuing operations attributable to parent company shareholders	81 977	216 946
Profit from discontinued operations attributable to parent company shareholders	-	-
Net profit attributable to ordinary shareholders, used for calculations of diluted earnings per share	81 977	216 946
The average weighted number of ordinary shares applied to calculate basic and diluted earnings per share	50 823 547	50 823 547

The below table shows the profit per one share for the 12 months concluded on 31 December 2014 and 31 December 2013, presented in the income statement.

	Year ended *31 December 2014*	*Year ended* *31 December 2013*
Basic and diluted earnings per share for the financial year attributable to equity holders of the parent	1,61	4,27
Basic and diluted earnings per share from continuing operations attributable to equity holders of the parent	1,61	4,27

In the period between the balance sheet day and the day of development of this financial statement, there were no other transactions concerning ordinary shares or potential ordinary shares.

18. Paid and proposed for payment dividends

The dividend on ordinary shares for 2013, paid on 20 August 2014, was PLN 34,560 thousand. The dividend's value per share paid 2013 was PLN 0.68.

(in PLN thousand)

19. Tangible fixed assets

Year concluded on 31 December 2014

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2014	188 660	1 858 901	3 844 966	70 972	30 023	328 162	6 321 684
Direct purchase	907	2 426	65 125	2 997	2 740	608 042	682 237
Repairs	-	4 004	18 356	-	-	(10 655)	11 705
Transfer from fixed assets under construction	27 035	33 246	45 894	1 022	1 322	(108 519)	-
Sale and liquidation	(2 418)	(8 916)	(44 949)	(5 814)	(7 100)	(1 249)	(70 446)
Gross value as at 31 December 2014	214 184	1 889 661	3 929 392	69 177	26 985	815 781	6 945 180
Depreciation and impairment write-downs as at 1 January 2014	2 339	360 623	900 928	19 465	18 302	29 815	1 331 472
Depreciation write-down for the period	1 733	86 723	244 358	9 469	3 471	-	345 754
Impairment write-down	-	(409)	(111)	(63)	(16)	(474)	(1 073)
Sale and liquidation	(263)	(4 907)	(16 624)	(3 168)	(5 629)	-	(30 591)
Depreciation and impairment write-downs as at 31 December 2014	3 809	442 030	1 128 551	25 703	16 128	29 341	1 645 562
Net value as at1 January 2014	186 321	1 498 278	2 944 038	51 507	11 721	298 347	4 990 212
Net value as at 31 December 2014	210 375	1 447 631	2 800 841	43 474	10 857	786 440	5 299 618

(in PLN thousand)

Year concluded on 31 December 2013

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2013	163 259	1 839 836	3 817 629	72 273	29 050	170 584	6 092 631
Direct purchase	-	18	3 770	1 232	2 585	267 283	274 888
Repairs	-	7 923	5 089	-	-	(3 772)	9 240
Transfer from fixed assets under construction	30 389	21 021	53 448	650	265	(105 773)	-
Sale and liquidation	(4 988)	(9 897)	(34 970)	(3 183)	(1 877)	(160)	(55 075)
Gross value as at 31 December 2013	188 660	1 858 901	3 844 966	70 972	30 023	328 162	6 321 684
Depreciation and impairment write-downs as at 1 January 2013	1 140	284 303	685 108	11 621	16 699	30 200	1 029 071
Depreciation write-down for the period	1 211	84 352	248 499	9 814	3 088	-	346 964
Impairment write-down	-	(148)	(3)	-	(2)	(385)	(538)
Sale and liquidation	(12)	(7 884)	(32 676)	(1 970)	(1 483)	-	(44 025)
Depreciation and impairment write-downs as at 31 December 2013	2 339	360 623	900 928	19 465	18 302	29 815	1 331 472
Net value as at1 January 2013	162 119	1 555 533	3 132 521	60 652	12 351	140 384	5 063 560
Net value as at 31 December 2013	186 321	1 498 278	2 944 038	51 507	11 721	298 347	4 990 212

As of 31 December 2014, the balance sheet value of fixed assets, under financial lease agreements, is PLN 76,428 thousand (as of 31 December 2013 – PLN 59,403 thousand).

Lands and buildings of the balance sheet value of PLN 486,182 thousand (as of 31 December 2013 – PLN 406,321) are covered by a mortgage established to secure bank credits of the Group (note 36).

The value of capitalised external financing cost for the year concluded on 31 December 2014 was PLN 14,345 thousand (in the year concluded on 31 December 2013, it was PLN 13,599 thousand).

Decreases due to the sale of the assets' components to leasing companies (sale-and-leaseback) in PAK KWB Konin are the main component of the sale and liquidation item. The amount concerning the purposes of sale for sale-and-leaseback of machinery and devices is gross values of PLN 24,054 thousand.

Moreover, the Group sold post-mining land of the net value of PLN 46,000 thousand.

The value impairment test of assets of the ZE PAK SA Capital Group

In accordance with IAS 36, at the end of every reporting period, the Group's Management Board evaluates whether there are any prerequisites indicating that there may have occurred loss in value of the component of fixed assets. In case of statement that there are such prerequisites, the Group estimates recoverable amount of assets' components. Due to the above, the Group always analyses: prerequisites that may affect loss in value of any of assets' components, as well as determining cash generating units within the Group's companies.

According to IAS 36: "A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset’s cash-generating unit)."

In distinguishing CGU within the companies of the Group, the main duty was the analysis of the independence of generating cash flows in terms of the functioning of the individual Company within the Group.

The parent company of the Group that is ZE PAK SA, apart from the manufacturing operations, within which it is responsible for ensuring a certain level of efficiency of the generating units and implementations of production schedules, is focused on the significant operational and financial functions at the Group level.

The Pątnów Power Plant II (El. Pątnów II) – the second electricity producer in the Group, pursuant to the Act on termination of long-term agreements, is involved in the programme of coverage of stranded costs by the end of 2025.

The final settlement of this programme and, eventually, receipt of additional funds within the annual adjustment for 2025 and the final adjustment are planned in 2026.

Lignite mines "Konin" and "Adamów" conduct the business at several open pits. In these companies, as profit generating units, smaller groups of assets that generate independent cash inflows were not, however, distinguished, because of many reasons, the inflows generated by particular groups of assets are very closely connected with each other. As a result, the Mine is expected to provide the Power Plant with a certain amount of coal; it is irrelevant, from which open pit it will come from. As a result, coal is supplied to the Power Plant from several open pits interchangeably. The organisational structure and registration systems are subordinated to such an established production target.

The above arguments determined distinguishing following units generating independent cash flows within the ZE PAK SA Capital Group:

- ZE PAK SA
- El. Pątnów II Sp. z o.o. company
- PAK KWB "Konin" S.A.
- PAK KWB "Adamów" S.A.

Moreover, the remaining CGUs were distinguished within segments: Repairs, Sales, and Others.

Conducting the value impairment test of fixed assets, the Group based on the financial model reflecting strategic priorities of the parent company, ZE PAK SA, for 2014 – 2047.

(in PLN thousand)

In ZE PAK SA, one cash-generating unit (CGU) was determined, although the following units generating cash inflows were distinguished within the cash-generating unit:

- the Pątnów I power plant - operation time until 31 December 2029
- the Adamów power plant - operation time until 31/12/2017
- the Konin-header power plant - operation time until 31 December 2017
- the Konin biomass unit power plant- operation time until 31 December 2047

For each of these units, it is possible to determine the cash flow stream, but these streams are, to some extent, dependent on each other. Therefore, they had to be considered together as a single unit (CGU). For the above unit (CGU), EBIT streams were estimated according to periods of operation of particular units. For the EBIT Stream, depreciation adjusted after 2017 was added to Adamów and Konin-header units. In order to calculate unrestricted cash flows, the EBITDA flows were adjusted with the investment expenses.

Expenses for the gas unit in Konin were excluded from the investment expenses.

Moreover, the following annual rates of increase of sales revenues in 2015 – 2030:

2015	2016	2017	2018	2019	2020	2021	2022
7%	21%	1%	-26%	3%	-4%	-7%	28%

2023	2024	2025	2026	2027	2028	2029	2030
9%	8%	2%	9%	-4%	1%	-6%	-7%

In case of Elektrownia Pątnów II sp. z o.o., the value impairment test was cancelled due to this unit's participation in the programme of coverage of stranded costs (KDT).

The basis of evaluation for both brown coal mines are long-term financial projections including periods of operation of both mines and their particular open pits, which were agreed with assumptions accepted in the ZE PAK S.A.'s model.

Financial projections were built with consideration of the following parameters:

1. The volume of production (extraction of coal) and revenue was determine on the basis of forecasts of the main recipient of coal that is the ZE PAK SA and the EP II Sp. z o.o. company and its projected price curve for coal,
2. Stripping and extraction of coal were developed according to the schedule of utilisation of current and predicted open pits,
3. The level of investment expenses enabling to build new open pits and maintain specified production capacities during their operation was accepted,
4. The schedule of employment restructuring processes was accepted,
5. Costs of the following events were included:

- costs of reclamation of open pits
- pension provisions
- costs of compensations due to the group dismissals
- revenues from sale of the asset after the end of open pit utilisation.

On the basis of such model, cash flows were estimated according to periods of operation of particular open pits.

Every mine was treated as a separate CGU unit.

Values of revenues, costs, investment expenses, and working capital were introduced to the model, in which value of the enterprise was calculated on the basis of full and the best knowledge possible to have on the day of test conduction. The test was conducted on 31 December 2014.

On the basis of conducted tests, it was stated that there is no necessity of recognition of impairment write-downs against property, plant and equipment.

Changes of financial parameters underlying the evaluation of the recoverable amount would change the present value of the discounted cash flow with the amounts presented below.

(in PLN thousand)

Zespół Elektrowni Pątnów-Adamów-Konin S.A.	(+) increase by 0.5 percentage points	(-) decrease by 0,5 percentage points
weighted average cost of capital	(157,342)	169,817
	(+) increase by 1 percentage point	(-) decrease by 1percentage point
change in sales revenues	190,251	(190,251)

PAK KWB Konin S.A.	(+) increase by 0.5 percentage points	(-) decrease by 0.5 percentage points
weighted average cost of capital	(49,515)	54,138
	(+) increase by 1 percentage point	(-) decrease by 1 percentage point
change in sales revenues	61,675	(61,675)

PAK KWB Adamów S.A.	(+) increase by 0.5 percentage points	(-) decrease by 0.5 percentage points
weighted average cost of capital	(766)	759
	(+) increase by 1 percentage points	(-) decrease by 1 percentage points
change in sales revenues	11,055	(11,055)

20. Lease

20.1. Liabilities due to financial lease agreements and lease agreements with purchase option

Fixed assets used on the basis of financial lease agreements include mostly cars, tracked dozers and loaders, tractors, and trailers.

As of 31 December 2014 and 31 December 2013, future minimal lease payments due to financial lease agreements and lease agreements with purchase option, as well as current value of minimal net lease payments are as follows:

	As of 31 December 2014		As of 31 December 2013	
	Minimum fees	*Current value of fees*	*Minimum fees*	*Current value of fees*
Up to 1 year	14 423	13 108	20 540	18 193
1 to 5 years	20 168	19 151	24 416	22 476
Above 5 years	-	-	-	-
Total minimum lease fees	34 591	32 259	44 956	40 669
Minus financial costs	(2 062)	-	(4 287)	-
Current value of minimum lease fees, including:	34 558	32 259	44 932	40 669
Short-term	14 404	13 108	20 516	18 193
Long-term	20 154	19 151	24 416	22 476

(in PLN thousand)

21. Intangible assets

Long-term intangible assets – year concluded on 31 December 2014

	Development costs	*Patents and licences*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2014	-	33 231	1 822	25 528	60 581
Increase	-	(17 041)	(12)	(25 156)	(42 209)
Decrease	-	2 359	37	76 550	78 946
Gross value as of 31 December 2014	-	18 549	1 847	76 922	97 318
Depreciation and impairment write-downs as at 1 January 2014	-	27 702	1 155	269	29 126
Depreciation write-down for the period	-	1 259	333	25	1 617
Impairment write-down	-	-	-	-	-
Decreases	-	(15 675)	(13)	-	(15 688)
Depreciation and impairment write-downs as at 31 December 2014	-	13 286	1 475	294	15 055
Net value as at 1 January 2014	-	5 529	667	25 259	31 455
Net value as at 31 December 2014	-	5 263	372	76 628	82 263

In the other intangible assets item, the Group presents mainly purchased CO_2 emission allowances over the redemption obligation related to the emission for the year concluded on 31 December 2014.

(in PLN thousand)

Long-term intangible assets – year concluded on 31 December 2013

	Development costs	*Patents and licences*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2013	-	32 117	1 624	346	34 087
Increase	-	(34)	(133)	-	(167)
Decrease	-	1 148	331	25 182	26 661
Gross value as of 31 December 2013	-	33 231	1 822	25 528	60 581
Depreciation and impairment write-downs as at 1 January 2013	-	25 949	1 046	257	27 252
Depreciation write-down for the period	-	1 786	242	12	2 040
Impairment write-down	-	-	-	-	-
Decreases	-	(33)	(133)	-	(166)
Depreciation and impairment write-downs as at 31 December 2013	-	27 702	1 155	269	29 126
Net value as at 1 January 2013	-	6 168	578	89	6 835
Net value as at 31 December 2013	-	5 529	667	25 259	31 455

(in PLN thousand)

Short-term intangible assets

	31 December 2014	*31 December 2013*
	Certified emission reduction units (CERs/ERUs)	*Certified emission reduction units (CERs/ERUs)*
Gross value as of 1 January 2014	151 262	35 368
Purchase of CER	176 347	151 262
Redemption of CER	(150 652)	(8 190)
Gross value as of 31 December 2014	176 957	178 440
Change (sale)	-	(27 178)
Redemption and impairment as of 1 January		
Impairment write-down of a period	-	-
Depreciation and impairment write-down as of 31 December	-	-
Net value as of 1 January	151 262	35 368
Net value as of 31 December	176 957	151 262

(in PLN thousand)

22. Assets for overburden removal and other mining assets

As of 31 December 2014, the item of assets for overburden and other mining assets includes amongst other: expenses incurred by "PAK Górnictwo" sp. z o.o. related to search and evaluation of mineral resources in the amount of PLN 14,993 thousand and assets for overburden and other mining assets of PAK KWB Konin in the amount of PLN 131,013 thousand, and assets of PAK KWB Adamów in the amount of PLN 4,451 thousand. As of 31 December 2013, the item of assets for overburden and other mining assets includes amongst other: expenses incurred by "PAK Górnictwo" sp. z o.o. related to search and evaluation of mineral resources in the amount of PLN 13,238 thousand and assets for overburden and other mining assets of the PAK KWB Konin the amount of PLN 121,023 thousand, and assets of PAK KWB Adamów in the amount of PLN 5,007 thousand.

	31 December 2014	*31 December 2013*
Status as of 1 January	139,268	113,610
Increase	24,373	34,496
Decrease	-	-
Depreciation for the period	(13,184)	(8,838)
Status as of 31 December	150,457	139,268
long-term	149,901	138,712
short-term	556	556

23. Other assets

23.1. Other financial assets

Other financial assets

	31 December 2014	*31 December 2013*
Deposits for debt service security	90 561	90 185
Investments and deposits	2 499	5 783
Investments and MLF and MRF deposits	5 876	5 895
Shares	4 521	12 845
Other	3 882	6 816
Other financial assets in total	107 339	121 524
short-term	94 748	96 340
long-term	12 591	25 184

The other item presents mainly transaction margins and other financial assets in PAK Volt in the amount of PLN 2,700 thousand.

* MLF – Mine Liquidation Fund, MRF – Mine Reclamation Fund

(in PLN thousand)

23.2. Other non-financial assets

	31 December 2014	*31 December 2013*
VAT receivables	28 922	1 352
Insurance	1 713	1 424
Other receivables from the state budget	1 017	1 428
Receivables from CLAT	-	-
Other nonfinancial assets	-	199
Other prepayments	6 128	3 253
Delivery prepayments	2 298	45
Prepayments for intangible assets	242	65
Prepayments for assets under construction	24 643	48 653
Prepayments for tangible assets - Land	-	-
Other	420	8
Total other non–financial assets	65 383	56 427
short-term	39 434	7 501
long-term	25 949	48 926

24. Employee benefits

24.1. Pension benefits and other post-employment benefits

The Group's entities pay the retiring employees amounts of one-time retirement benefits and other post-employment benefits in the amount specified by the Collective Labour Agreement. In relation to this, the Group, on the basis on the evaluation made by a professional pension actuary company, creates a provision for the current value of the liability due to one-time retirement and other benefits.

The amount of the provision and the agreement of changes in provisions during the accounting period are presented in the following table:

	Provision for pension, retirement, and survival benefits	Anniversary premiums	Subsidies to electricity/coal benefits	Total:
Status as of 1 January 2014	**55,807**	**116,656**	**74,414**	**246,877**
Current service cost	4,777	7,698	2,149	14,624
Interest costs	2,263	4,742	2,977	9,982
Actuarial profits and losses	3,955	(605)	5,597	8,947
Paid benefits	(6,443)	(12,056)	(6,231)	(24,730)
Past service cost	(10,274)	(19,659)	556	(29,377)
Other	(112)	(31,474)	(47,630)	(79,216)
Status as of 31 December 2014	**49,973**	**65,302**	**31,832**	**147,107**
Long-term provisions	46,600	33,573	28,381	108,554
Short-term provisions	3,373	31,729	3,451	38,553

(in PLN thousand)

	Provision for pension, retire-ment, and survival benefits	Anniversary premiums	Subsidies to electricity/coal benefits	Total:
Status as of 1 January 2013	**59,675**	**147,997**	**77,406**	**285,078**
Current service cost	3,651	6,766	682	11,099
Interest costs	2,413	3,557	3,096	9,066
Actuarial profits and losses	719	(27,686)	(355)	(27,322)
Paid benefits	(10,651)	(13,978)	(6,415)	(31,044)
Past service cost	–	–	–	–
Other	–	–	–	–
Status as of 31 December 2013	**55,807**	**116,656**	**74,414**	**246,877**
Short-term provisions	4,369	12,007	6,612	22,988
Long-term provisions	51,438	104,649	67,802	223,889

In the year concluded on 31 December 2014, redemption of provisions for subsidies to electricity in ZE PAK SA was based on withdrawal from the Collective Labour Agreement for Energy Sector Employees. The main factor of the decrease in the value of provisions for anniversary premiums was an agreement with the trade unions in the Group in terms of liquidation of anniversary premiums in the Collective Labour Agreement.

The main assumptions adopted by the actuary as of the balance sheet date for calculation of the amount of the liability are as follows:

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013*
discount rate	2.6%	4.0%
expected inflation rate	2.5%	2.5%
expected remuneration growth rate	3.0%	3.0%
expected energy price growth rate	3.0%	3.0%

25. Inventory

	31 December 2014	*31 December 2013*
Production fuel	21,367	14,361
Spare parts and other materials	71,523	68,569
Certificates of origin of energy	143,822	129,166
Goods	404	372
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	237,116	212,468

In the year concluded on 31 December 2014, the Group made an impairment write-down against inventories in the amount of PLN 19,481 (in 2013, PLN 2,256 thousand). In 2014, the impairment write-down mainly concerned the impairment write-down against the value of green certificates in the amount of PLN 19,308.

(in PLN thousand)

In the year concluded on 31 December 2014, the impairment write-down against the value of green certificates in the amount of PLN 8,922 thousand was used.

As of 31 December 2014, in the PAK KWB Konin, transfer of ownership of movable properties inventory – machinery and drums parts – was established with a value of no less than PLN 8,000 thousand, located in warehouses.

Certificates of origin of energy due to the energy production from renewable energy sources, gas, and peak load co-generation are presented according to fair value on the day, when their granting became certain. As of 31 December 2014, according to entries in the book of accounts, the Company possessed 897.437,4 MWh of ownership units from green certificates produced. However, not all ownership units had approval certificates issued by the Energy Regulatory Office (URE). According to the above, the Company, as of the balance sheet date, was waiting for the issue of approval certificates – the certificates for the production of 2013, and for the fourth quarter of 2014 in the number of 240,695,286 MWh. In September 2014, the Company expended 7,648,797 MWh of pending ownership units produced in 2012 as costs due to lack of opportunity to document origin of biomass. Then, in December 2014, further 12,207,90 MWh being the part of the produced ownership units for the period January – April 2013 period were expended as costs. The total value of the write-offs is PLN 3,123 thousand. In the current reporting period, the Company was producing energy from renewable energy sources and presenting green certificates at current prices in the balance sheet at the end of every month that is at prices variable between 153.63 – 231.29 PLN/MWh, as appropriate, whereas the highest prices were noted at the beginning of 2014. For the production of the period of 2014 till the balance sheet date of this financial statement, the Company was entitled to the production of 240,805,081 MWh for three quarters of 2014. Then, after the balance sheet date, in January and February 2015, the Company was awarded the approval certificates for the production of 2013 and the production of October and November 2014. Therefore, currently, the Company is waiting only for approval of the production of 38,173,109 MWh of December 2014. The write-down presented in the balance sheet as of 31 December 2014 in the amount of PLN 26,700 concerns revaluation of allowances in possession of the Company on 31 December 2014 to the unit price in the amount of 153,63 PLN/MWh.

26. Deliveries and services receivables and other receivables

	31 December 2014	*31 December 2013*
Deliveries and services receivables	156,072	131,344
Receivables due to compensation related to the termination of the PPAs	67,030	43,238
Receivables due to security of purchase of electricity the balancing market	4,500	6,934
Other receivables	26,375	16,331
Net receivables	253,977	197,847
Receivables impairment write-down	41,995	43,374
Gross receivables	295,972	241,221

In the others line, receivables as of 31 December 2014, the Group presents mainly receivables due to the security deposit in the amount of PLN 16,282 thousand, the VAT tax to be deducted in future periods in the amount of PLN 2,202 thousand, and receivables due to advanced payments in the amount of PLN 1,671 thousand.

Terms of transactions with affiliates are presented in the note 38.

Receivables due to supplies and services are not subject to interest and the date of payment is usually within the 14-day period.

The Group has appropriate policy concerning the sale to the verified clients only. Thanks to that, according to the management, there is no additional credit risk exceeding the level specified by non-collectible receivables impairment write-downs, specific to the Group's trade receivables.

(in PLN thousand)

As of 31 December 2014, Receivables due to supplies and services and other receivables in the amount of PLN 41,995 thousand (as of 31 December 2013: PLN 43,374 thousand) were included in the write-off. Changes in the receivables impairment write-downs were as follows:

	31 December 2014	*31 December 2013*
Impairment write-down as of	43,374	39,611
Increase	1,080	4,784
Use	(77)	(99)
Redemption	(2,382)	(922)
Impairment write-down as of	41,995	43,374

The following is an analysis of receivables due to supplies and services and other receivables, which, as of 31 December 2014 and 31 December 2013 were expired, but were not considered to be non-collectible and are not included in the write-off.

			Expired, but collectible				
	Total without write-down	*Not expired*	*<30 days*	*30-60 days*	*60-90 days*	*90-120 days*	*>120 days*
31 December 2014	253,977	224,282	22,406	1,282	5,656	139	212
31 December 2013	197,847	193,095	4,443	34	67	76	132

27. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 December 2014 amounts to PLN 356,120 thousand (as of 31 December 2013: PLN 430,978 thousand).

The balance of cash and cash equivalents in the consolidated cash flow statement consisted of the following items:

	31 December 2014	*31 December 2013*
Cash in hand and at bank	199,026	193,363
Short-term deposits	157,094	237,615
Total balance of cash and cash equivalents indicated in the balance sheet:	356,120	430,978
Foreign exchange differences	(852)	339
Balance of cash and cash equivalents indicated in the financial statement on cash flows:	355,268	431,317

(in PLN thousand)

Explanations to the cash flow statement

	31 December 2014	*31 December 2013*
Depreciation:		
Depreciation shown in the income statement	360,555	357,841
Settlement of subsidies	(7,609)	(1,986)
Depreciation shown in the cash flow statement	352,946	355,855

The main component of the subsidies settlement item is the settlement of an excess due to sale of assets components and lease them back in PAK KWB Konin. The amount of PLN 5,820 thousand adjusts depreciation.

	31 December 2014	*31 December 2013*
Receivables:		
Balance sheet change in trade receivables and other receivables	(56,129)	22,712
Balance sheet change in other long and short-term non-financial assets	(8,956)	(35,042)
Balance sheet change in amounts due from clients under PPAs	3,182	(9,624)
Change in advances for fixed assets under construction	(23,833)	41,532
Other changes	3,200	-
Change in receivables shown in the cash flow statement	(82,536)	19,578

In the other changes line, the main item is the commission paid at the incurring the credit by ZE PAK SA in the amount of PLN 3,200 thousand concerning disbursements not commenced until the balance sheet date.

	31 December 2014	*31 December 2013*
Liabilities:		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	157,316	40,095
Balance sheet change in other non-financial liabilities	(9,916)	15,707

(in PLN thousand)

Purchase of debt securities	4,000	-
Balance sheet change in amounts paid to clients under PPAs	12,175	4,990
Change in liabilities under investment settlements	(42,962)	(50,397)
New lease agreements and payment of lease liabilities	8,401	18,783
Other changes	-535	-
Change in liabilities shown in the cash flow statement	128,479	29,178

	31 December 2014	*31 December 2013*
Inventory		
Balance sheet change in inventory	(24,647)	(24,143)
Other changes	-	-
Change in inventory shown in the cash flow statement	(24,647)	(24,143)

	31 December 2014	*31 December 2013*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	108,422	109,841
Change in long and short-term employee benefits	(99,710)	(38,202)
Change in provision under EUAs/CERs/ERUs redemption	150,652	35,369
Change in actuarial provisions indicated in other comprehensive income	(9,502)	-
Other changes	16	-
Change in provisions, prepayments and accruals and employee benefits	149,878	107,008

Other:

In the expenses and income related to other financial assets item, income and expenses related to the funds for debt service and obtained guarantees were presented. In 2014, expenses and income also include income from the sale of financial assets – shares.

In the others item, in cash flows on financial activities, the cash inflow due to the sale-and-lease-back transaction in the amount of PLN 32,627 thousand was mainly presented in 2014.

The restricted cash items shows mainly means of automatic reservation of cash for the needs of exchange transactions made in the Warsaw Commodity Clearing House S. A. (WCCH).

(in PLN thousand)

28. Issued capital and supplementary/reserve capitals

28.1. Issued capital

Share capital	*31 December 2014*	*31 December 2013*
50,823,547 shares with a nominal values of PLN 2 each.	101,647	101,647
	101,647	101,647

28.1.1. Shares nominal value

All the issued shares have a nominal value of PLN 2 each, and were fully paid.

28.1.2. Shareholders rights

The shares of all series are equally preferred in terms of dividend and return on the capital.

28.1.3. Shareholders with significant share

	31 December 2014	*31 December 2013*
Elektrim S.A.		
share in capital	0,39%	0,39%
share in votes	0,39%	0,39%
EMBUD sp. z o.o.		
share in capital	1,16%	11,43%
share in votes	1,16%	11,43%
Polsat Media BV		
share in capital	-	39,73%
share in votes	-	39,73%
ING OFE		
share in capital	9,97%	9,97%
share in votes	9,97%	9,97%
Argumenol Investment Company Limited		
share in capital	50,00%	-
share in votes	50,00%	-
Other		
share in capital	38,48%	38,48%
share in votes	38,48%	38,48%
	100,00%	100,00%

According to the Company's knowledge, on the basis of notifications submitted by the shareholders.

29. Own shares

On 29 April 2013, the Company received the decision of the District Court of Poznań – Nowe Miasto and Wilda in Poznań, IX Commercial Department of the National Court Register of 23 April 2013 including the certificate on the entry of 24 April 2013 into the Company's Register of Entrepreneurs regarding the registration of the Company's share capital decrease made pursuant to the resolution no. 6 of the Company's Extraordinary General Meeting of 21 February 2013 on the decrease of the Company's share capital in relation to the redemption of the Company's own shares.

Pursuant to Article 360 § 4 of the Code of Commercial Companies, the registration of the decrease of the Company's share capital was related to the redemption of 1,202,453 of the Company's shares representing 1,202,453 votes at the Company's General Meeting.

After the registration by the District Court of the decrease of the Company's share capital, the Company's share capital amounts to PLN 101,647,094 and is divided into 50,823,547 bearer shares class A with a nominal value of PLN 2 each, which represent 50,823,547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

30. Supplementary capital

The supplementary capital in the amount of PLN 2,398,399 thousand was created from write-offs from profits generated in the previous financial years, in accordance with the Polish accounting standards.

30.1. Other reserve capitals

The ZE PAK S.A. company was founded as a result of the commercialisation of the Zespół Elektrowni PAK state-owned company made pursuant to the Act of 13 July 1990 on the privatisation of state-owned companies. The so-called Privatisation Fund, shown as part of the reserve capital in the balance sheet of the company, was created by the Zespół Elektrowni PAK state-owned company on the basis of the Act of 31 January 1989 on financial economy of state-owned companies.

The value of the reserve fund consists of the Privatisation Fund in the amount of PLN 3,472 thousand, which was created from the profit of 1994, on the basis of a resolution of the Extraordinary General Meeting of the newly established Company, and an additional transfer from the supplementary capital in the amount of PLN 2,405 thousand. The total value of other reserve capitals, as of 31 December 2014, is PLN 5,877 thousand.

Cash accumulated in this fund was to be reserved for employees' purchase from the State Treasury shares after transformation of the enterprise into the company and its privatisation (purchase of up to 10% of the shares for a half price). The Act of 30 August 1996 on the commercialisation and privatisation of state-owned enterprises introduced in 1996 granted employees the right to acquire 15% of the company's shares belonging to the State Treasury free of charge. Therefore, the objectives, which the privatisation fund was to serve, do not exist. However, the capital in the company's liabilities remained.

30.2. Non-divided financial result and restrictions on payment of the dividend

The non-divided profit also includes amounts, which are not subject to division that is they may not be paid in the form of dividend. They are:

- Retained profits/losses of subsidiaries owned by the shareholders of the parent company,
- differences in values of retained profits between the statutory statement, and the IFRS statement of the parent company,
- the equivalent of 8% of write-offs from profit for the capital and other write-offs made on the basis of existing provisions in the contracts of subsidiaries.

In the Group, as of 31 December 2014, the full amount of non-divided profit (including the equivalent of reserve and supplementary capital created within the division of profits in the previous years) is subject to the restriction on payment of dividend. The following conditions are the basis of such an assumption:

- Statutory financial statements of all companies included in the ZE PAK S.A. Capital Group are prepared in accordance with the Polish accounting standards. The dividend may be paid on the basis of the financial result determined in a separate annual financial statement prepared for statutory the purposes.

(in PLN thousand)

- According to the requirements of the Code of Commercial Companies, a parent company is required to create a reserve capital for coverage of losses. At least 8% of the profit for a given financial year, recognized in a separate financial statements of the company, is transferred to this category of the capital, until this capital reaches at least the one-third of the parent company's share capital. The use of supplementary and reserve capitals is decided by the General Meeting. However, parts of the supplementary capital in the amount of the one-third of the initial capital can be used only to cover the loss demonstrated in the separated financial statement of the parent company and is not allocated for other purposes.

As of 31 December 2014, there are no other restrictions on the payment of the dividend.

30.3. Non-controlling interest

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013*
At the beginning of the period	**-**	**117**
Purchase of the company	30,971	30,971
Implementation of the PUT option	(26,523)	(44,576)
Employee shares programme	(955)	(955)
Purchase of the minority's shares by the Capital Group	-	(117)
Share in the result of subsidiaries	(3,493)	14,560
Total	-	-

Allocation of the result to the non-controlling interests

In the consolidated financial statement, 15% of the PAK KWB "Adamów" result and 15% of the PAK KWB Konin's result for the 19 July 2012 – 31 December 2013 period and for the 1 January 2014 – 31 December 2014 period was allocated as a profit of non-controlling shareholders.

Recognition of the ZE PAK's liability of redemption of employee shares

ZE PAK is obliged to redeem employee shares pursuant to the PAK KWB Konin and the PAK KWB Adamów's shares sale agreement, in case when employees request for re-sale. The agreement's provisions determines the price and the term of redemption.

In accordance with the IFSR, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. On the basis of chosen policy of accounting, ZE PAK presented financial liability in the amount of PLN 11,880 thousand, in case of PAK KWB Adamów, and in the amount of PLN 19,091 thousand, in case of PAK KWB Konin, in the consolidated financial statement. The difference between the value of non-controlling interests derecognised on the balance sheet date and the recognised financial liability is recognised in the retained profits.

(in PLN thousand)

31. Interest bank credits and loans

Short-term	*Maturity*	*31 December 2014*	*31 December 2013*
Loan from NFOŚiGW in the amount of PLN 226,000 thousand, interest rate at 0.5 of bills of exchange rediscount rate	23.06.2015	14 643	29 127
Bank loan (syndicated) in the amount EUR 240,000 thousand, interest rate at 3M EURIBOR+ bank margin	20.07.2019	135 427	131 497
Overdraft facility at BRE Bank in the amount of PLN 9,700 thousand PLN, interest rate at 1M WIBOR + bank margin	24.06.2015	9 654	9 343
Overdraft facility at BZ WBK in the amount of PLN 65,000 thousand, interest rate at 1M WIBOR + bank margin	30.06.2015	64 105	63 308
Investment loan from BZ WBK S.A in the amount of PLN 46,463 thousand, interest rate at 1M WIBOR + bank margin	31.12.2016	12 438	31 786
Credit services agreement, BRE Bank S.A. (bill of Exchange loan) up to PLN 61,590,000 thousand – discounting of bills of exchange	30.06.2016	7 918	19 768
BRE Bank S.A. – bank loan in the amount of PLN 10,300 thousand interest rate at 1M WIBOR + bank margin	24.01.2014	-	10 300
Bank BPH SA - loan agreement in the amount of 67 000 thousand PLN	31.05.2016	50 627	3 669
Overdraft facility at Millenium Bank in the amount of PLN 76 500, interest rate at WIBOR 3M+ bank margin	31.12.2017	15 975	15 975
Overdraft facility at Millenium Bank in the amount of PLN 10 000,00 thousand.	26.01.2015	9 840	-
Bank loan (syndicated) in the amount of PLN 291,000 thousand, interest rate at 3M WIBOR+ bank margin*	02.01.2014	-	90 951

(in PLN thousand)

Syndicated investment loan in amount of PLN 1 110 000 thousand (Loan A). Interest rate at WIBOR 3M+bank margin	20.12.2023	17 644	-
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B). Interest rate at WIBOR 3M+bank margin	20.12.2023	10 276	-
Overdraft facility		6	-
Total		**348 553**	**405 724**

Long-term	*Maturity*	*31 December 2014*	*31 December 2013*
Loan from NFOŚiGW in the amount of PLN 226,000 thousand, interest rate at 0.5 of bills of exchange rediscount rate	23.06.2015	-	13 731
Bank loan (syndicated) in the amount EUR 240,000 thousand, interest rate at 3M EURIBOR+ bank margin	20.07.2019	481 269	578 667
Overdraft facility at Millenium Bank in the amount of PLN 76 500 thousand, interest rate at WIBOR 3M+ bank margin	31.12.2017	43 950	59 925
Investment loan in BZ WBK S.A.in amount of PLN 46 463 thousand, interest rate at WIBOR/EURIBOR 1M + bank margin	31.12.2016	12 438	-
Credit services agreement, BRE Bank S.A. (bill of Exchange loan) up to PLN 61,590,000 thousand – discounting of bills of exchange	30.06.2016	3 851	-
Syndicated investment loan in amount of PLN 1 110 000 thousand (Loan A). Interest rate at WIBOR 3M+bank margin	20.12.2023	246 351	-
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B). Interest rate at WIBOR 3M+bank margin	20.12.2023	79 362	-
Total		**867 221**	**652 323**

As of 31 December 2014, there were no breaches of credit agreements, and, therefore, they were presented in division into short-term and long-term liabilities.

(in PLN thousand)

In the 12-month period concluded on 31 December 2014, the Group repaid credits including interests in the amount of PLN 303,315 thousand, including:

- repayment of the investment credit for the construction of the flue-gas desulphurisation system (IOS) in PEKAO and PKO BP banks by ZE PAK S.A. in the amount of PLN 90,980 thousand (the capital including the interest),
- repayment of the corporate credit by EPII in the amount of PLN 135,158 thousand (the capital including the interest),
- repayment of the preferential loan from the the National Fund for Environmental Protection and Water Management (NFOŚiGW) by EPII in the amount of PLN 30,488 thousand (the capital including the interest),
- repayment of the investment credit in the BZ WBK SA bank by KWB Konin in the amount of PLN 8,842 thousand (the capital including the interest),
- repayment of the overdraft facility in the mBank S.A. bank by KWB Konin in the amount of PLN 10,327 thousand (the capital including the interest),
- repayment of the bill credit in the mBank S.A. bank by KWB Konin in the amount of PLN 8,726 thousand (the capital including the interest),
- repayment of the overdraft facility in the Millennium Bank S.A. bank by KWB Konin in the amount of PLN 18,584 thousand (the capital including the interest),

In 2014, on 13 March 2014, ZE PAK concluded the Corporate Credit Agreement with mBank, Millennium, PEKAO SA and PKO BP banks in the amount of PLN 1,200,000 thousand. The Credit was divided into two parts, The A Credit in the amount of PLN 1,110,000 thousand for modernisation of units 1-4 in the Pątnów I Power Plant, the B Credit in the amount of PLN 90,000 for the purpose of refinancing the IOS credit repaid on 2 January 2014. Interest of A and B Credits amounts to WIBOR 3M plus the bank's profit margin. The repayment will start on 20 June 2015 and will last till 20 December 2023. On 27 May 2014, ZE PAK commenced the disbursement of the first credit advance in the amount of PLN 191,000 (the A Credit - PLN 101,000 thousand, the B Credit - PLN 90,000 thousand). The disbursement of the second credit advance in the amount of PLN 164,000 thousand (the A Credit) was commenced on 16 September 2014.

On 27 January 2014, PAK KWB Konin concluded the Working capital credit agreement in the amount of PLN 10,000 thousand. On 30 July 2014, PAK KWB Konin concluded Annex to the Multi-purpose Credit Line Agreement with the BPH S.A. bank in the amount of PLN 67,000 thousand for financing current activities.

On 14 July 2014, PAK KWB Adamów concluded the Overdraft Facility Agreement with the Bank Millennium S.A. bank in the amount of PLN 5,000 thousand for financing current activities. The period of crediting: 07.14.2014 – 07.13.2015. As of 31 December 2014, the Company did not use this credit. On 30 June 2014, PAK KWB Adamów concluded the annex 2 to overdraft facility agreement with the Bank Zachodni WBK SA bank in the amount of PLN 10,000 thousand for financing current activities. The period of crediting: 06.30.2014 – 06.30.2015 As of 31 December 2014, the Company did not use this credit.

32. Provisions as well as prepayments and accruals

32.1. Accruals

	31 December 2014	*31 December 2013*
Bonus and holiday leave provision	34,591	33,860
Insurance company compensations	102	1,409
Audit of the financial statement	307	319
Others	251	23
Total	35,251	35,611
short-term	35,251	35,611
long-term	-	-

(in PLN thousand)

32.2. Changes in provisions

	CER redemption provisions	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
As of 1 January 2014	150 652	17 779	4 384	133	1 801	297 705	30 698	503 152
increase	176 957	705	-	43	5 391	66 034	64 174	313 304
decrease	(150 652)	(3 813)	(359)	(78)	(1 136)	(19 911)	(28 515)	(204 464)
As of 31 December 2014	176 957	14 671	4 025	98	6 056	343 828	66 357	611 992
Long-term	-	14 671	2 470	-	-	321 261	22 740	361 142
Short-term	176 957	-	1 555	98	6 056	22 567	43 617	250 850
As of 1 January 2013	35 369	19 547	4 484	551	958	303 517	28 938	393 364
increase	150 652	782	-	-	1 801	29 474	34 393	217 102
decrease	(35 369)	(2 550)	(100)	(418)	(958)	(35 286)	(32 633)	(107 314)
As of 31 December 2013	150 652	17 779	4 384	133	1 801	297 705	30 698	503 152
Long-term	-	17 709	4 042	-	-	275 562	4 234	301 547
Short-term	150 652	70	342	133	1 801	22 143	26 464	201 605

32.3. Description of essential provisions

32.3.1. The provision for liabilities due to the emission of greenhouse gases and provisions for the redemption of certified emission reductions (CER).

The Group recognises the provision for the redemption of greenhouse gases allowances and certified emission reductions (CER/ERU).

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid. In December 2013, ZE PAK S.A. submitted to the Ministry of the Environment the material and financial statement from investment expenses paid for tasks reported to the National Investment Plan, applying for 1,722,084 EUA's for 2013 at the same time.

On 3 April 2014, the resolution of the Council of Ministers of 31 March 2014 on the list of systems other than producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them was issued. Thus, on 8 April this year, ZE PAK obtained free CO2 allowances for 2013 and 2014 resulting from the production of the electricity in the number of 312,468 EUAs.

Then, on 10 April 2014, the resolution of the Council of Ministers of 8 April 2014 on the list of systems producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them was issued. As a result, on 12 April this year, the ZE PAK Capital Group obtained free CO2 allowances resulting from Article 10c (derogations) in the number of 1,682,800 EUAs. The Group obtained 39,284 EUA less within Article 10c (it applied for 1,722,084 EUAs) due to including higher investment expenses on the unit no. 5 in the Pątnów Power Plant in the material and financial statement, than these reported in the application to the National Investment Plan.

ZE PAK has entities purchased in 2014 in the number of 1,253,774 for the needs of redemption. In April 2014, ZE PAK obtained free EUAs resulting from Article 10a in number of 312,468 EUA, and resulting from Article 10c in number of 1,682,800 EUAs. We plan that ZE PAK will obtain free EUAs for 2014 from Article 10c in number of 2,241,959 EUAs. Due to the above, the Company acquired additional 4,594,903 tonnes of CO2 in 2014 in order to perform of the obligation to redeem emission for 2014.

Whereas, the EP II Sp. z o.o. subsidiary, at CO2 emissions for 2014 at the level 2,488,250 tonnes of CO2, purchased additional 2,118,914 tonnes of CO2 allowances. Remaining 369,336 tons of allowances were purchased in 2013.

The provision for the burden of core operating activities for purchased CO2 allowances, which the Group wants to present for the redemption for 2014, is being created. As the actual redemption of allowances happens, the provision created earlier will be terminated.

32.3.2. Provision for reclamation of ash dumps and costs of liquidation of fixed assets

The Group is creating the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Approval Entries." The basis of estimation of the provision size are specialised studies and technical and economical expert opinions developed by domestic services, or external experts. Values of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 31 December 2014, the created provision amounted to PLN 4,025 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group is creating the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 December 2014, the provision due to this amounted to PLN 14,671 thousand.

32.3.3. Reclamation provisions and other related to mining activity

PAK KWB Konin and PAK KWB Adamów are obliged to reclaim areas of extraction works pursuant to the Geological and Mining Law act. Due to this, the Group is creating the provision both for costs of area reclamation related to current coal extraction on a given open pit and for costs of the final excavation reclamation in the state of advancement of coal extraction in particular open pits on every balance sheet day.

The provision is created on the basis of estimation of future reclamation costs based on reports of independent experts estimating reclamation costs on the order of the Board. Estimates concerning projected reclamation costs are analysed periodically; on every reporting date, the size of provision is verified in accordance with current assumptions within discount rate, inflation, and the size of extraction.

PAK KWB Konin and PAK KWB Adamów, within run activities, are obliged to restore to the original condition, or to rebuild damages caused by the mine operations. Due to this, the Group is creating the provision for projected costs, to pay which it is obliged on the basis of concluded agreements. Estimates concerning projected costs related to the mine operations are updated on every reporting date.

The provision for the liquidation of facilities and reclamation of mining areas, and due to preparation of exploration areas in PAK KWB Konin and PAK KWB Adamów according to the status as of 31 December 2014 amounting to PLN 343,828 thousand and enlarged in comparison with the year concluded on 31 December 2013 by PLN 46,124 thousand. Calculating the provisions, the Group accepted following assumption: the discount rate at the level of 2.6%, the level of inflation at the level of 2.5%. Changes in provisions also result from changes in estimated costs of reclamation and liquidation on the basis of data of the independent experts' reports and the percentage coal extraction, as well as the report of the environmental protection division.

In particular, the increase in the provision for reclamation is due to shortening of the expected period of extraction activities of the Adamów mine (2021 in relation to the planned 2023) and changes in relation to directions of reclamation of exploited lands increasing the area covered by the reclamation conducted in relation to the water. The changes described above resulted in the increase in the provision by PLN 30,113 thousand.

32.3.4. Provision for the redemption of certificates of origin of energy

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 December 2014, the provision due to this amounted to PLN 6,056 thousand.

32.3.5. Other provisions

The main items of other provisions as of 31 December 2014 are provisions due to permanent taking out of production for the final reservoir of the Adamów pit in PAK KWBA in the amount of PLN 18,045 thousand, provisions for mining damage in the amount of PLN 31,759 thousand, the provision for property tax in the amount of PLN 5,211 thousand, provisions for proceedings in progress in PAK KWBK in the amount of PLN 614 thousand in PAK KWBK, and in the amount of PLN 1,313 thousand in PAK KWBA, the provision for compensation for the occupied roads in PAK KWBA in the amount of PLN 3,881 thousand, provisions for warranty repairs and losses on long-term contracts in El PAK i PAK SERWIS in the total amount of PLN 1,915 thousand, the provision for the URE fine in ZE PAK in the amount of PLN 1,500 thousand. Increasing of other provisions in the period concerned mostly increasing provisions related to use of area and mining damage.

33. Carbon dioxide allowances

Since 01 January 2013, the next reporting period of 2013 – 2020 concerning CO2 allowances has been applicable.

In 2013, the Group purchasing allowances for needs of 2013 for the ZE PAK SA and the EP II sp. z o.o. company, due to attractive prices, purchased more EUA allowances than it resulted from the needs to cover redemption in 2013 and excess of these units in the Group was moved to 2014 in the number of c. 1.62 million tonnes of EUA, including c. 0.36 million CER and ERU units.

In December 2013, the Ministry of Environment issued the sample of material and financial statement, which was sent by the ZE PAK Capital Group to the Ministry of the Environment in the scope of incurred investment expenses for investment tasks reported to the National Investment Plan in order to use derogation for power engineering within Article 10c of the ETS Directive. The PAK capital group submitted the material and financial statement and, at the same time, applied for nearly 1.7 million of free EUAs for 2013.

(in PLN thousand)

On 3 April 2014, the resolution of the Council of Ministers of 31 March 2014 on the list of systems other than producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them was issued. Thus, on 8 April this year, ZE PAK obtained free CO2 allowances for 2013 and 2014 resulting from the production of the electricity in the number of 312,468 EUAs.

Then, on 10 April 2014, the resolution of the Council of Ministers of 8 April 2014 on the list of systems producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them was issued. As a result, on 12 April this year, the ZE PAK Capital Group obtained free CO2 allowances resulting from Article 10c (derogations) in the number of 1,682,800 EUAs

In the PAK Capital Group, for the Elektrownia Pątnów II sp. z o.o. system, a certain number of CO2 allowances were allocated. However, for this system, any investment task that would cover receivables for CO2 allowances are not reported to the National Investment Plan (KPI), so allocation of free EUAs for this system depends on expenses for tasks conducted for systems of ZE PAK SA.

After introduction of opportunity to exchange ERUs i CERs for equivalent EUAs into the EU ETS register, on 31 March this year, the Group exchanged ERUs into EUAs in the number of c. 0.54 million, remaining CERs in the number c. 0.18 million for exchange into EUAs later.

On 14 April 2014, 13,128,896 tonnes for 2013 were redeemed total.

In the 4-quarter period of 2014, the Group purchased nearly 9.3 million EUAs (of which 2.9 million EUAs for 2015) and 0.36 million ERUs. Purchasing ERUs, the Group used the opportunity to purchase 11% EUAs in order to exchange them for cheaper CERs or ERUs (10% from the 2008-2012 period, and 1% from the 2013-2020 period) and, in the same time, finished exchange of EUAs/CERs or ERUs in the 2013-2020 period.

In December 2014, the Group exchanged 0.18 million CERs (180 570 CERs) for EUAs.

After these operations, as of 31 December 2014 (taking into account free allocation obtained in April 2014, resulting from the heat production and derogation for power engineering, purchased excesses from 2013, and purchases in 2014), balance of the EUAs of the Group was 13.3 million of tonnes of EUAs.

In September 2014, the PAK Group submitted the material and financial statement for the period between 1 July 2013 and 30 June 2014 on realisation of investment expenses incurred for tasks reported to the National Investment Plan and, at the same time, applied for 2,241,959 free EUAs.

In tables presented below, carbon dioxide allowances granted in the scope of the National Allocation, purchased on the secondary market including with division into the part used for their own purposes, and the one sold in period concluded on 31 December 2014, and 31 December 2013.

Carbon dioxide allowances in the year concluded on 31 December 2014

(in tonnes)		*Zespół Elektrowni Pątnów-Adamów-Konin S.A.*	*„Elektrownia Pątnów II” sp. z o.o.*
	Emission of CO2	10 085 564	2 488 611
EUA	Balance at the beginning of the period	11 558 393	2 832 473
	Purchased	7 156 233	2 132 871
	Free of charge	1 995 268	-
	Redemption	(10 596 759)	(2 532 137)
	Sale	-	-
	Exchange	584 277	138 000
	Balance at the end of the period	10 697 412	2 571 207
CER	Balance at the beginning of the period	146 070	34 500
	Purchased	-	-
	Redemption	-	-
	Sale	-	-
	Exchange	(146 070)	(34 500)

(in PLN thousand)

	Balance at the end of the period	-	-
ERU	Balance at the beginning of the period	146 070	34 500
	Purchased	292 137	69 000
	Redemption	-	-
	Sale	-	-
	Exchange	(438 207)	(103 500)
	Balance at the end of the period	-	-

Carbon dioxide allowances in the year concluded on 31 December 2013

(in tons)		***Zespół Elektrowni Pątnów – Adamów – Konin S.A.***	***Elektrownia Pątnów II sp. z o.o.***
	Emission of CO2*	10 596 756	2 532 137
EUA	Balance as of 1.01.2013	12 883 785	3 275 356
	Purchased	8 035 261	1 551 872
	Redemption	(9 360 653)	(1 994 755)
	Sale	–	–
	Exchange	–	–
	Balance as of 31.12.2013	11 558 393	2 832 473
CER	Balance as of 1.01.2013	4 528	10 000
	Purchased	146 070	34 500
	Redemption	(4 528)	(10 000)
	Sale	–	–
	Exchange	–	–
	Balance as of 31.12.2013	146 070	34 500
ERU	Balance as of 1.01.2013	493 967	718 000
	Purchased	146 070	34 500
	Redemption	(493 967)	(718 000)
	Sale	–	–
	Exchange	–	–
	Balance as of 31.12.2013	146 070	34 500

** Physical redemption of the allowances for a given year takes place in the first months of the next year.*

(in PLN thousand)

34. Delivery and service liabilities and other financial liabilities

34.1. Short-term delivery and service liabilities and other financial liabilities

	31 December 2014	*31 December 2013*
Delivery and service liabilities:	163 837	118 478
Financial liabilities	-	161
Other liabilities:		
Liabilities due to the put option	30 971	-
Investment liabilities	108 169	70 900
Liabilities to employees due to salaries	20 921	20 524
Other liabilities	31 304	31 523
Ttotal	355 202	241 586

In the other liabilities line as of 31 December 2014, the Group presents liabilities due to financial lease in the amount of PLN 13,415 thousand. As of 31 December 2013, liabilities due to financial lease in the other liabilities item amounted to PLN 18,033 thousand, liabilities related to settlement of adjustment of PPA for 2008, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and an agreement of 2 October 2014 concluded between the Pątnów Power Plant II and Zarządca Rozliczeń [in Polish: Claims Manager] in the amount of PLN 5,107 thousand. The remaining amount in the other liabilities item as of 31 December 2014 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 5,273 thousand and settlements due to security amounting to PLN 1,160 thousand.

Liabilities due to the put option concerns obligation of ZE PAK to redemption of employee shares pursuant to the PAK KWB Konin and the PAK KWB Adamów's shares sale agreement, in case when employees request for re-sale. The agreement's provisions determines the price and the term of redemption. In accordance with the IFSR, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. On the basis of chosen policy of accounting, ZE PAK presented financial liability in the amount of PLN 11,880 thousand, in case of PAK KWB Adamów, and in the amount of PLN 19,091 thousand, in case of PAK KWB Konin, in the consolidated financial statement. Due to projected realisation of the liability in the first half-year of 2015, as of 31 December 2014, this liability is included as a short-term one.

Principles and terms of payment of the above financial liabilities:

Terms of transactions with affiliates are presented in the note 38 of additional information and explanations.

Liabilities due to supplies and services are not subject to interest and are usually settled within either the 14-day, or 30-day period.

Liabilities due to interests are usually settled within either monthly, or quarterly periods during the whole financial year.

34.2. Long-term delivery and service liabilities and other financial liabilities

	31 December 2014	*31 December 2013*
Liability due to financial lease	19,251	22,367
Liability due to the put option	-	30,971
Short-term liabilities to other entities - over 12 months	719	211
Other financial liabilities	-	108
Other	83,772	6,384
Total	103,742	60,041

(in PLN thousand)

In the other item, as of 31 December 2014, the Group presents primarily liabilities related to settlement of adjustment of PPA for 2008, on the basis of the judgement of the Court of Appeal in Warsaw of 4 November 2014 and an agreement on 2 October 2014 concluded between the Pątnów Power Plant II and Zarządca Rozliczeń in the amount of PLN 71,741 thousand, and investment liabilities in ZE PAK in the amount of PLN 11,866 thousand.

34.3. Other non-financial liabilities

	31 December 2014	*31 December 2013*
VAT tax liabilities	13,758	20,272
Liabilities due to environmental charges	62,822	65,902
Liabilities due to the excise tax	216	234
Liabilities due to social insurance	31,712	32,236
Personal income tax	8,881	8,877
Other budget liabilities	2,425	40
Advanced payments for deliveries	1,293	385
Mining fee	11,969	12,739
Other	939	3,246
Total	134,015	143,931

Liabilities due to environmental charges concerns charges for air pollution, waste storage, intake of water, and waste sewage. The year is the settlement period.

Liabilities due to mining fees concerns charges for extracted mineral resulting from the Geological and Mining Law. The half-year is the settlement period.

34.4. Derivative financial instruments

	31 December 2014	*31 December 2013*
Instruments securing floating interest rates (SWAP)	23,743	25,241
Other currency options	-	-
Total	23,743	25,241
short-term	8,684	9,420
long-term	15,059	15,821

34.5. Long-term subsidies as well as prepayments

	31 December 2014	*31 December 2013*
Long-term preferential loans	-	46,870
Long-term settlement of sale-and-lease-back	16,147	-
Long-term subsidies	47,383	2,113
Other	302	303
Total:	63,832	49,286

(in PLN thousand)

34.6. Short-term subsidies as well as prepayments

	31 December 2014	*31 December 2013*
Short-term preferential loans	-	1,456
Short-term settlement of sale-and-lease-back	10,984	-
Short-term subsidies	1,795	519
Other	-	7
Total:	12,779	1,982

35. Contingent liabilities and the description of essential legal proceedings

Apart from liabilities described in the note below, as of 31 December 2014, the Group did not possess other contingent liabilities, granted guarantees, and sureties.

35.1. Legal proceedings

Compensation for the termination of long-term contracts for sale of power and electricity

The affiliate "Elektrownia Pątnów II" sp. z o.o. receives compensation for the coverage of the stranded costs pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity. Revenue due to compensations is included successively obtained rights to compensations to the end of the period of their application. In order to estimate value of revenue assigned to a given period, the company estimates in order to determine a ratio of estimated stranded costs to total sum of earned, returned, and expected discounted annual advanced payments (including annual advanced payments earned so far), annual adjustments, and a projected final adjustment.

The “Elektrownia Pątnów II” sp. z o.o. company, in accordance with accepted policy of accounting, on the basis of the built financial model, in 2013 and 2012, recognised revenues due to compensations in respective amounts of PLN 155,239 thousand and PLN 89,972 thousand. On the basis of the decision of the President of the Energy Regulatory Office S.A. ("the URE President") issued on 31 July 2009, the company was obliged to return to the compensation scheme administrator, Zarządca Rozliczeń S.A., the amount of PLN 52,493 thousand due to the adjustment of stranded costs for 2008. The company's Board did not agree with the URE President's decision and appealed to the Regional Court of Warsaw – the Court for Protection of Competition and Consumers ("SOKiK"). On 23 September 2009, the Court decided about supersede of the execution of the part of the decision, and ordered to pay the amount of PLN 26,493 thousand.

On 1 December 2010, the SOKiK decided about a dismissal of the company's appeal against the URE President's decision, acknowledging legitimacy of his arguments.

The company performed detailed legal analysis of the issue in co-operation with a reputable legal office, and on 9 February 2011, it appealed to the Court of Appeal of Warsaw against the judgement of the Court of first instance.

On 11 October 2012, the Court of Appeal passed a beneficial judgement for the company changing the judgement of the Court of first instance and the URE President's decision of 31 July 2009. The Court determined the amount of the annual adjustment of the stranded costs for 2008 for the "Elektrownia Pątnów II" sp. z o.o. company, which Zarządca Rozliczeń S.A. is obliged to pay to the "Elektrownia Pątnów II" sp. z o.o. company in the amount plus PLN 29,082 thousand. The judgement of the Court of Appeal is legally binding. Due to the above, on 17 October 2012, the "Elektrownia Pątnów II" sp. z o.o. company summoned Zarządca Rozliczeń S.A. to pay the judged amount of the adjustment for 2008, and to return the amount of PLN 26,493 thousand paid by the "Elektrownia Pątnów II" sp. z o.o. company due to partial execution of the decision of the URE President pursuant to the SOKiK decision of 23 September 2009. The request for payment was issued for the total amount of PLN 55,576 thousand. On 22 October 2012, Zarządca Rozliczeń S.A. paid the amount mentioned above to the Company's account.

On 22 February 2013, the URE President submitted a cassation appeal from the judgement of the Court of Appeal of Warsaw before the Supreme Court.

On 22 May 2014, the Supreme Court during a closed door hearing issued a judgement overruling the judgement of the Court of Appeal in Warsaw of 11 October 2012 and referred the case to that court for judicial review.

On 4 November 2014, the Court of Appeal of Warsaw issued a judgement dismissing the Company's appeal against the judgement of the Regional Court of Warsaw – the Court for Protection of Competition and Consumers of 1 December 2010 upholding the URE President's decision of 31 July 2009 determining the amount of the annual adjustment of the stranded costs for 2008 for the "Elektrownia Pątnów II" sp. z o.o. company, which the Company is obliged to return to Zarządca Rozliczeń S.A., in the amount of PLN 52,493,081 million. The Company included the Court's judgement in the statement for three quarters of this year taking into account previous settlements of the Parties in the subject case that is taking into account the necessity to return the amount of PLN 29,082 thousand obtained from Zarządca Rozliczeń S.A.by the Company by virtue of the judgement of the Court of Appeal of 11 October 2012.

The judgement is legally binding.

After delivery the Court of Appeal of Warsaw's judgement to the Company, the Company will consider premises to submit a cassation appeal from this judgement.

As a result of the judgement, the Company decreased the revenues due to the PPAs settlements in 2014 by PLN 81,576 thousand.

Proceedings due to failure to perform obligation to maintain stocks of fuel

On 17 September 2008 and 29 May 2009, the URE President initiate proceedings due to impose a pecuniary penalty on the ZE PAK SA Company due to failure to perform obligation to maintain stocks of fuel securing continuity of supplies of electricity and heat to recipients on 31 December 2007, 31 March 2008, 1 July 2008, 1 September 2008, 1 October 2008, 1 November 2008, 1 December 2008, 1 January 2009, 1 February 2009, and 01 March 2009.

On the basis of the decision of the President of the Energy Regulatory Office of 28 December 2010, ZE PAK SA was imposed the pecuniary penalty due to failure to perform obligation to maintain stocks of fuel in the quantity securing continuity of supplies of electricity and heat to recipients in 2008 and 2009 in the amount of PLN 1,500 thousand. The Company redeemed the provision to pay the penalty in full. On 17 January 2011, the Company appealed against the URE President before the Regional Court of Warsaw – SOKiK.

On 30 January 2014, the SOKiK decided about a dismissal of the company's appeal against the URE President's decision. After getting acquainted with the justification to the SOKiK's judgement, on 30 April 2014, the Company appealed before the Court of Appeal of Warsaw and waits for setting the hearing date.

Proceedings in case of the excise tax excess payment

In light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

Due to the above fact, pursuant to Article 75 §1, in relation to Article 75 §2 of the Act of 29 August 1997 – Tax Ordinance (Polish Journal of Laws of 1997; Dz. U. no. 137, item 926 as amended), the ZE PAK S.A. submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008 as well as January and February 2009 for the total amount of PLN 626,000 thousand, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK S.A. are not subject to excise tax. Particular applications were recognised at the following levels: Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań, as well as the Supreme Administrative Court.

In relation to the decisions of the Administrative Courts in the cases of other energy companies regarding the overpaid excise tax, ZE PAK S.A., in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, where the Supreme Administrative Court recognised that passing on the burden of tax to the price excludes the possibility of refunding the excess payment. The justification of the resolution allows for the assumption of the risk that tax authorities will dismiss any claims regarding the refunding of overpayments indicating that the tax proceeding is not appropriate for such type of claims. In such case, it is possible to seek them under civil law, as a result of which expiration (on the grounds of civil law this term is 3 years) becomes a significant issue. In relation to the above fact, on 10 February 2012, ZE PAK S.A. submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing for the amount of approx. PLN 626,460 thousand and thus stopped the statute of limitation. The conciliatory settlement was not reached since during the hearing of 16 April 2012, case ref. no. VI Co 311/12, the representatives of the Treasury did not agree to settle. Simultaneously, on 14 September 2012, while waiting for the results of the tax proceedings regarding the previously submitted applications for excess payment, the Company submitted in writing, to the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic study, the purpose of which was to demonstrate whether the Company suffered a loss related to the payment of the excise tax to which it was not obligated. The Company is of the opinion that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

Twenty two cases for the period of January 2006 – November 2007 (excluding November 2006) are conducted from the start by the Head of the Customs Office, after they were returned from the Supreme Administrative Court. We included monthly economic analyses of punitive damage. On 18 August 2014, the Company received twenty two decisions of the Head of the Customs Office to dismiss the statement of overpayment. On 1 September this year, the Company submitted 22 appeals against decisions of the Head of the Customs Office to Head of the Customs Chamber, and currently, after the negative decision of the Head of the Customs Office, complaints have been filed and we are waiting for the setting date of the hearing before the Provincial Administrative Court in Poznań,

- 14 proceedings for the period of December 2007 - February 2009 (excluding July 2008) is suspended in the Provincial Administrative Court. These proceedings also included economic analysis,

- the proceeding for November 2006 was concluded with a negative result in the Supreme Administrative Court,

- the proceeding for July 2008 is subject to the recognition of our cassation appeal by the Supreme Administrative Court, the hearing date has not been set yet,

The Company will make further actions depending on the provisions of the issued decisions.

In case of EP II, the proceeding for all period (one case) was included in the cause lists of the Provincial Administrative Court after the decision of the Head of Customs Chamber negative for the Company. We do not have analyses because the Company did run activities in 2001 and there is no data.

On 1 March 2009, the Act of 6 December 2008 on excise tax came into effect and, pursuant to which, the sale of electric energy to an entity which is not its final recipient is not subject to excise tax.

The proceeding due to the Company's failure to perform obligation of sales of electricity on commodity exchanges

The proceeding due to impose a pecuniary penalty on the ZE PAK SA Company due to failure to disclose irregularities based on failure to perform obligations specified in Article 49a paragraph 1 of the Act – Energy Law, that is obligation to sale electricity produced in the period between 1 January 2011 and 31 December 2011 on commodity exchanges.

On 30 June 2014, the President of the Energy Regulatory Office ("the URE President") issued a decision, in which he concluded that the Company failed to perform obligation specified in Article 49a paragraph 1 of the Act – Energy Law that is obligation to sale electricity produced in the period between 01 January 2011 and 31 December 2011 on commodity exchanges and imposed the pecuniary penalty on the Company in the amount of PLN 204 thousand.

On 21 July 2014, the Company appealed against the URE President before the Regional Court of Warsaw – the Court for Protection of Competition and Consumers.

On 31 December 2014, the URE President, after consideration of the Company's appeal, issued a decision, in which he changed the appealed decision reducing the pecuniary penalty to PLN 10 thousand.

On 23 January 2015, the Company paid the pecuniary penalty in the reduced amount and did not appeal against the decision.

The case is completed.

The proceeding due to determining the amount of the annual adjustment of the stranded costs for 2012

On 20 March 2013, the President of the Energy Regulatory Office ("the URE President") initiated administrative proceedings ex officio in case of determination the amount of the annual adjustment of the stranded costs for 2012 for the EP II sp. z o.o. company. On 31 July 2013, the URE President issued the decision, in which he determined the amount of the annual adjustment of the stranded costs for 2012 for the Company, which Zarządca Rozliczeń S.A. is obliged to pay to the Company in the amount of (+) PLN 20,688,726. According to calculations of the Company, the adjustment should amount to (+) PLN 22,341,463.

On 14 August 2013, the Company appealed against the URE President before the Regional Court of Warsaw – the Court for Protection of Competition and Consumers.

On 12 February 2015, the Regional Court in Warsaw issued a judgement, in which it changed the decision of the URE President of 31 July 2013 to the effect that it determined the amount of the annual adjustment of the stranded costs for the Company, which the Zarządca Rozliczeń S.A. is obliged to pay to the Company, in the amount of (+) PLN 22.3 million.

The judgement is not legally binding.

The parties are not entitled to appeal against the judgement.

The case is not completed.

The proceeding due to determining the amount of the annual adjustment of the stranded costs for 2013

On 31 March 2014, the President of the Energy Regulatory Office ("the URE President") initiated administrative proceedings ex officio in case of determination the amount of the annual adjustment of the stranded costs for 2013 for the EP II sp. z o.o. company. On 30 July 2014, the URE President issued the decision, in which he determined the amount of the annual adjustment of the stranded costs for 2013 for the Company, which Zarządca Rozliczeń S.A. is obliged to pay the Company in the amount of (+) PLN 43,249,984.

The Company did not appeal against the decision. The decision was final. The case is completed.

The proceeding due to release the Company from the obligation to public sale for 2015 and subsequent years

On 17 June 2013, the EP II sp. z o.o. Company applied to the President of the Energy Regulatory Office ("the URE President") for initiation of proceedings in case of change the decision of 17 October 2012 in case of release of the Company from the obligation to public sale of electricity pursuant to Article 49a paragraph 1 of the Act – Energy Law that is through commodity exchanges, or on the basis of tenders for sale of electricity through prolongation of the term of release for the period between 1 January 2015 and 31 December 2019, or release the Company from such obligation in the period between 1 January 2015 and 31 December 2019 in relation to 60% of net electricity produced in the generating unit of the Company.

Pursuant to the decision of 14 October 2013, the URE President released the Company from the obligation to public sale of electricity pursuant to Article 49a paragraph 1 of the Act – Energy Law in relation to 60% of net electricity produced in the generating unit of the Company until the indicated above volume of electricity production is sold for the needs of obligations resulting from the credit agreement of 14 January 2011 concluded between the Company and Bank Polska Kasa Opieki S.A, Financial Institutions, BRE Bank S.A., and European Bank for Reconstruction and Development, however, no longer than until 31 December 2016.

The Company did not appeal against the decision.

The decision was final.

The case is completed.

The dispute between PAK KWB Konin S.A. and FUGO S.A. concerning damages and the unjust enrichment

On 26 June 2008, between the Mine and the FUGO S.A. consortium (the leader) and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka General Partnership, pursuant to the Public Procurement Law, the Agreement for "Disassembly, transport, assembly of two bucket wheel excavators SRs 1800-type from the mine in liquidation 'As Pontes' Endesa Generacion S.A. (Spain)" was concluded.

The primal deadline of the agreement execution in the scope of the first excavator – until 31 October 2009, and, in the case of the second excavator, 31 January 2010 – was changed pursuant to the annex of 16 February 2009 in the scope of the first excavator – to 31 May 2010, and in case of the second excavator – to 31 August 2010.

On demand of the Mine of 29 July 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń S.A., on the basis of paragraph 5 of the Proper Performance of the Contract Guarantee No 3018763/8402 of 23 November 2009, paid to the Mine the amount of PLN 762 thousand due to failure to perform within the term by obliged FUGO S.A. – the Leader of the Consortium in the composition of: FUGO S.A. and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka General Partnership, the Agreement of 26 June 2008, included to the guarantee in the scope of the first excavator.

Furthermore, on demand of the Mine of 20 October 2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń S.A., paid to the Mine the amount of PLN 2,349 thousand due to damages for the period between 16 September 2010 and 25 October 2010 due to delay of the execution by the obliged FUGO S.A. – the Leader of the Consortium in the composition of: FUGO S.A. and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka General Partnership, the Agreement of 26 June 2008, included to the guarantee in the scope of the second excavator.

Then, the Mine, on the basis of the charge memo of 26 May 2011 in the amount of PLN 2,762 thousand, burdened FUGO S.A. with remaining damages of the Agreement of 26 June 2008. Due to lack of payment of the above mentioned receivable, the Mine deducted from remunerations entitled to FUGO S.A. due to execution of the agreement.

It cannot be disputed that execution of the Agreement of 26 June 2008 was delayed.

On 14 May 2012, the FUGO S.A. company submitted to the District Court of Konin a summons for a conciliatory hearing for the amount of PLN 12,896 thousand. The amount consists of the following claims:

- the amount of PLN 5,872 thousand due to the unjust enrichment

- the amount of PLN 7,024 thousand due to remuneration for performance of extended scope of works related to the above mentioned agreement.

The Board of PAK Kopalnia Węgla Brunatnego Konin S.A. refused to reach conciliatory settlement and considered claims unjustified. In this situation, the proceeding of the summons was concluded with the Court's statement that the Conciliatory Settlement was not reached and conclusion of the proceeding on 26 September 2012.

On the day of development of this statement, the Company cannot exclude that FUGO S.A. may submit to the common court of law with the claim for payment of indicated amounts. Currently, there is no formal court dispute. FUGO S.A. only attempted to conclude the Conciliation Settlement costless before the court, which enabled to stop the statute of limitation of reported claims, and further steps depend on the evaluation by the above mentioned company the possibility to bear witness in the trial.

The dispute with FUGO S.A. was not reflected in the books of account of the Company. According to the Board's assessment, there is no premises justifying creation of provisions in relation with the dispute.

The proceedings in case of the license issued by the Minister of Environment in favour of PAK KWB Konin SA concerning the open cast in Tomisławice.

With the letter of 9 July 2013, PAK KWBK S.A. was informed about the initiation of proceedings by the Minister of Environment regarding the statement of invalidity of the Minister of Environment's license of 6 February 2008, no. 2/2008, regarding the Tomisławice open cast. The proceedings were initiated pursuant to an application submitted by two physical persons.

After getting acquainted with the case's documents as well as the arguments raised by the plaintiffs in the application for stating invalidity of the license, PAK KWBK S.A. presented its opinion regarding the subject application to the Minister of Environment and requesting a decision which would dismiss the statement of the license's invalidity. In the letter submitted to the Minister of Environment, PAK KWBK S.A. included a series of legal and actual arguments in favour of not taking the application into consideration.

On 29 January 2014, the company was informed about the decision of the Minister of Environment of 17 January 2014 regarding the dismissal to state the invalidity of the license granted to PAK Kopalnia Węgla Brunatnego Konin S.A. for the extraction of lignite and minerals from the Tomisławice open cast. In the justification of his decision, the Minister of Environment stated that the arguments raised by the plaintiffs in the application for the statement of invalidity cannot result in the statement of invalidity of the license no. 2/2008. The Minister of Environment stated that the licensing body cannot be accused of infringing the regulations of the material or procedural law, which would justify a different resolution of the case. The justification noted that the case did not include other prerequisites to state invalidity.

The party dissatisfied with the decision was entitled to apply to the Minister of Environment for repeated recognition of the case within 14 days from the date of receipt of the decision. One of the applicants executed this subject law by applying for repeated recognition of the case. On 8 July 2014, PAK KWBK S.A. received the information on upholding the appealed decision regarding the dismissal of the Minister of Environment to state the invalidity of the license of 6 February 2008, no. 2/2008, granted to PAK Kopalnia Węgla Brunatnego Konin S.A. for the purpose of lignite and mineral extraction from the Tomisławice deposit. The issued decision is final. Within the period of 30 days, from the date of receipt of the decision, the dissatisfied party is entitled to submit a complaint to the Provincial Administrative Court in Warsaw with the help of the Minister of Environment. No party applied against the decision, so the case is closed.

The proceedings did not affect the activities in the Tomisławice open cast. The PAK KWBK S.A. possesses all the decisions required by law allowing the company to utilise the Tomisławice open cast and on this basis the mine continues to extract coal from this open cast.

The proceedings in case of the environmental decision issued in favour of the PAK KWB Konin SA concerning the the Tomisławice brown coal deposit

PAK KWBK S.A. is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of the Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 7 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to revoke the environmental decision. The plaintiffs applied for repeated examination of the case. On 4 May 2009, after repeated examination of the case, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań decided that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice open pit was granted, infringes the regulations of the law in a major manner. PAK KWBK S.A and the Self-government Appeal Court submitted an appeal against this decision. On 21 March 2012, the Supreme Administrative Court revoked the contested decision of the Provincial Administrative Court in Poznań and handed over the case for repeated examination. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision revoking the decision of the Self-government Appeal Court of 25 March 2009 on dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit by PAK KWBK S.A. On 7 January 2013, PAK KWBK S.A. submitted a cassation appeal from the described decision.

After examination on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the PAK Kopalnia Węgla Brunatnego Konin S.A.'s cassation appeal from the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 revoking the decision of the Self-government Appeal Court in Konin of 25 March 2009 dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open cast.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin S.A. means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding, and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court.

The decision of the Supreme Administrative Court in Warsaw of 7 October 2014 does not invalidate the environmental decision issued by the Head of the Wierzbinek Commune and does not halt the extraction and utilisation works at the Tomisławice open pit. The environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune is still in legal transactions, and until the issue of a final judgement by the Self-government Appeal Court, it exerts legal effects.

35.2. Tax settlements

Tax settlements and other regulated areas of activities (for example, customs or foreign exchange matters) may be the subject to inspection of the authorities entitled to impose high penalties and sanctions. The lack of reference to fixed legal regulations in Poland causes ambiguities and inconsistencies of the laws in force. Common differences in opinions as to the legal interpretation of the tax law, both inside national authorities, as well as between them and businesses, cause uncertainty and conflicts. Such phenomena result in the significantly higher tax risks in Poland than these normally existing in the countries of a more developed tax system.

(in PLN thousand)

Tax settlements may be subject to inspection for a period of five years, starting from the end of the year of the payment of the tax. As a result of the conducted inspections, the current tax settlements of the Company may be increased by the additional tax liabilities. In the Company's opinion, as of 31 December 2014 and 31 December 2013, appropriate provisions for recognised and calculable tax risks were created.

36. Protections of repayment of liabilities

In order to protect repayment of liabilities, the Group uses many forms of protections. Mortgages and registered pledges are ones of the most common.

As of 31 December 2014, the Group had liabilities protected with its assets and other protections of payment of liabilities:

Liabilities protected with the entity's assets

	31 December 2014		*31 December 2013*	
Kind of liabilities, guarantees, and sureties	*Amount of security*	*Currency*	*Amount of security*	*Currency*
"Elektrownia Pątnów II" sp. z o.o.				
1. Registered and financial pledges				
1.1. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	400,000	EUR	400,000	EUR
1.2. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in PEKAO and mBank banks	339,750	PLN	339,750	PLN
1.3. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in the BOŚ SA bank	-		400,000	EUR
1.4. Registered and financial pledges on rights of bank account agreements of Elektrownia Pątnów II sp. z o.o. in the BOŚ SA bank	-		339,750	PLN
2. Mortgage				
2.1. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2,KN1N/00071136/4 in favour of mBank S.A.	400,000	EUR	400,000	EUR
2.2. Contractual joint ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots of land and mortgage registers with nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2,KN1N/00071136/4 in favour of mBank S.A.	339,750	PLN	339,750	PLN
3. Registered pledge				
3.1. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	400,000	EUR	400,000	EUR
3.2. Registered pledge on a group of items and rights of Elektrownia Pątnów II sp. z o.o	339,750	PLN	339,750	PLN
"PAK – HOLDCO" sp. z o.o.				
1. Registered and financial pledges on shares in affiliates				
1.1. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. in favour of mBank S.A.	339,750	PLN	339,750	PLN

(in PLN thousand)

1.2. Registered and financial pledges on shares held by PAK Holdco in Elektrownia Pątnów II sp. z o.o. in favour of mBank S.A.	400,000	EUR	400,000	EUR
2. Registered pledge				
2.1. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	339,750	PLN	339,750	PLN
2.2. Registered pledge on a group of items and rights of PAK Holdco sp. z o.o.	400,000	EUR	400,000	EUR
"PAK Infrastruktura" sp. z o.o.				
1. Registered pledge				
1.1. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	339,750	PLN	339,750	PLN
1.2. Registered pledge on a group of items and rights of PAK Infrastruktura sp. z o.o.	400,000	EUR	400,000	EUR
PAK Kopalnia Węgla Brunatnego Konin S.A.				
1. Registered and financial pledges				
1.1. Registered pledge on machines and devices, including assignment of insurance policy	100,500	PLN	8,034	PLN
1.2. Registered pledge on receivables of agreements of lignite sales to Elektrowni Pątnów II Sp. z o.o.	76,500	PLN	76,500	PLN
1.3. Registered pledge on receivables of agreements of lignite sales to ZE PAK S.A	15,000	PLN	-	
1.4. Transfer of title to two excavators and five belt drive stations including assignment from insurance policy	-	PLN	86,590	PLN
1.5. Transfer of title to one excavator including assignment of insurance	46,942	PLN	-	
2. Mortgage				
2.1. Mortgage on right of perpetual usufruct	100,500	PLN	90,000	PLN
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Registered pledge				
1.1. Registered pledge on a group of items of PAK Serwis in DZ Bank	-	PLN	4,187	PLN
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Bank deposit				
1.1. Bank deposit to the guaranteed amount - bank performance bond	-	PLN	1,012	PLN
1.2. Bank deposit above the guaranteed amount - bank performance bond	1,013	PLN	1,470	PLN
2. Payment of security				
2.1. Cash - transfer	-		20	PLN
Zespół Elektrowni Pątnów-Adamów-Konin S.A.				
1. Registered and financial pledges				
1.1. Financial pledge on cash on bank accounts of ZE PAK SA in banks: mBank, BGK, PEKAO SA, PKO BP, Millennium due to credit of PLN 1.2 billion of 13 March 2014	2,040,000	PLN	-	
1.2. Registered and financial pledges on rights and cash of bank account agreements of IOS ZE PAK in the PKO BP bank	-		240,000	PLN
1.3. Registered and financial pledges on rights and cash of bank account agreements A and B of ZE PAK in banks PKO BP and PEKAO SA	-		240,000	PLN
2. Registered and financial pledges on shares in affiliates				
2.1. Registered and financial pledges on shares held by ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. in favour of mBank S.A. (ZE PAK as a guarantor of the "Pątnów II" project)	339,750	PLN	339,750	PLN
2.2. Registered and financial pledges on shares held by ZE PAK S.A. in PAK Infrastruktura Sp. z o.o.	400,000	EUR	400,000	EUR

(in PLN thousand)

and PAK HOLDCO Sp. z o.o. in favour of mBank S.A. (ZE PAK as a guarantor of the "Pątnów II" project)				
3. Mortgage				
3.1. Contractual joint ceiling mortgage established on real estate in Konin consisting of plots of lands with nosh 89/20, 89/53, 89/57, 89/55, 89/56, and 89/21 and on real estate in the Municipality of Kazimierz Biskupi consisting of plots of lands nos. 148/26, 148,28, and 148/34, for which the District Court in Konin keeps land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272",	2,040,000	PLN	-	
3.2. Contractual joint ordinary and ceiling mortgages established on plots of land of land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, and KN1N/00073273/0 in favour of the PEKAO S.A. bank	-		70,000	PLN
3.3. Contractual joint ordinary and ceiling mortgages established on plots of land of land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, and KN1N/00073273/0 in favour of PEKAO S.A. bank	-		35,000	PLN
3.4. Contractual joint ordinary and ceiling mortgages established on plots of land of land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, and KN1N/00073273/0 in favour of the PKO BP S.A. bank	-		70,000	PLN
3.5. Contractual joint ordinary and ceiling mortgages established on plots of land of land and mortgage registers with nos. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, and KN1N/00073273/0 in favour of the PKO BP bank	-		35,000	PLN
4. Registered pledge				
4.1. Registered pledge on a group of items of ZE PAK (units Nos. 1-4 in the Pątnów Power Plant) for the mBANK bank in relation to the credit of PLN 1.2 billion of 13 March 2014	2,040,000	PLN	-	
4.2. Registered pledge on cash on bank accounts of ZE PAK SA established for the mBank bank in relation to the credit of PLN 1.2 billion of 13 March 2014	2,040,000	PLN	-	
4.3. Registered pledge on a group of items ZE PAK (units Nos. 3 and 4 in the Pątnów Power Plant)	-		240,000	PLN
4.4. Registered pledge on a group of movables included in the Flue Gas Desulfurization System in the Pątnów Power Plant	-		240,000	PLN

Other protections of repayment of liabilities

	31 December 2014		*31 December 2013*	
Kind of liabilities, guarantees, and sureties	*Amount of security*	*Currency*	*Amount of security*	*Currency*
"Elektrownia Pątnów II" sp. z o.o.				
1. Assignment				
1.1. Assignment from the Framework Electricity Sales Agreement no. TPE/HOU/2009/0082 concluded on 30 April 2009 between EPII and TAURON Polska Energia S.A. including Transaction Agreements for 2014 concluded in 2013	142,910	PLN	133,261	PLN
1.2. Assignment from the Framework Electricity Sales	44,752	PLN	9,078	PLN

(in PLN thousand)

Agreement no. SPOT/127/EPII/Inter Energia/2009 concluded on 9 December 2009 between EPII and Inter Energia S.A. including Transaction Agreements for 2014 concluded in 2013				
1.3. Assignment from the Framework Electricity Sales Agreement no. 41/SPOT/EPII/ ENEA/2008 concluded on 20 August 2008 between EPII and ENEA S.A. including the concluded Transaction Agreements for 2014	25,108	PLN	-	
1.4. Assignment from the Trilateral Agreement concluded on 2 December 2013 in case of execution of the Transaction Agreement for 2014 no. 63(3) of 16 September 2013 to the Long-term Electricity Sales Agreement no. 23/12/PAK/ENERGA/2013-2015 concluded on 1 August 2012 between ZE PAK and ENERGA-OBRÓT S.A.	71,935	PLN	-	
1.5. Assignment from the insurance policy no 908200170145/908200174147 in favour of the mBank SA bank	651,159	EUR	-	
PAK-Volt S.A.				
1. Other				
1.1. Security of energy supply for Alpiq Energy SE in 2014	-		18,551	PLN
PAK Kopalnia Węgla Brunatnego Konin S.A.				
1. Guarantees				
1.1. Guarantee of Bank Przemysłowo Handlowy S.A	4,000	PLN	4,000	PLN
1.2. Guarantee of mBANK S.A	-	PLN	4,800	PLN
1.3. Guarantee of Bank Przemysłowo Handlowy S.A	4,800	PLN	-	
2. Sureties				
2.1. Zakład opieki zdrowotnej i Medycy Pracy "MED._ALKO" [in Polish: the Health Care and Occupational Medicine Facility "MED ALKO"]	800	PLN	800	PLN
2.2. Surety of the credit in the amount of PLN 1 million for AQUAKON Sp. z o .o.	1,000	PLN	-	
2.3. Surety of the credit in the amount of PLN 1 million for Eko-Surowce Sp. z o .o.	1,000	PLN	-	
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Guarantees				
1.1. Performance Bond	4,350	PLN	578	EUR
1.2. Defect Liability Guarantee	781	EUR	923	EUR
1.3. Defect Liability Guarantee	2,229	PLN	3,672	PLN
1.4. Payment Guarantee	12	PLN	-	
1.5. Advanced Payment Refund Guarantee	1,310	PLN	-	
1.6. Security Payment Guarantee	-		340	PLN
2. Sureties				
2.1. Surety of Pak Serwis for Energoinwest's credit agreement in Bank Millenium	1,125	PLN	1,125	PLN
2.2. Surety of Pak Serwis for Energoinwest's multi-product limit agreement in the BGŻ bank	1,500	PLN	1,500	PLN
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. 1. Proper Performance of the Contract Guarantees	5,040	PLN	3,103	PLN
1.2. 3. Security Payment Guarantee	2,500	PLN	290	PLN
1.3. 2. Receivables Payment Guarantee due to use of fleet cards of PKN ORLEN S.A.	24	PLN	-	
2. Other				
2.1.Transfer of title to fixed assets securiting the insurance guarantee	702		-	
Zespół Elektrowni Pątnów-Adamów-Konin S.A.				
1. Sureties				
1.1. Surety of ZE PAK for PAK KWB due to the invest-	32,572	PLN	34,885	PLN

(in PLN thousand)

ment credit in the BZ WBK bank in the amount of PLN 32,572 thousand				
1.2. Surety of ZE PAK for PAK KWB Konin due to the overdraft facility in the BZ WBK bank in the amount of 65,000 thousand	65,000	PLN	65,000	PLN
1.3. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in the Millennium bank in the amount of PLN 76,500 thousand	76,500	PLN	76,500	PLN
1.4. Surety of ZE PAK for PAK KWB Adamów due to the overdraft facility in the BZ WBK bank in the amount of PLN 10,000 thousand	10,000	PLN	10,500	PLN
1.5. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in BRE Bank in the amount of PLN 18,300 thousand	-		18,300	PLN
1.6. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in mBank in the amount of PLN 10,300 thousand	-		10,300	PLN
1.7. Surety of ZE PAK for PAK KWB Konin due to the working capital facility in mBank in the amount of PLN 9,700 thousand	-		9,700	PLN
2. Assignment				
2.1. Assignment from the insurance agreement of property of the Pątnów Power Plant and assignment from insurance of the investment entitled "Modernisation of Units 1-4 in the Pątnów Power Plant" due to the credit of PLN 1.2 billion of 13.03.2014 in favour of the mBANK bank	1,200,000	PLN	-	
2.2. Assignment from electricity sales agreements with ENERGA Obrót, Elektrim-Volt, RWE Polska, ENEA, Tauron, and PSE Operator due to the credit of PLN 1.2 billion of 13.03.2014 in favour of the mBANK bank	1,200,000	PLN	-	
3. Other				
3.1. Power of attorney to bank accounts of ZE PAK SA in mBANK, PEKAO SA, BGK, PKO BP, and Millennium banks due to the credit of PLN 1.2 billion of 13.03.2014	1,200,000	PLN	-	
3.2. Power of attorney to the bank account of ZE PAK SA in the PEKAO SA bank due to the overdraft facility in the amount of PLN 80.0 million of 20.12.2005	80,000	PLN	-	
3.3. Statement on submission to enforcement due to the credit of PLN 1.2 billion of 13.03.2014	2,040,000	PLN	-	

37. Obtained guarantees and sureties

Kind of liabilities, guarantees, and sureties	*31 December 2014 Obtained in PLN*	*31 December 2014 Obtained in EUR*	*31 December 2013 Obtained in PLN*	*31 December 2013 Obtained in EUR*
"Elektrownia Pątnów II" sp. z o.o.				
1. Guarantees				
1.1. Payment guarantees	7,356	-	1,492	-
1.2. Performance bonds	2,659	-	6,338	-
Energoinwest Serwis sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds	853	-	567	-
2. Sureties				
2.1. Surety of the credit agreement in Bank Millennium from Pak Serwis	1,125	-	1,125	-
2.2. Surety of the multi-product limit agreement in Bank BGZ from Pak Serwis	1,500	-	1,500	-

(in PLN thousand)

PAK Kopalnia Węgla Brunatnego Konin S.A.				
1. Sureties				
1.3. Surety of ZE PAK S.A.	76,500	-	76,500	-
1.4. Surety of ZE PAK S.A.	65,000	-	65,000	-
1.5. Surety of ZE PAK S.A.	34,885	-	34,855	-
1.6. Surety of ZE PAK S.A.	-	-	9,700	-
1.7. Surety of ZE PAK S.A.	-	-	10,300	-
1.8. Surety of ZE PAK S.A.	-	-	18,300	-
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.				
1. Bills of exchange				
1.1. in blanco as a security for the guarantee period	31	-	31	56
2. Guarantees				
2.1. Retention Bond (including the validity period starting after 31.12.2014)	1,303	40	1,136	40
2.2. Performance Bond	906	-	-	-
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.				
1. Guarantees				
1.1. Performance and retention bonds (cash payment).	167	-	116	-
1.2. Performance and retention bonds	3,292	-	2,933	-
Zespół Elektrowni Pątnów-Adamów-Konin S.A.				
1. Bills of exchange				
1.1. Bills of exchange	27,500	908	27,500	908
2. Guarantees				
2.1. Performance bonds	57,418	351	59,296	-
2.2. Advanced Payment Refund Guarantees	38,665	-	59,599	-
3. Sureties				
3.1. Sureties	211,143	17,550	211,143	17,550

*sureties in the amount of PLN 211,143 thousand concern the agreement no. 1/2009 of 30 July 2009 with Foster Wheeler Energia Polska sp. z o.o.

38. Information about affiliates

The following table presents total amounts of transactions concluded with affiliates for the current and next financial years:

Related entity		*Sale to related entity*	*Purchase from related entity*	*Receivables from related entity*	*Liabilities to related entity*
Elektrim S.A.	2014	1	154	-	3
	2013	1	91	-	-
Elektrim Magadex S.A.	2014	-	-	-	-
	2013	-	938	-	-
Megadex Serwis Sp. z o.o.	2014	13	91 487	-	5 816
	2013	-	57 101	-	1 760
Energia-Nova S.A.	2014	-	-	-	-

	2013	-	1	-	-
Polkomtel sp. z o.o.	2014	43 258	13 630	14 708	10 269
	2013	6 711	443	1 246	62
Centernet S.A.	2014	-	-	-	-
	2013	-	-	-	-
WKS Śląsk Wrocław S.A.	2014	-	-	-	-
	2013	-	-	-	-
Laris Investments sp. z o.o.	2014	181	966	207	-
	2013	3	959	171	-
PAI MEDIA S.A.	2014	-	-	-	-
	2013	-	-	-	-
Total	2014	43 453	106 237	14 915	16 088
	2013	6 715	59 533	1 417	1 822

38.1. The loan granted to the Board's member

Both in the financial year concluded on 31 December 2014, and in the one concluded on 31 December 2013, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

38.2. Other transactions with the Board's members.

Both in the financial year concluded on 31 December 2014, and in the one concluded on 31 December 2013, there were no transactions with members of management and supervisory staff.

(in PLN thousand)

38.3. Salary of the Group's senior management

38.3.1. Salary paid or entitled to the Management Board's and the Supervisory Board's members.

	Year concluded on *31 December 2014*	Year concluded on *31 December 2013*
	31 December 2014	31 December 2013
Management Board of the parent company		
Short-term employee benefits	2,805	3,034
Anniversary premiums	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
Supervisory Council of the parent company		
Short-term employee benefits	1,020	1,595
Anniversary premiums	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
Management Boards of subsidiaries		
Short-term employee benefits	6,351	6,531
Anniversary premiums	127	48
Post-employment benefits	92	148
Benefits for termination of the contract of employment	320	248
Share-based employee benefits	-	-
Supervisory Council of subsidiaries		
Short-term employee benefits	-	-
Anniversary premiums	-	-
Post-employment benefits	-	-
Benefits for termination of the contract of employment	-	-
Total	10,715	11,604

38.3.2. Salary paid or entitled to other members of the main management

	Year concluded on *31 December 2014*	Year concluded on *31 December 2013*
Short-term employee benefits	17,453	16,117
Anniversary premiums	266	601
Post-employment benefits	69	71
Benefits for termination of the contract of employment	275	877
Share-based employee benefits	-	-
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Council)	18,063	17,666

39. Information about the remuneration of the statutory auditor or the entity entitled to audit accounts

The following table presents the remuneration of an entity entitled to audit accounts paid or due to the year concluded on 31 December 2014, and for the year concluded on 31 December 2013, divided into types of services:

(in PLN thousand)

	Year concluded on *31 December 2014*	Year concluded on *31 December 2013*
Mandatory audit of the consolidated financial statement	195	195
Other attestation services	-	-
Tax consultancy services	-	-
Other services	245	102
Total	440	297

The entity auditing the consolidated financial statements in 2014 and 2013 was the Ernst & Young Audyt Polska, the limited liability company, limited partnership company. (formerly: Ernst & Young Audit sp. z o.o.).

The remuneration includes the audit of separated and consolidated financial statement of ZE PAK S.A. and does not include services provided for other Group's companies.

40. Goals and rules of financial risk management

Apart from derivative instruments, the main financial instruments used by the Group consist of bank credits, loans granted from affiliates and other institutions, funds, and short-term deposits. The main goal of these financial instruments is obtaining funds for the Group's activities. The Group also has other financial instruments, such as receivables and liabilities due to supplies and services created directly within conducted activities.

The Group also concludes transactions with use of derivative instruments, above all contracts for interest rates change (interest rate swaps). The goal of these transactions is the interest rate risk management arising within the Group's activities, and resulting from resources of financing used by it.

The rule which the Group follows currently and through the whole period include in the statement is non-conducting of the exchange of financial instruments.

Main kinds of risk resulting from financial instruments of the Group include the interest rate risk management, liquidity risk, foreign currency risk, and credit risk. The Management Board verifies and consults rules of the management of any of these kinds of risk – these rules were discussed shortly below. The Group also monitors market price risk regarding all possessed financial instruments.

40.1. Interest rate risk

Exposure of the Group to risk caused by the changes of interest rates mainly concerns long-term financial liabilities.

The Group uses financial liabilities, mostly variable rate credits and loans.

In order to minimise interest rate risk, the Group concludes contract for interest rates change (interest rate swaps), within which it agreed to change, within specified time intervals, the difference between the amount of interests calculated according to the fixed and the variable rate of the agreed main amount. The transactions are to protect incurred financial liabilities.

Interest rate risk – the sensitivity gap

In the interest rate sensitivity gap analysis, the Group uses yield curve shift by potential possible change of benchmark interest rates during the coming year. For the needs of the interest rate sensitivity gap analysis, average levels of benchmark interest rates in a given year were used. The scale of potential interest rate sensitivity gap was estimated on the basis of volatilities implied of ATMF options for the interest rate quoted on the interbank market for foreign currencies, for which the Group has the exposition to interest rate risk from the balance sheet date.

Classes of financial instruments	**31 December 2014**		**Analysis of sensitivity to interest rate risk as of 31 December 2014**							
			WIBOR				***EURIBOR***			
			WIBOR + 71		***WIBOR - 71***		***EURIBOR + 102***		***EURIBOR - 102***	
	Balance sheet value in PLN thousand	***Value exposed to risk in PLN thousand***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	107 339	102 860	205	-	(205)	-	755	-	(755)	-
Trade receivables and other receivables	253 977	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	356 120	356 120	2 010	-	(2 010)	-	744	-	(744)	-
Interest-bearing credits and loans	(1 215 774)	(1 215 774)	(4 254)	-	4 254	-	(6 290)	-	6 290	-
Trade liabilities and other financial liabilities	(458 944)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(23 743)	(23 743)	-	-	-	-	-	8 627	-	(8 627)
Total	**(981 025)**	**(780 537)**	**(2 039)**	-	**2 039**	-	**(4 791)**	**8 627**	**4 791**	**(8 627)**

Classes of financial instruments	**31 December 2013**		**Analysis of sensitivity to interest rate risk as of 31 December 2013**							
			WIBOR				***EURIBOR***			
			WIBOR + 70		***WIBOR - 70***		***EURIBOR + 23***		***EURIBOR - 23***	
	Balance sheet value in PLN thousand	***Value exposed to risk in PLN thousand***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	121 524	121 524	333	-	(333)	-	170	-	(170)	-
Trade receivables and other receivables	197 847	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	430 978	430 978	2 575	-	(2 575)	-	145	-	(145)	-
Interest-bearing credits and loans	(1 058 047)	(1 058 047)	(2 435)	-	2 435	-	(1 633)	-	1 633	-
Trade liabilities and other financial liabilities	(301 627)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(25 241)	(25 241)	-	-	-	-	-	2 444	-	(2 444)
Total	**(634 566)**	**(530 786)**	**473**	**-**	**(473)**	**-**	**(1 318)**	**2 444**	**1 318**	**(2 444)**

40.2. Currency risk

The Group is exposed to currency risk due to concluded transactions. Such risk also concerns credit and loan liabilities. The Group does not use derivative instruments protecting from the change of currency rate.

Potential possible changes of currency rates were calculated on the basis of annual volatilities implied of currency options quoted on the interbank market for a given pair of currencies from the balance sheet date.

The Group identifies exposure to EUR/PLN exchange rate changes. The below table presents gross financial results sensitivity for rationally possible to occur exchange rate changes, assuming invariability of other risk factors for these classes of financial instruments exposed to exchange rate change risk.

Classes of financial instruments	**31 December 2014**		**Analysis of sensitivity to currency risk as of 31 December 2014 EUR/PLN**			
			EUR/PLN + 7,7% 4,5905		**EUR/PLN - 7,7% 3,9341**	
	Balance sheet value in PLN thousand	***Value exposed to risk in PLN thousand***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	107 339	74 035	5 701	-	(5 701)	-
Trade receivables and other receivables	253 977	1 105	85	-	(85)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	356 120	72 952	5 617	-	(5 617)	-
Interest-bearing credits and loans	(1 215 774)	(616 696)	(47 486)	-	47 486	-
Trade liabilities and other financial liabilities	(458 944)	(2 043)	(157)	-	157	-
Derivative financial instruments	(23 743)	-	-	-	-	-
Total	**(981 025)**	**(470 647)**	**(36 240)**	**-**	**36 240**	**-**

Classes of financial instruments	**31 December 2013**		**Analysis of sensitivity to currency risk as at 31 December 2013 EUR/PLN**			
			EUR/PLN + 7,75% 4,8149		**EUR/PLN - 7,75% 4,1223**	
	Balance sheet value in PLN thousand	***Value exposed to risk in PLN thousand***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	121 524	73 972	5 733	-	(5 733)	-
Trade receivables and other receivables	197 847	1 053	82	-	(82)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	430 978	63 172	4 896	-	(4 896)	-
Interest-bearing credits and loans	(1 058 047)	(710 164)	(55 038)	-	55 038	-
Trade liabilities and other financial liabilities	(301 627)	(2 264)	(175)	-	175	-
Derivative financial instruments	(25 241)	-	-	-	-	-
Total	**(634 566)**	**(574 231)**	**(44 502)**	**-**	**44 502**	**-**

40.3. Commodity prices risk

The company is exposed to influence and the adverse impact of risk factors associated with the volatility of cash flows and financial results due to the changes in the prices of commodity prices. Exposure to the commodity prices risk is reflected by the volume of purchases of basic raw materials, which are mostly lignite and biomass of wood and agricultural origin.

The volume and costs of consumption of the main raw materials are presented in the table below:

	2014		2013	
	Volume (tonnes)	*Consumption cost (in PLN thousand)*	*Volume (tonnes)*	*Consumption cost (in PLN thousand)*
Fuel:				
Lignite	13,761,742	834,310	14,399,109	941,237
Forestry biomass	294,309	62,546	297,869	57,957
Agricultural biomass	73,334	22,934	133,991	53,667
Heating oil	11,837	24,856	1,623	5,590
Sorbent	234,480	19,172	262,696	21,603

40.4. Credit risk

Credit risk is a potential credit event, which may be materialised in a form of the following factors: counterpart insolvency, partial repayment of receivables, significant delay in receivables repayment, or other not predicted default on contractual terms.

The Group concludes transactions only with reputable companies of good credit rating. All customer who want to use credit terms, are subject to procedures of initial verification. Moreover, thanks to current monitoring of receivables, exposure of the Group to non-collectible receivables risk is insignificant.

Main recipients of electricity are big energy groups, such as ENERGA S.A., ENEA S.A., and the TAURON Polska Energia S.A. Capital Group. Transactions concluded on an exchange are settled on a day-by-day basis by the Towarowa Giełda Energii S.A. company, which minimises credit risk.

In relation to other financial assets of the Group, such as funds and their equivalents, financial assets available for sale, and some derivative instruments, the Group's credit risk occurs as a result of incapability to pay by the other party of an agreement, and the maximum exposure to this risk is equal to the balance sheet amount of these instruments.

40.5. Liquidity risk

The Group monitors risk to a shortage of funds by means of the tool for periodic planning of liquidity. This tool takes into account maturity dates of both investment and financial assets (e.g. receivables accounts, other financial assets), as well as projected cash flows from operating activities.

The goal of the Group is maintenance of balance between continuity and flexibility of financing through use of various resources of financing, such as overdraft facilities, bank credits, debentures, preferred shares, financial lease agreements, and lease agreements with purchase option.

The table below present financial liabilities of the Group as of 31 December 2014 and 31 December 2013 according to the maturity date based on on contractual non-discounted payments.

(in PLN thousand)

31 December 2014	*Up to 3 months*	*3 to 12 months*	*1 to 5 years*	*Above 5 years*	*Total*
Interest-bearing credits and loans	180 585	171 088	789 537	184 951	1 326 161
Trade liabilities and other financial liabilities	288 338	66 864	103 671	71	458 944
Derivative financial instruments	2 416	6 479	15 899	-	24 794
	471 339	**244 431**	**909 107**	**185 022**	**1 809 899**

31 December 2013	*Up to 3 months*	*3 to 12 months*	*1 to 5 years*	*Above 5 years*	*Total*
Interest-bearing credits and loans	266 961	142 250	622 643	105 765	1 137 619
Trade liabilities and other financial liabilities	235 856	43 259	22 430	82	301 627
Derivative financial instruments	2 756	7 629	23 317	807	34 509
	505 573	**193 138**	**668 390**	**106 654**	**1 473 755**

(in PLN thousand)

Derivative instruments indicated in above tables were presented in gross values of non-discounted payments. However, these contracts can be settled either in gross values, or net amounts. Below tables present agreements of these values to balance sheet values of derivative instruments:

31 December 2014	*On demand*	*Up to 3 months*	*3 to 12 months*	*1 to 5 years*	*Above 5 years*	*Total*
Inflows	-	64	145	807	-	1 016
Outflows	-	2 416	6 479	15 899	-	24 794
Net amounts	-	(2 352)	(6 334)	(15 092)	-	(23 778)
Discounted with applicable interest rates	**-**	**(2 352)**	**(6 332)**	**(15 059)**	**-**	**(23 743)**

31 December 2013	*On demand*	*Up to 3 months*	*3 to 12 months*	*1 to 5 years*	*Above 5 years*	*Total*
Inflows	-	201	752	8 096	-	9 049
Outflows	-	2 756	7 629	24 124	-	34 509
Net amounts	-	(2 555)	(6 877)	(16 028)	-	(25 460)
Discounted with applicable interest rates	**-**	**(2 555)**	**(6 866)**	**(15 820)**	**-**	**(25 241)**

(in PLN thousand)

41. Financial instruments

41.1. Fair values of particular classes of financial instruments

The below tables presents comparison between balance sheet values and fair values of all financial instruments of the Group, divided into particular classes and categories of assets and liabilities.

		Balance sheet value		*Fair value*		*Level of the fair value hierarchy for needs of disclosures*
Financial assets	*Category according to IAS 39*	*31 December 2014*	*31 December 2013*	*31 December 2014*	*31 December 2013*	
Other financial assets	PiN	107,339	121,524	107,339	121,524	Level 2
Trade receivables and other receivables	PiN	253,977	197,847	253,977	197,847	Level 2
Derivative financial instruments	WwWGpWF	-	-	-	-	Level 2
Cash and cash equivalents	UdtW	356,120	430,978	356,120	430,978	Level 1,2
Financial liabilities						
Interest-bearing bank credits and loans, including:		1,215,774	1,058,047	1,215,774	1,058,047	Level 3
- long-term ones interested according to a variable rate	PZFwgZK	867,221	652,323	867,221	652,323	
- short-term ones interested according to a variable rate	PZFwgZK	348,553	405,724	348,553	405,724	
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	458,944	301,627	458,944	301,627	Level 2
Derivative financial instruments	WwWGpWF	23,743	25,241	23,743	25,241	Level 2

(in PLN thousand)

Used abbreviations:

UdtW	– Financial assets maintained to the maturity date,
WwWGpWF	– Financial assets/liabilities evaluated in the fair value by the financial result,
PiN	– Loans i receivables
DDS	– Financial assets available for sale,
PZFwgZK	– Other financial liabilities evaluated according to the depreciated cost.

As of 31 December 2014 and 31 December 2013, the Group had following financial instruments evaluated in the fair value:

	31 December 2014	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	23,743	-

	31 December 2013	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	25,241	-

In the period concluded on 31 December 2014 and the one concluded on 31 December 2013, there we no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy.

(in PLN thousand)

41.2. Items of revenue, costs, profits and losses included in the income statement, divided into categories of financial instruments

Year concluded on 31 December 2014

	Revenues/(costs) due to interests (including effect of valuation with depreciated cost)	*Profits/(losses) due to exchange rate differences*	*Redemption/(creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	6,701	1,738	-	-	(7)	8,432
Other short-term financial assets	(620)	1,997	-	-	5	1,382
Deliveries and services receivables	201	(11)	(52)	-	-	138
Other receivables	904	61	(399)	-	-	566
Derivative instrument	-	-	-	-	-	-
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(24,192)	(17,467)	-	-	(560)	(42,219)
Deliveries and services liabilities	(1,561)	(253)	-	-	(2)	(1,816)
Other financial liabilities (without instruments)	(1,864)	-	-	-	-	(1,864)
Derivative instruments	-	-	-	(9,432)	-	(9,432)
Other liabilities	(1,697)	18	(12,222)	-	(3,215)	(17,116)
Total	(22,128)	(13,917)	(12,673)	(9,432)	(3,779)	(61,929)

(in PLN thousand)

Year concluded on 31 December 2013

	Revenues/(costs) due to interests (including effect of valuation with depreciated cost)	*Profits/(losses) due to exchange rate differ-ences*	*Redemption/(creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	9,406	5,261	-	-	-	14,667
Other short-term financial assets	37	9	525	-	(33)	538
Deliveries and services receivables	280	(55)	(7)	-	-	218
Other receivables	1,111	-	-	-	-	1,111
Derivative instrument	-	-	-	-	-	-
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(39,838)	(9,087)	-	-	(1,203)	(50,128)
Deliveries and services liabilities	(2,986)	(4,978)	-	-	-	(7,964)
Other financial liabilities (without instru-ments)	(3,445)	-	-	-	-	(3,445)
Derivative instruments	-	-	-	(11,151)	-	(11,151)
Other liabilities	(8,383)	-	-	-	(68)	(8,451)
Total	(43,818)	(8,850)	518	(11,151)	(1,304)	(64,605)

(in PLN thousand)

41.3. Interest rate risk

The below table presents the interest rate gap constituting the Group's exposure to interest rate risk and concentration of this risk divided into currencies and kind of interest rate taking into account the effect of protection transactions Interest Rate Swap exchanging the stream of cash interest payments based on the variable EURIBOR rate for the fixed rate in EUR.

	Kind of interest rate	Balance sheet value as of 31 December 2014	Balance sheet value as of 31 December 2013
Financial assets at interest rate risk - PLN	Fixed	-	-
	Variable	311,992	417,057
Financial assets at interest rate risk - Other currencies	Fixed	-	-
	Variable	146,987	137,144
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	599,077	347,883
Financial liabilities at interest rate risk - Other currencies	Fixed	308,714	356,051
	Variable	307,982	354,113
Net exposure - PLN	Fixed	-	-
	Variable	(287,085)	69,174
Net exposure - Other currencies	Fixed	(308,714)	(356,051)
	Variable	(160,995)	(216,969)

Interest rate of financial instrument of variable interest rate is updated in periods shorter than one year. Interests on financial instruments of the fixed interest rate are fixed through the whole period to the date of maturity of these instruments. Other financial instruments of the Group not included in the above tables are not subject to interest and they are not subject to interest rate risk.

41.3.1. Securities

The Group secures the interest rate risk related to the incurred corporate credit denominated in EUR of variable interest rate based on the EURIBOR 3M benchmark interest rate using derivative transactions. The instrument securing exposure to the interest risk rate is the Interest Rate Swap transaction, within which the Groups exchanges stream of cash interest payments based on the variable EURIBOR 3M rate for payments of the fixed interest rate at 3.1050%. The Group indicates designated derivative instruments as protecting instruments in the model of cash flow security, and includes them in accordance with protections accounting rules.

In the below tables, basic parameters of derivative transactions indicated as security instruments, including periods, when cash flows due to cash flow securities and when they influence on the financial result, as well as their fair value in PLN as of 31 December 2014 and 31 December 2013 are presented.

(in PLN thousand)

Instrument type	Nominal value in the transaction currency [EUR]*	Fair value in PLN	Expected duration of hedged item's realisation
	31 December 2014	31 December 2014	31 December 2014
IRS transaction	72,429	(23,743)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

* the nominal values depreciated in accordance with the credit repayment schedule

Instrument type	Nominal value in the transaction currency [EUR]*	Fair value in PLN	Expected duration of secured item's realisation
	31 December 2013	31 December 2013	31 December 2013
IRS transaction	85,853	(25,241)	in quarterly periods, in January, April, July, and October each year until the maturity of IRS, i.e. July 2019

* the nominal values depreciated in accordance with the credit repayment schedule

The change in the fair value of cash flow securities transferred onto the equity is presented below:

	Year concluded on 31 December 2014	*Year concluded on 31 December 2013*
Opening balance	(23,248)	(34,960)
Effective part of profits / losses on a security instrument	(8,059)	586
Amounts charged to the income statement, including:	(9,405)	(11,126)
-adjustment of costs of interest	(9,405)	(11,126)
-adjustment under ineffective hedging	-	-
Closing balance	(21,902)	(23,248)
Deferred tax assets - recognized in the revaluation reserve	4,161	4,417
Closing balance including deferred tax	(17,741)	(18,831)

42. Capital management

The main goal of the management of the Group's capital is maintenance of good credit rating and safe equity ratios, which would support the Group's operating activities and increased the values for its shareholders.

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In the period concluded on 31 December 2014 and 31 December 2013, there were no introduced amendments to goals, rules and processes applying in this area.

The Group monitors the balance of its capitals using the leverage ratio, which is calculated as a relation of net debt to the sum of capitals enlarged with net debt. The Group's Principles state that this rate was within the range of 20-60%. The Group includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt. The capital includes the equity decreased by reserve capitals due to unrealised net profits.

(in PLN thousand)

	31 December 2014	31 December 2013
Interest-bearing credits and loans	1,215,774	1,058,047
Derivative financial instruments (liabilities)	23,743	25,241
Trade liabilities and other financial liabilities	458,944	301,627
Minus cash and its equivalents	356,120	430,978
Net debt	1,342,341	953,938
Equity	3,819,717	3,782,616
Capitals from revaluation of security instruments	(17,741)	(18,831)
Total capital	3,837,458	3,801,447
Net capital and debt	5,179,799	4,755,385
Leverage ratio		
Interest-bearing credits and loans	25,91%	20,06%

43. Employment structure

The average employment in the Group for the years concluded on 31 December 2014 and 31 December 2013 was developing as follows:

	Year concluded on *31 December 2014*	Year concluded on *31 December 2013*
Management Board of the parent company	3	3
Management Board's of the Group's entities	23	24
Administration	431	558
Sales department	36	51
Production division	6,128	6,521
Other	564	837
Total	7,185	7,994

44. Events after the balance sheet date

Redemption of employee shares programme

In accordance with the provisions of the agreement of acquisition from the State Treasury 85% of the shares of PAK KWBK S.A. and PAK KWBA S.A. of 2012, the Company obliged to the redemption of the remaining 15% of shares, which, in accordance with the Act on the commercialisation and privatisation, were granted to the entitled employees of both companies. On 18 March 2015, the Company launched the redemption of employee shares of both mines programme. The expected completion date of redemption is 30 June 2015.

ZESPÓŁ ELEKTROWNI
PĄTNÓW-ADAMÓW-KONIN S.A.

MANAGEMENT BOARD'S REPORT FROM THE CAPITAL GROUP'S OPERATIONS IN 2014

(this is a translation of the document issued originally in Polish language. The Polish original should be referred to in matters of interpretation)

19 March 2015

Table of contents:

1. Summary for 2014

ZE PAK Group's net energy production amounted to 10.1 TWh in 2014 and was lower by 4.1% in comparison to the production in 2013. Energy sales (total – produced and purchased in the market) amounted to 13.5 TWh and was higher by 3.2% in comparison to the sales in the previous year.

The sales revenues of the ZE PAK Group amounted to PLN 2.68 billion in 2014 and were lower by 3.03% in comparison to 2013. The average electricity sale price, which was lower by 8.1% in comparison to the price in the previous year, had the biggest impact on the decrease in revenues.

The EBITDA profit amounted to PLN 507.4 million in 2014 in comparison to PLN 715.9 million in 2013. Apart from the decrease in the average electricity sale price and increase in the CO_2 emission costs, this result was substantially affected by one-off events with both positive and negative effect on the achieved EBITDA result. The most important events include: write-downs against compensation related to PPAs termination for the Pątnów II Power Plant, impairment write-downs against inventories (green certificates), increase in the reclamation provisions, establishment of the provision related to the decommissioning from forest production for the final reservoir remaining after the Adamów open pit, liquidation of the provision for the electricity equivalent and the decrease in the provision for anniversary premiums. The total accumulated impact of the aforementioned events decreased the ZE PAK Group's operating result by PLN 81.8 million in 2014.

The operating result amounted to PLN 147.4 million in 2014, whereas the net result amounted to PLN 78.5 million.

The investment expenses amounted to PLN 693.9 million in 2014, which is an increase by 144.2% in comparison to 2013. The highest expenses were incurred in the production sector and regarded the modernisation of the Pątnów I Power Plant.

2. Selected Consolidated Financial Data

Selected consolidated financial data		in thousands of PLN		in thousands of EUR	
		12-month period concluded on 31.12.2014	12-month period concluded on 31.12.2013	12-month period concluded on 31.12.2014	12-month period concluded on 31.12.2013
I.	Sales revenues	2 680 111	2 763 840	639 752	656 338
II.	Profit/loss on operating activities	147 430	358 547	35 192	85 145
III.	Gross profit/loss	97 985	299 755	23 389	71 184
IV.	Net profit/loss for the period	78 484	231 506	18 734	54 976
V.	Net profit of the parent company's shareholders	81 977	216 946	19 568	51 519
VI.	Total income	71 749	240 739	17 127	57 169
VII.	Net cash on operating activities	413 672	658 116	98 745	156 285
VIII.	Net cash on investment activities	-549 785	-260 480	-131 236	-61 857
IX.	Net cash on financial activities	60 064	-279 258	14 337	-66 316
X.	Net change in cash and its equivalents	-76 049	118 378	-18 153	28 112
XI.	Net profit per share (in PLN/EUR per share)	1,61	4,27	0,38	1,01
XII.	Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Selected consolidated financial data		in thousands of PLN		in thousands of EUR	
		as of 31.12.2014	as of 31.12.2013	as of 31.12.2014	as of 31.12.2013
XIII.	Total assets	6 867 688	6 470 936	1 611 263	1 560 314
XIV.	Fixed assets	5 685 991	5 338 706	1 334 019	1 287 304
XV.	Current assets	1 181 697	1 132 230	277 244	273 011
XVI.	Total equity	3 819 717	3 782 616	896 163	912 089
XVII.	Issued capital	101 647	101 647	23 848	24 510
XVIII.	Equity of the parent company's shareholders	3 819 717	3 782 616	896 163	912 089
XIX.	Total liabilities	3 047 971	2 688 320	715 100	648 225
XX.	Long-term liabilities	1 841 869	1 616 077	432 130	389 679
XXI.	Short-term liabilities	1 206 102	1 072 243	282 970	258 546
XXII.	Book value per share (in PLN/EUR per share)	75,16	74,43	17,63	17,95
XXIII.	Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

The data shown in the tables above have been translated using the following exchange rates:

- data regarding the consolidated profit and loss account, consolidated total income statement as well as the consolidated cash flow statement in accordance with the exchange rate representing the arithmetic mean of the average NBP rates as of the last working day of each month of the accounting period from 1 January 2014 to 31 December 2014, giving EUR/PLN 4,1893 as well as from 1 January 2013 to 31 December 2013, giving EUR/PLN 4,2110.
- data regarding particular items of the report on the financial position in accordance with the average EUR/PLN rate specified by the NBP as of 31 December 2014, i.e. EUR/PLN 4,2623 as well as of 31 December 2013, i.e. EUR/PLN 4,1472.

3. Description of the Company and of the Capital Group

3.1. Basic information on the Company and the Capital Group

Basic information on the Company

Zespół Elektrowni Pątnów-Adamów-Konin S.A. (hereinafter referred to as ZE PAK, *ZE PAK S.A.* or *Company*) operates in the form of a joint-stock company, pursuant to the regulations of the Code of Commercial Companies as well as other regulations of the generally applicable Polish law. The Company was established as result of transformation of Zespół Elektrowni Pątnów-Adamów-Konin state-owned company with registered office in Konin into a company wholly owned by the State Treasury under the business name of Zespół Elektrowni „Pątnów-Adamów-Konin" Spółka Akcyjna. The deed of transformation was signed on 29 December 1994 in the presence of the notary public Elżbieta Brudnicka from the Notarial Office in Warsaw. On 31 December 1994, the Company was entered into the commercial register section "B" by the District Court in Konin under number RHB 847. Based on the decision of the District Court in Poznań, 22nd Commercial Department of KRS dated 21 June 2011, the Company was entered into the Register of Entrepreneurs. Currently the Company is entered into the Register of Entrepreneurs kept by the District Court Poznań Nowe Miasto i Wilda, IX Commercial Department, under the KRS number 0000021374. The Company was established for an unlimited period of time.

Name:	Zespół Elektrowni „Pątnów-Adamów-Konin" Spółka Akcyjna
Legal status:	joint-stock company
Abbreviated name:	ZE PAK S.A.
Registered office and address:	ul. Kazimierska 45, 62-510 Konin, Poland
Telephone number:	+48 63 247 30 00
Fax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
E-mail address:	zepak@zepak.com.pl
KRS no.:	0000021374
REGON no.:	310186795
Tax Identification Number (NIP):	665-000-16-45

According to the Company's Articles of Association, the primary subject of the Company's operations is the production and sales of electricity as well as the production and sales of heat. The Company produces energy from conventional sources as well as by biomass combustion. The Company can conduct operations within the territory of the Republic of Poland as well as abroad.

The Company's shares are listed on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange). The Company's shares are dematerialised and marked by Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities) with the following stocks code: ISIN PLZEPAK00012.

In 2014, the share capital of ZE PAK S.A. has been not changed. As of 31 December 2014 amounts to PLN 101,647,094,00 and is divided into 50,823,547 bearer shares class A with a face value of PLN 2.00 each, which represent 50,823,547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

The Company has no branches (establishments).

Basic information on the Capital Group

As at 31 December 2014, the ZE PAK Capital Group (hereinafter also referred to as the Group, the Capital Group, the ZE PAK Group or the ZE PAK CG) is comprised of the parent company: Zespół Elektrowni Pątnów-Adamów-Konin S.A. and seventeen subsidiaries, i.e. Elektrownia Pątnów II Sp. z o.o. (hereinafter referred to as the EPII), PAK Volt S.A., PAK Kopalnia Węgla Brunatnego Adamów S.A. (hereinafter also referred to as PAK KWBA S.A.), PAK Kopalnia Węgla Brunatnego Konin S.A. (hereinafter also referred to as PAK KWBK S.A.), Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. (hereinafter also referred to as PAK SERWIS sp. z o.o.), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o. (hereinafter also referred to as EL PAK sp. z o.o.), Ochrona Osób i Mienia Asekuracja Sp. z o.o. in liquidation, Aquakon Sp. z o.o., Eko-Surowce Sp. z o.o., Energoinwest Serwis Sp. z o.o., KWE Sp. z o.o. in liquidation, PAK Centrum Badań Jakości Sp. z o.o. in liquidation, PAK Centrum Usług Informatycznych Sp. z o.o. in liquidation, PAK Górnictwo Sp. z o.o., PAK Holdco Sp. z o.o., PAK Infrastruktura Sp. z o.o., Centrum Zdrowia i Relaksu Verano Sp. z o.o. All the above mentioned companies are subject of consolidation, with the regard that consolidation of three subsidiaries of PAK KWBK (ie. Ochrona Osób i Mienia Asekuracja Sp. z o.o. in liquidation, Aquakon Sp. z o.o., KWE Sp. z o.o. in liquidation) is not relevant to the outcome of the Group.

The companies that are most important for the Group due to the size of their operations include ZE PAK S.A., which deals with generation of electricity and heat, Elektrownia Pątnów II Sp. z o.o., which deals with generation of electricity, and PAK KWBA S.A. and PAK KWBK S.A., which are engaged in the extraction of lignite. In addition to the main areas of the Group's operations, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trade operations for the purpose of satisfying their own needs as well as providing comprehensive services to the industry.

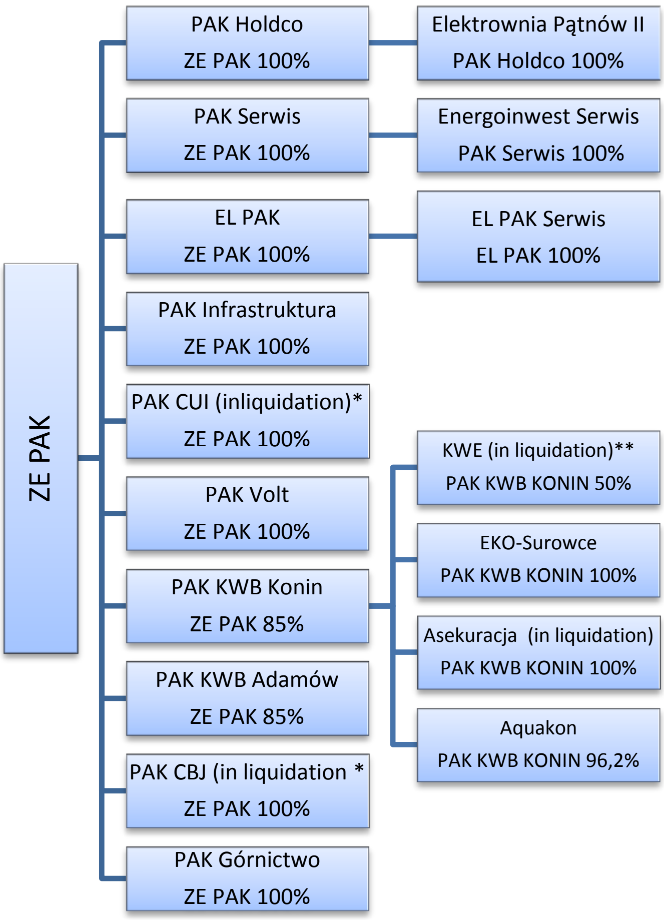
The Group's generation assets include four lignite -fired power plants located in the Wielkopolskie Province, in central Poland. These include: the Pątnów II Power Plant, equipped with a supercritical power unit, the Pątnów I Power Plant, Adamów Power Plant as well as the Konin Power Plant, equipped with a 55 MW unit with a dedicated biomass-fired boiler. The total achievable gross generation capacity of the Group's generation assets as of 31 December 2012 was 2,462 MWe.

The Group's mining assets are concentrated in three companies. (1) PAK KWBK, which currently utilises the Jóźwin, Tomisławice and Drzewce open casts, (2) PAK KWBA, which utilises the Adamów and Koźmin open casts as well as (3) PAK Górnictwo S.A. which executes works related to search and identification of lignite deposits in the areas of Poniec-Krobia and Oczkowice in the southern Wielkopolskie Province.

Majority of the Group's sales revenue is derived from sale of electricity (both generated within the Group and purchased for resale) and revenue from energy certificates. This is supplemented by revenues from sale of heat and from construction contracts. An additional sales revenue, which depends on the level of electricity prices on the market as well as the volume of generated electricity, is revenue from termination of long-term contracts for sale of electricity (Power Purchase Agreements), generated by Elektrownia Pątnów II Sp. z o.o. The Group, by purchasing lignite mines, provided the power plants with access to continuous supplies of lignite for its own production systems located in the direct vicinity of the mines. The vertically integrated Group allows for optimisation of lignite inventories and supplies while coordinating lignite extraction with the demand for this fuel. The demand for biomass is satisfied pursuant to agreements concluded with the supplier.

Presented below is the structure of the ZE PAK Group as of 31 December 2014.

Draw 1: Diagram of the Group as at 31 December 2014



* as of the day of presentation of this report the process of liquidation in PAK CUI Sp. z o.o. and PAK CBJ Sp. z o.o. is finished.

** as of the day of presentation of this report PAK KWB Konin S.A. disposed all shares in KWE Sp. z o.o. in liquidation

In 2014, the following changes were made to the ZE PAK Capital Group's structure:

- On 26 March 2014, EL PAK Sp. z o.o. and Energoinwest Serwis Sp. z o.o. established a new company named EL PAK Serwis Sp. z o.o. with the share capital of PLN 500,000.00. EL PAK Sp. z o.o. had 99.98% of the shares, whereas Energoinwest Serwis Sp. z o.o. – 0.02%. On 26 June 2014, EL PAK Sp. z o.o., as result of acquisition of a single share from Energoinwest Serwis Sp. z o.o., became the holder of 100% shares in the company. The company was established in order to concentrate specific activities of the Group. In June 2014, services in the electric and power engineering field were separated from the structures of mines and their provision was transferred to the newly established company. The transfer of the specified groups of services to the specialised company was followed by the transfer of employees dealing with particular tasks in PAK KWBA S.A. and PAK KWBK S.A. to the established company. The reason for such activities is the employment cost optimisation process conducted by the Group.

- On 26 May 2014, the new name of Elektrim-Volt S.A. was registered in the National Court Register. From that day, the company conducts its activities under the name of PAK-VOLT S.A.
- On 20 May 2014, the shares of PAK Górnictwo Sp. z o.o. held by PAK Centrum Badań Jakości Sp. z o.o. were redeemed. From that day, ZE PAK S.A. is the only shareholder in PAK Górnictwo Sp. z o.o.
- The Extraordinary General Meeting of PAK Centrum Usług Informatycznych Sp. z o.o. decided on dissolving and liquidating the company pursuant to the resolution of 1 June 2014. The liquidation process was concluded on 29 January 2015 with the approval of the liquidation report by the Extraordinary General Meeting. The company was erased from the National Court Register as of the date of submission of this report. PAK CUI Sp. z o.o. dealt with the provision of IT services and the company's employees were transferred to ZE PAK S.A pursuant to § 231 of the Code of Labour.
- The Extraordinary General Meeting of PAK Centrum Badań Jakości Sp. z o.o. decided on dissolving and liquidating the company pursuant to the resolution of 1 June 2014. The liquidation process was concluded on 29 January 2015 with the approval of the liquidation report by the Extraordinary General Meeting. The company was erased from the National Court Register as of the date of submission of this report. PAK CBJ Sp. z o.o. dealt with the provision of services in the scope of physical and chemical measurements, tests and analyses and the company's employees were transferred to ZE PAK S.A pursuant to § 231 of the Code of Labour.
- On 1 September 2014, the Ochrona Osób Mienia Asekuracja Sp. z o.o. company, an indirect subsidiary of ZE PAK S.A. (via PAK KWB Konin S.A.), was put into liquidation. The company dealt with the protection of persons and property in relation to PAK Kopalnia Węgla Brunatnego S.A. The reason for the company's liquidation was entrusting the protection of PAK KWB Konin S.A. to a third party entity.
- On 15 October 2014, the company KWE Sp. z o.o., an indirect subsidiary of ZE PAK S.A. (via PAK KWB Konin S.A.), was put into liquidation. The company was founded in cooperation with PAK KWB Konin S.A. in the period preceding the purchase of the mine's shares by ZE PAK S.A. The purpose of establishing KWE Sp. z o.o. was the execution of the joint venture project involving the construction of a wind farm with the use of, among others, the excavated areas intended for reclamation. The justification of this decision were, among others, the planned changes in the economic and legal circumstances related to, in particular, the principles of support for renewable energy. The prepared changes in the support system made the economic efficiency of the project different than expected at the time of founding of KWE Sp. z o.o. As result, PAK Kopalnia Węgla Brunatnego Konin S.A. decided to withdraw from the execution of the project regarding the construction of wind farms, initiated in KWE Sp. z o.o. On 29 January 2015, PAK KWBK S.A. disposed of all shares in KWE Sp. z o.o. in liquidation for the benefit of a third party entity.
- On 20 October 2014, the agreement for the sale of 75% of shares in Centrum Zdrowia i Relaksu Verano Sp. z o.o. was concluded. The buyer of the shares was an entity from the property development industry. Centrum Zdrowia i Relaksu Verano Sp. z o.o. provides services in the broadly understood industry of recreation and leisure and the

company's main asset is a health resort in Kołobrzeg. The process of searching for the company's buyer has been initiated as early as in 2010, and thus before the acquisition of control over PAK KWB Konin S.A. by ZE PAK S.A., which was then the only shareholder of Centrum Zdrowia i Relaksu Verano Sp. z o.o. After the sale, PAK KWB Konin S.A. controls 25% of shares in Centrum Zdrowia i Relaksu Verano Sp. z o.o.

The Company outside the Capital Group has shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar Sp. z o.o. with registered office in Gliwice, providing measurement, research and consulting services regarding processes, power systems and devices, heating and mechanical devices, power chemistry devices and environmental protection. The aforementioned company also deals with consulting in the management of investment and modernisation processes, including processes related to the construction of new generation units, fulfilment of emission allowances and power efficiency. ZE PAK S.A. has 1 share with a value of PLN 151,201.01 in the aforementioned company, comprising 2.81% of the total capital.

The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz-Żak has substantial direct or indirect share.

Table 1: Description of the Group's companies as of 31 December 2014 and 2013 (excluding ZE PAK S.A.)

Entity	**Registered office**	**Scope of operations**	**Group's share in the capital in percent**	
			As of 31 December 2014	**As of 31 December 2013**
Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o. *	62-510 Konin ul. Przemysłowa 158	Renovation and construction services	100%	100%
PAK-Volt S.A.	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100%	100%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services in the scope of industrial automation and electrical devices	100%	100%
EL PAK-Serwis Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair of electric devices, repair of machinery.	100%**	-
Elektrownia Pątnów II Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity in the 464 MW unit	100%**	100%**
PAK-Holdco Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding operations	100%	100%
PAK Infrastruktura Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Execution of general construction works in the scope of engineering structures, unclassified elsewhere	100%	100%
PAK Centrum Usług Informatycznych Sp. z o.o. in liquidation***	62-510 Konin ul. Kazimierska 45	IT services	100%	100%

PAK Centrum Badań Jakości Sp. z o.o. in liquidation***	62-510 Konin ul. Przemysłowa 158	Chemical testing and analyses	100%	100%
PAK Górnictwo Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal extraction	100%	100%**
Energoinwest Serwis Sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Renovation and construction services	100%**	100%**
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	85%	85%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite extraction	85%	85%
Ochrona Osób i Mienia Asekuracja Sp. z o.o. in liquidation	62-540 Kleczew ul. 600-lecia 9	Security of people and property	85%**	85%**
Aquakon Sp. z o.o.	62-610 Sompolno Police	Production and trade of mineral waters	81,8%**	66,6%**
Eko-Surowce Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Lignite sales	85%**	85%**
KWE Sp. z o.o. ****	62-540 Kleczew ul. 600-lecia 9	Wind farms, production of electricity	42,5%**	42,5%**
Centrum Zdrowia i Relaksu Verano Sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Services in the scope of vacation and sanatoriums	21,25%**	85%**

* Subsidiary – Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o. – with a foreign branch in Germany.

** Indirect share by the companies of the ZE PAK Group.

*** The liquidation process of PAK CUI Sp. z o.o. and PAK CBJ Sp. z o.o. has been concluded as of the date of submission of this report.

**** PAK KWB Konin S.A. has disposed of all shares in KWE Sp. z o.o. in liquidation as of the date of submission of this report.

3.2. Basic principles of management of the Company and of the ZE PAK Capital Group as well as changes thereto

In order to provide appropriate solutions for key issues related to management of the Capital Group, in which ZE PAK S.A. is the parent company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, a separate Corporate Governance and Restructuring Department was established within the organisational structure of the Company. The main task of this Department is supervision over the operations of the ZE PAK Capital Group and other companies in which the Company holds shares. This unit coordinates the consistency of the operations of all entities in the Group and monitors their compliance with the legal regulations in force as well as the interests of the whole Capital Group.

Direct supervision over the operations of the companies in which ZE PAK S.A. holds an interest is also executed by the Supervisory Councils, the role of which in the system of corporate governance in relation to the above-mentioned companies is defined in a statutory manner. In accordance with the Group's policy, the positions of Presidents of Supervisory Councils in the subsidiaries are held by Members of the Management Board of ZE PAK S.A. Furthermore, to ensure proper functioning of the corporate governance body, the ZE PAK S.A.'s Board recommends other members of the Supervisory Councils of the Group companies.

Corporate governance in the ZE PAK Capital Group is subject to specific procedures collected in the internal document adopted by the ZE PAK S.A.'s Board in January 2012, entitled "Corporate Governance Principles for the ZE PAK S.A. Capital Group", which sets the main principles for the management of the Capital Group. The scope of the tasks and duties of Supervisory Councils in the subsidiaries has been extended in this document. The document also defines the tasks and duties of the Corporate Governance and Restructuring Department, information requirements for subsidiaries' boards as well as the method of fulfilment of specific governance tasks.

During the year of 2014, there were no significant changes in the principles of management of the Company or of the ZE PAK Capital Group.

3.3. Description of main products, goods for resale and services as well as main markets and sources of supplies

The Group is the second largest national producer of electricity generated from lignite. The share of all of the Group's power plants in the entirety of electricity produced in Poland amounts to 7.1%[1]. The net electricity production in the Pątnów I Power Plant was equal to 4.01 TWh in 2014, while in the Adamów, Konin and Pątnów II Power Plants - 3.1 TWh, 0.61 TWh and 2.37 TWh respectively. The total electricity production in all power plants of the Group in 2014 was lower by 4.1% in comparison to the year before. The decrease in production regarded the Pątnów I and Pątnów II Power Plants and was related to the shutdown of two units in the Pątnów I Power Plant, handed over for modernisation works, as well as longer overhaul downtimes and higher number of shutdowns of a single unit in the Pątnów II Power Plant, whereas slight increases in production in comparison to the year before were reported in the Adamów and Konin Power Plants. In 2014, the Group sold 13.51 TWh of electricity, i.e. nearly 3.2% more than in 2013. The increase regarded the re-sale of electricity purchased on the balancing and wholesale markets, which excessively compensated the decrease in the sale of electricity produced by the Group.

The main direction of sales of electricity was the sale in the scope of bilateral contracts concluded with electricity trade companies conducting activities in the Polish market. This form of sales amounts to 52.24% of the volume of electricity sales conducted by the Group in 2014, including a 49.95% share of five of the biggest partners of the Group. Transactions with final recipients amounted to 1.49% of the entire volume of electricity sales.

In 2014, the Group executed 41.84% of the entire volume of electricity sales on the exchange markets, which is a substantial increase in comparison to the year before.

[1] According to the Table: The structure of electricity production in domestic power plants, the amounts of exports of electricity and domestic electricity consumption – monthly and cumulative amounts from the beginning of the year – gross amounts, total gross electricity generation in Poland in 2014 amounted to 156,567 GWh.

Elektrownia Pątnów II Sp. z o.o., as the producer of electricity entitled to receive compensation for the coverage of the so called "stranded costs" pursuant to the "Act on the principles of coverage of costs incurred by producers in relation to early termination of long-term power and electricity sales agreements", pursuant to the regulations of the Energy Law, is obligated to sell the entire produced electricity on the exchange market or by way of an open tender. In 2012, Elektrownia Pątnów II Sp. z o.o. received the decision of the President of the Energy Regulatory Office (hereinafter the URE President), which exempted the company from the obligation of public sales in relation to net 60% of electricity produced by the Pątnów II Power Plant in 2013-2014. In 2013, the URE President's decision extended the exemption until the end of 2016. Furthermore, in 2014, the Group's companies remained in the group of producers who actively participated in the electricity trade on the balancing market by selling a part of its electricity on this market, i.e. 4.43% of the entire volume of electricity sales.

Electricity sales revenues (in total – produced and traded) comprised 84.53% of the Group's total sales revenues, whereas revenues from the received compensation for the coverage of the so called "stranded costs" in the Pątnów II Power Plant comprised 3.70% of the Group's sales revenues.

The number of green and red certificates obtained by the Group in 2014 for the production of the biomass unit and high efficiency cogeneration in heat production is substantially higher from the number of certificates that the Group is obliged to present for redemption to the URE President in order to fulfil the obligations imposed by the current regulations. Due to the above, the excess certificates are sold mainly on Towarowa Giełda Energii (Polish Power Exchange). In 2014, the Group generated 0.32 TWh of green certificates and 0.08 TWh of red certificates. The revenues from sales of certificates comprised 2.36% of the Group's total sales revenues.

The heat generated in the Group's power plants is sold to local recipients. The main recipients include local heat power engineering companies, as well as local industrial manufacturers. The Group covers almost the entire heat demand of the Konin and Turek cities. In 2014, the Group's power plants sold 1,979 TJ of heat. The heat sales comprised 2.17% of the Group's total sales revenues.

Among the significant sources comprising the supplementation of the revenue structure, it is necessary to mention the activities in the scope of execution of construction and installation works. Four companies in the Group's structure, i.e. PAK Serwis Sp. z o. o., Energoinwest Sp. z o.o., EL PAK Sp. z o. o. and EL PAK Serwis Sp. z o.o. are dealing with the execution of such tasks for the Group and for third party entities. The main third party recipients of both companies are entities from the industrial construction sector as well as the electricity production and distribution sector. The revenues obtained by the Group's companies from services provided to third party entities comprised 5.51% of the Group's total sales revenues in 2014. Other activities generated 1.73% of the total revenues in the previous year.

The main raw material used by the Group for energy production is lignite, which is extracted only for the purposes of the power plant. This is due to the fact that the lignite extracted in Poland is a soft coal and its long-distance transport is not cost-effective due to the large contents of water.

The extracted lignite is delivered directly from open pit mines to the nearby power plants. Therefore, the extraction of lignite in the ZE PAK Group is strictly related to the amounts of electricity produced by the power plants located in the vicinity of the mines.

Nearly all of the coal extracted in both mines is delivered to the ZE PAK Capital Group's power plants, whereas a slight amount (below 1%) is used for the needs of the mines or is sold to other recipients.

The Group also uses biomass as a raw material for the production of energy, which is combusted in a dedicated boiler located in the Konin Power Plant. In 2014, 359.7 tons of biomass were used up in the process of "green" energy production. Energy producers are obligated to use a share of agricultural biomass specified in the regulations of the law. This share is fixed for the unit in Konin and amounts to 20%.

4. Description of Operations

4.1. Significant events in the accounting year as well as events after the balance sheet date affecting the current and future operations

Significant events in the accounting year

Early repayment of the investment credit

On 2 January 2014, the Company made an early repayment of the credit granted in 2006 by PKO BP and PEKAO S.A. banks for the construction of the flue-gas desulphurisation system in the Pątnów Power Plant ("IOS Credit"). The capital of the repaid credit as of the day of early repayment amounted to PLN 90 million. The company decided on the early repayment of the IOS Credit due to the intention of refinancing it.

Syndicated credit agreement for the financing of modernisation of the Pątnów I Power Plant

On 13 March 2014, the Company concluded with the consortium of banks comprising of: Bank Gospodarstwa Krajowego, mBANK S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. a credit agreement, pursuant to which the Company obtained the following credits:

1) credit in the amount of PLN 1.11 billion for the purpose of modernisation of units 1-4 in the Pątnów Power Plant, including additional tasks, and
2) credit in the amount of PLN 0.09 billion for the purpose of refinancing the debt deriving from the credit contracted in 2006 for the construction of the flue-gas desulphurisation system for the Pątnów Power Plant units.

The obtained resources will allow for the financing of up to 61.92% of the costs of the project consisting of the execution of the final stage of modernisation of 4 units in the Pątnów Power Plant and the other part of expenses will be covered by own resources. Pursuant to the credit agreement, the Company can use the resources no later than until 31 December 2016. The granted credits are subject to interest based on the applicable rate of WIBOR, increased by the bank's margin rate. The Company is obligated to repay the credit including interest and other due amounts pursuant to the conditions specified in the agreement. The complete repayment of the credit should be made until 31 December 2023.

Dismissal of the statement of invalidity of the license related to the Tomisławice open pit

In July 2013, the Minister of Environment, at the request of two natural persons, initiated proceedings regarding the statement of invalidity of the license of 6 February 2008, no. 2/2008, regarding the Tomisławice open pit.

In January 2014, the Company made a statement about the decision of the Minister of Environment regarding the dismissal to state the invalidity of the license granted to PAK Kopalnia Węgla Brunatnego Konin S.A. for the extraction of lignite and minerals from the Tomisławice deposit. In the justification of his decision, the Minister of Environment stated that the arguments raised by the plaintiffs in the application for the statement of invalidity cannot result in the statement of invalidity of the license. The Minister of Environment stated that the licensing body cannot be accused of infringing the regulations of the material or procedural law, which would justify a different resolution of the case. In the justification, it was emphasised that the case did not include other prerequisites to state invalidity.

One of the applicants, dissatisfied with the decision, exercised his right and applied for the judicial review of the case. On 24 June 2014, the Minister of Environment upheld the appealed decision regarding the dismissal to state the invalidity of the license No. 2/2008, granted to PAK Kopalnia Węgla Brunatnego Konin S.A., for the extraction of brown coal and minerals from the Tomisławice deposit. In the justification, the Minister of Environment cited again the arguments used in rendering the decision on the dismissal of stating the invalidity of the license. The issued decision is final. Neither party lodged a complaint to the Regional Administrative Court in Warsaw. Accordingly, the proceeding has been concluded.

Judgement in the environmental decision concerning the Tomisławice open pit

On 7 October 2014, the Supreme Administrative Court in Warsaw announced the judgement dismissing the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin S.A. against the judgement of the Regional Administrative Court in Poznań of 6 November 2012 overruling the decision of the Local Government Appeal Court of 25 March 2009 refusing the annulment of the environmental approval issued on 7 August 2007 by the Head of the Wierzbinek Commune, associated with the exploitation of the Tomisławice lignite pit.

The dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin S.A. means that the judgement of the Regional Administrative Court in Poznań of 6 November 2012 became final, and the case concerning the annulment of the environmental decision will be returned for judicial review to the Local Government Appeal Court.

The judgement of the Supreme Administrative Court in Warsaw of 7 October 2014 does not make the environmental approval, issued by the Head of the Wierzbinek Commune, invalid, and does not withhold the exploitation and mining works on the Tomisławice open pit. The environmental approval of the Head of the Wierzbinek Commune of 7 August 2007 still remains in the legal transactions and causes legal consequences until the final settlement is issued by the Local Government Court.

A broader description of the case is given in Section 12.1 of this statement, which describes the relevant judicial proceedings.

Judgment of the Court of Appeal in Warsaw concerning the proceedings on compensation for the coverage of stranded costs of the Pątnów II Power Plant for 2008

On 4 November, the Court of Appeal in Warsaw, as a result of the judicial review, issued a judgement rejecting the EPII's appeal against the judgement of the Regional Court in Warsaw – the Court for Protection of Competition and Consumers of 1 December 2010.

According to the previous settlements in this case, the Regional Court in Warsaw – the Court for Protection of Competition and Consumers of 1 December 2010 rejected the EPII's appeal against the decision of the President of Energy Regulatory Office S.A. (hereinafter referred to as the URE President) of 31 July 2009, pursuant to which EPII was obligated to return to the administrator of the compensation system, i.e. Zarządca Rozliczeń S.A., the amount of PLN 52.5 million, as part of the adjustment of stranded costs for 2008.

The judgement of the Appeal Court in Warsaw of 4 November 2014 is final and means that the EPII is obligated to execute the decision of the President of URE of 31 July 2009, i.e. to pay the amount of PLN 52.5 million to Zarządca Rozliczeń S.A.

The judgement of the Appeal Court also resulted in the obligation of EPII to repay to Zarządca Rozliczeń S.A. the previously received amount of PLN 29.1 million, which was awarded to EPII according to the first judgement of the Court of Appeal in Warsaw of 11 October 2012, which was overruled by the Supreme Court with the judgement of 22 May 2014.

On 28 October 2014, out the amount of PLN 29.1 million, which was mentioned above, EPII repaid to Zarządca Rozliczeń S.A. the amount of PLN 5.3 million, which resulted from EPII's modification of the application in terms of the amount of the annual adjustment of stranded costs for 2008 due to the company, as well as the reduction of the required amount from PLN 29.1 million to PLN 23.7 million.

Therefore, following the issue of the judgement of 4 November 2014 by the Appeal Court in Warsaw, EPII is obligated to pay Zarządca Rozliczeń S.A. the total amount of PLN 76.3 million.

Based on the arrangements made with Zarządca Rozliczeń S.A., the obligation of EPII to pay the amount of PLN 76.3 million to Zarządca Rozliczeń S.A. was divided into parts, the payment of which was spread over the years from 2015 to 2017. The sum of payments in each year is as follows: (1) in 2015 – PLN 5 million, (2) in 2016 – PLN 5 million, (3) in 2017 – PLN 66.3 million.

As of the date of development of this statement, EPII paid Zarządca Rozliczeń S.A. the amount of PLN 1.25 million in 2015 out of the of due amount of PLN 5 million.

EPII is currently analysing the bases for filing a cassation appeal from the judgement of the Appeal Court in Warsaw of 4 November 2014.

Group's restructuring activities

One of the main directions of activities undertaken by the management boards of the ZE PAK Capital Group's companies, that are to ensure the increase in the Group's value is the improvement in the effectiveness of auxiliary activities by way of restructuring. The attempts at improving the effectiveness of activities by way of restructuring is an ongoing process in the Group and 2014 featured several substantial events which significantly changed the structure of particular sections of the Group and the principles of its functioning. The ongoing restructuring processes are especially aimed at the fastest possible introduction of organisational changes in the extraction sector. These changes are to improve the performance and organisation of works as well as rationalisation of costs of functioning of the restructured fields of activities. The main goal of the changes made was the implementation of a motivational system of employee remuneration. Restructuring by transfer of specific fields of activities outside of the structure of extraction companies to companies with simple remuneration regulations will allow making the remuneration system more flexible after the period of protection resulting from Article 23 (1) and Article 241 (8) of the Code of Labour. The executed activities featured, among others, separation of vulcanisation services, electric and power engineering services, mechanical engineering services and the mining railway services. The employees dealing with the aforementioned fields of activities were transferred outside the structures of the extraction section to Eko Surowce Sp. z o.o., Energoinwest Serwis Sp. z o.o. and the newly founded El PAK Serwis Sp. z o.o. The structure of employment in particular sections of the Group changed substantially as result of the actions made.

As result of the conducted analyses, the decision was made to separate also the building security and fire protection services outside the Group's structures. The employees currently providing the aforementioned services were taken over by a company from outside the Group and Ochrona Osób i Mienia Asekuracja Sp. z o.o. was put into liquidation.

Other activities undertaken in the scope of the restructuring process were the changes in the Internal Collective Labour Systems of ZE PAK S.A., PAK Serwis Sp. z o.o. and El PAK Sp. z o.o. The main elements of these changes included the liquidation of anniversary premiums (with one-time compensation), decrease in the write-down on the internal social benefits fund, decrease in the value of retirement and pension allowances as well as new principles of remuneration adjustment until the end of 2019.

Geological documentation regarding the Oczkowice lignite deposit

On 17 December 2014, the Minister of Environment issued the decision on approving the Attachment no. 1 to the geological documentation of the Oczkowice lignite deposit. The decision was issued as result of consideration of the application submitted by PAK Górnictwo Sp. z o.o. The Attachment no.1 to the geological documentation regarding the Oczkowice lignite deposit was developed by PAK Górnictwo Sp. z o.o. in relation to the specification of the current lignite resources based on the conducted geological works in the scope of the license of 11 May 2011 for searching and identification of lignite deposits in the area of "Poniec-Krobia" and "Oczkowice" located within the cities and communes of Miejska Górka and Krobia in the Wielkopolskie Province. This document comprises an amendment in the current geological documentation on the Oczkowice lignite deposit. According to the approved data, the condition of the geological lignite resources in the Oczkowice deposit, specified as of 31 December 2013, identified in accordance with the requirements of category C1 and C2 (defined in the resolution of the Minister of Environment of 22 December 2011 on the geological documentation of mineral deposits) approximately amounts to a billion tons. PAK Górnictwo Sp. z o.o. shall determine the technical and economic assumptions for the purpose of conducting the profitability analysis in regards to the deposit's exploitation, based on the approved updated geological documentation of the Oczkowice lignite deposit. Depending on the results of these works, the decision on applying for granting the license for the extraction of minerals from the deposit and on the development of new production assets in its vicinity shall be made.

Significant events after the balance sheet date

Redemption of employee shares in PAK KWBK S.A. and PAK KWBA S.A.

According to the provisions of the agreement for the purchase from the State Treasury of 85% of shares in PAK KWBK S.A. and PAK KWBA S.A. of 2012, the Company was obligated to redeem the other 15% of the shares available to the authorised employees of both companies according to the Act on commercialisation and privatisation. On 18 March 2015, the Company launched the program for the redemption of employee shares of both mines. The assumed deadline for redemption conclusion is 30 June 2015.

4.2. Significant agreements concluded during the accounting year

Significant agreements for the Group's activities

Below, we present the description of significant agreements concluded by the Group's companies in 2014, excluding agreements concluded in the course of usual activities, such as electricity sale agreements or raw material supply agreements.

Agreements regarding the modernisation of units 1-4 at the Pątnów I Power Plant

The two most important agreements related to the modernisation of units 1 and 2 at the Pątnów Power Plant were concluded in 2013. In 2014, the Company concluded two annexes to the agreement for the turnkey modernisation of Boiler K1 and Boiler K2 at the Pątnów Power Plant, including the construction of the NO_X emission reduction systems for these boilers. The annexes were concluded between the Company and Przedsiębiorstwo Inwestycyjno-Remontowe Energetyki i Przemysłu Remak-Rozruch S.A. as well as Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o., acting as a consortium. According to the provisions of the concluded annexes, the scope of subject works on the K1 and K2 boilers was subject to extension. The extension of the scope features completion of additional works, the execution of which is necessary after the boiler's disassembly stage. Due to the extension of the scope of works, the net value of the agreement was also increased by PLN 68.9 million. The net value of the agreement is currently as follows:

- for boiler K1 – PLN 224,430,000.00,
- for boiler K2 – PLN 226,470,000.00,

The total net value of the agreement for boiler K-1 and boiler K-2 amounts to PLN 450,900,000.00.

The provisions of both annexes also resulted in the extension of the commissioning date of both units. The dates of commissioning are currently as follows:

- for Unit no. 1 – 31 August 2015;
- for Unit no. 2 – 22 December 2015.

Agreements regarding the obtained credits and loans

In 2014, the Group's companies concluded the following agreements regarding credits and loans:

1. On 13 March 2014, ZE PAK S.A. concluded with the consortium of the following banks: mBank, Bank Millennium, BGK, PKO BP and PEKAO S.A., the investment credit agreement for the amount of PLN 1,200,000 thousand. The credit was divided into two parts: Credit A – credit amount of PLN 1,110,000 for the purpose of financing the modernisation of units 1-4 in the Pątnów Power Plant, Credit B – credit amount of PLN 90,000 thousand as refinancing of the credit for the construction of the Flue-gas Desulphurisation System (IOS) in the Pątnów Power Plant. The interest rate according to the WIBOR 3M rate plus the bank's profit margin. The repayment of credit will be made quarterly from June 2015 to December 2023.
2. ZE PAK S.A. concluded Annex no. 17 with the PKO BP S.A. bank extending the deadline for repayment of the overdraft facility until 25 October 2015. The available credit limit amounts to PLN 90,000 thousand. The interest rate according to the WIBOR 1M rate plus the bank's profit margin.
3. ZE PAK S.A. concluded Annex no. 9 with the PEKAO S.A. bank extending the deadline for repayment of the overdraft facility until 30 September 2015. The available credit limit amounts to PLN 80,000 thousand. The interest rate according to the WIBOR 1M rate plus the bank's profit margin.

4. ZE PAK S.A. concluded Annex no. 29 with the BZ WBK S.A. bank extending the deadline for repayment of the overdraft facility until 30 November 2015. The available credit limit amounts to PLN 5,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin.
5. PAK KWBK S.A. concluded Annex no. 6 with the BZWBK S.A. bank extending the deadline for repayment of the overdraft facility until 30 June 2015. The available credit limit amounts to PLN 65,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin.
6. PAK KWBK S.A. concluded the Overdraft Facility Agreement with Bank Millennium, the deadline of credit repayment is 26 January 2015. The available credit limit amounts to PLN 10,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin.
7. PAK KWBK S.A. concluded Annex no. 12 with the BZWBK S.A. bank extending the deadline for repayment until 23 June 2015. The available credit limit amounts to PLN 9,700 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin. Repayment deadline: 23 June 2015.
8. PAK KWBK S.A. concluded Annex no. 2 to the Overdraft Facility Agreement with BHP S.A. The available credit limit amounts to PLN 51,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin. Repayment deadline: 31 May 2016.
9. PAK KWBK S.A. concluded the Annex to the Overdraft Facility Agreement with BZ WBK S.A. The available credit limit amounts to PLN 10,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin. Repayment deadline: 30 June 2015.
10. PAK KWBA S.A. concluded the Overdraft Facility Agreement with BZ WBK S.A. The available credit limit amounts to PLN 5,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin. Repayment deadline: 13 July 2016.
11. Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. concluded the Multi-purpose Credit Limit Agreement with PEKAO S.A. The available credit limit amounts to PLN 30,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin. Repayment deadline: 30 September 2015.
12. Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. concluded the Annex to the Guarantee Facility Agreement with BGŻ S.A. The available revolving facility amounts to PLN 30,000 thousand. Term: until 30 November 2015.
13. EKO-SUROWCE Sp. z o.o. concluded the Overdraft Facility Agreement with Bank BPH S.A. The available credit limit amounts to PLN 1,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin. Repayment deadline: 5 June 2016.
14. Energoinwest Serwis Sp. z o.o. concluded Annex no. 1 to the Multi-product Line Agreement with BGŻ S.A. allowing the use of the overdraft facility in the amount of up to PLN 500 thousand and bank guarantee in the amount of up to PLN 800 thousand. The interest rate according to the WIBOR M rate plus the bank's profit margin. The repayment deadline is 9 February 2015.
15. Energoinwest Serwis Sp. z o.o. concluded Annex no. A5/139/09/308/03 to the Overdraft Facility Agreement with Millennium S.A. allowing the use of the overdraft facility in

the amount of up to PLN 750 thousand. The interest rate according to the WIBOR 1M rate plus the bank's profit margin. The repayment deadline is 11 August 2014.

16. Energoinwest Serwis Sp. z o.o. concluded Annex no. A6/139/09/308/03 to the Overdraft Facility Agreement with Millennium S.A. allowing the use of the overdraft facility in the amount of up to PLN 750 thousand. The interest rate according to the WIBOR 1M rate plus the bank's profit margin. The repayment deadline is 11 August 2015.
17. Energoinwest Serwis Sp. z o.o. concluded Amendment no. 3 to the Overdraft Facility Agreement with BNP PARIBAS allowing the use of the overdraft facility in the amount of up to PLN 750 thousand. The interest rate according to the WIBOR 3M rate plus the bank's profit margin. The deadline repayment is 15 July 2015.

Agreements regarding the granted loans

The ZE PAK Capital Group companies did not grant any loans in 2014.

Granted and obtained guarantees and sureties

Information on the granted and obtained guarantees and sureties was presented in paragraph 36 and 37 of the Group's Consolidated Financial Statement for 2014.

Insurance agreements

Below we present the description of significant insurance agreements concluded by the Group's companies in 2014.

1. On 31 March 2014, the Group concluded the General Agreement for the Complex Insurance of the PAK Group's Companies (i.e. ZE PAK S.A., PAK KWBK S.A. and PAK KWBA S.A.) for the period between 1 April 2014 and 31 March 2017 with the Consortium of Co-insurers consisting of: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A., Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A. and UNIQA Towarzystwo Ubezpieczeń S.A. The General Agreement was divided into three 12-month periods for which separate policies will be issued for particular ZE PAK Power Plants. The first insurance period starts on 1 April 2014 and ends on 31 March 2015. The estimated sum of insurance of the fixed assets amounted to a total of PLN 11.4 billion. The policies feature insurance coverage of property from any risk, loss of profit due to any risk, of machinery and device from damage, loss of profit due to machinery and device failure, of electronic equipment from all risk and of machinery and device from electrical damage.
2. The Insurance Agreement Against Construction and Assembly Risk for the "Modernisation of Units 1-4 in the Pątnów Power Plant" Investment was concluded on 31 December 2014. The agreement features an insurance period from 1 January 2015 up to the planned completion of the subject investment, i.e. until 31 December 2016. The estimated sum of insurance of the fixed assets amounted to a total of PLN 1.7 billion. The policies features insurance of the modernisation works, civil liability insurance in relation to the subject investment, insurance of

ZE PAK from loss of profit due to delays in the execution of the investment as result of damage.

3. On 30 June 2014, Elektrownia Pątnów II Sp. z o.o. concluded with the consortium of co-insurers consisting of: TUiR WARTA S.A. and PZU S.A. the General Agreement for Complex Insurance of Elektrownia Pątnów II Sp. z o.o., in force from 1 July 2014 until 20 July 2019. The agreement features insurance of property from any risk, loss of profit due to any risk, of machinery and device from damage, insurance from loss of profit due to machinery and device failure, third party civil liability insurance and employer civil liability insurance. The term of the General Agreement was divided into five 12-month insurance periods, the first of which starts on 1 July 2014 and ends on 30 June 2015. The estimated sum of insurance of the fixed assets (in conversion to PLN) amounts to PLN 2.6 billion for the first period.

Agreements concluded with affiliates on conditions different than market conditions

In 2014, no agreements were concluded between the affiliates of the ZE PAK Capital Group on conditions different than market conditions.

4.3. Execution of the investment program

Key ongoing investments

Pątnów I Power Plant

The main purpose of investment expenditures in 2014 was the financing of the final stage of modernisation of power units 1 and 2 in the Pątnów Power Plant, as well as preparation for the final stage of modernisation of units no. 3 and 4.

The executed investment tasks include the modernisation of condensing steam turbines, start-up of the nitrogen oxide (NO_X) emission reduction system (in order to reduce the NO_X emission from 1.37 kg/MWh prior to the modernisation to the assumed level of 0.74 kg/MWh), as well as replacement or modernisation of elements crucial for the operation of the units in order to improve the performance of electricity production (from 32.9% to the assumed level of 37.5%). The executed modernisation is also to decrease the CO_2 emissions (from 1.17 Mg/MWh to the assumed level of 1.05 Mg/MWh), as well as ensure the operation of the Pątnów Power Plant's units for at least 15 years, provided that the operation of these units is profitable based on the local lignite deposits. The result of the modernisation will be the improvement of the safety of device operation and the effectiveness of electricity production in compliance with the environmental requirements.

The works at unit no. 1 and 2 were executed according to the signed schedules and the annexes to contracts, which specified the key dates of execution of units no. 1 and 2 as follows:

1) Unit no. 1 (unit commissioning) - 31.08.2015;
2) Unit no. 2 (unit commissioning) - 22.12.2015.

PAK KWB Adamów

The scope of execution of the main tasks included, among others, the following:

"Maintenance of the production capacities of the Adamów open pit"

The activities were focused on maintaining the production continuity of the Adamów open pit. These tasks included the commencement of execution of the next stage of construction of the deep water well barriers, pipeline and power supply in order to ensure water draining of the Adamów open pit's foreground using deep water wells. The modernisation of the B 1800 conveyor's drive station has been commenced. The described tasks will be continued in 2015.

"Maintenance of the production capacities of the Koźmin open pit"

In 2014, the following works, among others, were executed: construction of the dirty water sedimentation tank in the northern section of the Koźmin deposit in order to initially treat and channel the waters deriving from the Koźmin open pit's thill draining, construction of the collector from the open pit into the sedimentation tank, construction of the deep water well barrier, as well as relief wells in order to ensure water draining via deep water wells of the Koźmin open pit's foreground. The modernisation of KW7 drive station's electrical section and the reconstruction of the E 41 switch station's power supply, used for supplying the basic machinery at the open pit, have been completed.

The buyout of land necessary for the conducted activities was continuously executed: 29 hectares were purchased in 2014.

PAK KWB Konin

"Maintenance of the production capacities of the Jóźwin open pit"

The conducted works were focused on maintaining the production continuity of the Jóźwin open pit. The standard activities included improvements in fixed assets of primary machinery (renovations of excavators and stackers), removal of worn out and damaged machinery sets at the renovation site and their replacement with new elements or post-renovation elements. The main renovations of the SRs 1800 excavator included, among others, the replacement of the main transmission. The inspections and diagnostics of the devices used were continuously executed by default. Draining works in the eastern section of the open pit were continued and well drilling was executed in stages. The construction of the draining system also featured the construction of power supply and the telecommunications system. The scope of reconstruction of the power supply system for the primary machinery also included completion of construction of the power supply line including the telecommunications line for the SR 8 station.

"Maintenance of the production capacities of the Tomisławice open pit"

The executed works were primarily related to the improvements in fixed assets of primary machinery (renovations of the KWK 1500s and SRs 1200/3 excavations and the A2RsB 8800 stacker). The reconstruction and modernisation of the RS 560/2 excavator have been completed after its relocation from the Jóźwin open pit. The works related to the power supply were focused on the continuation of construction of the power supply lines and network for the pump barriers in order to intensify the deposit's draining. The scope of draining works included the drilling of draining wells, drilling of observation piezometers and construction of the draining remote control system.

"Maintenance of the production capacities of the Drzewce open pit"

The modernisation of the belt drives of the A2RsB 5000M stacker has been completed in 2014. The task was executed in order to intensify the removal of the overburden at the Drzewce open pit. The scope of draining of the open pit's Field B included the drilling of draining wells, as well as piezometers from stage II. The power supply grid for the draining system including the draining control system were constructed.

The buyout of land necessary for the conducted activities was continuously executed: 144 hectares were purchased in 2014.

Key investments during the preparatory stage

Konin Power Plant

In 2014, outside of the subject investments, design works related to the construction of the steam and gas unit in the Konin Power Plant, which is an investment aiming at the diversification of fuel sources used for production in the Group, were continued. The project features the start-up of the peak load device generating electricity and heat within the scope of construction of the steam and gas unit with a capacity of approx. 120 MWe and approx. 90 MWt, as well as an additional gas-fired peak load boiler with a capacity of approx. 40 MWt (dedicated for the supply of heat for the city of Konin), the commissioning of which is initially planned for 2018. The execution of this investment will allow replacing the lignite-fire units in the Konin Power Plant. The scope of preparations for the execution of the subject investment featured further economic analyses aiming at confirming the profitability of the unit's construction with optimisation of its future operation scenarios. The documentation necessary to use all necessary administrative and legal permits related to the projected investment is also being compiled. In order to adjust the conditions of heat reception to the change in raw material from coal to gas, a new long-term agreement with the heat distributor was being negotiated. After conducting the administrative proceeding, on 11 February 2014, the Mayor of the city of Konin issued the decision on environmental conditions for the investment comprising in the construction of the steam and gas unit, including the back-up peak load boiler and the associated infrastructure in the area of the Konin Power Plant. Deliberations with financial institutions were also conducted in order to ensure external financing for this investment. Furthermore, based on own study of the market of manufacturers of the type of devices comprising the project's subject, the Company selected a series of entities with suitable experience, qualification, facilities and competences in the execution of similar investments. The selected entities were provided with enquiries about the interest in being the contractor in the planned project. Five entities were selected in 2015 after pre-qualification and the entities were provided with a tender enquiry in the form of "Terms of Reference". The Company expects to receive responses from the contractors interested in the project within the first half of 2015.

4.4. Risk management

While conducting its operations, the Group is exposed to a series of risks, occurring actually, potentially or theoretically, present in the industry as well as on the markets on which the Capital Group's companies operate. These are factors which originate both from the inside of the Group as well as from its environment. Taking into account the formalisation of the realm related to the risk in the Group's operations, the complex document titled "Principles of Risk Management for the ZE PAK S.A. Capital Group" ("Management Principles") was developed. The Management Principles were developed and introduced in order to define and specify the limits of risks present or which can occur in the ZE PAK S.A. Capital Group as well as to specify the mechanisms used to minimise risk exposure in the course of conducting operations in the energy sector and to minimise the effects of the risk, which due to the specificity of the ZE PAK S.A. Capital Group's primary production operations cannot be eliminated in its entirety.

The first stage was to specify the Group's companies, in the operations of which the risk with material significance for the operations of the entire group can be identified and then to use appropriate principles of procedure. The Companies significantly affecting the Group's primary operations are: ZE PAK S.A., EPII, PAK KWBK S.A., PAK KWBA S.A., PAK Centrum Usług Informatycznych Sp. z o.o., Elektrim Volt S.A. Other Companies in the Group do not directly affect the operational risks.

The Capital Group's business model and strategy were established pursuant to the aforementioned principles. The primary principle of the business model executed by the Group in the realm of its business operations: extraction, production and trade is to maximise the production and profit with simultaneous compliance with the risk minimisation principle. In order to achieve its business goals, the Group accepts to incur the risk, but only in the scope and pursuant to principles specified in the Management Principles. All types of business risks and situations resulting in exposure to risk are constantly minimised, provided that the Management Principles or the Board's decisions do not authorise specific deviations. The specific roles and the scope of liability for decisions and actions related to the executed market policy and strategy were distinguished in relation to the Group's capital structure and the organisational chart of particular companies. A special role, related to the compliance and proper application of the Management Principles, is played by the task team named the Risk Management Committee, which acts as a consultative body for the ZE PAK S.A.'s Board. The body was appointed by the Order of the President of the Company's Board. The main task of the Risk Management Committee is to recognise, identify and evaluate in substantive terms all economic risks with a value exceeding PLN 10 million, related to the business operations conducted by the Group.

The scope of the Group's risk management featured identification of specific areas of risks related to the execution of the established business goals:

1) raw material risks;
2) production risks;
3) market risks and related financial risks;

4) operational risks related to the operation of IT systems;

5) risk in the area of information security.

Each area of risk identified above included the identification of specific types of risks related a specific area. The type of a given risk was thoroughly described with specification of theoretical examples of its occurrence in the Group's operating activities. Each type of risk also features specific forms of action aiming at its minimisation or elimination, a specific benchmark was also assigned and the so called "key performance indicator", i.e. the minimum performance level, was specified wherever possible.

Directors and employees of organisational units allocated to a given area of risk are subject to inspection in the scope of compliance with the Management Principles, appropriately to their scope of operations. The management of the organisational units is responsible for the proper and compliant with the Management Principles execution of tasks by subordinate organisational units and individual positions. The Management Principles also include an in-depth description of the correct reporting process regarding the identified risk as well as the method of procedure in case of identifying the infringement of the principles described in the document.

According to the Management Principles, the compliance with the procedures and methods of procedure described in the document can be abandoned only in case of obtaining the approval of the ZE PAK S.A.'s Board expressed in writing. In such case a special procedure also described in the Management Principles is applied.

The Group's risk management principles were not subject to change in 2014.

4.5. Description of use of proceeds from the issue of debentures

In 2014, PAK KWBK S.A., company subject to consolidation within the ZE PAK Group made seven emissions of debentures embraced by companies of the ZE PAK Capital Group – the total amount of the debentures emitted in 2014 amounted to PLN 57,500 thousand. The earnings from the emission of debentures served to finance the current activities of PAK KWBK S.A.

The total amount of the debentures purchased by PAK KWBK S.A. (embraced by the companies of the ZE PAK Capital Group) in 2014 amounted to PLN 61,500 thousand.

5. Main Business Risks

The process of forecasting future results of the ZE PAK Capital Group must include a wide range of factors existent in the branch and markets in which the Company conducts its operations. These include both internal factors as well as factors with their source in the environment. In the view of the Board, they can be divided into factors which constantly influence the Group's functioning as well as those which appear incidentally in the period which is embraced by a given periodical report.

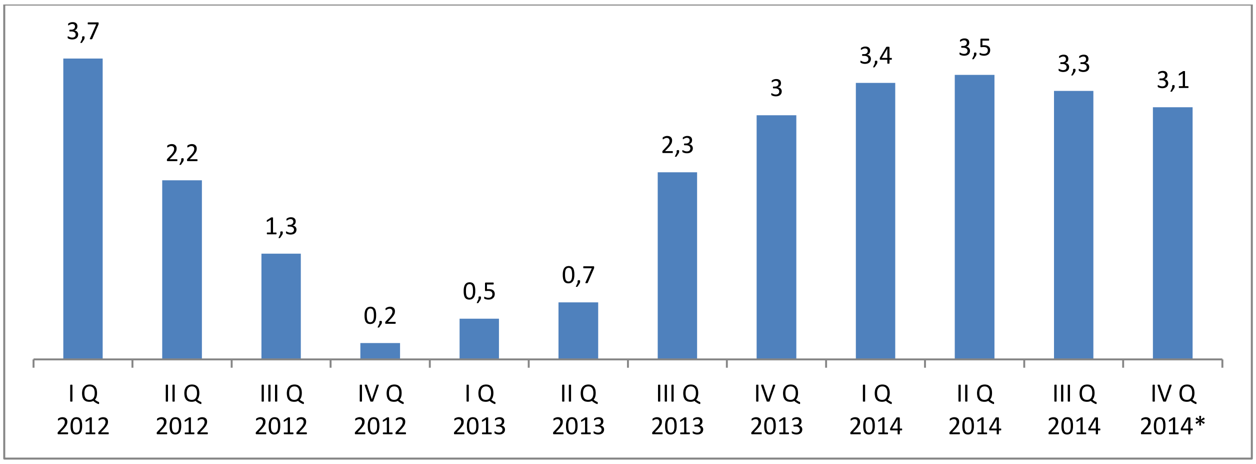
The most important factors which constantly affect the Company's results include the following:

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO_2 allowances costs;
- compensation for the stranded costs related to the termination of the Pątnów II Power Plant's LTC contract;
- seasonality and meteorological conditions;
- investment expenses, in particular those privileged to obtain CO2 emission allowances free of charge;
- EUR/PLN exchange rate, interest rates level.

Macro-economic trends in the Polish economy and the demand for electricity

When conducting activities within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A substantial factor is the increase in the real GDP and industrial production in Poland, the development of the sector of services as well as the increase in individual consumption. All of the aforementioned factors significantly affect the demand for electricity and its consumption.

Chart 1: dynamics (%) in relation to the analogous quarter of the previous year



* the so called "Quick estimate of the gross domestic product for the IV quarter of 2014"

Source: GUS data

According to the rough estimate of the Central Statistical Office, the gross domestic product ("GDP") in the IV quarter of 2014 was higher by 3.1% in comparison to the year before (in fixed prices from the year before). Despite the fact that the result was lower in comparison to the fourth quarter of 2013, the year 2014 must be deemed as good. The GDP dynamics was above 3%

throughout all quarters. This type of situation last occurred in 2011. Increasing trends were prevalent in all fields in the previous year. As result, the GDP increased to 3.3%, whereas the average increase in the EU states amounted to 1.3%. Poland was one of three EU states that developed the fastest. The main factor affecting the GDP dynamics in Poland was the domestic demand, both the investment and consumption demand, and not the net export, as was the case in the previous years. The level of expenses for fixed assets increased by 9.4% in 2014, which was significant in comparison to the increase by mere 0.9% in 2013. The main reason for the increased investment activities was the acceleration of company investments. Companies reported an increase in expenses for buildings, machinery, technical devices, tools and transport means. The increase regarded companies announcing the commencement of new investments, as well as expansion of the scope of earlier projects. The increased inclination to invest was associated by increasing use of production capacities and successive improvement in the financial condition of companies, which favoured financing investments from own resources. A slightly worst image is shown by the investment activities of households, where the level was worse in comparison to the level achieved in 2013. The main reason was the decrease of expenses for private residence buildings. The recovery of the national economic activity positively affected the labour market. The unemployment rate decreased to 11.5%, i.e. to the lowest level since 2008. Simultaneously, the average real wages in the sector of companies increased by 3.7% and the purchase power of retirement and pension benefits increased by 3.7% in comparison to the year before. The demand for consumer credits also increased, which was favoured by the record low interest rates and maybe better financial perspectives of households. In the view of this data, the increase in the consumption of the household sector by 3.0% is not surprising. The increase in consumption in 2013 amounted to 1.1%. 2014 featured a negative balance of foreign exchange in the conditions of prolonged recession in the world economic situation and thus decreased demand for Polish products abroad. In 2014, export, estimated in EUR, increased by 5.2%, while import increased by 5.5%. The negative balance was higher by 23% than in 2013. It is necessary to note the deteriorating structure of commercial turnover in Central and East Europe, which is related to the increasingly difficult economic situation in Russia and Ukraine, as well as the military conflict between those countries. Positive information is the negative value in the "inventory change" item in 2014, because an increasing contribution of inventory in the GDP structure is usually a sign of the approaching peak in the economic cycle. It is necessary to note that this quite positive image of the Polish economy in 2014 developed despite one of the lowest real interest rates in Europe. The current situation lacks significant inflation stresses.

Based on the data from the functioning of the Public Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne S.A., it is visible that the national electricity consumption in 2014, in comparison to the analogous period of the year before, increased by 0.49%. The production of electricity decreased overall by 3.65% in the previous year. In 2014, for the first time in many years, a positive balance of foreign exchange (more energy was provided to the Polish system than extracted) was recorded, which was surely affected by the differences in prices on the wholesale market of Poland and the neighbouring countries. The production of energy in professional power plants using bituminous coal decreased by 5.06% and a similar decrease, i.e. by 4.82%, was recorded in production using lignite. The increase in wind capacities in the previous year is estimated at around 450 MW in comparison to the increase of approx. 900 MW in 2013. However, despite the lower increase rate of new wind capacities, the atmospheric conditions in 2014 allowed to increase the production from wind capacities by 23.4% in comparison to 2013.

Regulatory environment

The entities conducting activities in the electricity market are subject to strict regulation. The Energy Law, Resolutions, as well as the Directives of the European Commission and international conventions, regarding, among others, the environmental protection and climactic changes (including CO_2 emissions), obligation of public sales of a part of the produced energy, as well as support of specific energy production processes. It is also necessary to take into consideration the regulations of the tax law as well as interpretations and recommendations issued by the Energy Regulatory Office.

In recent times, several principal changes took place in the widely understood regulatory environment, which is significant for the electricity producers. After several years of work, the Act on renewable energy sources (RES) was adopted during the meeting of parliament on 20 February 2015. The most important entries feature maintenance of the existing support system based on the certificates of origin of RES energy (green certificates) for the existing RES systems. The auction system is to start operation in 2016 and the current RES producers will have the choice whether to take part in it or to remain in the current system of certificates. In the auction system, it is the government that will decide on the quantity of renewable energy it needs and prepare auctions for its delivery for particular technologies and quantities of sources. The auction will be won by the producer who proposes the lowest price. In return, the producer will be warranted support. The scope of the cost optimisation will include lowering the support for the so called multi-fuel (co-combustion) combustion systems. The regulations also feature elimination of support mechanisms for water turbine plants with the installed capacity of above 5 MW, which produced electricity for the first time before the entry of the act into force. The act also includes regulations regarding prosumers (simultaneous energy producers and consumers) of RES energy production in micro- and small systems. These energy producers will be able to sell the produced excess energy, which is not used for their own purposes, at fixed prices in the period of 15 years.

On 7 April 2014, President Bronisław Komorowski signed the draft amendment to the Energy Law, prolonging until the end of 2018 the support system for energy production in peak load co-generation systems, i.e. simultaneously producing electricity and heat. The support system for the gas or coal co-generation systems or systems with a capacity below 1 MW expired at the beginning of 2013. Due to the above, the government presented a draft amendment, among others, to the Energy Law a year ago, which prolonged the support system until the end of 2015. However, it almost took the entire year of 2013 to receive the approval of the European Commission for such a form of public help. In the end, the Commission informed that it is interested in the evaluation of the entire Polish co-generation support system in operation since 2007, therefore it would not examine the project's regulations separately. Due to this delay, the parliament commissions started to examine the project as late as December 2013 and during the works in the parliament, corrections prolonging the system's operation until the end of 2018 for gas and coal systems. This proposal found its way to the final form of the act.

In October 2014, the leaders of European countries reached a compromise on the objectives intended to be applied in the new term of the European Union climate policy. According to the new arrangements, to the end of the next decade, the European Union countries committed to reduce greenhouse gas emissions by at least 40% compared to the level of 1990, and to increase the share of renewable energy sources in the energy mix and the increase of the energy efficiency by 27%. The objective of increasing the use of green power engineering will be binding in the entire EU and not in particular countries. The assumption of increasing energy efficiency will not be legally binding either on the level of the European Union or individual member states. It was also agreed on the need to take into account the so-called interconnectors, which are the connections between electricity systems of each country with other systems at the level of at least 10% of energy capacities. During the talks in Brussels, Poland negotiated the support mechanisms to help Polish high carbon energy sector to cope with the costs of new climate targets. It includes, among others, allocations of CO_2 allowances, which is to be granted to producers of energy, as well as resources from the special provision created from 2% of emission allowances, which are to be shared by the least wealthy countries. At the current stage, the details concerning the complete structure of support for the energy sector as well as conditions, according to which the individual producers will possibly be able to take advantage of negotiated concessions, are not known yet.

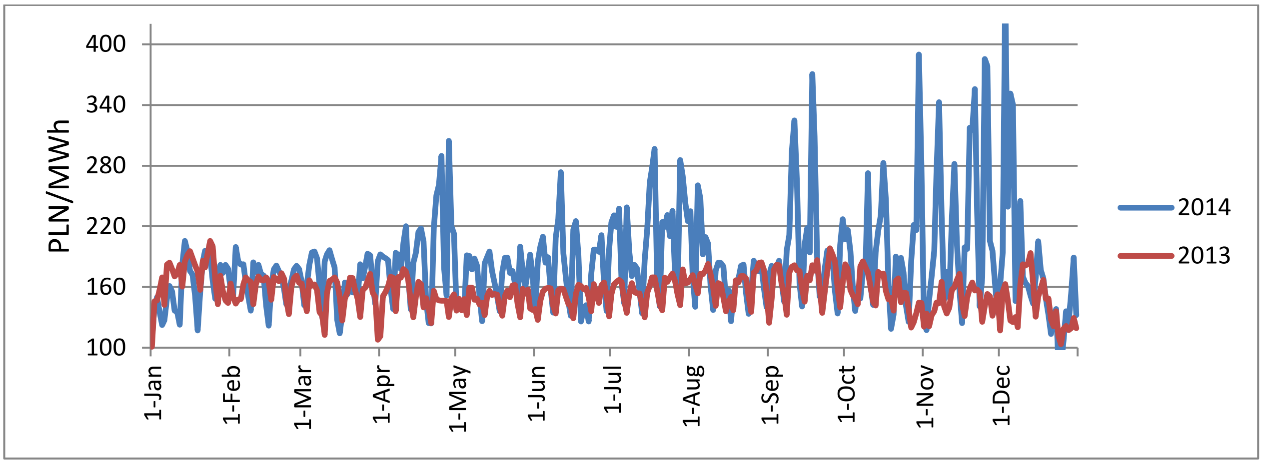
Electricity prices

The Group generates most of its revenues from the production and sales of electricity, therefore the price for which it sells electricity is very important for the results of its activities. In addition, the Group practices the purchase of energy on the market of electricity (including the exchange market and balancing market) and re-sale to recipients.

According to the notifications of URE, the average sale price of electricity on the competitive market in subsequent quarters of 2014 was as follows: 158.14 PLN/MWh in the I quarter, 164.70 PLN/MWh in the II quarter, 167.92 PLN/MWh in the III quarter and 167.97 PLN/MWh in the IV quarter (the average quarterly price of electricity sold pursuant to principles other than those resulting from Article 49a paragraph 1 and 2 of the Energy Law Act).

In 2014, electricity quotations in the Polish Power Exchange (IRDN – next day market forecast) were higher than the levels in 2013. The average price on RDN in 2014 amounted to 179.86 PLN/MWh, which is an increase of nearly 17% in comparison to the RDN average price in 2013. Substantially higher prices were visible especially from the second quarter of 2014 and the biggest differences in prices when comparing both years occurred in the fourth quarter, except for the last decade of December.

Chart 2: Electricity prices (IRDN)

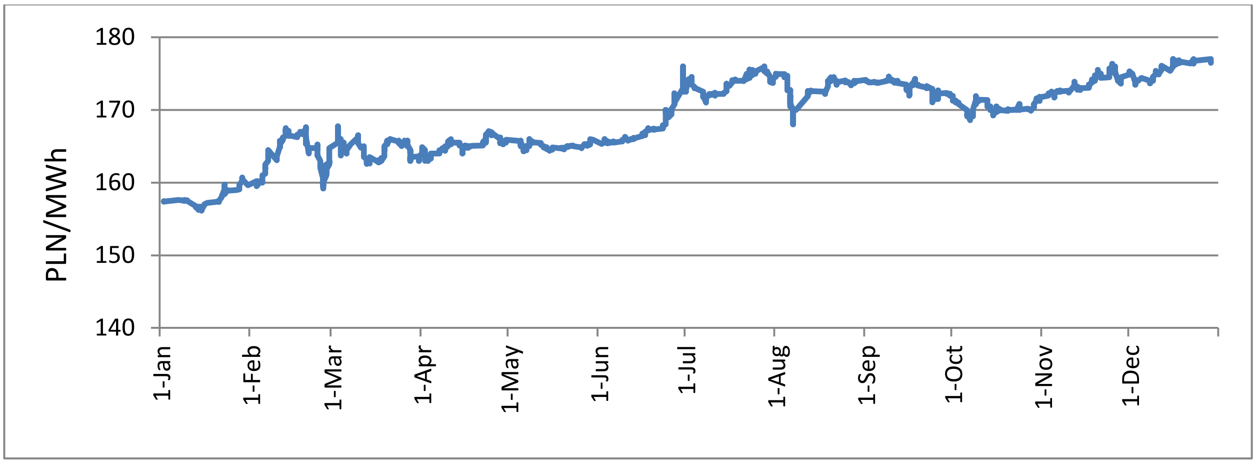


Source: market data (TGE)

The previous year features several factors which favoured the increases in energy prices. Among the most important factors, it is necessary to mention the implementation of the mechanism of the operating capacity reserve (ORM). The ORM mechanism, according to the declarations of the operation, is to be a temporary solutions until incorporating a full capacity market in the future. The basic principles of the mechanism is to offer specific payment to production entities in return for the declared readiness to work in the determined time. The principles of the introduced solutions made all producers to include the ORM principles in their calculation when offering prices on the wholesale market. Another factor translating into the trend of increasing energy prices were the higher costs of CO_2 allowances. 2014 was another year when the industrial CO_2 emitting entities in Poland were forced to purchase additional allowances in quantities exceeding the free allowances granted due to derogation. The significance of this factor will increase in the coming years, because the pool of free CO_2 allowances will be reduced in the next years until 2020. This is the reason why all the attempts to interfere with the market mechanism, the purpose of which is to cause an increase in the price of CO_2 allowances, can probably translate into a long-term increase in energy prices. In the previous year, the energy market featured relatively high prices, especially during peak hours. This is partially the effect of introducing the ORM, however the second factor is the high number of planned and emergency shutdowns of production units. The increasing failures in units can be related to their age and the degree of their exploitation, as this causes decreases in the power system reserves and the necessity to use high cost units to fulfil the demand for energy during peak hours. The domestic electricity consumption increased in 2014 by 0.5%, whereas the production decreased by 3.6%. It is worth to note that the prices on the Polish Power Exchange in 2014 were substantially higher in comparison to the prices on electricity markets, e.g. the German market. In the previous years, the differences in energy prices on the Polish and German markets were not substantial and even if such was the case, Poland was usually the exporter of cheaper electricity. From this year, Poland became an importer of electricity. It is necessary to note however that the transmission capabilities between the Polish electricity system and the systems of neighbouring countries are small enough to prevent any substantial impact on the possibilities of price equalisation on the comparable markets. It is necessary to emphasise that both the production structure on the comparable markets and the regulatory form of financing differ. The Polish system is different from the widely understood method of financing the system on the German market. Energy prices on both markets do not take into account, for example, the difference in the costs of support for the RES renewable energy sources segment, which in Germany consumes resources incomparable with the Polish support system, which is not included in the price on the wholesale market of energy.

In the first half of 2014, we observed a gradual increase in prices on the futures market to the level of PLN 175 per MWh at the beginning of the III quarter (futures contract for the supply of electricity in 2015 – band, that is the same amount of energy during each hour of the given year). During several consecutive months, the prices fluctuated within the range of 168 and 175 PLN/MWh. The reason for such fluctuation was probably the uncertainty regarding the principles of functioning of the ORM mechanism in 2015. However, the market started to return to its earlier peaks along with the decreasing number of uncertainties in the above topic and ended the year at 177 PLN/MWh.

Chart 3: The price of the futures contract for the supply of electricity (base) for 2015



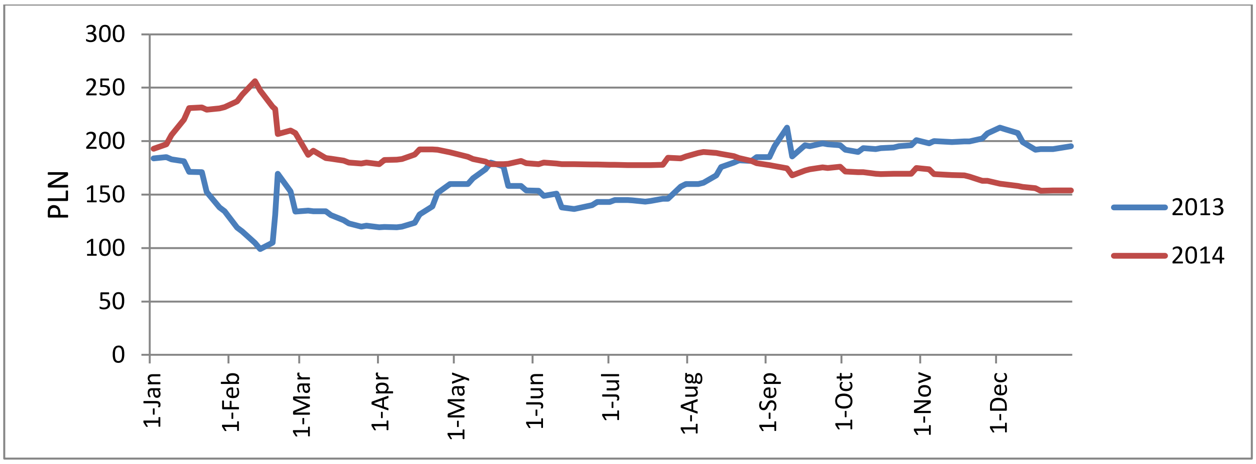
Source: market data (TGE)

Certificates of origin

Taking into consideration the fact that part of the electricity derives from combustion of biomass (forest and agricultural) and the production of heat includes high-efficiency co-generation, a producer is entitled to green and red certificates, provided that they fulfil specific regulatory requirements. The number of obtained certificates of origin is significantly higher than the number of certificates that the Companies from the ZE PAK CG are obligated to present for redemption, thus it is possible to generate additional revenues from the sale of excess certificates to other market participants. Considering the fact that the cost related to the production of electricity from the mixture of biomass is significantly higher than the cost of production of electricity from brown coal combustion, the Board constantly monitors the applicable economic parameters, including the market price of certificates of origin as well as the relative cost of energy production in order to evaluate the profitability of energy production from the mixture of biomass.

The beginning of 2014 featured a continuation of the increasing trend that started as early as mid-2013. In February 2014, the prices of green certificates reached their yearly maximum at the level of above 250 PLN per certificate. The next month featured a similarly dynamic decreasing trend, which made the prices go down to the level of 180 PLN. The next months have brought fluctuations in the range from 172 to 192 PLN. From September 2014, the market was dominated by sellers who brought the prices down to the yearly minimum at around 155 PLN per certificate, obtained near the end of the year. The quotations of green certificates were far from the compensatory fee paid in 2014 in case of lack of a certificate of origin necessary for redemption, which amounted to PLN 300.03. The substantial difference between the prices of certificates and the compensatory fee, occurring second year in a row, is caused by the significant oversupply of these units. The periodical increases in prices are partially related to the hopes of introducing legal regulations which allow balancing of the green certificate market, however no solution has yet been reached, which would allow effective reduction of their numbers on the market. The new RES act, the entries of which reduce the support for co-combustion technologies and reduce the supports for large hydro power plants, with simultaneous increase of the level of fulfilment of the obligation to redeem the green certificates, can lower the supply of green certificates in the future, however the effect of its entries on the market may be perceivable only in the long term.

Chart 4: Average price of certificate of origin for RES produced energy



Source: market data (TGE)

Fuel cost, coal extraction cost

The most important element of the costs related to electricity and heat production in the companies of the ZE PAK CG is the fuel cost. The prices of fuel largely determine the competitiveness of particular electricity production technologies. The ZE PAK CG power plants produce most of their electricity from lignite, but they also use forest and agricultural biomass. Furthermore, heavy and light heating oil is used in minimum quantities for heating purposes in the process of electricity production.

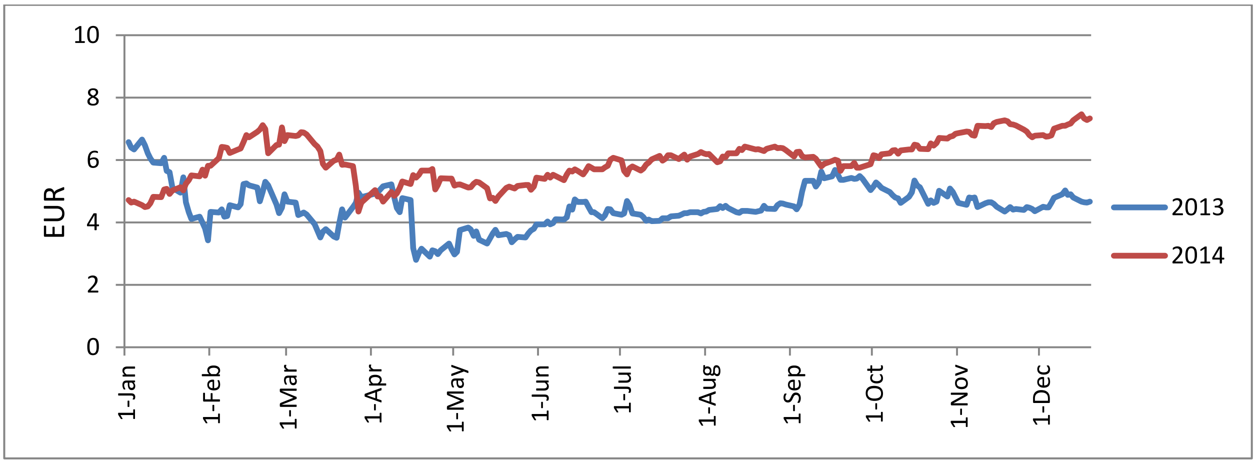
Two lignite mines, PAK KWBA S.A. and PAK KWBK S.A., which are the only suppliers of lignite to the ZE PAK CG power plants, satisfy the entire demand of generation assets for this basic fuel. The ZE PAK CG does not rely therefore on external suppliers and eliminates the exposure to potential fluctuations of lignite prices. Nevertheless, the Group is exposed to the fluctuations in prices of other fuels used (mainly biomass) and part of the costs related to the extraction of lignite depends on the factors which remain outside the direct control of the Group.

CO2 allowances costs

The activities in the scope of production of electricity and heat from conventional sources, and thus the operational results, are largely dependent on the number of free CO_2 allowances granted in the given period. The CO_2 allowances (EUA) are obtained by way of free allocation in the scope of the National Allocation of Allowances (KPRU); they can also be bought in the open market. The Group is obligated to purchase the missing number of additional CO_2 allowances on the primary or secondary market.

2014 was full of variables, but ultimately it was ended with increases in the CO_2 allowances costs. Nearly throughout the entire 2014, except for January, the prices of EUA units were higher than in the analogous period of the year before. The dynamic increases from the beginning of the year resulted in quotations of EUR 7.12 at the end of February. The next month featured a similarly dynamic decreasing trend, which resulted in reaching the minimum price in 2014 at the level of EUR 4.35 at the end of March. The next months featured a constant increasing trend, with minor corrections, which made the EUA quotations reach the level of EUR 7.5 per EUA near the end of the year.

Chart 5: Price of the futures contract for the supply of EUA in 2013 and 2014



Source: market data (ICE)

The increases at the beginning of 2014 resulted from the speculation related to the so called "backloading", which is the EC's plan aiming at reducing the number of EUA's on the market and resulting in the increase in their quotations, which was approved by the European Parliament. In February 2014, the European Parliament issued the approval for initiation of transfer of 900 million CO_2 allowances from 2014-2016 to the subsequent period of the third settlement stage (2013-2020) of the EU ETS. It quickly turned out that the artificial interference in the market mechanism isn't able to decrease the EUA unit supply in order to equalise the lesser demand caused by the low level of economic development in the prevailing area of the EU and the stagnation (or even drop) in the use of electricity in many European economies. It was probably this belief that lead to the decreases in March 2014. However the increasingly active rhetoric regarding the climactic policy and the persistent promotion of mechanisms, such as the "stabilisation provision" (MSR) favoured increases in allowance prices in the subsequent months. MSR is a proposal of the European Commission, which assumes top-down regulation of the number of CO_2 allowances available on the market depending on the market prices. At first, this proposal assumed the creation of a provision, the main aim of which was to increase the EUA prices, in 2021. However some members states, Great Britain and Germany among others, are trying to force the implementation of the mechanism as early as in 2017. On the other hand, economies largely dependent on the high-emission fuels, e.g. Poland, are against interfering in the EU ETS market.

Compensation for the stranded costs related to the termination of the Pątnów II Power Plant's "Long-term Contract" ("KDT")

The long-term contract for the sale of power and electricity (KDT) was concluded between Elektrownia Pątnów II Sp. z o.o. and Polskie Sieci Elektroenergetyczne S.A. The contract was a long-term agreement in the scope of supply of electricity according to the established price formula. Due to the early termination (on 1 April 2008) of the Pątnów II Power Plant's KDT, pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity, EPII is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. The Pątnów II Power Plant is entitled to receive the above mentioned compensation until the end of 2025.

Seasonality and meteorological conditions

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. In general, the consumption of electricity is higher in the winter (mainly due to low temperatures and shorter days) and lower in the summer (due to higher temperatures and longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused by the rising number of used air conditioners and cooling devices.

The Group's operations are not however seasonal, therefore the Group's results are not subject to substantial fluctuation throughout the year. Due to the low costs, the operation of units is conducted in a continuous manner (at the base) – without shut downs caused by seasonal fluctuation in the demand.

Investment expenses

The activities in the coal extraction and energy production sector requires substantial investment expenses. The Group's production assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection and the need to increase the effectiveness of electricity production. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes in the investment program and excess in the budget can have severe impact on the investment expenses incurred in the future, as well as on the results, financial position and the development prospects. The topic of the Group's investment plans and the execution of current tasks is more widely discussed in paragraph 4.3 and paragraph 8 of this statement.

EUR/PLN exchange rate, interest rate

Despite the fact that the Group conducts its activities in Poland, where it incurs costs and gains revenues in PLN, there are some significant factors which make the financial results dependent on the EUR/PLN exchange rate as well as the WIBOR and EURIBOR interest rates. The most important factors include:

- A significant part of the debt (i.e. Corporate Credit taken by the Pątnów II Power Plant) is denominated in EUR, which means that the depreciation of the value of PLN in relation to EUR has negative impact on financial results, because it increases the financing costs in PLN related to the foreign currency debt, whereas the depreciation of the value of EUR in relation to PLN has positive impact on financial results, because it decreases the financial costs in PLN related to the foreign currency debt.
- ZE PAK S.A. and EPII use debt financing based on a variable interest rate.
- PAK Serwis Sp. z o.o., subsidiary embraced by consolidation, has its plant, within the meaning of the agreement on avoiding double taxation, in Germany, where it conducts a part of its activities and EUR is the functional currency for that facility.

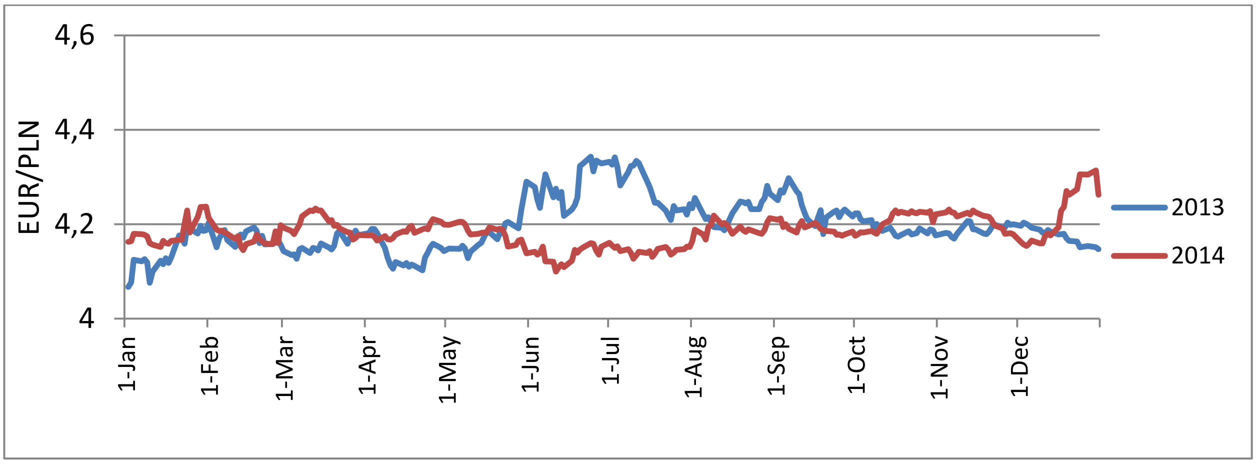
Currently the ZE PAK CG companies do not use instruments which limit the risk resulting from the changes in the exchange rates. Management Boards are constantly monitoring the financial position and market situation and can make the decision to use financial instruments limiting the exchange rate risk, if needed. According to the Risk Management Principles adopted by the ZE PAK CG, possible transactions will have the form of security and will be adapted to the secured item in terms of volume and maturity date. The decision on the choice of the security instrument will also include the following: price, market liquidity, product simplicity, easiness of quotation and accounting as well as flexibility.

The Group's exposure to risk arising from changes in the interest rates is mainly related to long-term financial liabilities regarding the financing of investments in ZE PAK S.A. and EPII. The Group uses financial liabilities, mainly credits and loans with variable interest rates. In order to minimise the interest rate risk, the Group concludes contracts for interest rate swaps, in the scope of which the Group allows for the swap, in specified time intervals, of the difference between the amount of interests according to a fixed and variable interest rate from the specified main amount. These transactions are to secure the contracted financial liabilities and regard the consortium credit of EPII based on the variable EURIBOR interest rate. Instruments, such as the IRS, were used for securing the liabilities.

The EUR/PLN exchange rate was varying within the range of PLN 0.20 in 2014. It reached its minimum in June at nearly 4.1, whereas its maximum was recorded near the end of the year at 4.31. However, throughout a substantial period of time the exchange rate fluctuated in between the above range, slightly offset from 4.2. The primary interest rates, after the recent reductions, both in Poland and in the Euro zone are currently at their lowest levels in the history. In the current situation of the relatively low inflation stress both in Europe and in the country, further easing of the monetary policy executed by the Central European Bank and the Monetary Policy Council should be assumed. We should assume further decreases in the basic interest rates in

Poland. On the other hand, in the Euro zone, in regards to the interest rates nearing zero, EBC started the asset purchasing program in March 2015.

Chart 6: average EUR/PLN exchange rate



Source: NBP average exchange rate tables

6. Description of the financial and economic situation

6.1. Principles of development of the financial statement

The Group develops the financial statements on the basis of the International Financial Reporting Standards approved by the European Union. The above standards, described jointly as the International Financial Reporting Standards (*IFRS*) also include the International Accounting Standards (*IAS*) and the Interpretations issued by the Standing Interpretation Committee as well as the International Financial Reporting Interpretation Committee.

The significant principles of accounting used in the Group's Consolidated Financial Statement are discussed in paragraph 10 of the Group's Consolidated Financial Statement for 2014.

6.2. Specification of the basic economic and financial values

Consolidated profit and loss account and the consolidated total income statement

The sales revenues amounted to PLN 2,680,111 thousand in 2014 and increased in relation to 2013 by PLN 83,729, i.e. 3.03%.

The Group obtained lower revenues from the sales of electricity by PLN 123,482 thousand due to the decrease in the average prices by 14.84 PLN/MWh with simultaneous higher executed volume of sales by 0.42 TWh.

In 2014, compensations for termination of long-term contracts were lower by PLN 56,016 thousand in relation to the use during the year of write-down in the total value of PLN 81,575 thousand, related to the value of annual adjustment of stranded costs for 2008, which is described in detail in paragraph 35.1 of the consolidated financial statement.

Table 2: Specification of sales revenues

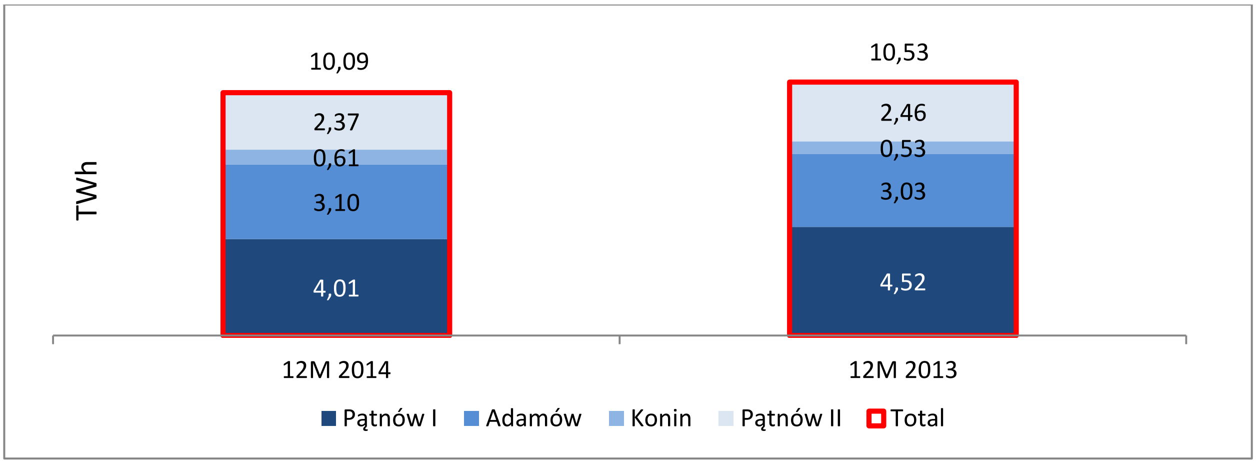
SALES REVENUES	2014	2013	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Electricity from own production (decreased by excise duty)	1 689 659	1 901 957	-212 298	-11,16
Electricity from resale on the market	575 730	486 914	88 816	18,24
Certificates of origin of electricity production	63 327	55 681	7 646	13,73
Construction agreements	147 735	57 411	90 324	157,33
LTC compensations	99 223	155 239	-56 016	-36,08
Heat	58 276	58 383	-107	-0,18
Other	46 161	48 255	-2 094	-4,34
Total sales revenues	**2 680 111**	**2 763 840**	**-83 729**	**-3,03**

In 2014, revenues from sales of property rights from certificates of origin of energy increased by PLN 7,646 thousand, i.e. by 13.73% in relation to the revenues obtained in the year before. The main reason for the increase in revenues was that the price was higher by 29.98%.

Revenues from contracts for construction services in 2014 increased by PLN 90.324 thousand, i.e. by 157.33% in relation to the revenues obtained in the year before. The increase in revenues results mainly from the wider scope of services provided by the Group's companies in the renovation segment in relation to their commitment to the modernisation of the Pątnów I Power Plant.

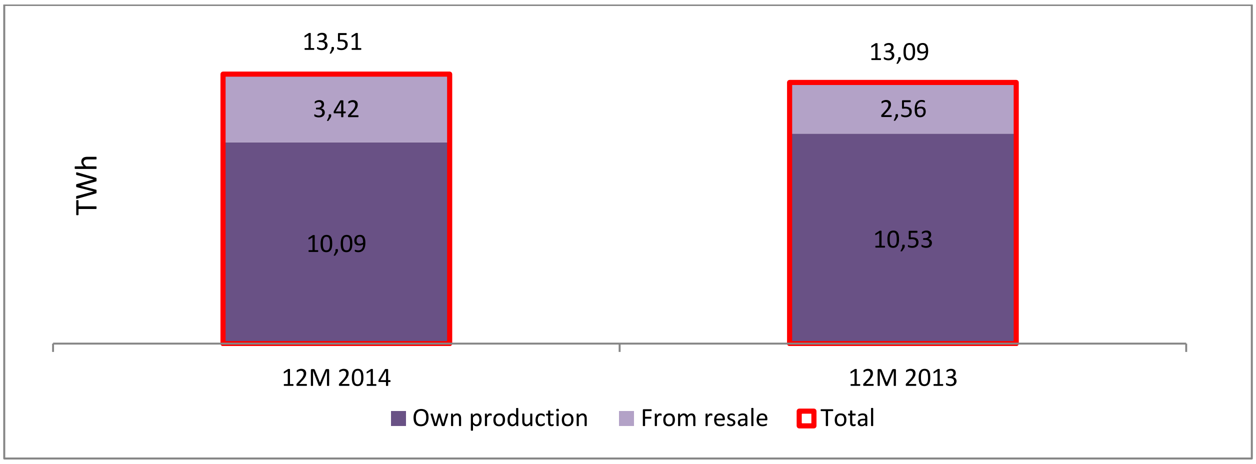
The Group obtained lower revenues from the sales of heat by PLN 107 thousand as result of the decrease in the volume of sales by 153.77 TJ. despite higher prices by 2.07 PLN/GJ.

Chart 7: Electricity net production



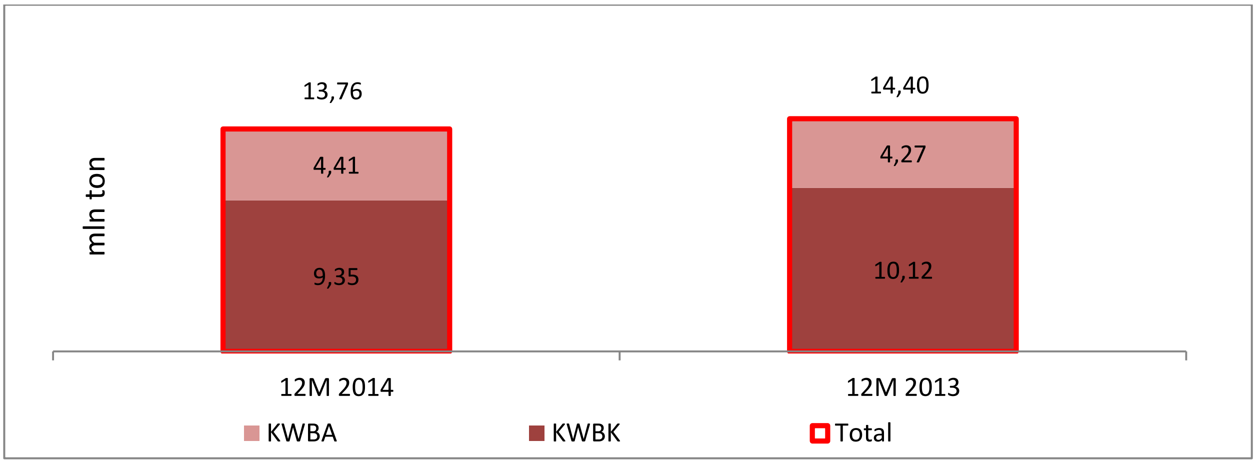
Source: own data

Chart 8: Sale of electricity



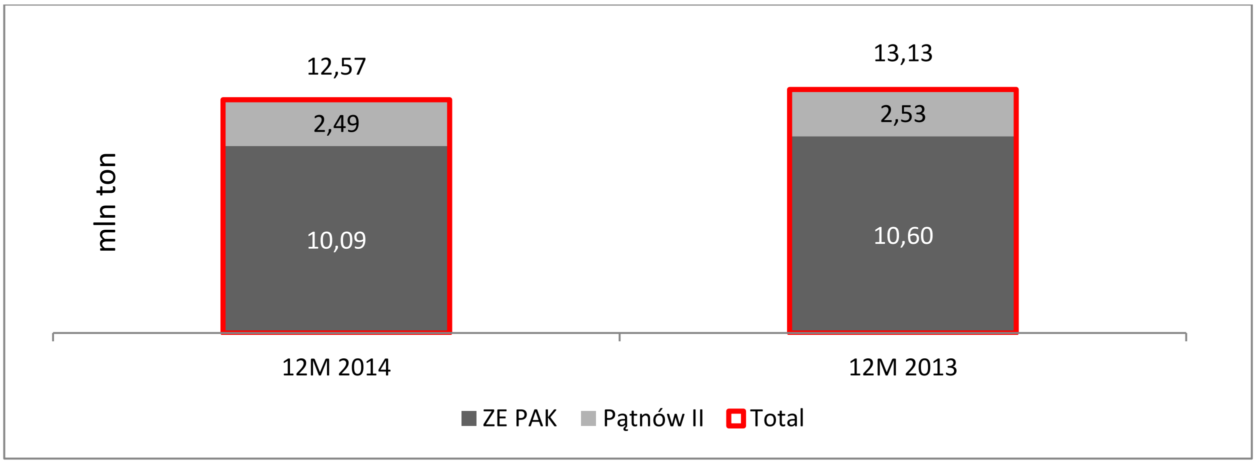
Source: own data

Chart 9: Lignite consumption



Source: own data

Chart 10: Emission of CO_2



Source: own data

Table 3: Selected items from the consolidated profit and loss account and the consolidated total income statement

REVENUES, COSTS, PROFITS AND LOSSES	2014	2013	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Sales revenues	2 680 111	2 763 840	-83 729	-3,03
Cost of goods sold	-2 452 160	-2 254 096	-198 064	8,79
Gross profit (loss) on sales	227 951	509 744	-281 793	-55,28
Other operating revenues	88 060	25 847	62 213	240,70
Selling costs	-3 973	-2 973	-1 000	33,64
Administrative expenses	-148 639	-149 093	454	-0,30
Other operating costs	-15 969	-24 978	9 009	-36,07
Profit (loss) on operating activities*	**147 430**	**358 547**	**-211 117**	**-58,88**
Financial revenues	21 344	18 834	2 510	13,33
Financial costs	-70 789	-77 626	6 837	-8,81
Gross profit (loss)	97 985	299 755	-201 770	-67,31
Income tax (tax load)	-19 501	-68 249	48 748	-71,43
Net profit (loss) for the accounting year	**78 484**	**231 506**	**-153 022**	**-66,10**
Net other comprehensive income	-6 735	9 233	-15 968	-
TOTAL INCOME FOR THE PERIOD	71 749	240 739	-168 990	-70,20
EBITDA*	**507 448**	**715 850**	**-208 402**	**-29,11**

* The Company defines and estimates EBITDA as the profit/(loss) on operating activities (estimates as the net profit/(loss) for the accounting year corrected by the (i) income tax (tax load), (ii) financial revenues as well as (iii) financial costs) corrected by the depreciation (shown in the income statement) as well as impairment write-downs against tangible assets, intangible assets as well as mining assets.

Cost of goods sold amounted to PLN 2,452,160 thousand in 2014 and increased by PLN 198,064 thousand in relation to 2013, i.e. by 8.79%. The increase in the cost of goods sold was mainly influenced by the higher value of the sold goods and materials by PLN 133,447 thousand, sold electricity obtained from trade, higher CO_2 emission costs by PLN 26,305 thousand, higher write-down against the value of green certificate inventory by PLN 20,157 thousand, created provision for the decommissioning from production for the final reservoir from the Adamów open pit in the amount of PLN 18,045 thousand and the increased reserve for the reclamation of mining areas by PLN 46,124 thousand. The provisions are described in detail in paragraph 32 of the consolidated financial statement.

The detailed analytical presentation of costs by type is included in Table 4.

Other operating revenues amounted to PLN 88,060 thousand in 2014 and increased by PLN 62,213 thousand in comparison to 2013, i.e. by 240.70%. The primary reasons for the increase in revenues was the higher value of the terminated provisions and the profit from disposal of non-financial fixed assets. Among the terminated provisions, the highest value item regarded the termination of the provisions for the employee tariff in ZE PAK S.A. in the amount of PLN 45,668 thousand.

Other operating costs amounted to PLN 15,969 thousand in 2014 and decreased by PLN 9,009 thousand in comparison to 2013, i.e. by 36.07%.

Table 4: Costs by type

COSTS BY TYPE	2014	2013	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Depreciation	360 555	357 841	2 714	0,76
Tangible assets write-downs	-537	-538	1	-0,19
Inventory write-downs	22 412	2 255	20 157	893,88
Materials consumption	448 448	553 324	-104 876	-18,95
External services	178 732	122 980	55 752	45,33
Taxes and fees excluding excise tax	231 378	216 645	14 733	6,80
CO2 allowances costs	176 957	150 652	26 305	17,46
Employee benefits costs	556 640	597 479	-40 839	-6,84
Other costs by type	33 870	29 158	4 712	16,16
Value of sold goods and materials and of sold energy purchased from trade	589 212	455 765	133 447	29,28
Total costs by type	**2 597 667**	**2 485 561**	**112 106**	**4,51**

Selling costs amounted to PLN 3,973 thousand in 2014 and increased by PLN 1,000 thousand, i.e. by 33.64%, mainly due to mandatory charges incurred for participation in the energy exchange.

Administrative expenses amounted to PLN 148,639 thousand in 2014 and decreased in comparison to the year before by PLN 454 thousand, i.e. by 0.30%.

In 2014, the ZE PAK Group obtained profit on operating activity in the amount of PLN 147,430 thousand and decreased in comparison to the result obtained in 2013 by PLN 211,117 thousand, i.e. by 58.88%.

Similarly as in the year before, the results of this year were negatively affected by the negative result on financial activities in the amount of PLN 49,445 thousand.

Gross profit in 2014 amounted to PLN 97,985 thousand and decreased in comparison to the result obtained the year before by PLN 201,770 thousand, i.e. by 67.31%. Net profit amounted to PLN 78,484 thousand and decreased in comparison to the year before by PLN 153,022 thousand, i.e. 66.10%.

Consolidated statement of financial position

The total balance sheet amounted to PLN 6,867,688 thousand as of 31 December 2014 and increased by PLN 396,752 thousand in comparison to 31 December 2013, i.e. by 6.13%.

Table 5: Selected items from consolidated assets

ASSETS	31.12.2014	31.12.2013	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Fixed assets				
Tangible fixed assets	5 299 618	4 990 212	309 406	6,20
Investment property	2 799	2 225	574	25,80
Intangible assets	82 263	31 455	50 808	161,53
Assets concerning stripping and other mining assets (long-term)	149 901	138 712	11 189	8,07
Other long-term financial assets	12 591	25 184	-12 593	-50,00
Other long-term non-financial assets	25 949	48 926	-22 977	-46,96
Deferred tax assets	112 870	101 992	10 878	10,67
Total fixed assets	**5 685 991**	**5 338 706**	**347 285**	**6,51**
Current assets				
Short-term intangible assets	176 957	151 262	25 695	16,99
Inventory	237 116	212 468	24 648	11,60
Deliveries and services receivables and other receivables	253 977	197 847	56 130	28,37
Income tax receivables	12 742	22 049	-9 307	-42,21
Other short-term financial assets	94 748	96 340	-1 592	-1,65
Other short-term non-financial assets	39 434	7 501	31 933	425,72
Assets concerning stripping and other mining assets (short-term)	556	556	0	0,00
Long-term contract receivables due from ordering parties	10 047	13 229	-3 182	-24,05
Cash and cash equivalents	356 120	430 978	-74 858	-17,37
Total current assets	**1 181 697**	**1 132 230**	**49 467**	**4,37**
TOTAL ASSETS	**6 867 688**	**6 470 936**	**396 752**	**6,13**

In the case of assets, the biggest changes occurred in the items of tangible fixed assets, which increased by PLN 309,406 thousand, i.e. by 6.20% as result of the executed Pątnów I Power Plant modernisation program.

Current assets increased by PLN 49,467 thousand, i.e. by 4.37 %. The biggest impact on their increase were related to the changes in receivables, inventory (mainly related to the increase in the green certificate inventory), as well as short-term intangible assets consisting of the purchased CO_2 allowances.

Table 6: Selected items from consolidates equity & liabilities

EQUITY & LIABILITIES	31.12.2014	31.12.2013	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Equity				
Issued capital	101 647	101 647	0	0,00
Supplementary capital	2 398 399	2 200 508	197 891	8,99
Capital from the revaluation of the derivate instrument quotation	-17 741	-18 831	1 090	-5,79
Other reserve capitals	5 877	5 877	0	0,00
Retained profits / Uncovered losses	1 249 448	1 276 436	-26 988	-2,11
Net profit (loss)	81 977	216 946	-134 969	-62,21
Exchange rate differences from foreign currency conversion	110	33	77	233,33
Equity of the majority shareholders	3 819 717	3 782 616	37 101	0,98
Total equity	**3 819 717**	**3 782 616**	**37 101**	**0,98**
Long-term liabilities				
Interest credits and loans	867 221	652 323	214 898	32,94
Long-term employee benefits	108 554	223 889	-115 335	-51,51
Long-term delivery and service liabilities and other financial liabilities	103 742	60 041	43 701	72,79
Long-term derivative financial instruments (liabilities)	15 059	15 821	-762	-4,82
Long-term subsidies	63 832	49 286	14 546	29,51
Other long-term provision as well as prepayments and accruals	361 142	301 547	59 595	19,76
Deferred income tax provision	322 319	313 170	9 149	2,92
Total long-term liabilities	**1 841 869**	**1 616 077**	**225 792**	**13,97**
Short-term liabilities				
Short-term delivery and service liabilities and other financial liabilities	355 202	241 586	113 616	47,03
Current part of interest credits and loans	348 553	405 724	-57 171	-14,09
Short-term derivative financial instruments (liabilities)	8 684	9 420	-736	-7,81
Other non-financial liabilities	134 015	143 931	-9 916	-6,89
Income tax liabilities	1 970	1 326	644	48,57
Short-term employee benefits	38 553	22 988	15 565	67,71
Short-term subsidies	12 779	1 982	10 797	544,75
Long-term contract receivables due to ordering parties	20 245	8 070	12 175	150,87
Other short-term provisions as well as prepayments and accruals	286 101	237 216	48 885	20,61
Total short-term liabilities	**1 206 102**	**1 072 243**	**133 859**	**12,48**
Total short term and long term liabilities	3 047 971	2 688 320	359 651	13,38
TOTAL LIABILITIES	**6 867 688**	**6 470 936**	**396 752**	**6,13**

The Group's equities increased by PLN 37,101 thousand, i.e. by 0.98 % at the end of 2014.

Liabilities increased by PLN 359,651 thousand, i.e. by 13.38 % during the year. The biggest changes occurred in the following items:

- credits, loans and similar financial instruments which changed by PLN 156,229 thousand, i.e. by 14.42% as result of credit financing of the Pątnów I Power Plant modernisation;
- provisions and prepayments which increased by PLN 117,629 thousand, i.e. by 13.81% as result of:
    - higher provision for CO_2 allowances by PLN 26,305 thousand, i.e. by 17.46%;
    - higher provision for the reclamation of mining areas by PLN 46,124 thousand, i.e. by 15.49%;
    - increase in the deferred income tax provision by PLN 9,149 thousand, i.e. by 2.92%;
    - higher other provisions and prepayments by PLN 36,052 thousand, i.e. by 39.88%, the increase of which resulted from the creation of the provision for decommissioning for the final reservoir after the Adamów open pit in the amount of PLN 18,045 thousand, as well as increase in the provision for mining damage by PLN 15,676 thousand (which is reflected in the item of fixed assets as the assets related to the removal of the overburden and other mining assets);
- liabilities on deliveries and services as well as other financial liabilities, which increased by PLN 157,317 thousand, i.e. by 52.16%

and decreased in the item of employee benefits, which decreased by PLN 99,770 thousand, i.e. by 40.41% as result of changing the conditions of the employee benefit program, remuneration regulations and the settlement regarding anniversary premiums.

Consolidated cash flow statement

In 2014, the Group made a positive cash flow balance resulting on operating activities in the amount of PLN 413,672 thousand, which was lower in comparison to the year before by PLN 244,444 thousand, mainly due to the lower profit made during the year.

The cash operation balance on investment activities was negative and amounted to PLN 549,785 thousand. The highest expenses in the investment section regarded the expenses for the acquisition of tangible and intangible assets – PLN 616,608 thousand was spent for this purpose. The year of 2014 also featured the sale of fixed assets in the amount of PLN 40,357 thousand.

Cash operation balance on investment activities was positive and amounted to PLN 60,064 thousand. During the year, the Group increased its debt – the income and expense balance on financial instruments amounted to + PLN 116,537 thousand. Servicing of financing costs encompassed PLN 53,871 thousand, i.e. by PLN 6,988 more than in the year before, due to the higher debt during the year.

In 2014, cash increased by PLN 76,049 thousand and amounted to PLN 355,268 thousand at the end of the year.

Table 7: Selected items from the consolidated cash flow statement

Description	2014	2013	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Cash flows on operating activities				
Gross profit (loss)	97 985	299 755	-201 770	-67,31
Item adjustments	315 687	358 361	-42 674	-11,91
Net cash on operating activities	**413 672**	**658 116**	**-244 444**	**-37,14**
Cash flows on investment activities				
Sale of tangible and intangible assets	40 357	16 084	24 273	150,91
Acquisition of tangible and intangible assets	-616 608	-311 236	-305 372	98,12
Expenses and income related to other financial assets	20 918	30 620	-9 702	-31,69
Acquisition of other financial assets	-	-2 023	2 023	-100,00
Received dividends	5 522	5 075	447	8,81
Received interest	83	1 000	-917	-91,70
Other	-57	-	-57	-
Net cash on investment activities	**-549 785**	**-260 480**	**-289 305**	**111,07**
Cash flows on financial activities				
Repayment of financial leasing liabilities	-17 413	-18 783	1 370	-7,29
Credits, loans and debt stocks income	412 912	80 169	332 743	415,05
Repayment of credits, loan and debt stocks	-278 962	-293 172	14 210	-4,85
Paid-out dividends	-34 560	-	-34 560	-
Paid interest	-53 871	-46 883	-6 988	14,91
Other	31 958	-589	32 547	-5 525,81
Net cash on financial activities	**60 064**	**-279 258**	**339 322**	**-121,51**
Increase (decrease) in net cash and its equivalents	**-76 049**	**118 378**	**-194 427**	**-164,24**
Cash opening balance	431 317	312 939	118 378	37,83
Closing cash balance	**355 268**	**431 317**	**-76 049**	**-17,63**
Restricted cash	-	10 208	-10 208	-100,00

Financial indexes

The lower net profit obtained in 2014 as well as the higher equity, total assets and the bigger decrease in net profit in comparison to the decrease in sales revenues resulted in the decrease of all profitability indexes by 65-68%.

The debt index illustrating the ratio of liabilities and total assets amounted to 0.44 at the end of 2014 and was slightly higher than at the end of 2013. The index value indicates that the liabilities comprise 44% of the Group's assets. The net debt / EBITDA index value indicates that the Group's debt decreased by cash is approx. 1.57 times higher than the obtained operating profit increased by depreciation and the write-downs on tangible assets, intangible assets and mining assets.

The liquidity index, which provides information about the degree of current liability coverage with short-term current assets, was equal to 0.98 at the end of 2014, i.e. its value decreased by 0.08. The index's value of slightly below one confirms that the Group is in a good situation in terms of liquidity despite increasing the financial engagement in relation to the executed investments.

Table 8: Indexes

Indexes	Measurement unit	2014	2013	Change	Dynamics %
ROE	%	2,05	6,12	-4,07	-66,50
ROA	%	1,14	3,58	-2,44	-68,16
Net sales profitability	%	2,93	8,38	-5,45	-65,04
General debt index	x times	0,44	0,42	0,02	4,76
Net debt / EBITDA	x times	1,57	0,80	0,77	96,25
Current liquidity index	x times	0,98	1,06	-0,08	-7,55

6.3. Specification of factors affecting the current and future financial results

The financial results of the Group, as an entity focused on activities in the scope of electricity production, selling its product in the open wholesale market of electricity, including the Polish Power Exchange, are fully subject to and dependent on the conduct of all participants in the market, whereas this conduct is mainly dependent on the proposed or newly introduced legislation changes affecting the domestic electricity market. The price of electricity in the wholesale market is created by all the entities participating in the market trade, while a single participant, even with relatively high participation, is not able to affect its level on its own.

When making an evaluation on the producer side, it is necessary to take into consideration some phenomena, which were particularly important in the previous year:

- the constant increase in capacity in the Polish wind power engineering,
- the dynamics of economic growth that is slightly lower than the average of the previous decade,
- more often autumn and winter seasons with higher average temperatures than the average temperatures in previous years, leading to the decrease in the demand of electricity in these periods,
- often changes in the legal environmental, not only domestic but also in the EU and changes in the international conventions.

On the other hand, relatively lower variable costs of energy production by the Group's companies, as well as the geographical location of our power plants still make the above factors only slightly effective in affecting the volume of electricity produced by the Group, currently and in the future.

The Group generates most of its revenues from the production and sales of electricity, therefore the price for which it sells electricity is very important for the results of its activities. When analysing the current markets trends in terms of electricity prices on wholesale energy markets, despite the gradual increase in prices recorded in 2014, in relation to the trend of decreases observed since 2012, we can see that the prices of electricity is relatively low. These prices are mainly dependent on the exchange quotations, which being the most transparent, are the basis for shaping the prices in contracts concluded on the bilateral trade market. The level of exchange quotations depends substantially on the wind generation rate, Nordpool import transmission capacities, condition of reserves in the Polish Power System (KSE), as well as weather conditions. The deceleration of the trend of electricity prices increases, observed in the recent time, between January and February 2015, does not mean that the prices won't increase in the period of the renovation campaign of production units and the summer period, as in 2014. In the last years, we are observing an increase in the demand for electricity in the summer period due to the operation of air-conditioners, which usually translates into decreases in the KSE reserves, related to the aforementioned renovation campaign. It also worth noting that regardless of the factors specified above, the Group's power plants remain in the group of producers participating in the covering the demand and balancing the KSE.

When looking at the factors shaping the prices of property rights, it is necessary to focus on the changes in the regulatory environment. On 30 April 2014, the draft amendment to the Energy Law, prolonging the support system for energy production until the end of 2018, in peak load co-generation systems, i.e. simultaneously producing electricity and heat, came into force. Thus, after over a yearly break and lack of a law regulating the support for co-generation, the system that expired in 2012 has been resumed. However, the European Commission's directive terminating in a complex manner the support program after 2018 has yet to be implemented. The "red certificates" for co-generation production, obtained by ZE PAK S.A. after the entry of the act into force, due to the lack of possibility to transfer them between the settlement periods ("bankability"), are regularly sold for the exchange price, which fluctuates around the level of the compensatory fee after the system was resumed.

The broadly understood formal and legal environment which affects the prices of RES (green certificates) certificates of origin also featured substantial changes which may affect the position of domestic electricity producers authorised to receive such certificates of origin. In the current situation, we are observing substantial oversupply of green certificates on the market. The oversupply is probably the result of, among others, delays in their issue by the URE President. Currently, the prices of green certificates are relatively low at around 160 PLN/MWh, in comparison to the compensatory fee of 300.03 PLN/MWh. At the beginning of 2015, the legislation works on the Act on renewable energy sources (RES), which after very many critical opinions of past proposals is still based on the so called auction form of contracting renewable energy production, have been concluded. On 20 February 2015, by way of a parliament vote, the new act was adopted and signed by the President on 11 March 2015. This act changes today's basic system of support via certificates to support via an auction system – the beneficiaries of this solutions will be the producers of renewable energy, who will offer the lowest price on the auction and the so called "prosumers" (simultaneous energy producers and consumers) are to receive fixed tariffs for the sale of energy exceeding their own needs. The act maintains the support in the form of certificates and compensatory fee at least until 2018 and guarantees the maintenance of this type of support for the existing sources for the period of 15 from the moment of commissioning of the source. The new act will also raise the level of fulfilment of the obligation to redeem green certificates from 2016 from the current 14% to 20%, which will probably allow to ease the oversupply in the period of around 2 years and result in the increase of green certificate prices to an acceptable level which covers the production costs. The act also enables the Minister of Economy to determine the obligation threshold, which will affect the level of certificate prices after 2018.

When referring to the prices of CO_2 allowances, it is necessary to note the activities in the EU legislation, which is aimed at reforming the EU ETS system by introducing the mechanism of the stability reserve (Market Stability Reserve – MSR). Adoption of the MSR, which is to enter into force in 2021 (according to the first proposals of the European Commission) as a mechanism regulating the oversupply of allowances, thanks to which the allowances available on the market can be withdrawn into the reserve or released from the reserve, will be an administrative mechanism of shaping their supply and thus affecting their prices. Such a solution adopted in practice can lead to a situation where the price on the market will be dependent on the current priorities of the European Commission's policy. Some forecasts on the carbon market predict that in the case of earlier entry into force of the MSR, while the current ideas implicate the year 2018 as the beginning of validity of this mechanism, it can be assumed that the increase in prices in 2020 will reach the level of approx. EUR 15 per EUA, whereas the current level is around EUR 7 per EUA. If we leave the predictions of legislative changes behind and refer to the current law and the short-term perspective, it can assumed that the full allocation of free allowances for power plants embraced by the system will allow the use of received units by the emitters for settling emissions of 2014 and this can lead to a decrease in demand and ultimately a short-term decrease in the prices of CO_2 allowances. In 2015, ZE PAK S.A. can expect receiving approx. 540,000 EUA units, whereas the other quantity will be purchased on the primary market (auctions) and secondary market (ICE exchange and bilateral contracts). This value substantially differs from the quantity of free units received in the previous years, therefore the topic of CO_2 allowances is of crucial importance for the projected financial results of the Group in the coming years. The lower expected quantity of free emission units must be related to the delay in commencement of one of the investments (steam and water unit in the Konin Power Plant), which was included in the National Investment Plan and thus the expenses incurred in relation to it are an entitlement to receive the EUA units. It is also necessary to note that these units will be received by the Company in the coming years, provided that the investment is executed.

Another factor affecting the situation of the energy production sector in Poland is the "ageing" of the currently operational production units. The installed capacity, age and technical condition of units will have fundamental impact on ensuring safe and stable functioning of the National Power System, because these units still comprise a regulative and controllable reserve for RES units. Activities aiming at the launching of the capacity market around 2020 are still underway. The purpose of this market is to prevent the currently visible effects of "missing money" (lack of coverage in the energy price of the fixed cost for some units), as well as "missing capacity" (lack of sufficient capacity in the system). Obtaining stable revenues from this market will allow the producers to maintain their existing assets and will justify the construction of new production capacities for replacing the decommissioned ones after 2015. The most important aim of the introduction of this mechanism will however be ensuring the safety of energy supply and stable functioning of the KSE. As result, incorporation of the power market will lead to a change in the market's model from a single commodity market (energy) to a dual commodity market (energy and capacity), which is very probable to cause price displacements between those two commodities, causing in case of energy the coverage of its short-term variable costs, whereas the price of the second commodity, i.e. capacity, will cover the costs of maintenance or construction of new assets, including a minimum margin.

6.4. Unusual events affecting the obtained financial results

In accordance with the judgement of the Court of Appeal in Warsaw of 4 November 2014, which is widely explained in section 4.1 of this statement, as well as the earlier modification of the application regarding adjustment of stranded costs for 2008, the Management Board of EPII decided to create a copy of the impairment write-downs against revenues on compensation in respect of the stranded costs, according to the early termination of the long-term sale of energy and electricity. The total accumulated impact of the aforementioned events decreased the ZE PAK Group's operating result by PLN 81.6 million in 2014.

The provisions related to the extraction activities include two provisions increasing the value of costs. The first provision regards the change in the decision about the temporary shutdown from forest production to decommissioning from forest production for the final reservoir of the Adamów open pit in PAK KWBA S.A. (water reservoir). This operation will result in a one-time compensation for the State Forests in the amount of approx. PLN 18.0 million. This provision will lower the operating result. The second provision is related to the projected reduction by 2 years of the coal extraction period at PAK KWBA S.A., which will result in reduction of the financing period of the open pit reclamation process from the mine's current activities. Additionally, in terms of the Adamów open pit, the assumptions regarding the directions of reclamation of the exploited areas were changed by increasing the area subject to reclamation conducted in the direction of waters. Due to the above, it was necessary to verify the value of the reclamation provision created by the mine, which negatively affected the operating result and decreased it by PLN 37.2 million.

Due to abandoning the use of the general collective labour agreement, the provision for the energy equivalent for ZE PAK S.A.'s retired persons and pensioners was terminated. The general agreement, in Appendix no. 6, currently specified the right of retired person and pensioners (as well as other persons who are not employees of ZE PAK S.A.) to receive a cash equivalent in return for reduced payment for electricity. This equivalent was paid by ZE PAK S.A. from 2006 every year in two instalments (in May and November). Due to the non-application of the regulations of the General Agreement, ZE PAK S.A. does not pay the equivalent from 1 January 2015. The liquidation of the aforementioned provision resulted in the increase of the operating result by PLN 45.7 million.

Furthermore, as result of concluding settlements to the corporate collective labour agreement (ZUZP) in relation to the liquidation of the anniversary premium in ZUZP in the companies of

ZE PAK S.A., PAK Serwis Sp. z o.o. and EL PAK Sp. z o.o., the anniversary premiums for the employees of the above companies have been liquidated. The decrease in the aforementioned provision resulted in the increase of the operating result by PLN 28.4 million.

7. Management of financial assets

7.1. Evaluation of financial assets management

Companies in the ZE PAK Capital Group have sufficient cash resources to conduct business operations and constantly execute both all their operational liabilities and liabilities resulting from concluded financial and investment agreements. The Group manages its current financial resources in a flexible manner by using cash liquidity analysis models and planning future cash flows on the basis of short-term and long-term financial forecasts developed periodically. By using the aforementioned tools, the Group's Companies execute current monitoring and analyses of the maturity dates of receivables and liabilities as well as adjust the deadlines and bank account balances to the amounts of cash flows. The excess cash is managed by investing in safe instruments of the financial market, which mainly include bank deposits.

7.2. Evaluation of investment plan execution

The Group has its own development strategy and an investment plan adjusted to it. The investment plans take into consideration the current conditions in legislation and law, as well as economy and technology. The adopted manner of execution of the planned investments is mainly based on the use of resources obtained from current operations as well as external financing. During financing planning, the Group's Companies take into consideration a series of existing or future factors which can significantly affect the executed program. The projected financing structure of particular investment plans also takes into consideration the levels of a series of financial indexes, such as the debt or liquidity index, in a way which allows obtaining their optimal levels. In the view of the ZE PAK CG, the currently adopted investment plans are possible to execute with the use of the possessed and potential resources. It is however necessary to note that the Group is constantly monitoring the factors which have the biggest impact on the executed investment program and in case of substantial changes in either one of several of them, the Group does not exclude adjustments or significant changed in the executed strategy.

8. Significant factors and development prospects

Directional activities designated by the Group's strategy

In the scope of the existing and executed development strategy, the Group still looks to focus its activities in the electricity production sector. In the view of the Group, this type of activities is characterised with the highest growth potential in the entire power engineering sector in a long-term perspective.

One of the priority plans executed currently is the proceeding integration of the extraction and production activities, allowing for achieving synergy in the entire process chain. Adoption in 2012 of two primary coal suppliers allows increasing the level of use by subsidiaries of fuel resources by adapting lignite supplies from PAK KWBA S.A. and PAK KWBK S.A. to the needs of power plants, taking into consideration the available production capacities of the power plants until 2050. The optimisation of the organisational structure in the mines has been commenced. The Group's strategy assumes focusing the auxiliary activities in particular subsidiaries belonging to the Group or the parent company in order to achieve synergy in order to link the current auxiliary activities of the Group with the auxiliary activities of the acquired mines. Based on the experience from the previous restructuration of ZE PAK S.A., the subsidiaries responsible for auxiliary services, which are currently developing their activities by offering specialist services also to entities from outside the Group, comprise the core of further restructuration by way of acquiring corresponding activities from mines, with the assumption of using the best competencies focused in each of the companies currently belonging to the Group. A series of activities of mines were transferred to subsidiaries of ZE PAK S.A. in the previous year. After the completed restructuration of the Group and increasing the effectiveness of separate activities, the strategy assumes the possibility of selling selected subsidiaries, which are not related to the primary activities, also to industrial or financial investors who will guarantee the scope of services provided by the sold companies, necessary for the Group.

Currently the Company has effective production assets which are characterised by a high capacity utilisation index, thanks to one of the lowest marginal costs of electricity production in Poland. An additional advantage is the advantageous location of production capacities in the vicinity of the perspective coal deposits, as well as gas pipelines of Yamal and Gustorzyn-Odolanów. The location in central Poland ensures the ability to lead the power into the system and expand the activities to northern Poland, which is characterised by a substantial power deficit. Simultaneously, the Company is aware of the changes, especially the ones in the legislation and legal area, which are taking place in its surroundings. The legal regulations aiming at reducing emissions of CO_2 and other gases (SO_2, NOx), as well as regulations regarding the sector of renewable energy sources comprise significant challenges for the companies of the ZE PAK Group. In order to meet the requirements of the current and future legal regulations regarding the broadly understood environmental protection, the Company plans to modify its production capacity portfolio. The aim is to execute, within the next seven years, an investment program embracing both the modernisation of the possessed production assets, as well as the replacement of the worn out production facilities with facilities based on state-of-the-art processes. The execution of the planned investment tasks will allow to limit the process risk, increase the production effectiveness, and by the diversification of the fuel base will be a good step for the plans to develop a low-emission economy in Poland.

In the view of the Company, the achievement of the goals specified in the strategy is dependent on the execution of the adopted investment program. The main assumptions of the investment plan are briefly described below.

Key investment projects during execution:

1) Pątnów I Power Plant: Continuation of the modernisation process of units 1-4, which includes the modernisation of condensing steam turbines, start-up of nitrogen oxide (NO_X) emission reducing systems, as well as replacement or modernisation of elements crucial for the operation of the units (including, among others, carbonisation and cooling systems) in order to improve the safety and operation of electricity production, and thus decrease the CO_2 emissions as well as ensure the ability to use the units at least until 2026 or 2030. Modernisation of Pątnów I Power Plant's unit 5 was completed and the projected effects, confirmed by the conducted tests, were obtained. The final stage of modernisation of units no. 1 and 2 is underway
2) PAK KWB Konin S.A. and PAK KWB Adamów S.A.: Continuation of investment expenses for works related to the development of the necessary documentation, as well as submission of the application for obtaining licences for mining of minerals from the perspective deposits of Piaski, Ościsłowo, and Dęby Szlacheckie. Furthermore, the investment programs assumes the continuation of current expenses for the maintenance of the currently used open pits of Drzewce, Jóźwin, Koźmin, Adamów, and Tomisławice until their resources are depleted.
3) Poniec-Krobia deposit: Continuation of identification works in the area of the deposit (located approx. 130 km from the Group's production assets) and commencement of profitability analyses regarding the deposit's exploitation, which will allow to make the decision on applying for granting the license for the extraction of minerals and on the development of new production assets in its vicinity.

Key investment projects during the preparatory stage in 2013-2019:

1) Konin Power Plant: Start-up of a high-efficiency electricity and heat production facility by way of construction of a gas and steam unit with a capacity of approx. 120 MWe and approx. 90 MWt, as well as a gas-fired peak load boiler with a capacity of approx. 40 MWt, dedicated to the supply of heat for the city of Konin, the commissioning of which is initially planned for 2018; the execution of this investment would allow replacement of the lignite-fire units in the Konin Power Plant and obtaining additional revenues from the sale of yellow certificates. During the previous year, further economic analyses were conducted in order to confirm the profitability of the unit's construction, including changed assumptions regarding the prices of electricity and CO_2, as result of the EC's adoption of further reduction goals in the ETS system after 2020. In order to adjust the conditions of heat reception to the change in raw material from coal to gas, a new long-term agreement with the heat distributor was negotiated. In February 2015, tender enquiries were sent to potential contractors of the planned unit.
2) Adamów Power Plant: Start-up of a high-efficiency electricity and heat production unit by way of construction of a gas and steam unit with a capacity of approx. 400 MWe and

approx. 45 MWt, as well as a gas-fired peak load boiler with a capacity of approx. 45 MWt. The strategic investment program for ZE PAK S.A., which takes into consideration the Polish Energy Policy in effect since 2008, was developed in a period which was advantageous for investments in gas-fired devices. The basis includes the following forecasts: decreasing gas prices, construction of the European gas market, hope for the supply of shale gas, undisputed goals of the climate package, increasing prices of CO_2 allowances, allocation of CO_2 allowances for investments limiting the emissions of this gas (the gas unit of the Adamów Power Plant was included in the National Investment Plan), significant demand for electricity produced by gas units, satisfying prices of electricity on the wholesale market. So far, the Polish economy does not create advantageous conditions for the construction of the projected steam and gas unit for the Adamów Power Plant. ZE PAK S.A., in close co-operation with the General Design Engineer – Energoprojekt Katowice, using professional tools, has conducted tests and analyses of the volume of energy production in the new unit in subsequent years, after commissioning of the coal and gas units in the country, for which the decisions on construction were already made. The results of these tests confirm that the acceptable demand for energy from the designed steam and gas unit in the Adamów Power Plant will occur after 2020. In this situation, ZE PAK S.A. suspends the decision on the development of this project. If the EU obligations to substantially reduce the CO_2 emissions are reflected in the Polish Energy Policy up to 2050, and there is a withdrawal from coal investments, and if the capacity market mechanism is introduced in a satisfying form, ZE PAK S.A. will then repeatedly verify its position on the construction of the unit in the Adamów Power Plant.
3) PAK KWB Konin S.A. and PAK KWB Adamów S.A.: The mines conducted analyses and preparatory works necessary to make the decision on participating in the construction and use of wind farms in the scope of two joint venture projects initiated by PAK KWBA S.A. and PAK KWBK S.A. in the period preceding the purchase of their shares by the Company. The final decision on withdrawing from the aforementioned projects was made.

According to our policy as well as the market practice adopted other companies in the power sector, more investment projects are analysed and developed than actually executed. Furthermore, we are constantly analysing other investment projects in the scope of construction of new lignite open pits, as well as new production facilities, which would ultimately be able to increase our extraction and production capacity and we cannot exclude that, in the future, we can decide on executing other projects than the undertakings specified above and included in the documents specifying our strategy.

Strategy execution costs

We estimate that the execution of the final stage of the modernisation project of units 1-4 in the Pątnów I Power Plant will require investment expenses of approx. PLN 1,79 billion, 1.11% of which is planned to be financed with the contracted investment credit in order to execute the task and the rest will come from own resources.

The construction of the steam and gas unit in the Konin Power Plant will require expenses of approx. PLN 720 million (including the estimated financing costs), however the above amount will be updated as result of the tenders for the supply of devices. The Company plans to finance the biggest possible part of the investment costs with external resources. Until the execution of tender proceedings regarding the project of investment into new gas capacities, as well as until the conclusion of negotiations regarding the conditions of gas supply to the new steam and gas unit, all amounts related to the investment project in the Konin Power Plant are adopted by us at levels which are typical for this class of devices.

The identification works in the area of the lignite deposit of Poniec-Krobia are planned to be financed by the Group with own resources in the total amount of approx. PLN 40 million, PLN 15 million of which were already incurred. The Group estimates that the execution of the investment projects of 2015-2019 regarding the maintenance of exploitation of current open pits, will require expenses of approx. PLN 245 million and regarding the construction of new lignite open pits - expenses of approx. PLN 450 million.

9. Specification of the shareholding structure.

9.1. Shareholding structure

As of 31 December 2014, the Company's share capital amounted to PLN 101,647,094.00 and consisted of 50,823,547 shares with a face value of PLN 2.00 each.

The below table includes the specification of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting according to the Company's knowledge as of 31 December 2014.

Table 9: Description of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of 31 December 2014

Shareholder	**Number of shares and corresponding number of votes at the General Meeting**	**Share [%] in the total number of shares/votes**
Zygmunt Solorz-Żak (indirectly) through:	26 200 867	51,55
Elektrim S.A. (directly)	*196 560*	*0,39*
Embud Sp. z o.o.	*592 533*	*1,16*
Argumenol Investment Company Limited	*25 411 774*	*50,00*
ING OFE	5 068 410	9,97
Other	19 554 270	38,48

The structure of the Company's shareholders was presented according to the Company's knowledge on the basis of notifications submitted by the shareholders. As of the date of submission of this statement, the shareholding structure according to the specified criterion, according to the Company's knowledge, was not subject to change.

The Company is not aware of any agreements which would result in future changes in the shareholding structure of the current shareholders.

9.2. Acquisition of own shares

The Company did not acquire own shares in 2014.

9.3. Shares of the ZE PAK Capital Group entities belonging to the supervising and managing persons

The below table presents the Company's share holdings (direct and indirect), as well as affiliates' share holdings of management personnel as of 31 December 2014 and as of the date of development of this statement.

Table 10: Company's share holdings as well as affiliates' share holdings by management personnel

Name and surname	ZE PAK S.A. shares		Affiliate shares	
	quantity	face value	quantity	face value
Katarzyna Muszkat	0	0	0	0
Anna Striżyk	0	0	0	0
Piotr Jarosz	0	0	0	0
Sławomir Sykucki	0	0	0	0

The below table presents the Company's share holdings (direct and indirect), as well as affiliates' share holdings of supervising personnel as of 31 December 2014 and as of the date of development of this statement.

Table 11: Company's share holdings as well as affiliates' share holdings by supervisory personnel

Name and surname	ZE PAK S.A. shares		Affiliate shares	
	quantity	face value	quantity	face value
Zygmunt Solorz-Żak	26 200 867	52 401 734	0	0
Henryk Sobierajski	0	0	0	0
Wojciech Piskorz	0	0	0	0
Leszek Wysłocki	0	0	0	0

Wiesław Walendziak	0	0	0	0
Tomasz Zadroga	0	0	0	0
Ludwik Sobolewski	0	0	0	0
Lesław Podkański	0	0	0	0

9.4. Control of employee share option plan

The Company does not have an employee share option plan, therefore it does not include a system for the control of the employee share option plan.

10. Declaration of compliance with the corporate governance rules

Declaration of compliance with the corporate governance rules is presented in accordance with § 91 paragraph 5 (4) of the Resolution of the Minister of Finances of 19 February 2009 on the current and periodical information submitted by issuers of stocks as well as conditions for the recognition as equally important of information required by the regulations of the law of a country which is not a Member State.

10.1. Set of corporate governance rules applied

In 2014, the Company is subject to corporate governance rules described in the "Code of Best Practice for WSE Listed Companies" (***Code of Best Practice***) adopted by Resolution no. 12/1170/2007 of the WSE Supervisory Council (***WSE Council***) of 4 July 2007, subsequently amended by the Resolution no. 17/1249/2010 of the WSE Council of 19 May 2010, Resolution no. 15/1282/2011 of the WSE Council of 31 August 2011, Resolution no. 20/1287/2011 of the WSE Council of 19 October 2011 and Resolution no. 19/1307/2012 of the WSE Council of 21 November 2012 (with proviso that the changes introduced in 2012 are applicable from 1 January 2013).

The Company's Management Board, within the competencies granted to it by the Articles of Association and the generally binding legal regulations, exercises due care in order to ensure the Company's compliance with the Code of Best Practice to the greatest extent possible. The number and scope of principles, which were not applied in 2014, was subject to decrease in relation to the previous year. The Company's Management Board makes all exceptional efforts in order for the Company's information policy towards investors, both individual and institutional, comprising the execution of guidelines included in the Code of Best Practice, to be compliant with the expectations. Furthermore, due to reasons beyond the Company's control, not all principles included in the Code of Best Practice are applied.

The Code of Best Practices is published on the website of the Warsaw Stock Exchange at the following address (http://corp-gov.gpw.pl).

10.2. Set of corporate governance rules not applied

Presented below are corporate governance rules, which the Company has not complied with in its activities in 2014, together with an explanation of the Company's position for each specific departure.

Recommendation I.5 of the Code of Best Practice

A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. The Commission Recommendation of 14 December 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.

Reasons for non-compliance with recommendation I.5 of the Code of Best Practice:

The Company has not applied the above-mentioned recommendation with respect to members of management and supervisory bodies. In accordance with the Company's Articles of Association, both the remuneration as well as other terms of employment of a given member of the Company's Management Board are determined by the Supervisory Council on an individual basis. The principles regarding the remuneration of Supervisory Council members are determined by the Company's General Shareholders' Meeting in the form of resolutions. The main criteria for determining the remuneration of members of management and supervisory bodies include their competencies, skills and responsibilities.

The Company would like to emphasise that the remuneration of the Company's management and supervisory personnel as well as other benefits granted to such personnel during the financial year are published by the Company in the annual report.

The Company believes that it applies a transparent remuneration policy.

Recommendation I.9 of the Code of Best Practice

The WSE recommends that public companies and their shareholders ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' business.

Reasons for non-compliance with recommendation I.9 of the Code of Best Practice:

The Company has not fully complied with the above-mentioned principle. Until 2 December 2014, majority of positions in the Company's Board were held by women (whereas the number of Board members is uneven, thus it is impossible to have full balance). As of 31 December 2014 and as of the date of development of this Statement, the Company's Board features balance in terms of gender. The Supervisory Council on the other hand features only men. However, the Company would like to ensure that such objective criteria as: knowledge, experience, competencies, and skills required for a given position are critical in the selection of its management and supervisory personnel. These criteria ensure an effective and efficient functioning of the Company and implementation of the adopted strategy to the greatest extent possible.

Principle II.1.1) of the Code of Best Practice

A company should operate a corporate website and publish on it, in addition to information required by legal regulations: basic corporate regulations, in particular the articles of association and the regulations of the company's bodies.

Reasons for non-compliance with recommendation II.1.1) of the Code of Best Practice:

The Company includes its Articles of Association, the Regulations of the Supervisory Council, as well as the Board Regulations on its website. The Company declares to include the Regulations of the Shareholders' General Meeting as soon as it is developed and approved, thus complying with the above principles in full.

Recommendation I.12 of the Code of Best Practice:

A company should enable its shareholders to execute the right of ballot, whether in person or via a proxy, in a General Meeting using electronic communication means.

Principle II.1.9a) of the Code of Best Practice

A company should operate a corporate website and publish on it, in addition to information required by legal regulations: the general meeting deliberation log, in an audio or video form.

Principle IV.10 of the Code of Best Practice:

The Company should guarantee the shareholders the ability to participate in the general meeting using electronic communication means, consisting of:

1) real-time broadcasts from the deliberations of the general meeting,
2) real-time two-way communication, during which the shareholders can express their opinion in the course of the general meeting when being in a different location than the location of the deliberations.

Reasons for non-compliance with recommendation I.12, principle II.1.9a and principle IV.10 of the Code of Good Practices:

Taking into consideration the Company's experience, according to which most of the Company's shareholders directly participate in the deliberations of the General Meeting as well as the fact that the recording of the course of the general meeting and guaranteeing the ability to participate in the General Meeting with the use of electronic communication means could be involved with substantial costs and potential difficulties of organisational and technical nature, the Company does not log and broadcast the course of the general meeting.

The Company's Articles of Association provides the ability to exercise the right of ballot personally or via a proxy in the course of the General Meeting, outside its location, with the use of electronic communication means. The Supervisory Council decides to conduct the General Meeting with the use of electronic communication means.

In the view of the Company, the decision about the use of electronic communication means during the General Meeting depends on the notification about such need by a bigger group of the Company's shareholders. In case of such a need, the Company will consider all possibilities and available solutions, on the basis of, among others, the market practice.

10.3. Description of the main characteristics of internal control and risk management systems in relation to the process of financial statement and consolidated financial statement development

The process of development of the Company's financial statements as well as the Capital Group's consolidated financial statements takes place with the use of internal control and risk management mechanisms, such as: Company's internal procedures, mechanisms introduced for management of the IT systems used for registration and development of statements, as well as protection mechanisms, principles of supervision over the financial statement preparation, principles of verification and evaluation of statements, internal auditing, as well as other control elements.

The development of the Company's financial statements, as well as Capital Group's consolidated financial statements is executed in an orderly manner, pursuant to the organisational structure of the Company and Group. The management accounting tools and IT systems introduced in the Company and Group for the purpose of registration of economic events in books of account provide the basis for the evaluation whether the Company's financial statements and the Group's consolidated financial statements are developed in a reliable manner, as well as whether they include all material data, which is necessary for the determination of the Company's and Group's financial and economic position.

The primary regulations in the scope of financial statement development include: The International Financial Reporting Standards (IFRS) approved by the European Union, accounting policy in accordance with the ZE PAK Capital Group's MSSF, the Accounting Act of 29 September 1994, procedure of closure of books of account in the Capital Group, as well as the financial statement and consolidated financial statement development requirements imposed by the Warsaw Stock Exchange.

As of the date of development of this statement, the Company did not make a decision on the keeping of books of account in the Group pursuant to the IFRS standards. Therefore, the process of financial statement development in the Group takes place in two stages. First, all the companies in the Group develop their own individual statements pursuant to the Polish accounting standards. These statements are approved by the boards of the companies provided that they fulfil the conditions for the audit. Then the companies transform their individual statements for the purpose of the Group's consolidation, pursuant to the Accounting policy agreed for the Group in accordance with the IFRS standards, by using the so called sheets of transition into IFRS statements. Such developed individual statements are the basis for developing the Group's consolidated financial statement.

The Group's consolidated statement is developed on the basis of the SAP BPC IT system. The system includes a separate central unit in the parent company, connected with accounting departments in particular subsidiaries. The consolidation process is commenced by the central unit by enabling companies to enter data into the system and the subsidiaries are obviously able to access their historic data at any moment, however without the ability to correct them. The central unit constantly monitors the entry of data by the companies. After entering individual data, the central unit commences the consolidation process. This process is based on defined business principles which determine the contents of consolidation adjustments. Additionally, the consolidation process enables entry of manual adjustments by the central unit, if necessary. The effect of completion of the consolidation process is a complete financial statement package including explanatory notes in Excel files, which are exported to a Word file after verification.

The Board is responsible for the Company's internal control system and for its effectiveness in the process of development of financial statements and periodical reports developed and published in accordance with the Resolution of the Minister of Finances of 19 February 2009 on the current and periodical information submitted by issuers of stocks, as well as conditions for the recognition as equally important of information required by the regulations of the law of a country not comprising a Member State.

The technical supervision over the process of development of the Company's and Group's financial statements and periodical reports is executed by the Vice-President of the Board, who is responsible for financial issues. The organisation of works related to the development of financial statements is the responsibility of the Company's Principal Accountant, who manages the Accounting and Reporting Department and who reports directly to the Vice-President of the Company's Board.

The Company's effective internal control and risk management systems related to the process of financial reporting is ensured thanks to the following aspects:

- development of procedures specifying the principles and division of responsibility for the development of financial statements,
- specification of the scope of reporting pursuant to the mandatory International Financial Reporting Standards as well as International Accounting Standards,
- development, introduction and execution of supervision over the use by the Capital Group's companies of coherent principles of accounting, as well as
- semi-annual inspections and annual studies of the published financial statements of ZE PAK S.A. and Capital Group by an independent auditor.

Annual and semi-annual financial statements are subject to an independent auditing and inspection by external statutory auditors, who give an opinion on the reliability, correctness, and clarity of such a statement, as well as correctness of books of account comprising the basis for the development of such a statement.

The choice of the statutory auditor is made by the Supervisory Council pursuant to the Board's request, from a group of reputable auditing companies, which guarantee high service standards and the required independence.

The audits are conducted in accordance with the following provisions:

- chapter 7 of the Act of 29 September 1994 on Accounting,
- standards related to the practice of the profession of statutory auditor, issued by the National Chamber of Statutory Auditors.

The audits, in particular, include the verification of the correctness of the accounting and significant estimates principles used by the Company and the Group, verification – in a random manner – of accounting records and entries, which provide the numbers and information included in the financial statement, as well as the overall evaluation of the financial statement.

The Company's and Group's financial results are regularly monitored during the accounting year and are subject to periodical evaluation made by the Supervisory Council. During regular sessions of the Council, the Company's Board provides information regarding the current financial position of the Company and the ZE PAK Group.

The Company's and Group's task is to develop a financial statement which includes numerical data and wordy clarifications which:

- reliably and clearly present all information which are significant for the evaluation of the financial and economic position for the given day, as well as the financial result for the given period,
- were developed correctly in all significant aspects, i.e. in accordance with the accounting principles, resulting from the International Accounting Standards, International Financial Reporting Standards, as well as the interpretations related to them and published in the form of European Commission resolutions, as well as according to the requirements of the Accounting Act and executive regulations issued on the basis of that Act, as well as on the basis of correctly kept books of account,
- are compliant with the regulations of law and provisions of the Company's articles of association, which affect the contents of the financial statement.

The Company and the Group has documentation which describes the accounting principles adopted by them, specified in Article 10 of the Accounting Act. The applied principles of cost accounting, assets and liabilities quotation, as well as determination of the financial result are in accordance with the International Accounting Standards, as well as the regulations of the Accounting Act.

The Board is responsible for the correct keeping of the Company's and Group's accounting. The Company keeps the books of account in an integrated IT system. The system, similarly to the aforementioned statement consolidation system, guarantees the division of competencies, coherence of activity entries in the books, as well as the control between the main book of account and the auxiliary books. The conducted registration allows to determine the financial result, VAT tax, as well as other budget liabilities. The account registration ensures the correctness and completeness of the entries. The chronology of economic events is kept. Entries in the books of account reflect the actual state of affairs, data are entered in a complete and correct manner, on the basis of accounting records qualified for entry. The continuity of entries and the correctness of the applied procedures is ensured. The accounting records fulfil the requirements of the Accounting Act. The books of account are kept in the Company's registered office. It is possible to modify the operation of the system in order to ensure the adequacy of technical solutions to the changing accounting principles and legal standards. The system includes documentation regarding the end users, as well as the technical part. The system's documentation is subject to periodical verification and updating. The Company introduced organisational and system solutions to ensure the proper use and protection of data access protection systems and hardware. The access to the financial registration system resources is limited with the use of proper enhancements which are provided to authorised employees only in the scope of their responsibilities and activities.

The Company also features internal auditing, the aim of which is to execute independent and objective evaluation of the risk management and internal control systems. Internal auditing is conducted on the basis of the auditing regulations. Auditing executes planned and temporary auditing tasks both in the parent company, as well as in the Group's companies. The auditing plans are developed on the basis of risk analyses. The audit results are reported to the Company's Board. Information on the activities of internal auditing are also the subject of works of the Auditing Committee.

As part of the control activities, the periodical management reporting is subject to evaluation in terms of rationality of information included in it, especially in terms of the analysis of deviations from provisions adopted in the financial plans.

10.4. Shareholders with significant blocks of shares

The below table presents the shareholders with significant blocks of shares, in accordance with the Company's knowledge, based on the notifications submitted to the Company.

Table 12: Shareholders holding, either directly or indirectly, significant blocks of shares in accordance with the Company's knowledge as of 31 December 2014

Shareholder	Number of shares	Percentage share in the share capital	Number of votes	Percentage share in the share capital
Zygmunt Solorz-Żak*(indirectly) through: Elektrim S.A., Embud Sp. z o.o., Argumenol Investment Company Limited.	26 200 867	51,55%	26 200 867	51,55%
ING Otwarty Fundusz Emerytalny**	5 068 410	9,97%	5 068 410	9,97%

* In accordance with the notification of 7 January 2015.

** In accordance with the notification of 6 November 2014.

10.5. Holders of stocks giving special control rights

As of 31 December 2014 and as of the date of development of this statement, the Company has not issued stocks giving special control rights.

10.6. Limitations in the execution of the right of ballot

According to the Company's Articles of Association and other internal documents of the Company as of 31 December 2014 and as of the date of development of this report, there are no limitations regarding the execution of the right of ballot.

10.7. Limitations regarding the transfer of right of ownership to stocks

As of 31 December 2014 and as of the date of development of this statement, the Company does not include any limitations regarding the transfer of right of ownership to Company's stocks.

10.8. Principles for the appointment and dismissal of management and supervisory personnel

Management Board

The Management Board is comprised of 3 to 6 members appointed for joint term. The composition of the Management Board includes: President of the Board, Vice-Presidents, as well as other members of the Board. The number of Board members and their functions are specified by the Supervisory Council. The Management Board's term is five years. The Board's President, Vice-Presidents, as well as other members are appointed and dismissed by the Supervisory Council during a secret ballot. The Board's President, Vice-Presidents, as well as other members can also be dismissed or suspended in duties during the General Meeting.

The Board administers the Company's cases and represents the Company. The Board acts pursuant to the Board's Regulations which specifically determine the Board's action mode. The Regulations are established by the Board and approved by the Supervisory Council by way of a resolution.

The Board's resolutions are required for cases exceeding common management, which especially include:

1) resolution and changes in the organisational regulations which specify the organisation of the Company's entrepreneurship,
2) contracting credits and loans,
3) proxy establishment,
4) granting credit guarantees and sureties,

5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct.
6) decisions in cases, the value of which exceeds PLN 500,000.00. The value of transactions expressed in foreign currencies is subject to conversion according to the average exchange rate of the National Bank of Poland (NBP) of the date of resolution passing.

The Board's resolutions are also required for cases in which the Board addresses the General Meeting and the Supervisory Council.

Supervisory Council

The Supervisory Council is comprised of 5 to 14 members appointed for joint term. The Council's term is five years. The members of the Supervisory Council are appointed and dismissed during the General Meeting. The General Meeting, prior to the appointment of the Council's members for a new term, specifies the number of members of the Council. The Council appoints the President, Secretary, Vice-President or, if deemed reasonable, two Vice-Presidents, among its members in a secret ballot.

The composition of the Council should include two members who fulfil the independence criteria projected for an independent Council member within the meaning of the Commission's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors acting as members of supervisory councils in stock exchange listed companies and the (supervisory) council's committee (2005/16/EC) with consideration of Good Practices of the Warsaw Stock Exchange Listed Companies ("Independent Supervisory Council Members"). A candidate for the Independent Supervisory Council Members provides the Company, prior to his/her appointment as a Council member, with a written declaration on the fulfilment of the independence criteria.

The Council supervises the Company's activities in all areas of its operation.

The Council's rights especially include:

1) approval of the Board's Regulations and giving opinion on the organisational regulations, which specify the organisation of the Company's entrepreneurship,
2) conclusion, termination, and amending agreements with the Board members, as well as establishment of the Board's remuneration principles and the remuneration amounts for the Company's Board members,
3) appointment and dismissal of the Board's President, Vice-Presidents, as well as other Board members in a secret ballot,
4) suspension in duties due to significant reasons, in a secret ballot, of the Board's President, Vice-Presidents, as well as other Board members, or the entire Management Board,
5) delegation of a Council member or members for temporary execution of Board member activities in case of suspension of Board members or the entire Management Board,
6) selection of the entity authorised to audit the Company's financial statements,

7) evaluation of the Board's report from the Company's activities or financial statement for the previous accounting year,
8) evaluation of the Board's conclusion regarding the division of profit or loss coverage,
9) submission to the General Meeting of the written annual report on the results of evaluations specified in paragraph 7 and 8,
10) submission to the General Meeting of the annual brief evaluation of the Company's situation, as well as the annual report on the Council's work,
11) giving opinion on cases submitted by the Board and comprising the subject of the General Meeting's resolutions,
12) approval of the Company's and ZE PAK Capital Group's perennial activity programs, including the Company's and ZE PAK Capital Group's activity strategies, developed by the Board, and
13) approval of the Company's annual activity programs, as well as the Capital Group's annual activity programs, especially including production plans and revenues, type cost plans, unit cost plans, remuneration plans, investment plans, as well as renovation and maintenance service plans.

The Council's competencies also include giving the Board an approval:

1) to participate in other companies and disposal of shares in other companies,
2) to establish foreign branches,
3) to make advanced payments for dividends,
4) for the Company to execute activities which result in incurring liabilities, except for:
    a) activities provided in the Company's annual activity program approved by the Council,
    b) activities resulting in incurring liabilities with a value of up to PLN 1,000,000, including granting sureties or guarantees as well as suretyship,
5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct with a value exceeding PLN 1,000,000,
6) conclusion by the Company and an affiliate of a major agreement within the meaning of the regulations regarding the current and periodical information provided by issuers of stocks accepted for trade in a regulated market, excluding typical agreements concluded by the Company pursuant to market conditions, within the conducted operational activities,
7) designation by the Board of personnel acting in the bodies of companies or other entities in which the Company has a direct or indirect share, as well as
8) establishment by the Board of the manner of ballot execution during the General Meeting or the Meeting of Partners in companies, in relation to which the Company is a parent company or an affiliate within the meaning of the Code of Commercial Companies, in the following cases:
    a) disposition and lease of the company's entrepreneurship or its organised part, establishment of a limited property right for them, as well as execution of other activities related to the acquisition or administration of the company's asset

components which comprise the subject of the General Meeting's or Meeting of Partners' deliberations,

b) company's termination or liquidation,
c) amendment of the company's articles of association or deed
d) company's merger, division or transformation, as well as
e) increase or decrease in the company's share capital.

Pursuant to the Board's application, the Supervisory Council grants Board members the approval to take positions in the bodies of companies, in which the Company holds shares, as well as for the collection of remuneration for acting in these positions.

10.9. Composition, its changes as well as description of the management and supervisory bodies

Management Board

The Company's Board composition was as follows at the beginning of the accounting year of 2014:

1) Katarzyna Muszkat – President of the Board,
2) Anna Striżyk – Vice-President of the Board,
3) Piotr Jarosz – Vice-President of the Board.

On 2 December 2014, the ZE PAK S.A.'s Council passed the Resolution on appointing Mr Sławomir Sykucki as a member of the Company's Board, and entrust him with the function of the Vice-President of the Board, as well as management of the owner's supervision, restructuring and environmental protection in the Company.

Since 2 December 2014, the Company's Board has acted in the following composition of four persons:

1) Katarzyna Muszkat – President of the Board,
2) Anna Striżyk – Vice-President of the Board,
3) Piotr Jarosz – Vice-President of the Board.
4) Sławomir Sykucki – Vice-President of the Board.

The Company's Management Board acts pursuant to the Act of 15 September 2000 (Code of Commercial Companies), as well as other regulations of the law, the provisions of the Company's Articles of Association, as well as ZE PAK S.A.'s Regulations of the Board.

In 2014, the ZE PAK S.A.'s Board held 44 sessions, during which it passed a series of decisions documented in protocols. During the reporting period, the Board passed a total of 407 resolutions. All resolutions and recommendations of the ZE PAK S.A.'s Board have been executed or are undergoing execution by the appropriate organisational units of the Company.

Supervisory Council

The Company's Supervisory Council did not include any changes during the reporting period. The ZE PAK S.A.'s Supervisory Council composition was as follows at the beginning and end of the accounting year of 2014:

1) Zygmunt Solorz-Żak – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz - Secretary,
4) Leszek Wysłocki,
5) Lesław Podkański,
6) Ludwik Sobolewski,
7) Tomasz Zadroga,
8) Wiesław Walendziak.

The Council members that fulfil the independence criteria are Mr. Ludwik Sobolewski and Mr. Lesław Podkański.

In the sequence of their code and statutory obligations, the Council held five sessions and passed a total of 32 resolutions. The Council executed its statutory obligation of holding a session in each quarter.

In the reporting period, the Council jointly executed constant supervision over the Company's activities in all fields of operation. The Council focused especially on the following issues:

1) evaluation of statements developed for the accounting year of 2013,
2) giving an opinion on the Company's new organisational structure,
3) approval of the Company's budget for 2014 and control over its execution, especially the conditions in the scope of energy production and results obtained by the Company from own and foreign electricity sale, including electricity produced from renewable energy sources,
4) giving an opinion on the applications submitted by the Board in regard to cases related to the Company's current activities;
5) appointing a new member of the Board of ZE PAK S.A.

6) project of construction of the steam and gas unit in the Konin Power Plant

In the accounting year of 2014, ZE PAK S.A.'s Supervisory Council Audit Committee held three sessions and passed a total of 3 resolutions. During the conducted sessions, ZE PAK S.A.'s Supervisory Council Audit Committee discussed with the statutory auditor, among others, the results of the audit of the financial statement for 2013, and inspection of interim financial statements for 2014. The Audit Committee also dealt with the case of selection of the entity authorised to audit financial statements developed for 2014 and issues related to risk management and functioning of internal auditing in the Company.

10.10. Procedure and basic powers of the General Meeting as well as description of shareholders' rights and their exercise

General Meeting

The General Meeting is held in cases specified in the Code of Commercial Companies and in the Company's Articles of Association. The General Meeting is held in principle by the Company's Board and deliberates, and an ordinary or extraordinary meeting. In case of summoning the General Meeting by an entity or body other than the Company's Board, the Board is obligated to cooperate with the entity or body in order to execute any activities specified by the law as necessary to summon, organise, and execute the General Meeting. Since the first day of listing of the Company's shares in the regulated market of the Warsaw Stock Exchange Joint-stock Company, the General Meetings can take place with the use of electronic communication resources. The decision on arranging the General Meeting using electronic communication devices is made by the Company's Supervisory Council.

The General Meeting takes place in Warsaw or in the Company's registered office.

The ZE PAK S.A.'s General Meeting is summoned by notification placed on the Company's website and in a manner specified for provision of current information in accordance with the regulations on public bidding and conditions for introducing financial instruments to the organised trade system and on public companies.

The materials made available to shareholders in relation to the General Meeting, including drafts of resolutions proposed for passing, as well as other important materials are made available by the Company on the http://ri.zepak.com.pl/ website.

The basic competencies of the General Meeting include:

1) examination and approval of the Board's report on the Company's activities, as well as the financial statement for the previous accounting year, as well as acknowledgement of the fulfilment of duties by the Company's body members,
2) division of profit and loss coverage,
3) change in the subject of the Company's activities,
4) amendments to the Company's Articles of Association,
5) increase or decrease in the share capital,
6) authorisation of the Board to acquire own shares for the purpose of redemption,
7) appointment and dismissal of Council members,
8) establishment of the remuneration of Council members,
9) Company merging, division and transformation,
10) Company termination and liquidation,
11) emission of convertible bonds or bonds with right of priority and subscription warrants,
12) sale or lease of the company or its organised part as well as establishment of a limited property right for them,
13) establishment and cancellation of the Company's capitals and funds,

14) conclusion by the Company of a credit, loan, surety agreement, or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
15) conclusion by an affiliate of a credit, loan, surety agreement or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
16) any provisions regarding claims the remedy of damage done during the Company's establishment or executing management or supervision, and
17) use of the share capital.

The active right to participate in the General Meeting is available to persons being the shareholders, 16 days prior to the General Meeting. The condition of admitting a shareholder to participate in the General Meeting is the submission of a registered certificate regarding the right to participate in the General Meeting, which is issued by the entity that keeps the stocks account.

The shareholder participates in the General Meeting's deliberations and executes the right of ballot in person or via an authorised representative.

The shareholder who represents at least 1/20 of the Company's share capital is entitled to request specific cases to be included in the Company's General Meeting agenda. The request should be reported to the Company's Board no later than 21 days prior to the Company's General Meeting.

The shareholder, who requests to include specific cases in the General Meeting's agenda, should demonstrate the possession of the proper number of shares at the date of request submission, including a deposit certificate to the request, issued by the entity keeping the stocks account.

The shareholder representing at least 1/20 of the Company's share capital can submit resolution drafts regarding the cases introduced into the General Meeting's agenda, or cases, which are to be introduced into the agenda in a written or electronic form prior to the date of the General Meeting.

Each of the shareholders authorised to participate in a general meeting can provide the resolution drafts regarding the cases introduced into the agenda during the Company's General Meeting.

The General Meeting's resolutions are passed with a majority of 75% votes, provided that the Code of Commercial Companies does not specify otherwise. Each Company's share entitles to a single vote at the General Meeting.

10.11. Description of the amendments to the Company's Articles of Association

Amendments to the Company's Articles of Association, in accordance with the Code of Commercial Companies and provisions of the Company's Articles of Association, require the General Meeting to pass a suitable resolution and an entry into the register of entrepreneurs. The General Meeting can authorise the Company's Supervisory Council to develop a uniform text of the amended articles of association, or to introduce editorial changes specified in the General

Meeting's resolution. Amendments to the Articles of Association are binding since the moment of entry into the register of entrepreneurs.

10.12. Principles for determining and the amount of remuneration for the management and supervisory personnel

The ZE PAK S.A.'s Supervisory Council establishes the principles of remuneration of the Company's Board members pursuant to the regulations of the Code of Commercial Companies and the Company's Articles of Association.

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Board members amounted to PLN 3,116,626.36 in 2014. The amount given must be treated as the gross value of remuneration paid, or to be paid in the period between January and December 2014.

The Company does not have a motivational or bonus program based on the Company's capital.

Table 13: Information on the value of remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Board members in 2014

Name and surname of the Board member	Value of (gross) remuneration paid by the Company and the Company's subsidiaries in PLN in 2014	Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries in 2014 (mostly employee pension fund) in PLN
Katarzyna Muszkat	1 018 422,62	74 780,62
Anna Striżyk	796 094,33*	57 359,80
Piotr Jarosz	781 512,53**	51 799,19
Sławomir Sykucki	336 657,27***	

* including PLN 15,000.00 for being a member in the subsidiary's Board

** including PLN 71,942.55 for being a member in the subsidiary's Board

*** entirety for being a member in the subsidiary's Board

Table 14: Information on the value of remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Supervisory Board members in 2014

Name and surname of the Supervisory Board member	Value of (gross) remuneration paid by the Company and the Company's subsidiaries in PLN in 2014	Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries in PLN in 2014
Zygmunt Solorz-Żak	180 000,00	0
Henryk Sobierajski	120 000,00	0

Wojciech Piskorz	120 000,00	0
Leszek Wysłocki	120 000,00	0
Lesław Podkański	120 000,00	0
Wiesław Walendziak	120 000,00	0
Tomasz Zadroga	120 000,00	0
Ludwik Sobolewski	120 000,00	0

The remuneration of the ZE PAK S.A.'s Supervisory Council members is determined by the General Meeting by way of a resolution, in accordance with the regulations of the Code of Commercial Companies and the Company's Articles of Association.

Agreements concluded between the Company and the management personnel include severance payments in the amount equal to 6-months gross remuneration in case of dismissal of a person from the Company's board. The severance payment is not applicable in case the dismissal from the board takes place due to reasons applicable to the dismissed persons, especially due to reasons specified in the regulation of Article 52 of the Code of Labour.

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Council members amounted to PLN 1,020,000.00 in 2014. The amount given must be treated as the gross value of remuneration paid or to be paid in the period between January and December 2014.

11. Group's social responsibility

11.1. Involvement in environmental issues

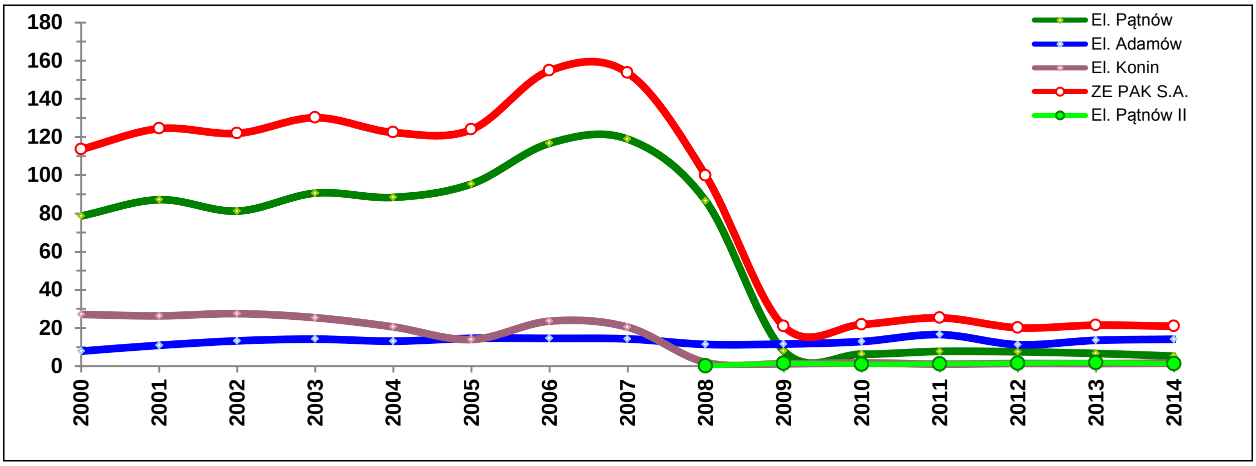
Utilisation of the lignite deposits and the production of electricity is inevitably related to interference in the natural environment. On the other hand, one of the main goals of the ZE PAK Group is the minimisation or prevention, if possible, of negative effects on the environment. The activities conducted by the Group affect the natural environment, especially by the emission of contaminants into the air, production and processing of wastes, utilisation of waters, and introduction of sewage wastes into waters or the soil. This impact is regulated by the current regulations on environmental protection. In relation to the conducted activities, the ZE PAK Group's companies have a series of environmental approvals, including integrated approvals which regulate the operational and environmental aspects of the main and auxiliary systems. Furthermore, the Group has approvals for the utilisation of systems which are not embraced by the integrated approvals, including approvals subject to the Water Act Law and approvals for the production and processing of wastes. All the obligated companies in the Group fulfil the obligations in the scope of reporting to applicable offices, as well as make timely charges relating to the economical use of the environment.

Protection of air

In 2014, the general annual and monthly values of the emission of main contaminants into the air: SO_2, NO_X, CO, CO_2, and dust from the fuel-firing systems in ZE PAK S.A. and Elektrownia Pątnów II Sp. z o.o. did not exceed the acceptable levels specified in the Integrated Approvals, except for the average monthly dust concentrations in October and November at the Adamów Power Plant. The breach of the dust emission standard at the Adamów Power Plant were caused by the firing of low quality lignite in terms of the content of dust and sand. The electrostatic precipitators installed at the Adamów Power Plant, according to the design assumptions, should ensure de-dusting of the fumes from the firing of lignite with dust and sand at a specific level. The parameters of coal delivered to the Adamów Power Plant from the Adamów and Koźmin open pits deviated from the assumptions in both aforementioned months.

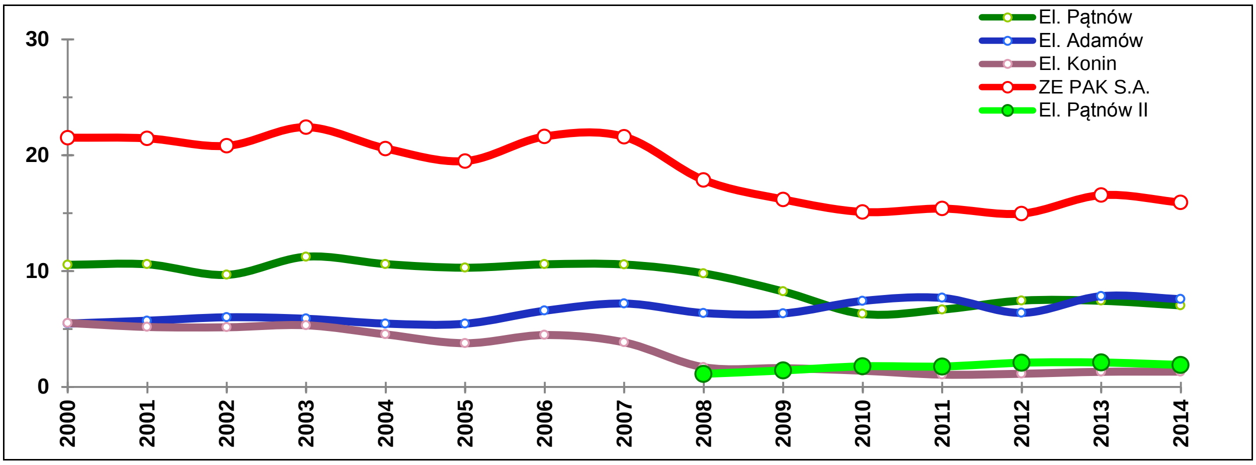
The annual emissions of contaminants into the air in the years from 2000 to 2014 are presented in the enclosed charts.

Chart 11: Emission of SO_2 in years 2000-2014 (thousand tons/year)



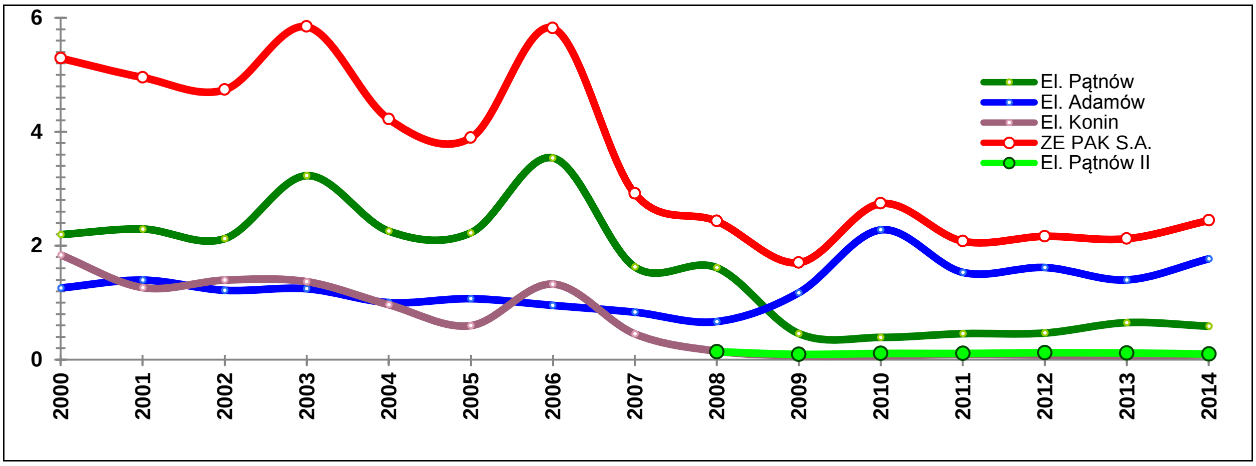
Source: own data

Chart 12: Emission of NO_X in years 2000-2014 (thousand tons/year)



Source: own data

Chart 13: Emission of dust in years 2000-2014 (thousand tons/year)



Source: own data

The fulfilment of obligatory reporting responsibilities featured timely submission by the Group's power plants to the National Centre for Emission Balancing and Management of annual emission reports for 2014 from four fuel-firing systems. The reports on the release and transfer of contaminants into the environment (PRTR) from all power plants of the Group are submitted to the Main Inspectorate of Environmental Protection. As part of the reporting of the Central Statistical Office, the GUS reporting site includes generated reports for 2014 for particular power plants. Fee lists, submitted to the Wielkopolskie Marshal's Office for 2014, were extended with the list of additional contaminants emitted from the stacks of systems, determined as a result of special tests conducted in 2010-2013.

We are also conducting monitoring of the emissions of contaminants into the air within the area of impact of the Group's power plants. The monitoring is conducted via measurements in two automatic measurement stations located in the vicinity of the Pątnów, Konin, and Adamów Power Plants. In 2014, we reported no substantial excess in the acceptable values of the tested factors. Comparisons of the condition of atmospheric air around the Group's power plants and the level of air contamination in the areas monitored by the stations of the Wielkopolskie Inspectorate of Environmental Protection do not indicate deviations from the normal condition.

The stacks of all fuel-firing systems include installed constant monitoring systems for dust and gas contaminants. Based on the annual settlements on the compliance with the emission standards, it is necessary to state that:

- the Pątnów I Power Plant featured no excesses in the acceptable values of SO_2, NO_X, and dust concentrations (with operation of two fume-gas desulphurisation systems),
- the Adamów Power Plant featured excesses in the acceptable values of 48-hour dust concentrations (34 times) and average monthly concentrations in October and November,
- the Pątnów I Power Plant featured no excesses in the acceptable values of SO_2, NO_X, and dust concentrations (with operation of two fume-gas desulphurisation systems),
- the Pątnów II Power Plant featured excesses in the average daily values of NO_X concentrations (11 times) and SO_2 concentrations (1 time).

Waste management

The Pątnów, Konin and Pątnów II Power Plants use a system of natural post-glacial lakes, connected with channels and pump stations, as their cooling system. Due to the lack of natural water reservoirs, the Adamów Power Plant is equipped with cooling towers. The Konin lakes are a group of water reservoirs consisting of the following lakes: Gosławskie, Pątnowskie, Wąsowsko-Mikorzyńskie, Ślesińskie, and Licheńskie. These lakes are examples of many human impacts. Aside from power engineering, the lakes are subject to the impact of open-pit mining, fishery, and tourism. ZE PAK S.A. conducts regular monitoring of the Konin lakes' waters and, if necessary, takes action to prevent negative impact of its own activities based on tests. The monitoring, conducted for many years now, also enables precise observation of the changes undergoing in the observed environment. The areas of each power plant include deep-water wells, which supply the crew with potable water. Until 2014, the Pątnów Power Plant also used underground water for process purposes – production of demineralised water. Starting from 2015, demineralised water is produced in a state-of-the-art demineralisation station located in the Pątnów II Power Plant, where the surface water is used as raw material. The station's efficiency allows to satisfy the needs of both the Pątnów II and Pątnów I Power Plants. This is of crucial significance when taking into consideration economic management of the underground water resources. Each ZE PAK S.A.'s power plant also features its own treatment plant of domestic and industrial wastes. The Pątnów II Power Plant uses sewage devices of the Pątnów I Power Plant. Treated wastes are discharged into receivers and their parameters are regularly tested. In 2014, there were no reported excesses in the acceptable parameters of the discharged treated wastes. Used-up process waters, which are difficult to treat in treatment plants, are used in the internal system of the power plants, among others, for the production of dust suspension. Mutual neutralisation then takes place without a negative impact on the environment.

The legislator, via legal acts and the standards specified in them, affects the form of activities of an enterprise by specifying the acceptable concentration and values of contaminating substances and introducing charges for using the environment under the principle of "polluter has to pay". Taking into consideration the above and promoting high level of ecological awareness, the Group takes preventive action to limit to a minimum the negative impact on the water and ground environment.

Wastes

The ZE PAK Group features an integrated waste management system, which includes:

- requirements related to the prevention or limitation of the quantity of generated wastes,
- selective collection of the generated wastes, as well as waste management methods that are safe for people and the environment,
- transfer of wastes for further management to other economic entities with legal permits and suitable technical equipment and organisational capabilities for conducting waste management.

The source of waste generation in the Group's power plants are the technological processes (fuel-firing processes, flue gas treatment and water treatment). Furthermore, the plant's area also features irregular generation of minor quantities of other wastes, which are not directly related to the production process, but to the executed renovation and modernisation works – operation and maintenance wastes. The Group uses a part of the generated wastes in waste recycling processes (e.g. for surface hardening, reclamation of enclosed parts of waste storage areas), and the other part is disposed of at own waste storage areas:

- combustion waste storage area at the Gosławice open pit, including the Linowiec vaporiser,
- northern combustion waste storage area at the Pątnów open pit,
- combustion and solid waste storage area at the Zachodnia open pit,
- solid waste storage area at the Pątnów open pit,

Part of the furnace and fume gas desulphurisation wastes is also sold to external recipients for utilisation in civil engineering and road engineering. ZE PAK S.A. conducts several tests of the furnace and fume gas desulphurisation wastes generated by the company in order to find new ways of their application and acquire the largest possible number of recipients. The furnace and fume gas desulphurisation wastes generated by ZE PAK S.A. fulfil the requirements on environmental protection and are not hazardous to human life or health, which is confirmed by tests in the scope of physical and chemical, toxicity and eco-toxicity properties, conducted for the purpose of substance registration in accordance with the requirements of the REACH resolution.

In 2014, the Group sold over 127 thousand tons of furnace wastes and over 239 thousand tons of synthetic gypsum (fume gas desulphurisation wastes). The waste storage areas managed by ZE PAK S.A. in 2014 included monitoring of the quality of ground and surface waters, as well as supernatant water at a frequency specified in the integrated approvals. Monitoring was conducted in the network of basic and supplementary monitoring. The scope of the conducted monitoring of waste storage areas also included annual evaluation of the stability of embankments and the value of subsidence. Most of the monitored embankments turned out to be stable. In 2014, ZE PAK S.A. also concluded the reclamation of the enclosed part of the furnace and solid waste storage area at the Zachodnia open pit and the supernatant water vaporiser at the Wschodnia open pit. The total area that underwent reclamation amounted to 61.62 hectares. We adopted a different reclamation direction than agricultural reclamation.

Noise

The scope of the obligation to conduct monitoring of the noise emitted into the environment, imposed by the integrated approvals for the fuel-firing systems in the Group's power plants in 2014 included measurements of the noise in the area of the Pątnów and Konin Power Plants. No measurements were conducted in the area of the Adamów and Pątnów II Power Plants. The measurements from 2013 are applicable. The conducted measurements did not demonstrate excess of the acceptable values of noise level in the environment, specified in the integrated approval, both during day-time and night-time.

Inspections, verification of integrated approvals and new legal requirements

In 2014, the Provincial Inspectorate of Environmental Protection in Poznań – Konin Branch (WIOŚP) conducted 5 inspections in the Group's power plants, whereas the State District Sanitary Inspector in Konin conducted 3 inspections. No penalties were imposed on ZE PAK S.A. as result of these inspections. The post-inspection recommendations have been applied. In 2014, WIOŚP conducted two inspections in the Group's mines, and in both cases no penalties were imposed, and no post-inspection recommendations were given.

In the previous year, the Wielkopolskie Marshal's Office conducted verification of the Integrated Approvals for the fuel-firing system in ZE PAK S.A. and EPII. The verification was related to the implementation of the amendment in the environmental protection law, according to which an integrated approval specifies the requirements ensuring the protection of soil, ground and ground waters, including measures aiming at prevention of emissions into the soil, ground and ground waters, and the method of their systematic supervision. Furthermore, the duration of the Integrated Approvals was also changed ex officio to undetermined.

In 2014, we executed works which included inventory of the potential sources of contaminants which may affect the ground and water environment, including specification of the possible indications of contaminants projected for tracking in the ground and water environment for particular power plants and waste storage areas of ZE PAK S.A. and EPII. The necessity to execute the works results from the amendment in the Environmental Protection Law Act, according to which any amendment in an integrated approval (after conclusion of verification of integrated approvals conducted ex officio) requires submission to the Marshal's Office of an initial report which will include information regarding the contamination of soil, ground and ground waters, or an analysis on the lack of necessity to develop such a report. This requirement also regarded the new system, for which it is necessary to obtain an integrated approval.

In 2014, the European Chemicals Agency, pursuant to the REACH resolution, continued the process of verification of the registration documentation submitted by ZE PAK S.A. and EPII, regarding the generated dust and gypsum. The scope of the conducted verification did not include additional tests for the registered substances.

Reclamation of terrain

The Group's companies executing extraction activities using the excavation method are obliged, pursuant to applicable regulations, to reclaim the areas used in the process of obtaining lignite. Technical and biological reclamation is executed in the excavated areas. The scope of both types of reclamation processes includes actions related to waters, forests, and agriculture.

The technical reclamation executed by the mines or pursuant to their commission in the previous year consisted especially of the execution of area levelling and profiling works. On the other hand, the biological reclamation included the following works:

- planting trees and bushes; a total of 344,530 trees and bushes were planted, including 3,780 trees and bushes obtained from the outskirts of open pits,
- agricultural cultivation and seeding of mixtures of alfalfa and grass, as well as sowing of mineral fertilisers in terrain prepared for agricultural reclamation,
- anti-erosive protection of reservoir embankments by agricultural cultivation and seeding mixtures of grass and fabaceae,
- cultivation of planted trees and bushes (sowing of fertilisers as well as reaping of grasses and weeds),
- removal of rocks from waste dumps projected for agricultural and recreational reclamation,
- execution of agro-technical works in the technically reclaimed areas, i.e. double disking, harrowing with a heavy harrow.

Table 15: Description of sizes of areas subject to technical reclamation, during biological reclamation and seeding, as well as areas with a decision regarding the successfully executed reclamation in 2014.

Technical reclamation (in hectares)	Biological reclamation in progress (in hectares)	Completed biological reclamation (in hectares)
226,1	379,0	119,62

Environment management system – ISO 14001

In the scope of its activities, the ZE PAK Group takes action to comply with the highest standards, also in terms of environmental protection. Any tools supporting the actions in this scope undergo inspection and verification in terms of the obtained results. In the opinion of the Company's Board, one of the most important elements of the quality control system are the standards incorporated for over 80% of the systems used by the Group in accordance with the requirements of the environmental standard ISO 140001.

11.2. Employment and employee issues

The below table presents the specification of the average employment rate (in job positions) in 2014 and 2013.

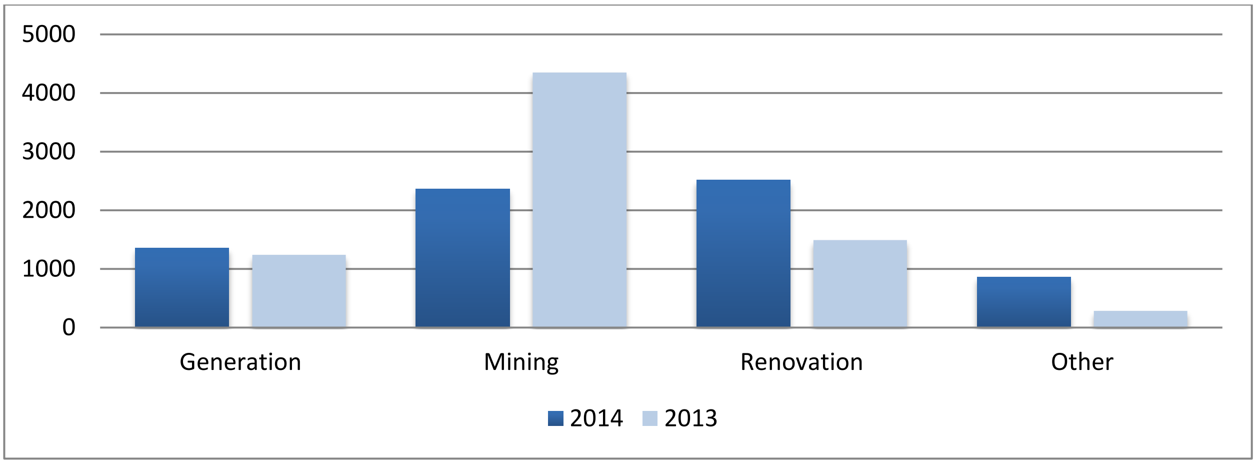
Table 16: Description of average employment (full time equivalent) in years 2014 and 2013.

Description	**2014**	**2013**	**Change**	
	Full time equivalent	**Full time equivalent**	**Full time equivalent**	**%**
Management Board of parent company	3	3	-	-
Management Boards of subsidiaries	23	24	-1	-4,2
Administrational	431	558	-127	-22,8
Operational employees	6 728	7 409	-681	-9,2
Total	**7 185**	**7 994**	**-809**	**-10,1**

Source: own data

The employment in the compared periods decreased by 809 job positions, i.e. by approx. 10%. It is also important that the structure of employment in terms of the number of persons employed in particular sectors of the Group has changed. These changes are the result of the restructuring processes executed with special consideration of the extraction sector. In the scope of the employment structure optimisation strategy, the Group separated from the two mines employees providing specific services for these entities, and transferred them mainly to companies from the renovation sector. These actions are to result in a more effective use of the potential of those employees, thanks to better capabilities of controlling work performance. The purpose of these changes is to obtain better flexibility in the remuneration system.

Chart 14: Changes in employment (in full time equivalent) in segments of the Group at the end of 2014 and 2013.



Source: own data

Currently, the renovation sector employs most employees in the Group, whereas the extraction sector was the largest in terms of employment a year ago.

In terms of education, the largest group among employees are persons with high school education.

Table 17: Structure of education of Group employees (people), as at the end of 2014.

Education degree	people
University education (bachelor's degree, master's degree, postgraduate studies, PhD, professors)	1 567
Secondary education (general upper secondary school, technical upper secondary school, post-secondary non-tertiary schools)	2 757
Vocational education (basic vocational, vocational training)	2 375
Elementary education (primary school, lower secondary school)	409
Total	**7 108**

Source: own data

The biggest group of employees are persons aged 46-50. Women comprise 9% of the Group's crew. The structure of the crew is largely determined by the type of activities it executes. The extraction and energy production sectors are fields requiring high input of heavy physical labour.

Table 18: Structure of sex and age of the Group's employees (persons), status at the end of 2014.

Age	Female	Male
below 30 years	59	882
31-40 years	91	1 239
41-45 years	69	1 413
46-50 years	100	1 463
51-55 years	167	828
56-60 years	145	562
above 60 years	10	80
Total	**641**	**6 467**

Source: own data

Due to the specificity of the fields in which the Group operates, special attention is paid to notions regarding the Occupational Health & Safety. We take care to employ persons with proper qualifications for the execution of tasks entrusted to them. The Group provides its employees with equipment and machines of proper parameters and attestation, allowing for effective and safe execution of their responsibilities. Taking into consideration the main companies of the Group –

the number of persons injured during work in 2014 decreased by approx. 34% in comparison to 2013.

11.3. Involvement in social issues

The ZE PAK Capital Group does not limit the employee rights related to the free ability to form organisations. Considering the main companies of the Group, the number of enterprise and inter-enterprise trade unions is 15 and they associate a total of 2,811 members.

One of the areas of the Group's interest is care for the development and improvement of the employee staff. The on-going process of competence development features sending employees to various types of trainings, among others, including: mandatory, specialist, industry conferences and various types of meetings allowing for acquisition and exchange of knowledge used in every-day work. In 2014, the demand for these trainings resulted, among others, from the current circumstances, e.g. changes in the legal regulations or organisational changes. The trainings conducted in the ZE PAK Group mainly regarded the energy law, environmental protection and included trainings for engineers, as well as staff and financial trainings.

The ZE PAK Capital Group views its functioning in its environment with consideration of all standards and expectations that are material for its employees, the local community, as well as other groups of stakeholders. The principles used in the Group strictly exclude any forms of mobbing, forced labour, or employment of juveniles. We take good care to prevent any possible types of corruption or, for example, unequal treatment of the Group's partners. The internal regulations and the adopted standards prevent the execution of activities commonly viewed as unethical in this scope.

The Group takes steps to support initiatives and undertakings which have a positive effect on the local community or in a wider range, in the scope of development of proper relations with the outside environment and considering the financial and organisational capabilities. In 2014, the Group supported two domestic and international undertakings. These include: Konin Branch of Wielka Orkiestra Świątecznej Pomocy [the Great Orchestra of Christmas Charity] (ZE PAK S.A. annually participates in the auctions of the Charity's golden hears) and Międzynarodowy Dziecięcy Festiwal Piosenki i Tańca [International Children's Festival of Music and Dancing] in Konin (the Company takes part in the financing of awards for the Festival's participants).

12. Other information

12.1. Significant court proceedings

In 2014, Zespół Elektrowni Pątnów-Adamów-Konin S.A. and companies consolidated within the Group were not a party in any proceedings pending before a court, a body competent for arbitration proceedings or a public administration body, whose single or total value would exceed 10% of equity of ZE PAK S.A, except for those specified below.

In light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance (Polish Journal of Laws of 1997; Dz.U. no. 137, item 926, as amended), ZE PAK S.A. submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of PLN 626,000 thousand, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK S.A. are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań, as well as the Supreme Administrative Court.

In relation to the decisions of the Administrative Courts in the cases of other energy companies in the subject of the overpaid excise tax, ZE PAK S.A., in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, where the Supreme Administrative Court recognised that the pass-through of the tax load to the price excludes the possibility of refunding the overpayment. The justification of the resolution allows for the assumption of the risk that tax authorities will dismiss any claims regarding the refunding of overpayments indicating that the tax proceeding is not appropriate for such type of claims. In such case, it is possible to seek them under civil law, as a result of which expiration (on the grounds of civil law this term is 3 years) becomes a significant issue. In relation to the above fact, on 10 February 2012, ZE PAK S.A. submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing for the amount of approx. PLN 626,406 thousand and thus stopped the statute of limitation. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA).

As of the date of development of this statement, the status of the proceeding is as follows: 22 cases for the period January 2006 – November 2007 (excluding November 2006) are conducted from the beginning by the Head of the Customs Office, when cases were referred from the Supreme Administrative Court. On 18 August 2014, the Company received 22 decisions of the Head of the Customs Office refusing ascertaining overpayment. On 1 September, the Company submitted 22 appeals from the decision of the Head of the Customs Office to the Director of the Customs Chamber, and, currently, after receiving negative decisions of the Head of the Customs Office, appeals have been submitted, and the Company awaits for the specification of the date of hearing in the Provincial Administrative Court in Poznań. 14 proceedings for the period December 2007 – February 2009 (excluding July 2008) are suspended in the Provincial Administrative Court. These proceedings also included the presentation of annual economic analyses, whereas the proceeding for November 2006 was concluded with a negative result in the Supreme Administrative Court, and the proceeding for July 2008 is subject to the recognition of our cassation appeal by the Supreme Administrative Court, and the date of the hearing has not yet been specified. The Company will make further actions depending on the provisions of the issued decisions. In the case of EPII, the proceeding for all periods (one case) was included in the cause list of the Provincial Administrative Court after the negative decision of the Head of the Customs Office. We do not possess economic analyses as the Company was not operational in 2001 and there is no comparative data. On 1 March 2009, the Act of 6 December 2008 on excise tax came into effect and, pursuant to the act, sale of electric energy to an entity which is not its final recipient is not subject to the excise tax.

PAK KWBK S.A. is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of the Wierzbinek Commune issued an environmental decision regarding the Tomisławice lignite open pit. On 5 December 2008, this decision was contested by nine natural persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to revoke the environmental decision. The plaintiffs applied for a repeated examination of the case. On 4 May 2009, after repeated examination of the case, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań decided that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWBK S.A. and the Self-government Appeal Court submitted an appeal against this decision. On 21 March 2012, the Supreme Administrative Court revoked the contested decision of the Provincial Administrative Court in Poznań, and handed the case over for repeated examination. On 6 November 2012, the Regional Administrative Court in Poznań announced the decision overruling the decision of the Self-government Appeal Court of 25 March 2009 on dismissing the statement of invalidity of the environmental decision. On 7 October 2014, the Supreme Administrative Court in Warsaw announced the judgement dismissing the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin S.A. against the judgement of the Regional Administrative Court in Poznań of 6 November 2012 overruling the decision of the Local Government Appeal Court of 25 March 2009 refusing the annulment of the environmental approval issued on 7 August 2007 by the Head of the Wierzbinek Commune, associated with the exploitation of the Tomisławice lignite pit.

The dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin S.A. means that the judgement of the Regional Administrative Court in Poznań of 6 November 2012 became final, and the case concerning the annulment of the environmental decision will be returned for judicial review to the Local Government Appeal Court.

The judgement of the Supreme Administrative Court in Warsaw of 7 October 2014 does not make the environmental approval, issued by the Head of the Wierzbinek Commune, invalid, and does not withhold the exploitation and mining works on the Tomisławice pit. The environmental approval of the Head of the Wierzbinek Commune of 7 August 2007 still remains in the legal transactions and causes legal consequences until the final settlement is issued by the Local Government Appeal Court.

Other judicial cases are presented in paragraph 35.1 of the Group's consolidated financial statement.

12.2. Significant achievements in the field of research and development

As of the date of this report, the ZE PAK Capital Group Companies do not conduct research and development works, which would have material relevance for the Group. Furthermore, the Group has not assigned major financial expenses for research and development works.

12.3. Information on the auditing of the financial statement

The agreement regarding the auditing of the Group's consolidated financial statement with the entity authorised to audit financial statements, i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. [Ernst & Young Audit Poland Limited Liability Company, Limited Company] with registered office in Warsaw, Rondo ONZ 1, was concluded on 23 July 2014.

Information regarding the remuneration of the entity authorised to audit financial statements was presented in paragraph 39 of the Group's consolidated financial statement for 2014.

12.4. Financial forecasts

The Capital Group has not published the financial forecasts. The Group does not intend to present forecasts for 2015.

13. Representations of the Management Board

13.1. Representation on the reliability of development of the financial statement

The Board of Zespół Elektrowni Pątnów-Adamów-Konin S.A. hereby declares that, according to its best knowledge, the ZE PAK Capital Group's financial statement for the year concluded on 31 December 2014 and the comparative data were developed in accordance with the current principles of accounting and that they realistically and reliably reflect the property and financial position, as well as the financial result of the ZE PAK Capital Group. Furthermore, we declare that the Board's Report on the activities of the ZE PAK Capital Group for the accounting year of 2014 includes the real representation of the development, achievements, and the position of the ZE PAK Capital Group, including the description of basic risks and hazards.

13.2. Representation on the appointment of the entity authorised to audit the financial statement

The Board of Zespół Elektrowni Pątnów-Adamów-Konin S.A. hereby declares that the entity authorised to audit financial statements, conducting the audit of the ZE PAK Capital Group's consolidated Financial Statement for the accounting year concluded on 31 December 2014, was chosen in accordance with the regulations of the law, and that this entity and the statutory auditors conducting the audit complied with the conditions to express an unbiased and independent opinion on the audited annual financial statement, in accordance with the current regulations and occupational standards.