TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2011

TABLE OF CONTENTS:

(in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		16 282 481	11 108 492
Excise		(393 757)	(418 178)
Sale of goods for resale, finished goods and materials		15 888 724	10 690 314
Rendering of services		4 825 806	4 698 111
Other income		40 692	40 454
Sales revenue	**13.1**	**20 755 222**	**15 428 879**
Cost of sales	**13.6**	(18 184 818)	(13 089 128)
Gross profit		**2 570 404**	**2 339 751**
Other operating income	**13.2**	106 162	105 186
Selling and distribution expenses	**13.6**	(283 684)	(231 252)
Administrative expenses	**13.6**	(664 350)	(670 308)
Other operating expenses	**13.3**	(117 043)	(144 118)
Operating profit		**1 611 489**	**1 399 259**
Finance income	**13.4**	115 767	92 284
Finance costs	**13.5**	(160 274)	(233 993)
Share in profit/(loss) of associate and joint venture recognised using the equity method	**2**	(1 046)	(236)
Profit before tax		**1 565 936**	**1 257 314**
Income tax expense	**14.1**	(326 576)	(265 931)
Net profit from continuing operations		**1 239 360**	**991 383**
Net profit for the year		**1 239 360**	**991 383**
Other comprehensive income:			
Change in the value of hedging instruments		–	1 112
Foreign exchange differences from translation of foreign entities		358	(271)
Income tax relating to other comprehensive income items	**14.1**	–	(211)
Other comprehensive income for the year, net of tax		**358**	**630**
Total comprehensive income for the year		**1 239 718**	**992 013**
Net profit for the year:			
Attributable to equity holders of the parent		1 220 011	858 656
Attributable to non-controlling interests	**31.5**	19 349	132 727
Total comprehensive income:			
Attributable to equity holders of the parent		1 220 369	859 151
Attributable to non-controlling interests	**31.5**	19 349	132 862
Earnings per share (in PLN):			
– basic, for profit for the period attributable to equity holders of the parent	**28**	0.70	0.54
– basic, for profit for the period from continuing operations attributable to equity holders of the parent	**28**	0.70	0.54
– diluted, for profit for the period attributable to equity holders of the parent	**28**	0.70	0.54
– diluted, for profit for the period from continuing operations attributable to equity holders of the parent	**28**	0.70	0.54

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2011	As at 31 December 2010 (*adjusted figures*)	As at 1 January 2010 (*adjusted figures*)
ASSETS				
Non-current assets				
Property, plant and equipment	**16**	21 911 047	17 524 936	17 260 573
Intangible assets	**19, 8**	988 950	346 340	342 866
Investments in associates and joint ventures recognised using the equity method	**2, 37.1**	22 717	764	–
Other long-term financial assets	**23.1, 37.1, 38.4**	197 470	177 452	179 746
Other long-term non-financial assets	**23.2**	96 349	123 613	58 547
Deferred tax asset	**14.3**	31 965	161 806	152 221
		23 248 498	**18 334 911**	**17 993 953**
Current assets				
Current intangible assets	**19, 8**	870 954	624 190	481 885
Inventories	**20**	574 790	408 560	536 201
Corporate income tax receivable		64 266	74 749	52 926
Trade and other receivables	**21, 37.1, 38.4**	2 743 344	2 273 145	1 874 996
Other current financial assets	**23.1, 37.1, 38.4**	108 024	28 193	18 753
Other current non-financial assets	**23.3**	289 034	208 158	158 725
Cash and cash equivalents	**22, 37.1**	505 670	1 473 981	1 032 103
		5 156 082	**5 090 976**	**4 155 589**
Non-current assets classified as held for sale	**17**	**8 951**	**4 397**	**5 951**
TOTAL ASSETS		**28 413 531**	**23 430 284**	**22 155 493**

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	As at 31 December 2011	As at 31 December 2010 (*adjusted figures*)	As at 1 January 2010 (*adjusted figures*)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital	**31.1**	8 762 747	15 772 945	13 986 284
Reserve capital	**31.3**	7 412 882	475 088	64 050
Revaluation reserve on valuation of hedging instruments		–	–	(766)
Foreign exchange differences from translation of foreign entities		87	(271)	–
Retained earnings/Accumulated losses	**31.4**	(497 995)	(1 542 937)	(2 191 002)
		15 677 721	**14 704 825**	**11 858 566**
Non-controlling interests	**31.5**	**461 347**	**507 246**	**2 375 100**
Total equity		**16 139 068**	**15 212 071**	**14 233 666**
Non-current liabilities				
Interest-bearing loans and borrowings	**37.1, 37.3**	4 251 944	1 076 178	1 179 406
Finance lease and hire purchase commitments	**18.2, 37.1**	56 232	67 810	88 291
Long-term provisions and employee benefits	**27, 32**	1 202 840	1 059 028	978 807
Long-term accruals and government grants	**25**	642 549	644 522	624 567
Trade payables and other financial long-term liabilities	**37.1**	7 968	6 910	5 683
Deferred tax liability	**14.3**	1 270 390	1 215 615	1 150 695
		7 431 923	**4 070 063**	**4 027 449**
Current liabilities				
Trade and other payables	**37.1**	2 349 201	1 629 723	1 490 726
Current portion of interest-bearing loans and borrowings	**37.1, 37.3**	214 169	325 027	596 315
Current portion of finance lease and hire purchase commitments	**18.2, 37.1**	14 761	23 452	35 377
Other current liabilities	**24.2**	644 910	752 819	556 669
Accruals and government grants	**25**	279 058	189 712	210 267
Income tax payable		163 437	68 672	67 034
Short-term provisions and employee benefits	**27, 32**	1 177 004	1 158 745	937 990
		4 842 540	**4 148 150**	**3 894 378**
Total liabilities		**12 274 463**	**8 218 213**	**7 921 827**
TOTAL EQUITY AND LIABILITIES		**28 413 531**	**23 430 284**	**22 155 493**

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2011		**15 772 945**	**475 088**	–	**(271)**	**(1 542 937)**	**14 704 825**	**507 246**	**15 212 071**
Profit for the period		–	–	–	–	1 220 011	**1 220 011**	19 349	**1 239 360**
Other comprehensive income		–	–	–	358	–	**358**	–	**358**
Total comprehensive income for the period		–	–	–	**358**	**1 220 011**	**1 220 369**	**19 349**	**1 239 718**
Appropriation of prior year profits		–	–	–	–	–	–	–	–
Reduction of issued capital through reduced nominal value of shares	**31.1**	(7 010 198)	7 010 198	–	–	–	–	–	–
Acquisition of non-controlling interests	**30**	–	–	–	–	192	**192**	(1 104)	**(912)**
Change in non-controlling interests due to mergers	**30**	–	–	–	–	25	**25**	(62)	**(37)**
Payment from profit to the State Treasury		–	–	–	–	–	–	–	–
Dividends	**29**	–	(72 404)	–	–	(190 478)	**(262 882)**	(14 278)	**(277 160)**
Aquisition of subsidiaries of GZE Group	**30**	–	–	–	–	–	–	778	**778**
Mandatory squeeze-out	**30**	–	–	–	–	15 192	**15 192**	(50 582)	**(35 390)**
As at 31 December 2011		**8 762 747**	**7 412 882**	–	**87**	**(497 995)**	**15 677 721**	**461 347**	**16 139 068**

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Note	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2010		**13 986 284**	**64 050**	**(766)**	–	**(2 191 002)**	**11 858 566**	**2 375 100**	**14 233 666**
Profit for the period		–	–	–	–	858 656	**858 656**	132 727	**991 383**
Other comprehensive income		–	–	766	(271)	–	**495**	135	**630**
Total comprehensive income for the period		–	–	**766**	**(271)**	**858 656**	**859 151**	**132 862**	**992 013**
Appropriation of prior year profits		–	176 159	–	–	(176 159)	–	–	–
Issue of merger shares and accounting for the acquisition of non-controlling interests		318 665	–	–	–	(145 651)	**173 014**	(169 364)	**3 650**
Acquisition of non-controlling interests for cash and share capital issued		1 467 996	234 879	–	–	110 204	**1 813 079**	(1 813 788)	**(709)**
Payment from profit to the State Treasury		–	–	–	–	32	**32**	–	**32**
Dividends		–	–	–	–	–	–	(6 027)	**(6 027)**
Mandatory squeeze-out		–	–	–	–	983	**983**	(11 537)	**(10 554)**
As at 31 December 2010		**15 772 945**	**475 088**	–	**(271)**	**(1 542 937)**	**14 704 825**	**507 246**	**15 212 071**

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

(in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Profit/(loss) before taxation		**1 565 936**	**1 257 314**
Adjustments for:			
Share in profit/(loss) of associate and joint venture recognised using the equity method		1 046	236
Depreciation and amortization		1 411 097	1 358 778
(Gain)/loss on foreign exchange differences		2 819	43
Interest and dividens, net		58 294	132 331
(Gain)/loss on investing activities		(16 568)	13 153
(Increase)/decrease in receivables		(147 945)	(395 393)
(Increase)/decrease in inventories		(184 588)	117 372
Increase/(decrease) in payables excluding loans and borrowings		(76 220)	215 558
Change in other non-current and current assets		(78 266)	(111 089)
Change in deferred income, government grants and accruals		(35 276)	(31 098)
Change in provisions		(174 358)	201 130
Income tax paid		(111 929)	(238 400)
Other		(391)	410
Net cash from operating activities		**2 213 651**	**2 520 345**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		39 957	11 731
Purchase of property, plant and equipment and intangible assets		(2 302 270)	(1 518 088)
Proceeds from sale of financial assets	**23.1**	114 304	56 189
Purchase of financial assets	**23.1**	(147 989)	(69 570)
Acquisition of shares in associates and joint ventures accounted for using the equity method		(23 000)	(1 000)
Acquisition of a subsidiary, after deducting cash acquired	**30**	(3 379 615)	23
Dividends received		8 173	4 349
Interest received		666	1 377
Repayment of loans granted		240	1 475
Loans granted		–	(1 400)
Other		–	6 438
Net cash used in investing activities		**(5 689 534)**	**(1 508 476)**

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

(in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from financing activities			
Payment of finance lease liabilities		(25 603)	(35 842)
Proceeds from loans		87 254	167 115
Repayment of loans		(467 183)	(744 020)
Issue of debt securities		3 300 000	848 200
Redemption of debt securities		–	(608 692)
Dividends paid to equity holders of the parent		(262 882)	–
Dividends paid to non-controlling interests		(13 676)	(5 573)
Interest paid		(52 292)	(115 820)
Acquisition of non-controlling interests	**31.5**	(37 800)	(9 863)
Other		(17 779)	(8 369)
Net cash from (used in) financing activities		**2 510 039**	**(512 864)**
Net increase/(decrease) in cash and cash equivalents		**(965 844)**	**499 005**
Net foreign exchange difference		(3)	(134)
Cash and cash equivalents at the beginning of the period		**1 471 660**	**972 655**
Cash and cash equivalents at the end of the period, of which:	**22**	**505 816**	**1 471 660**
restricted cash		176 241	165 862

Summary of significant accounting policies and other explanatory notes are an integral part of these consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES

1. General Information

The TAURON Polska Energia S.A. Capital Group ("the Group", "the Capital Group", "the TAURON Group") is composed of TAURON Polska Energia S.A. ("parent", "Company", "Parent Company") and its subsidiaries. TAURON Polska Energia S.A. operates as a joint-stock company incorporated on the basis of the notarial deed dated 6 December 2006. Until 16 November 2007 the Company operated under the name Energetyka Południe S.A. The consolidated financial statements of the Group cover the year ended 31 December 2011 and contain comparative data for the year ended 31 December 2010.

The parent is entered in the Register of Entrepreneurs of the National Court Register kept by the Katowice–Wschód District Court, Economic Department of the National Court Register, Entry No. KRS 0000271562.

The parent was granted a statistical number REGON 240524697.

The parent and the other Group entities have an unlimited period of operation.

The Group's principal business activities include:

1. Hard coal mining.
2. Generation of electricity and heat energy using conventional sources.
3. Generation of electricity using renewable sources.
4. Distribution of electricity.
5. Sale of energy and other energy market products.
6. Rendering other services related to the items mentioned above.

Operations are conducted based on relevant concessions granted to the individual companies in the Group.

(in PLN thousand)

2. Composition of the Group

As at 31 December 2011, the TAURON Polska Energia S.A. Capital Group was composed of the following direct or indirect subsidiaries that have been included in consolidation.

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 30 December 2011	% held by TAURON in the entity's governing body	Holder of shares as at 30 December 2011
1.	TAURON Wytwarzanie S.A. (formerly: Południowy Koncern Energetyczny S.A.)[1]	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	TAURON Polska Energia S.A. – 99.72%	99.72%	TAURON Polska Energia S.A. – 99.72%
2.	TAURON Dystrybucja S.A. (formerly: EnergiaPro S.A.)[1]	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.38%	TAURON Polska Energia S.A. – 99.38%	99.51%	TAURON Polska Energia S.A. – 99.51%
3.	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
4.	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer service	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
5.	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
6.	Elektrociepłownia Tychy S.A.	43-100 Tychy; ul. Przemysłowa 47	Generation of electricity, production and distribution of heat	95.47%	TAURON Polska Energia S.A. – 99.47%	99.05%	TAURON Polska Energia S.A. – 99.05%
7.	Kopalnia Wapienia Czatkowice Sp. z o.o.[2]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. – 100.00%	99.72%	TAURON Wytwarzanie S.A. – 100.00%
8.	Południowy Koncern Węglowy S.A.[2]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.82%	TAURON Wytwarzanie S.A. – 68.01%
9.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
10.	TAURON Ciepło S.A. (formerly: Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.)[1]	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	90.06%	TAURON Polska Energia S.A. – 90.06%	91.76%	TAURON Polska Energia S.A. – 91.76%
11.	Elektrociepłownia EC Nowa Sp. z o.o.	41-308 Dąbrowa Górnicza; al. J. Piłsudskiego 92	Generation of electricity, production of heat and technical gases	84.00%	TAURON Polska Energia S.A. – 84.00%;	84.00%	TAURON Polska Energia S.A. – 84.00%;
12.	TAURON Czech Energy s.r.o.	720 00 Ostrava, Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
13.	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra, ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%

(in PLN thousand)

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 30 December 2011	% held by TAURON in the entity's governing body	Holder of shares as at 30 December 2011
14.	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra, ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
15.	Lipniki Sp. z o.o.	52-420 Wrocław; ul. Tadeusza Mikulskiego 5	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
16.	Górnośląski Zakład Elektroenergetyczny S.A.	44-100 Gliwice; ul. Barlickiego 2	Financial holding activities	99.98%	TAURON Polska Energia S.A. – 99.98%	99.98%	TAURON Polska Energia S.A. – 99.98%
17.	Vattenfall Distribution Poland S.A.[3]	44-100 Gliwice; ul. Portowa 14a	Distribution of electricity	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100%
18.	Vattenfall Sales Poland Sp. z o.o.[4]	44-100 Gliwice; ul. Barlickiego 2a	Trading in electricity	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.998%, Vattenfall Network Services Poland Sp. z o.o. – 0.002%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.998%, Vattenfall Network Services Poland Sp. z o.o. – 0.002%
19.	Vattenfall Network Services Poland Sp. z o.o.[5]	44-100 Gliwice; ul. Myśliwska 6	Repair and maintenance of machinery and electrical equipment, electrical installations, construction of power lines	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.8%, Vattenfall Sales Poland Sp. z o.o. – 0.2%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.8%, Vattenfall Sales Poland Sp. z o.o. – 0.2%
20.	Vattenfall Wolin-North Sp. z o.o.[6]	44-100 Gliwice; ul. Barlickiego 2	Generation of electricity	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100%
21.	Vattenfall Business Services Poland Sp. z o.o.[7]	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Services	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100%

[1] In the third quarter of 2011, mergers of certain subsidiaries took place, as described below. Południowy Koncern Energetyczny S.A. acquired Elektrownia Stalowa Wola S.A. and changed its name to TAURON Wytwarzanie S.A., EnergiaPro S.A. acquired ENION S.A. and changed its name to TAURON Dystrybucja S.A., Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. acquired Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. and changed its name to TAURON Ciepło S.A.

[2] TAURON Polska Energia S.A. is the usufructuary of shares owned by TAURON Wytwarzanie S.A. As a result of signing agreements for the usufruct of shares, TAURON Polska Energia S.A. holds 100% interests in the share capital and in the governing body of Kopalnia Wapienia Czatkowice Sp. z o.o. and a 52.48% interest in the share capital of Południowy Koncern Węglowy S.A., giving it 68.01% of votes at the company's General Shareholders' Meeting.

[3] On 20 February 2012, the District Court entered the change of the company's name from Vattenfall Distribution Poland S.A. to TAURON Dystrybucja GZE S.A. in the National Court Register.

[4] On 21 February 2012, the company's Shareholders' Meeting resolved to change the company's name from Vattenfall Sales Poland Sp. z o.o. to TAURON Sprzedaż GZE Sp. z o.o.

[5] On 15 February 2012, the District Court entered the change of the company's name from Vattenfall Network Services Poland Sp. z o.o. to TAURON Serwis GZE Sp. z o.o. in the National Court Register.

[6] On 27 February 2012, the District Court entered the change of the company's name from Vattenfall Wolin-North Sp. z o.o. to TAURON Ekoenergia GZE Sp. z o.o. in the National Court Register.

[7] On 24 January 2012, the company's Shareholders' Meeting resolved to change the company's name from Vattenfall Business Services Poland Sp. z o.o. to TAURON Obsługa Klienta GZE Sp. z o.o.

(in PLN thousand)

Joint venture

Elektrociepłownia Stalowa Wola S.A. was set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. with a share capital of PLN 2,000 thousand. In the year ended 31 December 2011 the company's share capital was increased by the total of PLN 26,200 thousand, up to PLN 28,200 thousand. The District Court in Tarnobrzeg registered two increases of capital: the first one on 20 April 2011 and the second one on 9 September 2011. The new shares were taken up by the existing shareholders i.e. Elektrownia Stalowa Wola S.A. (acquired by TAURON Wytwarzanie S.A. in August 2011) and PGNiG Energia S.A., each of them holding a 50% stake in the share capital and in the governing body of Elektrociepłownia Stalowa Wola S.A. (the indirect share of TAURON Polska Energia S.A. amounts to 49.86%).

Elektrociepłownia Stalowa Wola S.A. is a special purpose entity which is intended to carry out an investment involving construction of a gas and steam unit fired with natural gas in Stalowa Wola, with a gross electric power of 400 MWe and net thermal power of 240 MWt. The project is to be completed in 2015. The partners intend to carry out the project sharing the rights and obligations on an equal basis.

Elektrociepłownia Stalowa Wola S.A. as a joint venture has been accounted for using the equity method in the consolidated financial statements.

The equity-accounted investment in the joint venture as at 31 December 2011 and 31 December 2010 is presented in the table below:

	As at 31 December 2011	As at 31 December 2010
Non-current assets	40 423	1 563
Current assets	7 796	1 080
Non-current liabilities (-)	(255)	(57)
Current liabilities (-)	(2 403)	(1 060)
Share in net assets	22 717	764
Goodwill	–	–
Invetment in joint venture	**22 717**	**764**
Share in sales revenue of joint venture	146	5
Share in profit/(loss) of joint venture	**(1 046)**	**(236)**

3. Composition of the parent's Board of Directors

As at 31 December 2010, the Board of Directors consisted of:

- Dariusz Lubera – President,
- Joanna Schmid – Vice President,
- Dariusz Stolarczyk – Vice President,
- Krzysztof Zamasz – Vice President,
- Krzysztof Zawadzki – Vice President.

On 24 February 2011, the Supervisory Board elected the existing Board of Directors for the next term of office and the composition of this Board of Directors did not change in 2011.

As at 31 December 2011, the Board of Directors consisted of:

- Dariusz Lubera – President,
- Joanna Schmid – Vice President,
- Dariusz Stolarczyk – Vice President,
- Krzysztof Zamasz – Vice President,
- Krzysztof Zawadzki – Vice President.

In the period from the balance sheet date to the date of these financial statements there were no changes in the parent's Board of Directors.

4. Authorization of financial statements

These consolidated financial statements were authorized for issue by the Board of Directors on 6 March 2012.

5. Going concern

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorization of these financial statements, the directors are not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group companies.

6. Basis of preparation of consolidated financial statements

6.1. Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRSs endorsed by the European Union ("EU").

At the date of authorization of these financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the Group's activities, within the scope of the accounting principles applied by the Company there is no difference between the IFRSs that came into effect and the IFRSs endorsed by the EU. IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee.

TAURON Dystrybucja S.A., Elektrociepłownia EC Nowa Sp. z o.o., Kopalnia Wapienia Czatkowice Sp. z o.o., Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and the companies acquired as a result of the purchase of shares in Górnośląski Zakład Elektroenergetyczny S.A. keep their books of account in accordance with International Financial Reporting Standards ("IFRS"). The parent and TAURON Dystrybucja S.A. prepare their financial statements in accordance with IFRS starting from the financial statements for periods beginning on 1 January 2010. Elektrocieplownia EC Nowa Sp. z o.o., Kopalnia Wapienia Czatkowice Sp. z o.o., Polska Energia Pierwsza Kompania Handlowa Sp. z o.o prepare financial statements in accordance with IFRS starting from the financial statements for periods beginning on 1 January 2011.

TAURON Czech Energy s.r.o. keeps its books of account and prepares financial statements in accordance with the accounting standards accepted in the Czech Republic.

The other Group entities keep their books of account and prepare financial statements in accordance with the accounting policies specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") with subsequent amendments and the regulations issued based on that Act ("Polish Accounting Standards", "PAS").

The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring these consolidated financial statements to conformity with IFRS.

6.2. Functional currency and presentation currency

Polish zloty is the functional currency of the parent and other entities included in these consolidated financial statements, except for TAURON Czech Energy s.r.o., as well as the presentation currency of these consolidated financial statements. The functional currency of TAURON Czech Energy s.r.o. is the Czech Koruna ("CZK"). The items included in the financial statements of TAURON Czech Energy s.r.o. are translated into the presentation currency of the TAURON Group using appropriate exchange rates.

These consolidated financial statements are presented in Polish zloty ("PLN") and all amounts are stated in PLN thousands unless otherwise indicated.

7. Significant judgments and estimates

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements, including explanatory notes. The assumptions underlying these estimates are based on management's best knowledge of current and future activities and events in the particular areas. The details of the assumptions adopted are presented in the relevant notes to these consolidated financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

As a result of the analyses conducted as at 31 December 2011, the Group identified an existence of an external factor that could indicate a potential impairment of assets, which consists in the carrying amount of the Company's net assets exceeding their market capitalization. As a result, the Company analyzed cash flows generated by the particular operating segments of the Group. However, these cash flows were not found to be lower than the carrying amounts of the particular segments. The Company believes that the results of the above-mentioned analysis show that low market capitalization is not a sufficient basis for conducting impairment tests for all of the Group's assets. For this reason, the Company did not conduct such tests at the balance sheet date. In accordance with IAS 36, the Company carried out impairment tests for the operating segments that include goodwill as well as impairment tests of non-current assets attributable to the Other – Distribution and Sales of Heat Segment. Those tests required estimating the value in use of the segments based on future cash flows generated by them, which were subsequently amortized to present value using the discount rate. The details of the adopted assumptions and significant details of the tests and analyses performed are included in Notes 16 and 19.

Depreciation and amortization rates

Depreciation and amortization rates and charges are determined based on the anticipated economic useful lives of property, plant and equipment or intangible assets and the estimated residual values of property, plant and equipment. Capitalized overhaul expenses are depreciated over the periods remaining up to the anticipated date of commencing the next overhaul of a given item. The economic useful lives are reviewed annually by the Group based on current estimates.

Estimation of revenue from sale of electricity

The readings of the meters concerning the amount of electricity sold on the retail market are in most cases taken and the invoices issued in periods other than the reporting periods. Therefore, the Group companies trading in energy make an estimate of the sales at each balance sheet date for the period not covered by the reading.

Compensations for termination of long-term contracts

The Group receives compensations for stranded costs in accordance with the Act of 29 June 2007 on the principles for covering costs incurred by electricity generating companies due to early termination of long-term contracts for the sale of power and electricity (Power Purchase Agreements). Revenue from such compensations is recognized in line with the compensation earned until the end of the period covered by the compensation scheme. In order to estimate the amount of the revenue attributable to the given period the Group makes estimates to determine the index of the estimated stranded costs to the sum total of the discounted yearly advances received, returned and expected (including the yearly advances received to date), the annual adjustments and the anticipated final adjustment. The details of compensation for termination of long-term contracts are discussed in Note 34.

Valuation of provisions for employee benefits

Provisions for employee benefits (provision for retirement, disability and similar benefits, coal allowances, provision for transfers to the Social Fund for present and future pensioners, provision for special electricity rates and charges granted to employees) were determined using actuarial valuations. In addition, provisions were recognized for benefits paid under the early retirement scheme, redundancy payment scheme and pre-retirement benefit scheme. The details of the above-mentioned provisions and the adopted assumptions are presented in Note 27.

Valuation of provision for decommissioning liabilities and for dismantling and removal of fixed assets

This provision is recognized with respect to the mining enterprises being part of the Group based on the estimate of the anticipated decommissioning costs related to the dismantling and removal of facilities and the restoration of land to its original condition. The amount of the provision is estimated based on studies prepared on the basis of deposit exploitation projections (for mining facilities) and technological and economic analyses. In addition, provisions for the dismantling and removal of fixed assets are recognized when such obligations arise or are undertaken by the Group.

Deferred tax assets

Deferred tax assets are measured using the tax rates that are expected to apply in the period when the asset is expected to be realized, based on tax laws that have been enacted at the balance sheet date. The Group recognizes deferred tax assets based on the assumption that taxable profits will be available against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable.

Classification of financial instruments

In accordance with the guidelines to IAS 39 regarding classification of non-derivative financial instruments with fixed payment dates or determinable maturity dates, such assets are classified as financial assets held to maturity. In making such a judgment an assessment is made of the intention and ability to hold such investments to maturity.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation techniques. The Group applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of financial instruments are presented in Note 37.

(in PLN thousand)

Allowances for doubtful debts

At the balance sheet date the Group makes an assessment of whether there is any objective evidence of impairment of an individual receivable or a group of receivables. Where the recoverable amount of the asset is less than its carrying amount, the entity recognizes an allowance to bring down the carrying amount to the present value of the expected cash flows.

Valuation of obligations under compulsory buy-out of shares (squeeze-out) by subsidiaries

In the TAURON Group, the process of compulsory buy-out of shares from minority shareholders by the following subsidiaries: TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło S.A. and Elektrociepłownia Tychy S.A. is pending, based on Article 4181 of the Code of Commercial Companies. As at 31 December 2011, the potential unrecognized financial liability to the shareholders eligible for the compulsory buy-out of shares, which would result in the decrease of equity, is immaterial for the consolidated financial statements.

8. Changes in presentation and estimates

8.1. Changes in presentation

To date, property rights arising from energy generated using renewable sources (renewable energy certificates) and certificates of electricity generated using cogeneration or sources fuelled with natural gas which were acquired by the Company for the purpose of cancellation due to sale of electricity to final users as well as greenhouse gas emission allowances acquired for the purpose of cancellation have been recognized under non-current assets as intangibles. The Group decided to change the presentation of such assets in the statement of financial position as, in the opinion of the Company's management, an intangible asset which is acquired for cancellation in the year immediately following the end of a given financial year meets the definition of a current asset due to the expected timing of its realization through cancellation. Management believe that this change better reflects the Company's intentions and the nature of its assets. As a result, as at 31 December 2011 the Group presents energy certificates and greenhouse gas emission allowances acquired for the purpose of their cancellation in the next year under current assets, as current intangible assets.

The impact of these changes on the statement of financial position as at 31 December 2010 and 1 January 2010 is presented in the tables below:

	As at 31 December 2010 (*approved figures*)	Presentation change relating to energy certificates	Presentation change relating to greenhouse gas emission allowances	**As at 31 December 2010 (*restated figures*)**
Non-current assets	**18 959 101**	**(523 017)**	**(101 173)**	**18 334 911**
Intangible assets	970 530	(523 017)	(101 173)	346 340
Current assets	**4 466 786**	**523 017**	**101 173**	**5 090 976**
Current intangible assets	–	523 017	101 173	624 190

	As at 1 January 2010 (*approved figures*)	Presentation change relating to energy certificates	Presentation change relating to greenhouse gas emission allowances	**As at 1 January 2010 (*restated figures*)**
Non-current assets	**18 475 838**	**(481 885)**	–	**17 993 953**
Intangible assets	824 751	(481 885)	–	342 866
Current assets	**3 673 704**	**481 885**	–	**4 155 589**
Current intangible assets	–	481 885	–	481 885

8.2. Changes in estimates

In the period covered by these consolidated financial statements, the following significant changes were made to estimates which affect the values reported in the consolidated financial statements:

- change in the assumptions underlying actuarial estimates – the impact of the changes in estimates on the amount of the provisions is presented in Note 27,

- estimates concerning provision for decommissioning liabilities related to mines,
- estimates of the useful lives of property, plant and equipment and intangible assets,
- estimates relating to assumptions used in goodwill impairment tests (Note 19).

9. Changes in accounting policies

The accounting policies applied to these consolidated financial statements are consistent with those applied to the consolidated financial statements of the Group for the year ended 31 December 2010, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning on 1 January 2011:

- Amendment to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on or after 1 February 2010. The application of these amendments had no impact on the financial position or results reported by the Group as there were no events to which they applied.
- IAS 24 *Related Party Disclosures* (amended in November 2009) – applicable to annual periods beginning on or after 1 January 2011. The revised IAS 24 is applied by the Group retrospectively to annual periods beginning 1 January 2011.
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirement* – applicable to annual periods beginning on or after 1 January 2011. The application of these amendments had no impact on the financial position or results reported by the Group as there were no events to which they applied.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – applicable to annual periods beginning on or after 1 July 2010. The application of this interpretation had no impact on the financial position or results reported by the Group.
- Amendment to IFRS 1 *First-time Adoption of IFRSs*: *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2010. The application of these amendments had no significant impact on the financial position or results reported by the Group.
- *Improvements to IFRSs* (issued in May 2010) – some improvements are applicable to annual periods beginning on or after 1 July 2010, while the rest is applicable to annual periods beginning on or after 1 January 2011. The application of these amendments had no significant impact on the financial position or results reported by the Group.

The Group has not decided to early apply any standard, interpretation or amendment that has already been issued but is not yet effective.

10. New standards and interpretations issued but not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board or the IFRS Interpretations Committee but are not yet effective:

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the EU until the date of authorization of these financial statements. In the next phases, the IASB will deal with hedge accounting and impairment methodology. The application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. The Group will assess this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent view,
- Amendment to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on or after 1 July 2011,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,

- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements. The most important amendment to IAS 19 from the Company's perspective is the liquidation of the "corridor approach" and the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income. The impact of those amendments on the Group is discussed in detail in Note 27.
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRIC 20 *Stripping Cost of the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements.

Apart from the impact of the amendment to IAS 19 involving the liquidation of the corridor approach, the Company's Management Board has not determined whether or not and to what extent the introduction of the other aforementioned standards and interpretations may affect the Group's accounting policies.

11. Summary of significant accounting policies

These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets, which have been measured at fair value.

11.1. Basis of consolidation

These consolidated financial statements comprise financial information of TAURON Polska Energia S.A. and of its subsidiaries prepared by the individual entities for the years ended 31 December 2011 and 31 December 2010, and in the case of the subsidiaries acquired during the year 2011 (Note 30), for the period from the date of acquisition of control by the parent to 31 December 2011. The financial statements of the subsidiaries, after giving consideration to the adjustments made to achieve conformity with IFRS, are prepared for the same reporting period as those of the parent, using consistent accounting policies applied to similar business transactions and events.

All significant intercompany balances and transactions, including unrealized gains arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless they indicate impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. An entity is controlled by the parent when the parent has, either directly or indirectly through its subsidiaries, more than half of the votes at the shareholders' meeting of that entity, unless it is possible to prove that such holding does not represent control. Control is also exercised if the Company has the power to govern the financial or operating policy of an enterprise without holding a majority interest in equity.

11.2. Interest in a joint venture

Interests in joint ventures, where the Group exercises a joint control, are recognized using the equity method. Prior to the calculation of the share in the net assets of a joint venture, proper adjustments are made to bring the financial data of such entities to conformity with the IFRSs applied by the Group.

Investments in jointly controlled entities are tested for impairment when there is evidence indicating that they are impaired or that an impairment loss recognized in prior years is no longer required.

11.3. Foreign currency translation

On initial recognition, transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date. At the balance sheet date:

- monetary items are translated using the closing rate of exchange (i.e. the average NBP rate determined for the given currency at the given date),
- non-monetary items recognized at historical cost are translated at the historical foreign exchange rate prevailing on the date of the original transaction (the exchange rate of the bank used by the enterprise), and
- non-monetary items recognized at fair value are translated into Polish zloty using the rate of exchange prevailing on the date of re-measurement to fair value.

(in PLN thousand)

Exchange differences resulting from translation are recorded under finance income or finance costs, or, in the cases specified in accounting policies, are capitalized in the cost of the assets. Non-monetary assets and liabilities recognized at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date.

Exchange differences resulting from translation of non-monetary items such as equity instruments carried at fair value through profit or loss are recognized as part of changes in fair value. Exchange differences resulting from translation of non-monetary items such as equity instruments classified as available-for-sale financial assets and measured at fair value are recognized in the statement of comprehensive income.

The following exchange rates were used for valuation purposes:

Currency	31 December 2011	31 December 2010
USD	3.4174	2.9641
EUR	4.4168	3.9603
CZK	0.1711	0.1580

11.4. Property, plant and equipment

Property, plant and equipment are fixed assets which:

- are held by the enterprise for use in the production or supply of goods or services, for administrative purposes or for the purpose of giving them over for use to other entities under rental agreement, and which do not represent investment property, and
- are expected to be used over a period exceeding one year,
- for which it is probable that future economic benefits associated with the asset will flow to the enterprise,
- the cost of the asset to the enterprise can be measured reliably.

The Group recognizes land and perpetual usufruct of land under property, plant and equipment.

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price or manufacturing cost plus any directly attributable costs of buying and bringing the asset to working condition for its intended use. Cost also comprises the expected cost of dismantling the items of property, plant and equipment, removing them and restoring the site on which the asset is located to the original condition, the obligation for which an entity incurs when the asset is installed or is used for purposes other than to produce inventories. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they are incurred.

Upon purchase, property, plant and equipment are divided into components, which represent items with a significant value that can be allocated a separate useful life. General overhauls, routine repairs (if such costs are significant) and costs of replacement of major parts also represent asset components.

The Group recognizes specialist spare parts and servicing equipment as separate items of property, plant and equipment if their useful life exceeds 1 year.

Other spare parts and servicing equipment are presented under inventories and are recognized in profit or loss when used, except for the costs of replacement of spare parts as part of an overhaul of a given item of property, plant and equipment. The adopted materiality level is reviewed at least at the end of each financial year.

Depreciation is charged on the cost of the fixed asset decreased by its residual value. Depreciation begins when the asset is made available for use. Depreciation is charged in accordance with a depreciation plan which determines the estimated useful life of the asset. The depreciation method used reflects the pattern in which the asset’s economic benefits are consumed by the enterprise.

Specialist spare parts and servicing equipment, which are recognized under property, plant and equipment, are depreciated over the useful life of the related asset (i.e. beginning from the date of purchase of the given part to the date of completion of the use of the asset).

The average useful lives of specific groups of fixed assets are as follows:

Type of assets	Average remaining depreciation period in years
Buildings, premises and civil engineering structures	18 years
Plant and machinery	12 years
Motor vehicles	7 years
Other fixed assets	8 years

Depreciation methods, depreciation rates and residual values of property, plant and equipment are reviewed at least at the end of each financial year. Any resulting amendments are recognized as a change of estimates. Depreciation expense is recognized in profit or loss in the expense category consistent with the function of the given asset.

The Group does not charge depreciation on land or perpetual usufruct of land.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the profit or loss for the period in which derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognized at purchase price or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and made available for use. Finance costs eligible for capitalization are also recognized as part of the cost of assets under construction. Capitalization of such expenses is discussed in detail in Note 16.

11.5. Intangible assets

Intangible assets of the Group include identifiable non-monetary assets without physical substance, such as:

- property rights acquired by the enterprise and included under non-current assets which can be of economic use and have an expected useful life of more than one year, designated to be used for internal purposes, including in particular:
  - copyright and related rights, concessions, licenses (including computer software licenses),
  - rights to inventions, patents, trademarks, utility and ornamental patterns, computer software,
  - know-how, i.e. value being the equivalent of the acquired industrial, commercial, scientific or organizational knowledge,
  - greenhouse gas allowances acquired for the purpose of cancellation, if, at the time of the purchase, the entity's intention is to fulfill the obligation to surrender them for cancellation with respect to the following years (where greenhouse gas emission allowances are acquired with the intention to fulfill the obligation for the current year, such allowances are classified as current intangibles under current assets – discussed in detail in Note 11.15),
  - renewable energy certificates and certificates of electricity generated using cogeneration or sources fuelled with natural gas, acquired or received due to production and designated for internal purposes i.e. cancellation, if the entity's intention is to fulfill the obligation to surrender them for cancellation with respect to the following years (where the entity's intention is to fulfill the obligation for the current year, such energy certificates are classified as current intangibles under current assets – discussed in detail in Note 11.15),
- development expenses,
- goodwill – excluding goodwill generated internally,
- other intangible assets recognized at acquisition as part of a business combination.

Intangible assets also include:

- third party intangible assets used in exchange for payments under rental, lease or other agreements of a similar nature if such agreements are classified as finance leases in accordance with IAS 17 *Leases*,
- property rights given over for use by other enterprises under rental, lease or other agreements of a similar nature if such agreements are classified as operating leases in accordance with IAS 17 *Leases*.

Intangible assets are measured on initial recognition at acquisition cost or cost of production in the case of development expenses. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses.

Expenditures incurred for internally generated intangible assets, excluding capitalized development expenses, are not capitalized and are charged against profits in the period in which they are incurred.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. If they are finite, the Group estimates the length of the useful life or the amount of production or other measure providing the basis for determining the useful life.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment on an annual basis.

Renewable energy certificates and certificates of electricity generated using cogeneration or sources fuelled with natural gas, acquired or received due to production and designated for internal purposes, are recognized at acquisition cost or fair value at the date of receipt, as appropriate.

Emission allowances received free of charge under the National Allocation Plan are recognized at nominal value i.e. zero. Additional emission allowances acquired in exchange for consideration are carried at cost less any impairment losses, taking into account their residual value.

Research costs are expensed in profit or loss as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Except for development expenses, all intangible assets generated internally by the Group are not capitalized and are recognized in the profit or loss for the period in which the related expenditures were incurred. Intangible assets arising from development are recognized if and only if the enterprise can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- the intention to complete the intangible asset and use it or sell it,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Development activities include:

- the design, construction and testing of pre-production or pre-use prototypes and models,
- the design of tools, jigs, moulds and dies involving new technology,
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

The following average useful lives were adopted for specific groups of intangible assets:

Type of assets	Average remaining amortization period in years
Patents and licenses	3 years
Development expenses	2 years
Other (including software)	7 years

11.6. Goodwill

Goodwill arising on acquisition is initially recognized at cost being the excess of:

- the aggregate of:
  - consideration transferred,
  - the amount of any non-controlling interest in the acquiree and
  - in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree,
- over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortized.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that is expected to benefit from the combination. Each unit, or set of units, to which the goodwill has been allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
- is not greater than a single business segment, in accordance with IFRS 8 *Operating Segments*.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Where goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

11.7. Impairment of non-financial long-term assets

An assessment is made at each reporting date to determine whether there is any indication that any of non-financial long-term assets may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or the asset's cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized immediately as income in profit or loss. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

11.8. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment and intangible assets (qualifying assets). Borrowing costs comprise interest calculated using the effective interest rate method, finance charges in respect of finance leases and exchange gains or losses arising from borrowings to the extent that they are regarded as an adjustment to interest costs.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. A period of 12 months is deemed to be a substantial period of time.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

These may include:

– costs related to the borrowing of funds for the purpose of acquisition or construction of a specific investment project (investment loans, specific-purpose loans) – specific-purpose borrowings,

– costs related to the borrowing of funds for no specified purpose, however used for the purpose of funding a qualifying asset (borrowings other than investment loans) – general-purpose borrowings.

For the purpose of calculation of borrowing costs eligible for capitalization, other-than-specific-purpose borrowings are considered to be general-purpose borrowings to the extent to which borrowing costs could have been avoided had the enterprise used its cash to pay the liabilities arising from the borrowing of funds.

After the completion of a qualifying asset that has been financed using a specific-purpose borrowing, the specific-purpose borrowing and the related borrowing costs are no longer included in the determination of borrowing costs eligible for capitalization.

The amount of borrowing costs related to general-purpose borrowings that are eligible for capitalization is determined by applying a capitalization rate to the expenditures incurred on qualifying assets. The capitalization rate is the weighted average of all borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than specific-purpose borrowings.

Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare a given qualifying asset for its intended use or sale are complete. Interruptions in the implementation of an investment project that are due to the nature of the activities being conducted do not result in the interruption of capitalization of borrowing costs. In the event investment activities are suspended for any other reason, borrowing costs should not be capitalized from the moment of interruption of the investment activities until such activities are undertaken again.

11.9. Financial assets

Financial assets are classified into one of the following categories:

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

Financial assets held to maturity

Financial assets held to maturity are financial assets with fixed or determinable payments and fixed maturities, which the Group has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss,
- those that are designated as available for sale and
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- It is classified as held for trading. A financial asset is classified as held for trading if it is:
  - acquired principally for the purpose of selling it in the near term,
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
  - a derivative – except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.
- Upon initial recognition it was designated as at fair value through profit or loss, in accordance with IAS 39. Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis, or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy, or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.
- Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date excluding costs to sell. Changes in the values of these financial instruments are recognized in the statement of comprehensive income as finance income or finance costs. If a contract includes one or more embedded derivatives, the whole contract can be classified as a financial asset at fair value through profit and loss. This does not relate to cases where the embedded derivative has no significant impact on the contractual cash flows or where separate recognition of embedded derivatives is clearly prohibited.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets. Loans and receivables are recognized at amortized cost.

Available-for-sale financial assets

All remaining financial assets are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value at each balance sheet date. The fair value of the assets for which a quoted market price is not available is determined with reference to the current market value of another instrument that is substantially the same or based on the estimated future cash flows of the asset (discounted cash flow method). Where no quoted market price is available in an active market and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses.

Positive and negative differences between the fair value of financial assets available for sale (if a quoted market price determined in an active regulated market is available or the fair value can be reliably measured using an alternative method) and the cost of such assets, net of deferred tax, are taken to the revaluation reserve, except for the following:

- impairment losses,
- foreign exchange gains and losses arising on monetary assets,
- interest calculated using the effective interest rate.

Dividends from equity instruments classified as available-for-sale are recognized in profit or loss when the entity's right to receive payment is established.

11.10. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale financial asset, then the amount of the difference between its acquisition cost (net of any principal repayment and interest) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

11.11. Embedded derivatives

An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

The Group performs an analysis of the contracts being entered into and already in force with a view to identifying embedded derivatives.

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if all of the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not recorded at fair value with gains and losses taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate instruments which have not been designated as hedging instruments.

Where the host contract is not a financial instrument, an embedded foreign currency derivative does not need to be bifurcated and separately measured if it is closely related to the economic characteristics and risks of the host contract. This covers circumstances where the currency of the host contract is:

- the functional currency of any of the parties to the contract,
- the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in international commerce,
- the common currency of purchase or sale of non-financial items on the market of a given transaction.

Bifurcated embedded derivatives are recognized in the statement of financial position at fair value, with any changes in fair value recognized in profit or loss.

The Group assesses embedded derivatives as to whether or not they are required to be separated from host contracts upon initial recognition. In the case of embedded derivatives acquired as part of business combination, the Group makes an assessment of embedded derivatives at the acquisition date, which is the date of their initial recognition by the Group.

11.12. Derivative financial instruments

The Group uses derivative financial instruments such as *forward currency contracts* and *interest rate swaps* to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles or based on valuations provided by financial institutions. The fair value of interest rate swap contracts is determined based on computations derived from a mathematical model that is based on current FRA values and IRS quotations published by Reuters, or based on valuations provided by independent financial institutions.

11.13. Hedge accounting

The Group has a hedge accounting policy which determines the hedge accounting principles and types of hedges applied as well as the accounting treatment of hedging instruments and hedged items. In accordance with its policy, the Group applies cash flow hedge accounting. Cash flow hedge accounting involves hedging an exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction and that could affect profit or loss.

A cash flow hedge is accounted for as follows:

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

More specifically, the accounting treatment applied to a cash flow hedge is as follows:

- the separate component of equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):
  - the cumulative gain or loss on the hedging instrument from inception of the hedge and
  - the cumulative change in the fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge;
- any remaining gain or loss on the hedging instrument or a designated portion thereof (which is not an effective hedge) is included in profit or loss for the period and
- if the documented risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss or related cash flows on the hedging instrument from the assessment of hedge effectiveness, that excluded component of gain or loss is recognized in profit or loss for the period in which it arises unless it is classified as an available-for-sale financial asset.

Gains/losses on the remeasurement of a hedging instrument that were recognized in other comprehensive income are recognized directly in profit or loss for the period at the time the hedged item affects the profit or loss for the period, or are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability if the hedged item results in the recognition of a non-financial asset or liability.

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

The documentation should include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed on an ongoing basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

11.14. Other non-financial assets

The Group recognizes prepayments under other non-financial assets if the following conditions are met:

- they originate from past events – costs incurred by the enterprise for operating purposes,
- they are reliably measurable,
- they will cause an inflow of future economic benefits to the enterprise,
- they relate to future reporting periods.

Prepayments are recognized at the amount of incurred reliably measurable expenses that relate to future reporting periods and will cause an inflow of future economic benefits to the enterprise.

Prepaid expenses are amortized in accordance with the passage of time or level of performance. The time and method of settlement depends on the nature of the expense and takes into account the prudence concept.

At the end of the reporting period, the Group performs a review of prepaid expenses to check whether the probability that economic benefits will flow to the enterprise after the end of the current period is sufficient to recognize the given item as an asset.

During the reporting period, the following items are recognized under prepayments:

- property insurance expenses,
- current payments for perpetual usufruct of land,
- real estate tax,
- costs of preparing production in hard coal mines, including in particular costs of assembling longwalls and costs of drilling extraction tunnels that are not classified as items of property, plant and equipment,
- transfers to the Social Fund,
- subscriptions,
- other expenses relating to future reporting periods.

Other non-financial assets include in particular receivables from the state budget (except for CIT receivables which are presented as a separate item in the statement of financial position), the excess of Social Fund assets over Social Fund liabilities and advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented consistent with the nature of the related assets i.e. under non-current or current assets, as appropriate. Advance payments are not subject to discounting as they represent non-monetary assets.

11.15. Current intangible assets

Current intangible assets include renewable energy and cogeneration certificates acquired or received due to production and designated for internal purposes which have been acquired with the intention to submit them for cancellation due to sale of electricity to final users in the current year. Where the company's intention is to submit energy certificates for cancellation in order to fulfill the obligation relating to the following years, they are classified as intangibles under non-current assets (Note 11.5).

Renewable energy certificates and certificates of electricity generated using cogeneration or sources fuelled with natural gas, acquired or received due to production and designated for internal purposes, are recognized under current intangible assets at acquisition cost or fair value at the date of receipt, as appropriate.

Current intangible assets also include greenhouse gas emission allowances if they are acquired in order to fulfill the obligation arising from greenhouse gas emission for the current year. If the company acquires greenhouse gas emission allowances in order to fulfill the cancellation requirement arising from emission in the following years, such allowances are presented as intangibles under non-current assets (Note 11.5). The acquired greenhouse gas emission allowances are recognized at cost.

11.16. Inventories

Inventories include assets:

- held for sale in the ordinary course of business,
- in the process of production for such sale, or
- in the form of materials or raw materials to be consumed in the production process or in the rendering of services.

Inventories also include emission allowances and energy certificates purchased or received due to production of electricity using renewable sources, gas-fired plants or cogeneration, which are intended for sale.

Inventories are measured at the lower of cost and net realizable value.

Costs incurred in bringing each inventory item to its present location and condition are included in the cost of inventories. The closing balance of inventories is determined as follows:

Materials	– at cost determined on the "weighted average" basis,
Finished goods and work-in-progress	– at the cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity, excluding borrowing costs,
Goods for resale	– at cost determined on the "weighted average" basis.

Energy certificates acquired free of charge due to production of electricity using renewable sources, gas-fired plants or cogeneration are recognized at fair value as of the date on which the granting of such certificates is assured.

The cost of inventories used for valuation at the balance sheet date must not be higher than their net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

11.17. Trade and other receivables

Trade receivables are recognized and carried at the original invoice amount unless the effect of the time value of money is material, less an allowance for any uncollectible amounts.

Doubtful debt allowances are recorded under operating expenses or finance costs, depending on the nature of the receivable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as finance income.

11.18. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand as well as short-term deposits with an original maturity of three months or less.

The balance of cash and cash equivalents in the consolidated statement of cash flows consists of cash and cash equivalents as defined above. If bank overdrafts are used as part of cash management, subject to the provisions of IAS 7, the balance of cash and cash equivalents in the consolidated statement of cash flows is presented net of the outstanding bank overdrafts.

11.19. Issued capital

The issued share capital in the consolidated financial statements is recorded at the amount stated in the parent's Articles of Association and registered in the court register. Contributions declared but unpaid are recognized as unpaid share capital with a negative value. Treasury shares are recognized as a separate item of equity with a negative value.

11.20. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are recorded under operating expenses, other operating expenses or finance costs, depending on the underlying circumstances.

If the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is determined as a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect the risk that has been reflected in the estimated future cash flows. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

In particular, the Group has recognized the following provisions:

- *provisions for post-employment benefits, jubilee bonuses and employment termination benefits*

  In accordance with internal remuneration regulations, employees of the Group companies are entitled to the following benefits:

  - retirement and disability benefits – payable on a one-off basis upon retirement,
  - jubilee bonuses – payable after completion of a specified number of years in service,
  - coal allowances – granted in nature at a specified amount or payable in the form of a cash equivalent,

– cash equivalents resulting from special electricity rates and charges granted to employees in the energy sector,

– death benefits,

– post-employment benefits from the Social Fund.

The carrying amount of the Group's liabilities resulting from those benefits is calculated at each balance sheet date by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future, accounts for staff turnover and relates to the period up to the balance sheet date. Demographic information and information on staff turnover are based on historical data.

With respect to post-employment benefits, actuarial gains and losses are recognized in accordance with the provisions of IAS 19 i.e. using the so-called "corridor approach". According to the "corridor approach", in measuring its defined benefit liability the Company recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the preceding reporting period exceed 10% of the present value of the defined benefit obligation at that date. The portion of actuarial gains and losses exceeding the above limit is recognized in the profit or loss for the period at an amount equal to the excess mentioned above divided by the expected average remaining working lives of the Company's employees.

In addition, in accordance with IAS 19.133, the Group recognizes provisions for benefits arising from termination of employment under the voluntary redundancy scheme. The measurement of such benefits is based on the estimated number of employees who are expected to participate in the scheme as well as the estimated amount of the related payments.

- *provision for decommissioning liabilities related to mines*

A provision for decommissioning liabilities related to mines is determined based on the estimates of future decommissioning costs prepared by independent experts, taking into account the discount rate and the balance of the MDF that is recognized under separate regulations. In relation to hard coal mines, a corresponding amount is recognized in accordance with IAS 16 as part of the cost of the relevant item of the mine's property, plant and equipment, and any changes in estimates are recognized in accordance with IFRIC 1 as adjustments to the balance of the provision and the capitalized future decommissioning costs.

- *provision for costs of repair of mining damages*

The provision is recognized on the basis of the reported and documented claims for repair of damages. The Group is not aware of any method that would enable it to reliably estimate the amount of mining damages that may arise in the future as a result of current mining activities.

- *provision for dismantling and removing property, plant and equipment*

The provision is recognized in accordance with the principles set out in IAS 16, IAS 37 and IFRIC 1.

- *provision for obligation to surrender energy certificates*

A provision for the obligation to surrender renewable energy certificates for cancellation is recognized as follows:

– in the portion covered by the certificates held at the balance sheet date – at the cost of certificates held,

– in the portion not covered by certificates held at the balance sheet date – at the market value of the certificates required to fulfill the obligation at the balance sheet date.

The provision is charged to operating expenses.

- *provision for gas emission obligations*

A provision for obligations relating to the emission of gases covered by the emission allowances scheme is only recognized when the actual emission shows a deficit of emission allowances with regard to allowances granted for the entire trading period.

The provision is recognized under operating expenses using the net liabilities method at the following amounts:

– in the portion covered by the allowances held at the balance sheet date – at the cost of allowances held i.e. if purchased, at carrying amount and if received, at zero value;

– in the portion not covered by the allowances held at the balance sheet date – at the lower of the market value of the allowances required to fulfill the obligation at the balance sheet date and the potential penalty.

- *Provision for use of real estate under power generation facilities without contract*

The Group companies recognize provisions for all claims reported by the owners of real estate on which distribution systems and heat installations are located, at the amount of probable costs of damages due to owners until the balance sheet date. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

- *other provisions are presented by the Group at the reliably estimated present value of future obligations.*

11.21. Share-based payment transactions

A share-based payment is a transfer of the entity's equity instruments or their equivalents made by the entity or its shareholders to third parties (including employees) in return for goods or services provided to the entity by such parties unless the transfer is made for other purpose than payment of consideration for the goods and services provided to the entity.

The Group recognizes the goods or services received or acquired as part of an equity-settled share-based payment transaction and the corresponding increase in equity at the date of receipt of those goods or services. The goods or services received or acquired as part of a share-based payment transaction that do not qualify for recognition as an asset are expensed by the entity.

The Group measures the value of the goods or services received and the corresponding increase in equity at the fair value of the goods or services received unless their fair value cannot be measured reliably. Where the Group is unable to measure the fair value of the goods or services received reliably, then it determines the value of the goods or services received and the corresponding increase in equity indirectly by reference to the fair value of the equity instruments granted.

The cost of share-based payments to employees is recognized over the period from the grant date to the vesting date. The cost is measured by reference to the fair value at the date at which equity instruments are granted. Due to the fact that typically it is not possible to directly estimate the fair value of the employee services received, the entity is required to measure the fair value of the equity instruments granted. Market based performance features should be included in the grant-date fair value measurement. Non-market based performance features are not taken into account in the measurement of the fair value at the grant date. The initial cost is measured based on the estimated number of shares that will eventually vest, taking into account the probability of occurrence of other than market conditions. This cost is subsequently adjusted over the vesting period if the actual results differ from those expected.

Share-based payments resulting from the employees' right to acquire shares free of charge under the Act of 30 August 1996 on commercialization and privatization of state enterprises were recognized in accordance with the above policy over the period from the date of commercialization and incorporation of a given subsidiary to the date of allocation of shares. Employee share option schemes in the TAURON Group were completed in 2009.

11.22. Appropriation of profit for employee purposes and special funds

Appropriations of profit for the purpose of increasing the Social Fund or for payment of profit-based bonuses to employees are classified under operating expenses of the year to which such profit appropriation relates.

11.23. Loans and borrowings, including debt securities

All loans and borrowings, including debt securities, are initially recognized at the fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the settlement using the effective interest rate.

11.24. Trade and other financial payables

Current trade payables are carried at the amount due and payable. Other payables include wages and salaries, which are measured at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis, or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy, or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date, less directly attributable sale transaction costs. Gains or losses on these liabilities are recognized in profit or loss as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing debt instrument is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

11.25. Other non-financial liabilities

Other non-financial liabilities include in particular VAT payables, other payables to the state budget (except for CIT payables which are recognized as a separate item in the statement of financial position), the excess of Social Fund liabilities over Social Fund assets and liabilities resulting from advance payments received that are to be settled by delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount payable.

11.26. Social Fund

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have more than 20 employees (counted on a full time basis) to establish and run a Social Fund ("the Fund"). The Group companies operate such Funds and make periodic contributions to the Fund. The Fund's purpose is to subsidize social activities of the Group, to grant loans to its employees and to incur other social expenses.

Since social assets are not controlled by the Group companies, they have been set off against Social Fund liabilities.

11.27. Gas emission allowances

Gas emission allowances received under the National Allocation Plan are presented at nominal value equal to zero. Additional allowances purchased on the market and designated for the Group's internal purposes are measured at cost less impairment losses with an account taken of their residual value and are presented under other intangible assets. Emission allowances acquired for trading purposes are presented under inventories.

A provision for obligations arising from gas emission is only recognized when the actual emission shows a deficit of emission allowances within the entire trading period.

Purchased Certified Emission Reductions (CERs), in the number allowed by law for cancellation during a given trading period, are cancelled in the first turn. Provision for liabilities is recognized with respect to CERs purchased for cancellation in a given trading period.

11.28. Leases

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Capitalized leased assets are depreciated on a consistent basis with assets owned by the entity. Where it is not sufficiently certain that the lessee will acquire ownership of the asset before the lapse of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognized as an expense on a straight-line basis over the lease term.

11.29. Taxes

Current income tax

Income tax presented in profit or loss comprises the actual tax expense for the given reporting period as determined by the Group entities in accordance with the provisions of the Corporate Income Tax Act, any corrections of tax settlements for prior years as well as a movement in the balance of the deferred tax asset and deferred tax liability that is not settled against equity.

Deferred income tax

An entity recognizes deferred tax assets and deferred tax liabilities on all temporary differences between the carrying amounts of assets and liabilities and their tax bases and the tax loss available for utilization in the future.

A deferred tax liability is recognized for all taxable temporary differences unless the deferred tax liability arises from:

- the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except for:

- cases in which the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, for which deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets are determined at the amount that is expected to be deducted from the income tax in the future as a result of deductible temporary differences leading to a future decrease in taxable profit and tax loss available for utilization, taking into account the prudence principle. Deferred tax assets are only recognized if they are probable of realization.

A deferred tax liability is recognized at the amount of the income tax amount that will be payable in the future as a result of taxable temporary differences i.e. differences which will cause an increase in taxable profit in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax assets and deferred income tax liabilities of the companies comprising the Tax Capital Group are offset due to the fact that, beginning from 1 January 2012, these companies submit a consolidated tax return.

Value added tax

Revenues, expenses, assets and liabilities are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

11.30. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are recognized at the fair value of the consideration received or receivable, net of Value Added Tax, excise and other sales taxes or charges as well as rebates and discounts. The following specific recognition criteria must also be met before revenue is recognized.

Revenue from sale of goods for resale, finished goods and materials

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue and costs incurred can be reliably measured.

Revenue includes amounts due for finished goods, goods for resale and materials sold by the Group as well as other services relating to principal activities of the Group, determined on the basis of the net price, net of rebates and discounts granted by the Group and net of excise.

Revenue from sale of electricity also includes the amount of compensation for stranded costs. Revenue from compensations is recognized in line with compensation rights earned until the end of the period covered by the compensation scheme. Each time revenue is recognized the Group determines an index of the estimated stranded costs to the sum total of yearly advances received, returned and expected (including the yearly advances received to date). The amount of revenue for a given financial year is the product of multiplying the index and the amounts of the yearly advances received to date, adjusted for annual adjustments and decreased by the amount of compensation revenue recognized in previous years.

Revenue from the rendering of services

Revenue from uncompleted long-term services in the period from the date of entering into the contract to the balance sheet date, after deduction of revenues recognized in profit or loss in previous reporting periods, is recognized in proportion to the stage of completion of such services if it can be reliably estimated. Depending on the type of transaction, the stage of completion can be measured using the following methods:

- surveys of work performed,
- determining the proportion of the contract work completed at a given date in relation to total work to be performed under the contract or
- percentage of costs incurred to date in relation to the total estimated costs necessary to complete the contract. Costs incurred to date include only those expenses that relate to the services completed until that date. Total estimated costs of the transaction include only expenses relating to services already completed or services to be completed.

When the outcome of the contract cannot be estimated reliably, then the revenue derived from the contract is recognized only to the extent of costs incurred that the entity expects to recover.

Revenue from the rendering of services also includes revenue from distribution activities and revenue from settlement of connection fees.

Revenue from illegal energy consumption (electricity or heat) is recognized as part of the principal operating activities of the Group.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, income is recognized over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to profit or loss over the estimated useful life of the relevant asset.

11.31. Costs

Cost of sales

Cost of sales includes:

- cost of production incurred during the given reporting period, adjusted for the movement in the stocks of products (finished goods, semi-finished goods and work-in-progress) and for the cost of goods produced for internal purposes,
- cost of goods for resale and materials sold at acquisition cost,
- impairment write-downs recognized against property, plant and equipment, intangible assets and receivables, and
- total selling expenses and administrative expenses incurred during the reporting period (recognized as profit or loss).

Costs of production which are directly attributable to income earned by an enterprise are recognized in profit or loss for the reporting period in which income is earned.

Costs of production which are only indirectly attributable to income or other benefits earned by an enterprise are recognized in the profit or loss of the enterprise to the extent they relate to the given reporting period, so as to match them to the related income or other economic benefits, taking into account the principles of valuation of property, plant and equipment and inventories.

11.32. Other operating income and expenses

Other operating income and expenses include in particular items resulting from:

- disposal of property, plant and equipment and intangible assets,
- recognition and reversal of provisions, except for provisions related to financial operations or recognized in operating expenses,
- donation or a free-of-charge receipt, including by way of donation of assets, and including cash and cash equivalents, and
- compensation, penalties and fines and other expenses unrelated to ordinary activities.

11.33. Finance income and finance costs

Finance income and finance costs include in particular items resulting from:

- disposal of financial assets,
- re-measurement of the value of financial instruments, excluding financial assets available for sale, for which the effects of revaluation are recognized under revaluation reserve,
- participation in the profits of other entities,
- interest,
- interest expense relating to the measurement of employee benefits in accordance with IAS 19,
- movements in the amount of the provision due to the approach of the date on which costs will be incurred (the effect of unwinding of the discount),
- exchange differences resulting from operations performed during the reporting period and balance sheet valuations of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial cost of the item of property, plant and equipment, to the extent they are regarded as an adjustment to interest expense, and exchange differences resulting from the measurement of non-monetary items classified as available-for-sale, and
- other items related to financial activities.

The Group entities offset foreign exchange gains and losses if they arise from similar transactions. If the exchange differences are significant and do not arise from similar transactions, then the entity considers whether or not to present them separately.

Interest income and interest expense is recognized as interest accrues to the net carrying amount of the financial instrument using the effective interest rate method, taking into account the materiality concept.

Dividends are recognized when the shareholders' rights to receive the payment are established.

11.34. Earnings per share

Earnings per share for each reporting period is calculated as quotient of the net profit for the given accounting period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding in that period.

11.35. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

12. Segment information

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

The Group is organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reporting format during the period from 1 January 2011 to 31 December 2011 and in the comparable period was based on the following operating segments:

- Mining Segment, which includes hard coal mining. The entity which operates in the Mining Segment of the TAURON Group is Południowy Koncern Węglowy S.A.,
- Generation Segment, which includes generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. The main types of fuel used by the Generation Segment are hard coal, biomass, coke-oven gas and blast-furnace gas. The following entities operate in the Generation Segment of the TAURON Group: TAURON Wytwarzanie S.A., Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o.,
- Renewable Sources of Energy Segment, which includes generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment. Entities which operate in the Renewable Sources of Energy Segment of the TAURON Group are TAURON Ekoenergia Sp. z o.o., the two companies acquired in 2010: BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o. as well as two companies acquired in 2011 Lipniki Sp. z o.o. and Vattenfall Wolin-North Sp. z o.o.,

  TAURON Sprzedaż Sp. z o.o. also operated in this segment until 30 September 2010. On that date an organized part of the enterprise related to the generation of electricity using renewable sources – hydroelectric plants was separated out of TAURON Sprzedaż Sp. z o.o. and taken over by TAURON Ekoenergia Sp. z o.o.,
- Segment of Sale of Energy and Other Energy Market Products, which includes wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity. Entities

which operate in that segment of the TAURON Group are TAURON Polska Energia S.A., Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Czech Energy s.r.o. and Vattenfall Sales Poland Sp. z o.o. under control since December 2011,

- Distribution Segment, including operations of TAURON Dystrybucja S.A. and, since 13 December 2011, Górnośląski Zakład Elektroenergetyczny S.A., Vattenfall Distribution Poland S.A. and Vattenfall Network Services Sp. z o.o.

In addition to the main business segments listed above, the TAURON Group also conducts operations in other areas, including heat distribution and sales (TAURON Ciepło S.A.), quarrying of stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulfurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.). In addition, apart from the main business segments, the Group also conducts operations in the area of customer service as well as financial and accounting services for the companies acquired as part of the purchase of Górnośląski Zakład Elektroenergetyczny S.A. (Vattenfall Business Services Poland Sp. z o.o.).

As of 3 January 2011 EnergiaPro Gigawat Sp. z o.o. changed its name to TAURON Obsługa Klienta Sp. z o.o. based in Wrocław, with customer service as its principal activity and ENION Energia Sp. z o.o. changed its name to TAURON Sprzedaż Sp. z o.o. based in Cracow, whose principal activity is sale of electricity.

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

Revenue from transactions between segments is eliminated on consolidation.

Segment assets do not include deferred tax, income tax receivable or financial assets, except for trade receivables and other financial receivables as well as cash and cash equivalents, which represent segment assets.

Segment liabilities do not include deferred tax, income tax payable or financial liabilities, except for trade payables, commitments resulting from the purchase of fixed and intangible assets and payroll creditors, which represent segment liabilities.

Capital expenditure relates to purchases of property, plant and equipment, intangible assets and investment property.

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

The Management Board separately monitors the operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on operating profit or loss, which to a certain extent, as explained in the table below, are measured differently from the operating profit or loss in the consolidated financial statements and EBITDA. The Group's financing (including finance costs and income) and income tax are monitored at the level of the Group and they are not allocated to segments.

The Group additionally presents its operations by geographical areas, which do not, however, represent operating segments of the Group.

(in PLN thousand)

12.1. Operating segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's operating segments for the years ended 31 December 2011 and 31 December 2010.

Year ended 31 December 2011	Coal mining	Generation of electricity and heat using conventional sources	Generation of electricity using renewable sources	Electricity distribution	Sales of electricity and other energy market products	Other	Unallocated items	Total	Eliminations	Total operations
Revenue										
Sales to external customers	533 548	5 734 461	2 438	1 465 151	12 459 208	560 416	–	**20 755 222**	–	**20 755 222**
Inter-segment sales	637 665	701 390	178 236	3 203 086	1 382 537	33 746	–	**6 136 660**	(6 136 660)	–
Segment revenue	**1 171 213**	**6 435 851**	**180 674**	**4 668 237**	**13 841 745**	**594 162**	–	**26 891 882**	**(6 136 660)**	**20 755 222**
Profit/(loss) of the segment	**4 805**	**621 061**	**100 578**	**614 205**	**278 835**	**71 692**	**(4 720)**	**1 686 456**	–	**1 686 456**
Unallocated expenses	–	–	–	–	–	–	(74 967)	**(74 967)**	–	**(74 967)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**4 805**	**621 061**	**100 578**	**614 205**	**278 835**	**71 692**	**(79 687)**	**1 611 489**	–	**1 611 489**
Share in profit/(loss) of associate and joint venture recognised using the equity method	–	(1 046)	–	–	–	–	–	**(1 046)**	–	**(1 046)**
Net finance income (costs)	–	–	–	–	–	–	(44 507)	**(44 507)**	–	**(44 507)**
Profit/(loss) before income tax	**4 805**	**620 015**	**100 578**	**614 205**	**278 835**	**71 692**	**(124 194)**	**1 565 936**	–	**1 565 936**
Income tax expense	–	–	–	–	–	–	(326 576)	**(326 576)**	–	**(326 576)**
Net profit/(loss) for the period	**4 805**	**620 015**	**100 578**	**614 205**	**278 835**	**71 692**	**(450 770)**	**1 239 360**	–	**1 239 360**
EBITDA	**104 645**	**1 187 034**	**125 992**	**1 279 816**	**288 654**	**116 582**	**(79 687)**	**3 023 036**	–	**3 023 036**
Assets and liabilities										
Segment assets	1 143 534	10 345 172	977 464	11 922 893	2 723 352	886 469	–	**27 998 884**	–	**27 998 884**
Investments in associates and joint ventures recognised using the equity method	–	22 717	–	–	–	–	–	**22 717**	–	**22 717**
Unallocated assets	–	–	–	–	–	–	391 930	**391 930**	–	**391 930**
Total assets	**1 143 534**	**10 367 889**	**977 464**	**11 922 893**	**2 723 352**	**886 469**	**391 930**	**28 413 531**	–	**28 413 531**
Segment liabilities	484 548	1 658 708	46 701	2 204 346	1 687 380	148 200	–	**6 229 883**	–	**6 229 883**
Unallocated liabilities	–	–	–	–	–	–	6 044 580	**6 044 580**	–	**6 044 580**
Total liabilities	**484 548**	**1 658 708**	**46 701**	**2 204 346**	**1 687 380**	**148 200**	**6 044 580**	**12 274 463**	–	**12 274 463**
Other segment information										
Capital expenditure*	177 617	921 455	44 030	1 284 707	30 213	45 701	–	**2 503 723**	–	**2 503 723**
Depreciation/amortization	(99 840)	(565 973)	(25 414)	(665 611)	(9 819)	(44 890)	–	**(1 411 547)**	–	**(1 411 547)**

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

(in PLN thousand)

Year ended 31 December 2010	Coal mining	Generation of electricity and heat using conventional sources	Generation of electricity using renewable sources	Electricity distribution	Sales of electricity and other energy market products	Other	Unallocated items	Total	Eliminations	Total operations
Revenue										
Sales to external customers	471 336	1 864 139	38 857	1 167 288	11 317 542	569 717	–	**15 428 879**	–	**15 428 879**
Inter-segment sales	610 062	3 999 069	128 345	3 341 745	776 300	28 246	–	**8 883 767**	(8 883 767)	–
Segment revenue	**1 081 398**	**5 863 208**	**167 202**	**4 509 033**	**12 093 842**	**597 963**	–	**24 312 646**	**(8 883 767)**	**15 428 879**
Profit/(loss) of the segment	**5 908**	**656 169**	**89 407**	**509 281**	**183 934**	**35 445**	**9 341**	**1 489 485**	–	**1 489 485**
Unallocated expenses	–	–	–	–	–	–	(90 226)	**(90 226)**	–	**(90 226)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**5 908**	**656 169**	**89 407**	**509 281**	**183 934**	**35 445**	**(80 885)**	**1 399 259**	–	**1 399 259**
Share in profit/(loss) of associate and joint venture recognised using the equity method	–	(236)	–	–	–	–	–	**(236)**	–	**(236)**
Net finance income (costs)	–	–	–	–	–	–	(141 709)	**(141 709)**	–	**(141 709)**
Profit/(loss) before income tax	**5 908**	**655 933**	**89 407**	**509 281**	**183 934**	**35 445**	**(222 594)**	**1 257 314**	–	**1 257 314**
Income tax expense	–	–	–	–	–	–	(265 931)	**(265 931)**	–	**(265 931)**
Net profit/(loss) for the period	**5 908**	**655 933**	**89 407**	**509 281**	**183 934**	**35 445**	**(488 525)**	**991 383**	–	**991 383**
EBITDA	**110 614**	**1 197 947**	**114 945**	**1 137 804**	**192 029**	**86 032**	**(80 885)**	**2 758 486**	–	**2 758 486**
Assets and liabilities										
Segment assets	1 200 022	9 749 717	727 065	7 720 068	2 755 409	841 196	–	**22 993 477**	–	**22 993 477**
Investments in associates and joint ventures recognised using the equity method	–	764	–	–	–	–	–	**764**	–	**764**
Unallocated assets	–	–	–	–	–	–	436 043	**436 043**	–	**436 043**
Total assets	**1 200 022**	**9 750 481**	**727 065**	**7 720 068**	**2 755 409**	**841 196**	**436 043**	**23 430 284**	–	**23 430 284**
Segment liabilities	496 260	1 394 426	24 411	1 908 521	1 399 603	121 255	–	**5 344 476**	–	**5 344 476**
Unallocated liabilities	–	–	–	–	–	–	2 873 737	**2 873 737**	–	**2 873 737**
Total liabilities	**496 260**	**1 394 426**	**24 411**	**1 908 521**	**1 399 603**	**121 255**	**2 873 737**	**8 218 213**	–	**8 218 213**
Other segment information										
Capital expenditure*	144 419	384 188	146 857	867 124	22 116	38 394	–	**1 603 098**	–	**1 603 098**
Depreciation/amortization	(104 706)	(541 778)	(25 538)	(628 523)	(8 095)	(50 587)	–	**(1 359 227)**	–	**(1 359 227)**

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

(in PLN thousand)

Up to the third quarter of 2010 (inclusive) the value of energy certificates used for internal purposes that were obtained due to the generation of electricity using TAURON Sprzedaż Sp. z o.o.'s hydroelectric plants was included in the revenues of the "Sales of electricity and other energy market products" segment. The value of those certificates in the end of 2010 was PLN 54,212 thousand. Since 30 September 2010, which was the date of the separation of an organized part of the enterprise related to the generation of electricity using renewable energy sources out of TAURON Sprzedaż Sp. z o.o. and the take-over of those assets by TAURON Ekoenergia Sp. z o.o., energy certificates have been included in the revenues of the "Generation of electricity using renewable sources" segment.

In the first quarter of 2011, the parent company decided to change the method of unallocated expenses analysis and to include administrative expenses of the parent in this item, after elimination of costs resulting from intercompany transactions. Administrative expenses of the parent company are incurred for the whole Group and are not directly attributable to any single operating segment.

The change in the method of analyzing unallocated expenses affected the presentation of the note relating to operating segments. In prior periods, administrative expenses of the parent were presented in the "Sales of electricity and other energy market products" segment. The note for the comparable period has been restated according to the amended principles of presentation of unallocated expenses as a result of the change in the method of analyzing segments by the Group.

12.2. Geographical areas

The majority of the Group's operations are conducted on the territory of Poland. Sales to overseas clients during the years ended 31 December 2011 and 31 December 2010 amounted to PLN 665,279 thousand and PLN 228,867 thousand, respectively.

13. Revenues and expenses

13.1. Sales revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Revenue from sale of goods for resale, finished goods and materials, of which:	**15 888 724**	**10 690 314**
Electricity	13 553 113	8 472 903
Heat energy	594 071	628 955
Property rights arising from energy certificates	249 226	296 227
Greenhouse gas emission allowances	258 032	119 350
Compensation for termination of PPAs	414 795	437 875
Coal	501 581	443 365
Furnace blast	149 711	139 625
Compressed air	70 406	66 646
Grit	29 382	20 337
Milling products	27 899	26 327
Stone	10 256	9 420
Scrap	12 762	9 802
Other goods for resale, finished goods and materials	17 490	19 482
Rendering of services, of which:	**4 825 806**	**4 698 111**
Distribution and trade services	4 473 534	4 408 443
Connection fees	148 140	121 811
Maintenance of road lighting	76 240	68 864
IT and data processing services	29 078	17 455
Charges for illegal electricity consumption	10 451	9 357
Other services	88 363	72 181
Other revenue, of which:	**40 692**	**40 454**
Rental income	40 692	40 454
Total sales revenue	**20 755 222**	**15 428 879**

The increase in sales of electricity in the year ended 31 December 2011 compared with the comparative period is mainly due to the amended Energy Law which came into force on 9 August 2010 and imposed an obligation on electricity generators to sell electricity to the public. As a result of the above, the companies from the segment of generation of electricity from conventional sources sold through the power exchange and energy trading platforms about 92% of the total volume of electricity sold by them. Prior to the aforementioned amendment, sales of electricity by the companies from the segment of generation of electricity using conventional sources were eliminated in the consolidation of financial statements due to the fact that almost all of the electricity generated was sold to Group companies.

(in PLN thousand)

13.2. Other operating income

	Year ended 31 December 2011	Year ended 31 December 2010
Penalties, fines, compensations received or receivable	30 840	53 308
Reversal of provisions	26 894	1 018
Subsidies/grants	11 032	9 350
Reduced estimates of provisions for existing pensioners	8 537	2 920
Reversal of impairment losses recognised for other assets	3 692	1 782
Surplus inventories	3 543	3 302
Tax refunds (other than CIT)	3 515	21
Court proceedings costs, litigation and enforcement costs received or receivable	2 110	2 221
Income from perpetual usufruct received free of charge	1 599	9 837
Preferential loans valuation	1 526	1 526
Sale/recovery of scrap metal	1 497	1 127
Statute-barred/forgiven liabilities	534	168
Equivalent of depreciation charges on fixed assets received free of charge	65	5 299
Other	10 778	13 307
Total other operating income	**106 162**	**105 186**

Other operating income arising from the reversal of provisions in the year ended 31 December 2011 mainly includes the reversal of part of the provision for real estate tax amounting to PLN 11,441 thousand by Południowy Koncern Węglowy S.A. and the reversal of part of the provision amounting to PLN 4,274 thousand, recognized by TAURON Dystrybucja S.A. due to the proceedings before the Competition and Consumers Protection Office, as discussed in Note 32.2.

13.3. Other operating expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Recognition of provisions	(28 501)	(25 593)
Increase in provisions for existing pensioners	(19 900)	(18 229)
Loss on the disposal of property, plant and equipment/intangible assets	(15 387)	(12 841)
Costs of electrical and other damages to non-current assets	(13 140)	(46 206)
Social activity costs	(7 876)	(7 189)
Court fees, litigation and enforcement costs	(5 270)	(3 948)
Penalties, fines, compensations	(2 388)	(2 529)
Recognition of impairment losses against other assets	(4 313)	(363)
Delegated employees	(3 757)	(3 973)
Donations	(2 296)	(6 962)
Membership fees	(2 040)	(1 362)
Write-off for abandoned investments and production as well as liquidated materials	(1 015)	(1 404)
Electricity equivalents paid under special rates and charges to former employees	(192)	(4 662)
Other	(10 968)	(8 857)
Total other operating expenses	**(117 043)**	**(144 118)**

Other operating expenses arising from the recognition of provisions mainly includes the recognition by TAURON Dystrybucja S.A. of provisions for the use of real estate without contract, amounting to PLN 13,047 thousand, and provisions for court disputes amounting to PLN 5,425 thousand. In addition, Południowy Koncern Węglowy S.A. recognized a provision for costs of repair of mining damages in the amount of PLN 3,227 thousand.

(in PLN thousand)

13.4. Finance income

	Year ended 31 December 2011	Year ended 31 December 2010
Income from financial instruments, of which:	**109 006**	**91 275**
Interest income	91 776	76 718
Dividends	8 203	4 804
Reversal of write-downs for financial assets	7 315	8 994
Revaluation of financial assets	1 712	759
Other finance income, of which:	**6 761**	**1 009**
Reversal of interest write-downs	5 645	295
Interest on amounts due from the state budget	76	16
Other	1 040	698
Total finance income	**115 767**	**92 284**

The increase in interest income in the year ended 31 December 2011 compared with the comparative period results from the implementation of the central financing model in the Group in the fourth quarter of 2010.

13.5. Finance costs

	Year ended 31 December 2011	Year ended 31 December 2010
Financial instrument costs, of which:	**(85 983)**	**(161 665)**
Interest costs	(63 933)	(114 406)
Recognition of impairment losses	(7 710)	(9 615)
Revaluation of financial assets	(342)	(5 964)
Foreign exchange losses	(5 168)	(830)
Commission relating to borrowings and debt securities	(6 205)	(30 751)
Loss on disposal of investments	(2 625)	(99)
Other finance costs, of which:	**(74 291)**	**(72 328)**
Interest on employee benefits	(68 348)	(66 619)
Interest on amounts due to the state budget	(903)	(472)
Other finance costs	(5 040)	(5 237)
Total finance costs	**(160 274)**	**(233 993)**

The decrease in interest costs in the year ended 31 December 2011 compared with the comparative period results from the implementation of the central financing model in the Group in the fourth quarter of 2010.

(in PLN thousand)

13.6. Costs by type

	Year ended 31 December 2011	Year ended 31 December 2010
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 411 547)	(1 359 227)
Impairment of property, plant and equipment and intangible assets	(71 519)	(7 697)
Materials and energy	(2 873 756)	(2 660 228)
Maitenance and repair services	(210 396)	(226 124)
Distribution services	(1 316 462)	(1 291 731)
Other external services	(706 256)	(653 355)
Taxes and charges	(594 243)	(544 181)
Employee benefits expense	(2 552 727)	(2 592 938)
Inventory write-downs	(946)	(1 526)
Allowance for doubtful debts	(35 561)	(13 049)
Other	(120 264)	(116 692)
Total costs by type	**(9 893 677)**	**(9 466 748)**
Change in inventories, prepayments, accruals and deferred income	(4 925)	(13 143)
Cost of goods produced for internal purposes	409 152	298 544
Selling and distribution expenses	283 684	231 252
Administrative expenses	664 350	670 308
Cost of goods for resale and materials sold	(9 643 402)	(4 809 341)
Cost of sales	**(18 184 818)**	**(13 089 128)**

The increase of the cost of sales in the year ended 31 December 2011 in relation to the comparative period is mainly due to the amended Energy Law which came into force on 9 August 2010 and imposed an obligation on electricity generators to sell electricity to the public, as described in Note 13.1.

13.7. Depreciation/amortization expense and impairment recognized in the statement of comprehensive income

	Year ended 31 December 2011	Year ended 31 December 2010
Items included in cost of sales:	**(1 424 037)**	**(1 320 807)**
Depreciation of property, plant and equipment	(1 333 091)	(1 292 934)
Impairment of property, plant and equipment	34 086	(7 450)
Amortization of intangible assets	(18 774)	(20 403)
Impairment of intangible assets	(106 258)	(20)
Items included in selling and distribution expenses:	**(4 070)**	**(4 950)**
Depreciation of property, plant and equipment	(3 037)	(3 758)
Amortization of intangible assets	(1 033)	(1 192)
Items included in administrative expenses:	**(42 869)**	**(36 163)**
Depreciation of property, plant and equipment	(27 627)	(25 010)
Impairment of property, plant and equipment	653	(255)
Amortization of intangible assets	(15 895)	(10 898)
Items included in cost of goods produced for internal purposes:	**(12 090)**	**(5 032)**
Depreciation of property, plant and equipment	(10 730)	(4 052)
Amortization of intangible assets	(1 360)	(980)
Items included in other operating expenses and income:	**–**	**590**
Impairment of property, plant and equipment	–	590
Total depreciation/amortization expense and impairment	**(1 483 066)**	**(1 366 362)**

(in PLN thousand)

13.8. Employee benefits expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	(1 867 258)	(1 853 839)
Social security costs	(339 433)	(340 820)
Jubilee bonuses	(16 521)	(61 558)
Social Fund	(72 181)	(74 858)
Post-employment benefits expenses, of which:	(92 577)	(89 898)
Provision for retirement, disability and similar benefits	(10 660)	(10 566)
Coal allowances and special electricity rates and charges	(14 398)	(12 942)
Social Fund	(2 594)	(2 528)
Contributions to employee retirment plans	(64 925)	(63 862)
Voluntary termination benefits	(82 473)	(86 217)
Other employee benefits expenses	(82 284)	(85 748)
Employee benefits expenses, of which:	**(2 552 727)**	**(2 592 938)**
Items included in cost of sales	(1 749 005)	(1 805 466)
Items included in selling and distribution expenses	(140 240)	(119 768)
Movement in stocks of finished goods	(140 800)	(174 444)
Items included in administrative expenses	(378 207)	(392 310)
Items included in cost of goods produced for internal purposes	(144 475)	(100 950)

14. Income tax

14.1. Tax expense

Major components of income tax expense for the years ended 31 December 2011 and 31 December 2010 are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax	**(210 343)**	**(210 807)**
Current income tax expense	(206 181)	(209 188)
Adjustments to current income tax from previous years	(4 162)	(1 619)
Deferred tax	**(116 233)**	**(55 124)**
Income tax expense in profit/(loss)	**(326 576)**	**(265 931)**
Income tax expense relating to other comprehensive income	–	**(211)**

(in PLN thousand)

14.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2011 and 31 December 2010 is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit/(loss) before tax from continued operations	**1 565 936**	**1 257 314**
Profit/(loss) before taxation	**1 565 936**	**1 257 314**
Tax at Poland's statutory tax rate of 19%	**(297 528)**	**(238 890)**
Adjustments to income tax from previous years	(4 162)	(1 619)
Tax non-deductible costs, of which:	(30 936)	(25 111)
Recognition of non-deductible provisions and write-downs/allowances	(7 044)	(3 082)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 283)	(3 652)
Permanent differences on costs related to tangible assets	(4 081)	(3 238)
Other	(15 528)	(15 139)
Income not included in taxable profit, of which:	11 971	6 566
Dividends	1 550	878
Reversal of non-deductible provisions and write-downs/allowances	1 848	790
Other	8 573	4 898
Changes in deferred tax estimates	(818)	(7 194)
Other	(5 103)	317
Tax at the effective rate of 20.9% (2010 – 21.2%)	**(326 576)**	**(265 931)**
Income tax (expense) in profit/(loss)	(326 576)	(265 931)

(in PLN thousand)

14.3. Deferred income tax

Deferred income tax relates to the following:

	As at 31 December 2011	As at 31 December 2010	Movement in the year ended 31 December 2011	
			resulting from acquisition of subsidiaries	recognized in the statement of comprehensive income
Deferred tax liability				
– investment tax credits	89	102	–	(13)
– difference between tax base and carrying amount of fixed and intangible assets	1 730 720	1 537 110	106 852	86 758
– difference between tax base and carrying amount of assets measured at fair value through profit or loss	1 147	558	1 088	(499)
– difference between tax base and carrying amount of financial assets available for sale	8 025	8 800	2	(777)
– difference between tax base and carrying amount of financial assets held to maturity	120	238	–	(118)
– difference between tax base and carrying amount of loans and receivables	4 222	1 633	1	2 588
– difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	98	101	–	(3)
– different timing of recognition of sales revenue for tax purposes	108 010	69 601	4 051	34 358
– recognition of estimated revenue from sale of power distribution services	4 912	14 292	1 992	(11 372)
– difference between tax base and carrying amount of property rights arising from energy certificates	63 750	14 085	22 197	27 468
– compensation for termination of long-term contracts	93 859	86 103	–	7 756
– other	29 693	23 792	4 500	1 401
Deferred tax liability	**2 044 645**	**1 756 415**	**140 683**	**147 547**
Deferred tax assets				
– difference between tax base and carrying amount of fixed and intangible assets	1 770	5 661	–	(3 891)
– difference between tax base and carrying amount of inventories	4 568	1 877	–	2 691
– difference between tax base and carrying amount of other non-financial assets	364	213	–	151
– power infrastructure received free of charge and received connection fees	86 115	88 085	–	(1 970)
– provisions	504 018	437 423	48 555	18 040
– difference between tax base and carrying amount of assets measued at fair value through profit or loss	1 620	1 563	1 084	(1 027)
– difference between tax base and carrying amount of financial assets available for sale	900	990	322	(412)
– difference between tax base and carrying amount of loans and receivables	25 569	3 483	14 070	8 016
– difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	2 097	2 277	–	(180)
– difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	114	–	–	114
– difference between tax base and carrying amount of financial liabilities measured at amortized cost	3 552	935	18	2 599
– difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	11	27	–	(16)
– accrued audit expenses and actuary's fees	117	107	30	(20)
– different timing of recognition of cost of sales for tax purposes	70 806	56 914	–	13 892
– other accrued expenses	19 460	5 597	1 270	12 593
– tax losses	6 272	47 340	347	(41 415)
– different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	61 182	31 920	–	29 262
– other	17 685	18 194	6 604	(7 113)
Deferred tax assets	**806 220**	**702 606**	**72 300**	**31 314**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:				
Deferred tax asset	**31 965**	**161 806**		
Deferred tax liability	**(1 270 390)**	**(1 215 615)**		

As at 31 December 2011, deferred tax assets and deferred tax liabilities of the companies comprising the Tax Capital Group as described in detail in Note 14.4 were offset due to the fact that, beginning from 1 January 2012, these companies will submit a consolidated tax return.

(in PLN thousand)

Movement in deferred tax liability

	Year ended 31 December 2011	Year ended 31 December 2010
Opening balance as at 1 January	**1 756 415**	**1 642 949**
Increases (relating to)	**497 194**	**590 574**
in corespondence with profit or loss	356 511	590 574
in corespondence with equity	–	–
acquisition of a subsidiary	140 683	–
Decreases (relating to)	**(208 964)**	**(477 108)**
in corespondence with profit or loss	(208 964)	(477 108)
in corespondence with equity	–	–
Closing balance as at 31 December	**2 044 645**	**1 756 415**

Movement in deferred tax assets

	Year ended 31 December 2011	Year ended 31 December 2010
Opening balance as at 1 January	**702 606**	**644 475**
Increases (relating to)	**661 702**	**443 678**
in corespondence with profit or loss	589 402	440 793
in corespondence with equity	–	2 885
acquisition of a subsidiary	72 300	–
Decreases (relating to)	**(558 088)**	**(385 547)**
in corespondence with profit or loss	(558 088)	(382 451)
in corespondence with equity	–	(3 096)
Closing balance as at 31 December	**806 220**	**702 606**

14.4. Tax Capital Group

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

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible for paying monthly advances in respect of the corporate income tax of the Tax Capital Group, in accordance with the provisions of the Corporate Income Tax Act. The share of each company of the Tax Capital Group in the monthly advance for the corporate income tax is determined based on the percentage share of the tax base reported by the given company in the tax base reported by the Tax Capital Group, excluding the companies reporting tax losses. Where the final amount of a given company's share is lower than the initial amount transferred by that company to the Company Representing the Tax Capital Group, the latter returns the difference to that company immediately. The ultimate share of each company in the corporate income tax of the Tax Capital Group is calculated by the 15th day of the fourth month following the fiscal year, based on the percentage share of the tax base reported by a given company in the tax base reported by the Tax Capital Group.

(in PLN thousand)

15. Social assets, Social Fund liabilities and special funds

The tables below present an analysis of the individual funds:

- Social Fund

	As at 31 December 2011	As at 31 December 2010
Loans granted to employees	48 001	47 413
Cash	27 161	27 531
Other Fund assets and liabilities	(129)	(210)
Social Fund liabilities	(72 231)	(72 204)
Net balance	**2 802**	**2 530**
Transfers made to the Social Fund during the period	(73 904)	(75 100)

- Mine Decommissioning Fund

In accordance with the provisions of the Geological and Mining Law and the executive regulations issued based on that Act, the mining companies being part of the Group set up a Mine Decommissioning Fund (“MDF”). The MDF is set up as a certain percentage of the value of depreciation of property plant and equipment recognized for tax purposes or by reference to the exploitation fee, by way of a transfer of cash equivalent to such depreciation charges to a separate bank account. The financial assets of the MDF are presented in the statement of financial position as long-term financial assets, whereas the balance of the MDF is recognized as part of the provision for decommissioning liabilities related to mines. The tables below present the amount of the transfer to the MDF, the balance of the MDF assets and the balance of net decommissioning liabilities.

Financial assets of the Mine Decommissioning Fund

	Year ended 31 December 2011	Year ended 31 December 2010
Assets as at 1 January	**21 025**	**20 029**
Contributions made	3 037	149
Interest	100	847
Utilization	–	–
Assets as at 31 December	**24 162**	**21 025**
Transfers made to the MDF in the period	(2 724)	(2 893)

Financial liabilities of the Mine Decommissioning Fund

	Year ended 31 December 2011	Year ended 31 December 2010
Mine Decommissioning Fund	26 774	23 950
Surplus of discounted estimated decommissioning costs	2 508	2 288
Surplus of Mine Decommissioning Fund over discounted estimated decommiddioning costs	(6 240)	(4 578)
Total decommissioning liability	**23 042**	**21 660**

(in PLN thousand)

16. Property, plant and equipment

Year ended 31 December 2011

	Land	Perpetual usufruct	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**61 995**	**789 048**	**10 656 165**	**9 753 514**	**255 375**	**257 369**	**21 773 466**	**723 919**	**22 497 385**
Adjustments	(3 425)	3 425	–	–	–	–	–	–	–
Opening balance after adjustments	**58 570**	**792 473**	**10 656 165**	**9 753 514**	**255 375**	**257 369**	**21 773 466**	**723 919**	**22 497 385**
Direct purchase	–	–	1	292	163	88	**544**	2 317 551	**2 318 095**
Transfer of assets under construction	3 249	750	888 692	672 640	51 550	32 572	**1 649 453**	(1 649 453)	–
Sale, disposal	30	(5 173)	(10 621)	(2 379)	(4 072)	(2 631)	**(24 846)**	(10 619)	**(35 465)**
Reclassifications	–	1	(132)	96 075	–	(95 944)	–	–	–
Donations and free-of-charge transfers	–	–	–	(228)	(3)	(180)	**(411)**	–	**(411)**
Liquidation	(6)	(6)	(35 347)	(142 972)	(1 843)	(3 919)	**(184 093)**	(139)	**(184 232)**
Received free of charge	31	1 568	32 942	642	–	–	**35 183**	–	**35 183**
Acquisition of subsidiary	2 566	46 321	2 246 171	789 690	33 066	50 221	**3 168 035**	122 334	**3 290 369**
Received for use under rental, lease or similar agreements	–	–	–	4 542	1 503	–	**6 045**	(4 542)	**1 503**
Contribution in kind	–	–	–	–	–	–	–	–	–
Spare parts allocated to fixed assets	–	–	105	(7 033)	–	(284)	**(7 212)**	–	**(7 212)**
Overhaul expenses	–	–	455	5 918	–	–	**6 373**	95 888	**102 261**
Write-off of discontinued investments	–	–	–	–	–	–	–	(871)	**(871)**
Transfers to intangible assets	–	–	–	–	–	–	–	(7 551)	**(7 551)**
Items discovered	12	–	2 910	48	–	3	**2 973**	–	**2 973**
Items generated internally	–	–	–	–	–	–	–	31 602	**31 602**
Other movements	(27)	(293)	(1 452)	1 017	22	(189)	**(922)**	9 951	**9 029**
Foreign exchange differences from translation of foreign entities	–	–	–	8	–	1	**9**	–	**9**
Closing balance	**64 425**	**835 641**	**13 779 889**	**11 171 774**	**335 761**	**237 107**	**26 424 597**	**1 628 070**	**28 052 667**
ACCUMULATED DEPRECIATION									
Opening balance	**(374)**	**(1 341)**	**(2 353 470)**	**(2 391 976)**	**(93 111)**	**(126 277)**	**(4 966 549)**	**(5 900)**	**(4 972 449)**
Adjustments	–	–	–	–	–	–	–	–	–
Opening balance after adjustments	**(374)**	**(1 341)**	**(2 353 470)**	**(2 391 976)**	**(93 111)**	**(126 277)**	**(4 966 549)**	**(5 900)**	**(4 972 449)**
Depreciation for the period	–	–	(605 643)	(706 126)	(38 864)	(23 852)	**(1 374 485)**	–	**(1 374 485)**
Increase of impairment	(322)	(259)	(632)	(1 127)	(5)	(44)	**(2 389)**	–	**(2 389)**
Decrease of impairrment	–	147	29 930	6 175	163	306	**36 721**	407	**37 128**
Sale, disposal	51	682	9 840	2 381	3 261	1 574	**17 789**	–	**17 789**
Reclassifications	–	–	43	(29 305)	–	29 262	–	–	–
Donations and free-of-charge transfers	–	–	–	203	3	127	**333**	–	**333**
Liquidation	–	–	14 322	132 342	1 650	3 023	**151 337**	399	**151 736**
Contribution in kind	–	–	–	–	–	–	–	–	–
Depreciation posted to assets under construction	–	–	–	–	–	68	**68**	(68)	–
Other movements	–	–	439	58	8	150	**655**	66	**721**
Foreign exchange differences from translation of foreign entities	–	–	–	(4)	–	–	**(4)**	–	**(4)**
Closing balance	**(645)**	**(771)**	**(2 905 171)**	**(2 987 379)**	**(126 895)**	**(115 663)**	**(6 136 524)**	**(5 096)**	**(6 141 620)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**61 621**	**787 707**	**8 302 695**	**7 361 538**	**162 264**	**131 092**	**16 806 917**	**718 019**	**17 524 936**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**63 780**	**834 870**	**10 874 718**	**8 184 395**	**208 866**	**121 444**	**20 288 073**	**1 622 974**	**21 911 047**

(in PLN thousand)

Year ended 31 December 2010

	Land	Perpetual usufruct	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**57 747**	**783 111**	**10 090 384**	**9 247 487**	**213 779**	**221 163**	**20 613 671**	**351 397**	**20 965 068**
Direct purchase	–	–	61	1 325	969	415	**2 770**	1 328 114	**1 330 884**
Transfer of assets under construction	5 386	2 335	554 644	541 314	42 113	39 024	**1 184 816**	(1 184 816)	–
Sale, disposal	(897)	(2 032)	(5 473)	(1 083)	(2 076)	(71)	**(11 632)**	(416)	**(12 048)**
Reclassifications	–	–	14 245	(14 434)	–	189	–	–	–
Donations and free-of-charge transfers	–	(4 159)	(615)	(52)	(14)	–	**(4 840)**	–	**(4 840)**
Liquidation	(248)	(7)	(14 856)	(52 163)	(1 464)	(3 714)	**(72 452)**	(261)	**(72 713)**
Received free of charge	3	9 837	18 981	1 579	–	54	**30 454**	–	**30 454**
Acquisition of a subsidiary	–	–	–	–	–	–	–	111 352	**111 352**
Received for use under rental, lease or similar agreements	–	–	–	522	1 410	–	**1 932**	(522)	**1 410**
Contribution in kind	–	(362)	(3 464)	(139)	–	(203)	**(4 168)**	(57)	**(4 225)**
Spare parts allocated to fixed assets	–	–	(54)	7 667	–	1 291	**8 904**	3 969	**12 873**
Overhaul expenses	–	–	1 166	12 781	561	–	**14 508**	86 022	**100 530**
Write-off of discontinued investments	–	–	–	–	–	–	–	(1 710)	**(1 710)**
Transfer to intangible assets	–	–	–	–	–	–	–	(1 576)	**(1 576)**
Items discovered	–	347	1 812	497	–	66	**2 722**	–	**2 722**
Items generated internally	–	–	–	–	–	–	–	32 318	**32 318**
Other movements	4	(22)	(666)	8 213	97	(845)	**6 781**	105	**6 886**
Closing balance	**61 995**	**789 048**	**10 656 165**	**9 753 514**	**255 375**	**257 369**	**21 773 466**	**723 919**	**22 497 385**
ACCUMULATED DEPRECIATION									
Opening balance	**(867)**	**(1 065)**	**(1 755 603)**	**(1 774 164)**	**(64 427)**	**(97 229)**	**(3 693 355)**	**(11 140)**	**(3 704 495)**
Depreciation for the period	–	–	(597 301)	(665 203)	(31 192)	(32 058)	**(1 325 754)**	–	**(1 325 754)**
Increase of impairment	–	(297)	(11 755)	(3 638)	(135)	(302)	**(16 127)**	(333)	**(16 460)**
Decrease of impairrment	493	24	3 180	434	31	51	**4 213**	5 132	**9 345**
Sale, disposal	–	25	583	735	1 242	58	**2 643**	–	**2 643**
Reclassifications	–	–	(1 878)	1 739	–	(133)	**(272)**	272	–
Donations and free-of-charge transfers	–	–	318	47	9	–	**374**	–	**374**
Liquidation	–	–	8 228	48 064	1 429	2 334	**60 055**	244	**60 299**
Contribution in kind	–	–	225	80	–	160	**465**	–	**465**
Depreciation posted to assets under construction	–	–	–	–	–	–	–	–	–
Other movements	–	(28)	533	(70)	(68)	842	**1 209**	(75)	**1 134**
Closing balance	**(374)**	**(1 341)**	**(2 353 470)**	**(2 391 976)**	**(93 111)**	**(126 277)**	**(4 966 549)**	**(5 900)**	**(4 972 449)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**56 880**	**782 046**	**8 334 781**	**7 473 323**	**149 352**	**123 934**	**16 920 316**	**340 257**	**17 260 573**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**61 621**	**787 707**	**8 302 695**	**7 361 538**	**162 264**	**131 092**	**16 806 917**	**718 019**	**17 524 936**

The recognition and reversal of impairment losses on property, plant and equipment relate to individually determined fixed assets.

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts at 31 December 2011 is PLN 64,178 thousand (31 December 2010: PLN 109,143 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

The carrying amount of buildings and structures held under finance lease agreements or hire purchase contracts at 31 December 2011 is PLN 22,266 thousand (31 December 2010: PLN 23,598 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

In 2011, the Group capitalized interest of PLN 28,495 thousand in the cost of assets under construction and intangible assets not made available for use.

As at 31 December 2011, taking into account the assumptions prevailing on that date, including those resulting from the effects of the merger of PEC Dąbrowa Górnicza S.A. and PEC Katowice S.A. (currently TAURON Ciepło S.A.), an analysis performed confirmed that the non-current assets of TAURON Ciepło S.A. were not impaired at the balance sheet date, which resulted in the reversal in 2011 of the entire impairment allowance for property, plant and equipment recognized in previous years in the amount of PLN 33.3 million. The Group estimated the amount of the discounted free cash flows for the cash generating unit ("CGU") identified i.e. TAURON Ciepło. The analysis was performed based on a 5-year financial forecast and the following assumptions relating to, among others, the number of CGUs (identified as one CGU for TAURON Ciepło S.A.), level of sales, selling prices, level of costs and the discount ratio in the consecutive years of operations (pre-tax WACC at the level of 9.69%). The Group expects that none of the reasonably possible and highly probable changes in any of the key assumptions used in the analysis will result in the carrying amount of the property, plant and equipment exceeding their recoverable amount.

17. Non-current assets classified as held for sale

Non-current assets classified as held for sale, amounting to PLN 8,951 thousand as at 31 December 2011, included:

- Megaukład Ciepłownia Zawodzie (The Zawodzie Heating Plant Mega-system) located in Częstochowa, being the property of TAURON Dystrybucja S.A., with the carrying amount of PLN 2,709 thousand. The asset was held for sale as at 31 December 2010 and it was not sold until the balance sheet date despite the tenders announced for its sale. Further activities are being undertaken to sell the asset, and a revaluation of the property has been performed;
- Ośrodek Szkoleniowo-Wypoczynkowy Rożnów (Rożnów Training and Recreation Center) with the carrying amount of PLN 2,664 thousand and Ośrodek Szkoleniowo-Wypoczynkowy Jaga (Jaga Training and Recreation Center) with the carrying amount of PLN 1,907 thousand, being the property of TAURON Dystrybucja S.A. Based on the decision of the company's Board of Directors dated 15 February 2011, the said recreation centers were designated for sale. The company has undertaken activities to sell these assets through an estate agency;
- A property with a value of PLN 1,671 thousand, owned by Elektrociepłownia Tychy S.A., located in Kossów, commune of Radków, the Świętokrzyskie voivodship, comprising a developed plot of land with a surface of 3.1900 ha. This asset was held for sale as at 31 December 2010. The company's management has been continuing its efforts to sell this asset.

Non-current assets classified as held for sale, amounting to PLN 4,397 thousand as at 31 December 2010, include:

- Megaukład Ciepłownia Zawodzie (The Zawodzie Heating Plant Mega-system) located in Częstochowa, which includes land together with buildings: a boiler room, engine room, distribution room as well as a heat generation installation, being the property of TAURON Dystrybucja S.A., with a value of PLN 2,709 thousand as at 31 December 2010. Based on resolution of the Ordinary General Shareholders' Meeting dated 25 June 2009 and resolution of the Extraordinary General Shareholders' Meeting dated 3 August 2010, the shareholders agreed for the disposal of a portion of the company's assets representing Megaukład Ciepłownia Zawodzie.
- A property with a value of PLN 1,671 thousand, located in Kossów, commune of Radków, the Świętokrzyskie voivodship, representing a developed plot of land with a surface of 3.1900 hectares. In the past, this was the location of Zakład Produkcji Biomasy (The Biomass Production Plant) of Elektrociepłownia Tychy S.A.
- A recreational plot with cabins with the carrying amount of PLN 17 thousand as at 31 December 2011. In 2011 this property was sold with a profit of PLN 53 thousand.

18. Leases

18.1. Operating lease commitments – Group as the lessee

On 30 April 2008, a subsidiary of TAURON Polska Energia S.A., Południowy Koncern Energetyczny S.A., now TAURON Wytwarzanie S.A., due to the sale of property located in Katowice at ul. Lwowska 23 to PKE Broker Sp. z o.o., concluded a lease agreement for the use of this property. TAURON Polska Energia S.A. is a sub-lessee of a portion of the property. The value of the leased property that is not included under non-current assets is PLN 52,386 thousand. Annual lease charges in the years 2011 and 2010 amounted to PLN 6,032 thousand and PLN 6,052 thousand, respectively.

(in PLN thousand)

In addition, the subsidiary Południowy Koncern Węglowy S.A. uses mining plant and equipment under operating lease agreements. The value of the property, plant and equipment used was PLN 40,101 thousand as at 31 December 2011 and PLN 39,345 thousand as at 31 December 2010. Annual lease charges in the years 2011 and 2010 amounted to PLN 18,629 thousand and PLN 17,417 thousand, respectively.

18.2. Finance lease and hire purchase commitments

As at 31 December 2011 and 31 December 2010, future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

	As at 31 December 2011		As at 31 December 2010	
	Minimum lease payments	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
Within 1 year	19 529	14 761	28 329	23 452
Within 1 to 5 years	65 113	56 232	61 964	52 025
More than 5 years	–	–	16 502	15 785
Minimum lease payments, total	**84 642**	**70 993**	**106 795**	**91 262**
Less amounts representing finance charges	(13 649)	–	(15 533)	–
Present value of minimum lease payments, of which:	**70 993**	**70 993**	**91 262**	**91 262**
current	14 761	14 761	23 452	23 452
non-current	56 232	56 232	67 810	67 810

(in PLN thousand)

19. Intangible assets

Long-term intangible assets, year ended 31 December 2011

	Development expenses	Goodwill	Software	Other acquired concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST								
Opening balance	**4 389**	**169 553**	**210 046**	**3 371**	**59 977**	**4 430**	**10 362**	**462 128**
Direct purchase	–	–	294	1 241	41 776	–	47 863	**91 174**
Transfer of intangible assets not made available for use	–	–	38 058	54	–	6 219	(44 331)	–
Sale, disposal	–	–	–	–	(4 699)	–	–	**(4 699)**
Reclassifications	–	–	–	–	–	–	–	–
Donations and free-of-charge transfers	–	–	(55)	–	–	–	–	**(55)**
Liquidation	–	–	(4 323)	(247)	–	(9)	–	**(4 579)**
Received free of charge	–	–	–	–	–	453	–	**453**
Acquisition of a subsidiary	–	556 816	19 864	913	–	23 626	–	**601 219**
Contribution in kind	–	–	–	–	–	–	–	–
Write-off of discontinued investments	–	–	–	–	–	–	(638)	**(638)**
Transfers from assets under construction	–	–	6 633	–	–	90	828	**7 551**
Other movements	–	–	415	(412)	441	(40)	(293)	**111**
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	–	40	**40**
Closing balance	**4 389**	**726 369**	**270 932**	**4 920**	**97 495**	**34 769**	**13 831**	**1 152 705**
ACCUMULATED AMORTIZATION								
Opening balance	**(2 913)**	–	**(109 559)**	**(1 247)**	**(22)**	**(1 596)**	**(450)**	**(115 787)**
Amortization for the period	(569)	–	(35 201)	(517)	–	(775)	–	**(37 062)**
Increase of impairment	–	–	–	–	(15 166)	–	–	**(15 166)**
Decrease of impairment	–	–	–	–	22	–	–	**22**
Sale, disposal	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–
Donations and free-of-charge transfers	–	–	36	–	–	–	–	**36**
Liquidation	–	–	3 579	163	–	8	450	**4 200**
Received free of charge	–	–	–	–	–	–	–	–
Contribution in kind	–	–	–	–	–	–	–	–
Other movements	–	–	(101)	103	–	–	–	**2**
Closing balance	**(3 482)**	–	**(141 246)**	**(1 498)**	**(15 166)**	**(2 363)**	–	**(163 755)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 476**	**169 553**	**100 487**	**2 124**	**59 955**	**2 834**	**9 911**	**346 340**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**907**	**726 369**	**129 686**	**3 422**	**82 329**	**32 406**	**13 831**	**988 950**

(in PLN thousand)

Long-term intangible assets, year ended 31 December 2010

	Development expenses	Goodwill	Software	Other acquired concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST								
Opening balance	**4 104**	**169 553**	**187 529**	**3 034**	**52 701**	**3 969**	**7 266**	**428 156**
Direct purchase	–	–	1 502	467	7 276	–	26 020	**35 265**
Transfer of intangible assets not made available for use	–	–	23 700	12	–	281	(23 993)	–
Sale, disposal	–	–	–	–	–	–	–	–
Reclassifications	–	–	16	3	–	(19)	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–
Liquidation	–	–	(3 002)	(145)	–	(1)	–	**(3 148)**
Received free of charge	–	–	–	–	–	–	–	–
Contribution in kind	–	–	(44)	–	–	–	–	**(44)**
Write-off of discontinued investments	–	–	–	–	–	–	–	–
Transfers from assets under construction	–	–	331	–	–	200	1 045	**1 576**
Other movements	285	–	14	–	–	–	24	**323**
Closing balance	**4 389**	**169 553**	**210 046**	**3 371**	**59 977**	**4 430**	**10 362**	**462 128**
ACCUMULATED AMORTIZATION								
Opening balance	**(2 038)**	–	**(80 615)**	**(878)**	–	**(1 309)**	**(450)**	**(85 290)**
Amortization for the period	(875)	–	(31 555)	(513)	–	(530)	–	**(33 473)**
Increase of impairment	–	–	2	–	(22)	–	–	**(20)**
Decrease of impairment	–	–	–	–	–	–	–	–
Sale, disposal	–	–	–	–	–	–	–	–
Reclassifications	–	–	(241)	(1)	–	242	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–
Liquidation	–	–	2 846	145	–	1	–	**2 992**
Received free of charge	–	–	–	–	–	–	–	–
Contribution in kind	–	–	16	–	–	–	–	**16**
Other movements	–	–	(12)	–	–	–	–	**(12)**
Closing balance	**(2 913)**	–	**(109 559)**	**(1 247)**	**(22)**	**(1 596)**	**(450)**	**(115 787)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 066**	**169 553**	**106 914**	**2 156**	**52 701**	**2 660**	**6 816**	**342 866**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 476**	**169 553**	**100 487**	**2 124**	**59 955**	**2 834**	**9 911**	**346 340**

(in PLN thousand)

Current intangible assets, year ended 31 December 2011

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**523 017**	**101 173**	**624 190**
Direct purchase	728 799	187 126	**915 925**
Sale, disposal	(4 953)		**(4 953)**
Energy certificates generated internally	297 747	–	**297 747**
Cancellation of energy certificates	(855 721)	–	**(855 721)**
Cancellation of emission allowances	–	(101 173)	**(101 173)**
Acquisition of subsidiary	87 589	–	**87 589**
Other movements	(1 536)		**(1 536)**
Closing balance	**774 942**	**187 126**	**962 068**
ACCUMULATED AMORTIZATION			
Opening balance	–	–	–
Increase of impairment	(91 114)	–	**(91 114)**
Decrease of impairment	–	–	–
Closing balance	**(91 114)**	–	**(91 114)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**523 017**	**101 173**	**624 190**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**683 828**	**187 126**	**870 954**

Current intangible assets, year ended 31 December 2010

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**481 885**	–	**481 885**
Direct purchase	437 112	101 173	**538 285**
Sale, disposal	(45 336)	–	**(45 336)**
Energy certificates generated internally	304 357	–	**304 357**
Cancellation of energy certificates	(654 535)	–	**(654 535)**
Other movements	(466)	–	**(466)**
Closing balance	**523 017**	**101 173**	**624 190**
ACCUMULATED AMORTIZATION			
Opening balance	–	–	–
Increase of impairment	–		–
Decrease of impairment	–	–	–
Closing balance	–	–	–
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**481 885**	–	**481 885**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**523 017**	**101 173**	**624 190**

As at the date of these consolidated financial statements, the President of the Energy Regulatory Office (URE) has not approved some of TAURON Wytwarzanie S.A.'s applications relating to certificates of electricity generated using renewable sources of energy and certificates of electricity generated using cogeneration. The delay in the granting of renewable energy certificates results from pending verification proceedings regarding the fulfillment of the physical and chemical parameters of the combusted biomass. As for cogeneration certificates, the procedure of concession change is in progress.

In the opinion of management of TAURON Wytwarzanie S.A., all conditions necessary for the granting of certificates have been fulfilled and there is no risk that they will not be obtained.

At the balance sheet date, an impairment test was conducted on goodwill with respect to net assets increased by the amount of goodwill at the end of 2011 for the particular operating segments: Mining Segment, Renewable Energy Segment, Distribution Segment, Sale of Electricity and Other Energy Market Products Segment and Other Segment.

(in PLN thousand)

The table below presents goodwill as at 31 December 2011 allocated to the particular segments:

	Coal mining	Generation of electricity using renewable sources	Electricity distribution	Sales of electricity and other energy market products	Other	Total
Opening balance	**13 973**	–	–	–	**155 580**	**169 553**
Acquisition of Górnośląski Zakład Elektroenergetyczny S.A.	–	9 504	442 756	52 654	–	**504 914**
Acquisition of Lipniki Sp. z o.o.	–	51 902	–	–	–	**51 902**
Closing balance	**13 973**	**61 406**	**442 756**	**52 654**	**155 580**	**726 369**

The key assumptions affecting the estimation of the value in use of the segments tested are as follows:

Generation of electricity using renewable sources

- The volumes of green energy production arising from production capacities together with the adopted prices of electricity based on the wholesale price of black energy from the previous year, prices of certificates based on current regulations;
- Maintenance of the production capacities of the existing non-current assets as a result of conducting replacement investments.

Distribution of electricity

- The regulated income of distribution companies ensures the coverage of reasonable costs and the achievement of a return on capital employed on a reasonable level. The level of the return depends on the so-called Regulatory Value of Assets;
- Maintaining electricity distribution capacity using the existing non-current assets as a result of conducting replacement investments.

Sale of electricity and other energy market products

- The volumes of sales taking into account GDP growth and increasing market competition;
- The adopted prices of electricity based on the wholesale price of black energy, taking into account the cost of excise, the cost of the obligation to submit energy certificates for cancellation and the appropriate level of the margin.

Other

- Tariff income of heat companies ensuring coverage of reasonable costs and achievement of a return on capital employed on a reasonable level.
- Maintaining heat production, distribution and sales capacities using the existing non-current assets as a result of conducting replacement investments.

The sensitivity analyses performed indicate that the most significant factor affecting the estimate of the value in use of the cash generating units is the forecasted wholesale prices of electricity and the adopted discount rates.

The test was conducted based on the present value of estimated cash flows from operations. Calculations were preformed for cash flows for 2012–2021 and the residual value. The basis for the calculation of cash flows is the planned EBIT for 2012–2021 and amortization for this period. The amount of EBIT results from the approved and adopted operating plan for 2012 and the company's long-term plan up to 2021. The above-mentioned plans of operations of the entities for which goodwill is presented are based on the assumption that they will achieve a profit on their operating activities in the particular years. It was also assumed that the company's working capital in the tested period will not show any significant changes.

The discount rate adopted for calculation reflects the weighted average cost of capital (WACC) after taxation at the level of 7.13%–8.84%, taking into account a risk-free interest rate corresponding to the current yield of 10-year State Treasury bonds (at the level of 5.8%) and the premium for the risk of operations specific to the power industry (5%). Based on the results of the test conducted, no need was identified to recognize impairment of goodwill for any of the aforementioned segments.

The impairment tests were conducted using 10-year forecasts prepared based on the standards applied by the Group, which was in particular due to long-term investment processes in the power industry. Macroeconomic and industry-related assumptions are updated when indications of their change are observed on the market. The forecasts also take into consideration any anticipated changes in legal environment.

The Group expects that none of the reasonably possible and highly probable changes in any of the key assumptions used in the analyses will result in the carrying amount of the non-current assets of the particular segments exceeding their recoverable amount.

(in PLN thousand)

20. Inventories

	As at 31 December 2011	As at 31 December 2010
Historical cost		
Raw materials	443 660	294 712
Semi-finished goods and work-in-progress	97 213	87 409
Finished goods	8 118	11 195
Goods for resale	2 329	14
Property rights arising from energy certificates	29 099	15 626
Emission allowances	–	4 664
Total	**580 419**	**413 620**
Write-downs to net realisable value		
Raw materials	(4 273)	(4 578)
Semi-finished goods and work-in-progress	–	–
Finished goods	–	(277)
Goods for resale	–	–
Property rights arising from energy certificates	(1 356)	–
Emission allowances	–	(205)
Total	**(5 629)**	**(5 060)**
Net realisable value		
Raw materials	439 387	290 134
Semi-finished goods and work-in-progress	97 213	87 409
Finished goods	8 118	10 918
Goods for resale	2 329	14
Property rights arising from energy certificates	27 743	15 626
Emission allowances	–	4 459
Total	**574 790**	**408 560**
Movement in write-downs to net realisable value		
Opening balance	**(5 060)**	**(3 777)**
Recognition	(5 592)	(1 662)
Reversal	4 571	177
Utilization	347	202
Contribution in kind	–	–
Other	105	–
Closing balance	**(5 629)**	**(5 060)**

21. Trade and other receivables

For terms and conditions relating to related party transactions, refer to Note 36. Doubtful debts allowances and aging analysis of receivables are presented in Note 38.4.5.

Trade receivables are non-interest bearing and are usually receivable within 30 days with respect to institutional clients. Amounts due from individual clients are received on a monthly basis or every two months.

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

22. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, usually between one day and one month, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(in PLN thousand)

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprised the following:

	As at 31 December 2011	As at 31 December 2010
Cash at bank and in hand	264 082	366 849
Short-term deposits (up to 3 months)	200 456	1 106 180
Other	41 132	952
Total cash and cash equivalents presented in the statement of financial position, of which:	**505 670**	**1 473 981**
– restricted cash	176 241	165 862
Bank overdraft	–	(2 464)
Foreign exchange and other differences	146	143
Total cash and cash equivalents presented in the statement of cash flows	**505 816**	**1 471 660**

The difference between the balance of cash and cash equivalents in the statement of financial position and the balance in the statement of cash flows is mainly due to bank overdrafts and exchange differences arising from valuation of cash held in foreign currency accounts.

The balance of restricted cash is mainly comprised of the balance of cash held by the parent in the settlement account used for trading in electricity at Towarowa Giełda Energii S.A. (the Polish Power Exchange), amounting to PLN 150,775 thousand, and the balance of cash held by the parent in the specific account used for trading in electricity at the POEE power exchange, amounting to PLN 10,874 thousand.

23. Other assets

23.1. Other financial assets

	As at 31 December 2011	As at 31 December 2010
Other shares in unlisted and listed companies	166 590	150 125
Bonds, T-bills and other debt securities	101 732	1 500
Deposits	25 250	35 493
Other long-term receivables	9 796	6 405
Other	2 126	12 122
Total	**305 494**	**205 645**
non-current	197 470	177 452
current	108 024	28 193

The increase in bonds, T-bills and other debt securities as at 31 December 2011 compared with the 2010 year-end balance is due to the acquisition by Vattenfall Sales Poland Sp. z o.o. and Vattenfall Distribution Poland S.A., in December 2011, of bonds issued by the State Treasury with a value of PLN 99,507 thousand at the balance sheet date.

In the year ended 31 December 2011, proceeds from sale of financial assets presented in the consolidated cash flow statement at the amount of PLN 114,304 thousand are mainly comprised of proceeds from sale of investment fund units by the Company and by the subsidiary TAURON Wytwarzanie S.A., amounting to PLN 91,813 thousand. Expenditures incurred for the purchase of financial assets, amounting to PLN 147,989 thousand, are mainly comprised of expenditures incurred by the Company for the purchase of investment fund units, amounting to PLN 85,000 thousand, and expenditures incurred by the subsidiaries Vattenfall Distribution Poland S.A. and Vattenfall Sales Poland Sp. z o.o. for the purchase of State Treasury bonds, amounting to PLN 47,512 thousand.

In the year ended 31 December 2010, proceeds from sale of financial assets presented in the consolidated cash flows statement at the amount of PLN 56,189 thousand were mainly comprised of proceeds from termination of short-term deposits of TAURON Ekoenergia S.A. with maturities exceeding 3 months, amounting to PLN 41,787 thousand. Expenditures incurred for the purchase of financial assets, amounting to PLN 69,570 thousand, were mainly comprised of cash invested by the subsidiaries TAURON Ekoenergia Sp. z o.o. and Kopalnia Wapienia Czatkowice Sp. z o.o. in short-term deposits with maturities exceeding 3 months, amounting to PLN 54,787 thousand.

(in PLN thousand)

23.2. Other long-term non-financial assets

	As at 31 December 2011	As at 31 December 2010
Prepayments for assets under construction and intangible assets	26 178	54 233
Other prepayments	3 372	3 852
Costs of preparing production in hard coal mines	59 649	60 945
Other	7 150	4 583
Total	**96 349**	**123 613**

23.3. Other current non-financial assets

	As at 31 December 2011	As at 31 December 2010
Subscription	159	251
Property and tort insurance	31 466	29 530
Membership fees, training	996	65
IT, telecom and postal services	2 789	3 324
Other deferred costs	13 996	7 663
Costs of preparing production in hard coal mines	41 192	37 915
Costs of extraction tunnels	56 728	46 216
Prepayments for deliveries	499	2 429
Receivables from input VAT	97 761	65 394
Receivables from excise duty	36 826	8 086
Other tax receivables	198	2 370
Surplus of Social Fund assets over Social Fund liabilities	2 802	2 530
Other current assets	3 622	2 385
Total	**289 034**	**208 158**

24. Other non-financial liabilities

24.1. Other long-term liabilities

As at 31 December 2011 and 31 December 2010, the Group had no other long-term liabilities.

24.2. Other current liabilities

	As at 31 December 2011	As at 31 December 2010
Taxes, customs, social security and other payables, of which:	**418 669**	**526 852**
Excise	70 494	73 811
VAT	116 817	223 489
Social security	143 012	150 408
Personal Income Tax	50 007	42 017
Environmental charges	28 525	30 441
Real Estate Tax	4 164	2 558
Other	5 650	4 128
Other non-financial liabilities, of which:	**226 241**	**225 967**
Payments from customers relating to future periods, of which:	224 708	215 031
prepayments for connection fees	96 724	64 584
amounts overpaid by customers	121 846	142 793
other	6 138	7 654
Other	1 533	10 936
Total	**644 910**	**752 819**

(in PLN thousand)

25. Accruals

25.1. Deferred income and government grants

	As at 31 December 2011	As at 31 December 2010
Deferred income		
Donations, fixed assets received free-of-charge	204 535	186 784
Non-government subsidies	299	461
Perpetual usufruct of land	524	572
Subsidies received for the purchase of fixed assets	57 944	59 290
Connection fees	314 204	334 352
Other	7 180	12 245
Total, of which:	**584 686**	**593 704**
Non-current	536 499	540 789
Current	48 187	52 915
Government grants		
Forgiven loans from environmental funds	8 987	10 040
Other	104 849	98 333
Total, of which:	**113 836**	**108 373**
Non-current	106 050	103 733
Current	7 786	4 640

Other government grants comprise mainly government grants received by Południowy Koncern Węglowy S.A. for initial investments in coal mines, amounting to PLN 40,810 thousand, and the remeasurement of preferential loans received by TAURON Wytwarzanie S.A. to market value, amounting to PLN 41,972 thousand.

The increase in the balance of deferred income relating to government grants is mainly due to the government grant of an aggregate amount of PLN 44,546 thousand, obtained by Południowy Koncern Węglowy S.A. under the agreement of 7 September 2007 on the functioning of the hard coal mining sector in 2008–2015 (Journal of Laws No. 192, item 1379) for the financing of the following initial investments:

- Providing access to the Byczyna section as well as access to mining on the first pilot wall at the Sobieski Mining Enterprise – PLN 25,221 thousand,
- Construction of the 500 m level at the Janina Mining Enterprise – PLN 19,325 thousand.

25.2. Accrued expenses

	As at 31 December 2011	As at 31 December 2010
Unused holidays	26 025	22 301
Bonuses	180 289	99 301
Audit fees	680	537
Environmental protection charges	1 268	–
Excise tax accrued	8 162	5 249
Other	6 661	4 769
Total, of which:	**223 085**	**132 157**
Non-current	–	–
Current	223 085	132 157

The increase of accrued expenses for bonuses results mainly from the implementation of changes in remuneration principles by the Group companies.

26. CO_2 emission allowances

The first National Allocation Plan for CO_2 allowances included years 2005–2007. On 14 November 2008, the Council of Ministers adopted the National Allocation Plan for CO_2 allowances for the years 2008–2012 ("NAP II") under the EU emissions trading system, which allocated the CO_2 emission limits (caps) to the individual installations participating in the emissions trading system. The adopted regulation is based on the draft regulation of 12 February 2008, with account taken of the amendments dated 16 May 2008. In accordance with the decisions of the European Commission, Polish companies covered by the allowances allocation plan are allowed to emit approximately 1,043 million metric tons of CO_2 within a five-year period, i.e. approximately 209 million metric tons annually.

(in PLN thousand)

In accordance with the Group's accounting policy, the Group recognizes a provision for the deficit in emission allowances if the level of actual emission exceeds the emission allowances granted for the entire trading period.

The tables below present the CO_2 emission allowances granted under the National Allocation Plan and acquired on the secondary market, including a break-down into the portion of allowances used for internal purposes and the portion sold in the years ended 31 December 2011 and 31 December 2010.

CO_2 emission allowances in the year ended 31 December 2011

Company	Opening balance of CO_2 allowances	Acquired	CO_2 emission	Sold	Closing balance of CO_2 allowances
TAURON Polska Energia S.A.	3 095 000	19 781 042	–	(13 032 000)	**9 844 042**
TAURON Wytwarzanie S.A.	37 951 879	8 807 767	(21 345 745)	(13 455 041)	**11 958 860**
TAURON Dystrybucja S.A.	1 649	–	–	–	**1 649**
Elektrociepłownia Tychy S.A.	654 248	115 418	(384 003)	(131 418)	**254 245**
Elektrociepłownia EC Nowa Sp. z o.o.	5 850 373	1 382 812	(2 855 964)	(725 815)	**3 651 406**
TAURON Ciepło S.A.	233 951	23 768	(83 529)	(46 859)	**127 331**
Total	**47 787 100**	**30 110 807**	**(24 669 241)**	**(27 391 133)**	**25 837 533**

CO_2 emission allowances in the year ended 31 December 2010

Company	Opening balance of CO_2 allowances	Acquired	CO_2 emission	Sold	Closing balance of CO_2 allowances
TAURON Polska Energia S.A.	–	6 453 000	–	(3 358 000)	**3 095 000**
TAURON Wytwarzanie S.A.	56 597 864	3 232 884	(21 028 869)	(850 000)	**37 951 879**
TAURON Dystrybucja S.A.	1 649	–	–	–	**1 649**
Elektrociepłownia Tychy S.A.	989 550	–	(335 302)	–	**654 248**
Elektrociepłownia EC Nowa Sp. z o.o.	7 637 112	1 027 150	(2 683 889)	(130 000)	**5 850 373**
TAURON Ciepło S.A.	323 643	–	(89 692)	–	**233 951**
Total	**65 549 818**	**10 713 034**	**(24 137 752)**	**(4 338 000)**	**47 787 100**

27. Employee benefits

Based on a valuation performed using actuarial methods, the Group recognizes provisions for future employee benefits, including:

- retirement, disability and death benefits,
- reduced electricity rates and charges granted to employees,
- transfers to the Social Fund for present and future pensioners,
- coal allowances,
- jubilee bonuses.

The corridor approach presented below relates to part of provisions for post-employment benefits. Post-employment benefits relating to present pensioners are not presented using the corridor approach, as is the case with jubilee bonuses.

The International Accounting Standards Board made amendments to IAS 19 *Employee benefits*, applicable to annual periods beginning on or after 1 January 2013. The most important changes from the Group's perspective include liquidation of the "corridor approach" as an allowed treatment of actuarial gains and losses and the introduction of the requirement to present the effects of remeasurement in other comprehensive income. In accordance with its accounting policy, the Group applies the corridor approach in determining the defined benefit obligation and recognizing actuarial gains and losses in profit or loss. Elimination of this approach will result in the requirement to immediately recognize all actuarial gains and losses in other comprehensive income as well as in the increase of the provision for future employee benefits recognized in the statement of financial position up to the present value of the obligation as per actuarial valuation. The revised IAS 19 is to be applied retrospectively. At the date of authorization of these financial statements, amendments to IAS 19 *Employee benefits* have not been endorsed by the EU.

(in PLN thousand)

In addition, several Group companies implemented voluntary redundancy schemes, which are not measured using actuarial methods due to the fact that they relate to employment termination benefits.

The amounts of these provisions and a reconciliation presenting movements in provisions during the financial period are presented in the tables below.

Movement in provisions for employee benefits, year ended 31 December 2011

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary redundancy schemes	Provisions, total
Opening balance	**183 009**	**351 573**	**105 955**	**33 526**	**468 688**	**50 330**	**1 193 081**
Acquisition of subsidiary	12 362	35 144	4 744	–	33 507	217	**85 974**
Current service costs	8 403	4 815	2 134	1 728	27 061	–	**44 141**
Actuarial gains and losses	2 555	14 222	5 840	3 441	(10 540)	–	**15 518**
Benefits paid	(26 696)	(18 118)	(5 634)	(1 323)	(58 828)	(87 949)	**(198 548)**
Past service costs	–	7 957	–	–	–	–	**7 957**
Interest expense	12 457	22 503	6 329	2 252	24 807	–	**68 348**
Other movements	(16)	–	–	–	(52)	–	**(68)**
Recognition of provision for VRS	–	–	–	–	–	87 762	**87 762**
Reversal of provision for VRS	–	–	–	–	–	(15 088)	**(15 088)**
Closing balance	**192 074**	**418 096**	**119 368**	**39 624**	**484 643**	**35 272**	**1 289 077**
CURRENT	**31 398**	**23 015**	**5 302**	**1 624**	**57 282**	**35 055**	**153 676**
NON-CURRENT	**160 676**	**395 081**	**114 066**	**38 000**	**427 361**	**217**	**1 135 401**

Provisions for employee benefits under corridor approach, year ended 31 December 2011

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Provisions, total
Present value of liability at the end of the period	**230 815**	**158 526**	**54 504**	**22 244**	**466 089**
Unrecognized liability, of which:	(38 741)	(26 101)	(632)	1 286	**(64 188)**
Unrecognized actuarial gains/losses	(38 741)	42 715	(632)	1 286	**4 628**
Unrecognized past service costs	–	(68 816)	–	–	**(68 816)**
Net liability at the end of period	**192 074**	**132 425**	**53 872**	**23 530**	**401 901**
Present value of the liability at the beginning of period	**236 043**	**168 335**	**58 394**	**27 054**	**489 826**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(53 034)**	**12 520**	**(10 845)**	**(7 220)**	**(58 579)**
Corridor limits	23 603	16 834	5 838	2 705	**48 980**
Exceeded	(31 347)	7 169	(5 084)	(4 514)	**(33 776)**
Actuarial gain (loss) to be recognized	(2 555)	535	(461)	(432)	**(2 913)**
Actuarial gain (loss) for the period	11 738	30 730	9 752	8 074	**60 294**
Unrecognized actuarial gains/(losses) at the end of period	**(38 741)**	**42 715**	**(632)**	**1 286**	**4 628**

(in PLN thousand)

Movement in provisions for employee benefits, year ended 31 December 2010

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary redundancy schemes	Provisions, total
Opening balance	**176 385**	**319 772**	**98 009**	**26 642**	**441 186**	**–**	**1 061 994**
Current service costs	8 772	4 470	2 060	606	25 612	–	**41 520**
Actuarial gains and losses	1 771	14 332	4 588	5 573	35 356	–	**61 620**
Benefits paid	(16 545)	(17 480)	(4 753)	(841)	(57 877)	(35 887)	**(133 383)**
Past service costs	–	7 945	–	–	–	–	**7 945**
Interest expense	12 077	22 534	6 051	1 546	24 411	–	**66 619**
Other movements	549	–	–	–	–	–	**549**
Recognition of provision for VRS	–	–	–	–	–	86 217	**86 217**
Closing balance	**183 009**	**351 573**	**105 955**	**33 526**	**468 688**	**50 330**	**1 193 081**
CURRENT	**38 264**	**20 085**	**4 939**	**1 334**	**54 540**	**50 330**	**169 492**
NON-CURRENT	**144 745**	**331 488**	**101 016**	**32 192**	**414 148**	**–**	**1 023 589**

Provisions for employee benefits under corridor approach, year ended 31 December 2010

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Provisions, total
Present value of liability at the end of the period	**236 043**	**168 335**	**58 394**	**27 054**	**489 826**
Unrecognized liability, of which:	(53 034)	(64 255)	(10 845)	(7 220)	**(135 354)**
Unrecognized actuarial gains/losses	(53 034)	12 520	(10 845)	(7 220)	**(58 579)**
Unrecognized past service costs	–	(76 775)	–	–	**(76 775)**
Net liability at the end of period	**183 009**	**104 080**	**47 549**	**19 834**	**354 472**
Present value of the liability at the beginning of period	**214 626**	**161 067**	**50 801**	**18 513**	**445 007**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(38 236)**	**6 204**	**(8 590)**	**(366)**	**(40 988)**
Corridor limits	21 462	16 106	5 081	1 851	**44 500**
Exceeded	(21 374)	3 779	(3 723)	–	**(21 318)**
Actuarial gain (loss) to be recognized	(1 771)	282	(301)	–	**(1 790)**
Actuarial gain (loss) for the period	(16 569)	6 598	(2 556)	(6 854)	**(19 381)**
Unrecognized actuarial gains/(losses) at the end of period	**(53 034)**	**12 520**	**(10 845)**	**(7 220)**	**(58 579)**

In 2011, the Group continued the voluntary redundancy schemes ("VRS") that had been launched in 2010.

In 2011, TAURON Wytwarzanie S.A. recognized a provision for the voluntary redundancy scheme amounting to PLN 26,701 thousand and paid benefits amounting to PLN 39,490 thousand. Due to the resignation of part of employees from participation in the scheme, a provision of PLN 442 thousand was reversed. In 2011, employment contracts were terminated with 357 employees.

As at 31 December 2011, the company had a provision for costs arising from an agreement relating to the decommissioning of the Halemba Power Plant, amounting to PLN 5,719 thousand. Employees could file declarations to join the agreement until the end of August 2011. The previous voluntary redundancy scheme in TAURON Wytwarzanie S.A., which was in force from 2010, was completed on 31 December 2011.

In 2011, TAURON Dystrybucja S.A. recognized a provision for the voluntary redundancy scheme amounting to PLN 61,061 thousand, paid benefits of PLN 48,459 thousand and reversed part of the provision amounting to PLN 14,646 thousand.

In April 2011 and December 2011, the company announced a Redundancy Payment Scheme as part of voluntary redundancy schemes. Declarations to join the scheme were accepted until the end of 2011. On 20 December 2011, another early retirement scheme and pre-retirement benefit scheme were announced on the same basis as those announced in 2010. The schemes were started in December 2011 and will be completed in December 2012. In 2011, 674 employment contracts were terminated under the voluntary redundancy scheme, resulting in total one-off redundancy payments of PLN 55,761 thousand, of which PLN 48,458 thousand was paid using the related provision.

(in PLN thousand)

In addition, a voluntary redundancy scheme was set up in Przedsiębiorstwo Energetyki Cieplnej Katowice S.A., currently TAURON Ciepło S.A., based on Regulation dated 28 April 2011. The benefits under this scheme, amounting to PLN 963 thousand, were paid out by the company in May 2011, hence there was no need to recognize a provision for the costs of the scheme. Another voluntary redundancy scheme was set up in Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A., which was acquired by TAURON Ciepło S.A. in September 2011, based on resolution dated 10 August 2011. The benefits under this scheme, amounting to PLN 1,287 thousand, were paid out in August 2011, hence there was no need for TAURON Ciepło S.A. to recognize a provision for the costs of the scheme.

In Vattenfall Network Services Poland Sp. z o.o., the amount of the provision for the voluntary redundancy scheme as at 31 December 2011 amounted to PLN 217 thousand.

As at 31 December 2011, the following provisions were recognized for amounts payable under voluntary redundancy schemes:

- PLN 29,336 thousand in TAURON Dystrybucja S.A.,
- PLN 5,719 thousand in TAURON Wytwarzanie S.A.,
- PLN 217 thousand in Vattenfall Network Services Poland Sp. z o.o.

As at 31 December 2010, the following provisions were recognized for amounts payable under voluntary redundancy schemes:

- PLN 20,704 thousand in ENION S.A. and PLN 10,676 thousand in EnergiaPro S.A. – i.e. the total of PLN 31,380 thousand in the Distribution Segment,
- PLN 17,830 thousand in Południowy Koncern Energetyczny S.A. and PLN 1,120 thousand in Elektrownia Stalowa Wola S.A. – i.e. the total of PLN 18,950 thousand in the Generation Segment.

The total amount of benefits paid out under the schemes in 2011 was PLN 87,949 thousand, while in 2010 it was PLN 35,887 thousand. In addition, in 2011 certain payments were made under the voluntary redundancy scheme which were directly expensed and for which no provision was recognized.

Except for the provision for benefits paid under the voluntary redundancy scheme, the Group determines provisions for future employee benefits at an amount estimated using actuarial methods, taking into account the discount rate defined on the basis of market rates of return from treasury bonds. Analysis of provisions into non-current and current is made by the Group based on estimates relating to the distribution of payments over time, prepared using actuarial techniques. The main assumptions adopted by the actuary at the balance sheet date for the calculation of the amount of liability are as follows:

	31 December 2011	31 December 2010
Discount rate (%)	5.75%	5.50%
Estimated inflation rate (%)	2.52%	2.50%
Employee rotation rate (%)	0.40% – 5.15%	0.48% – 4.82%
Estimated salary increase rate (%)	2.52% – 3.03%	2.50%
Estimated electricity price increase rate (%)	3.48%	2.80%
Estimated increase rate for contribution to the Social Fund (%)	3.60% – 5.00%	4.20%
Remaining average employment period	9.41 – 14.50	9.62 – 16.30

28. Earnings per share

In principle, basic earnings per share amounts is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Presented below is the data concerning profit and shares, which was used in the calculation of basic and diluted earnings per share as presented in the statement of comprehensive income.

	Year ended 31 December 2011	Year ended 31 December 2010
Net profit from continuing operations attributable to equity holders of the parent	1 220 011	858 656
Profit from discontinued operations attributable to equity holders of the parent	–	–
Net profit	**1 220 011**	**858 656**
Net profit attributable to ordinary shareholders, used to compute diluted earnings per share	1 220 011	858 656
Number of ordinary shares used to compute basic earnings per share	1 752 549 394	1 600 730 480
Number of ordinary shares used to compute diluted earnings per share	1 752 549 394	1 600 730 480

(in PLN thousand)

The table below presents earnings per share for the years ended 31 December 2011 and 31 December 2010 as presented in the statement of comprehensive income.

Earnings per share (in PLN)	Year ended 31 December 2011	Year ended 31 December 2010
Basic, for profit for the period attributable to equity holders of the parent	0.70	0.54
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	0.70	0.54
Diluted, for profit for the period attributable to equity holders of the parent	0.70	0.54
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	0.70	0.54

29. Dividends paid and proposed

	Year ended 31 December 2011	Year ended 31 December 2010
Dividends paid in the period		
Dividends paid throughout the year by subsidiaries	(13 676)	(5 573)
Final dividends paid by the parent	(262 882)	–
Payment from profit made by the parent	–	32
Payment from profit made by subsidiaries	–	–
Total dividends	**(276 558)**	**(5 541)**

The Board of Directors of the parent has proposed to allocate 30% of the consolidated profit of the Group for 2011 attributable to the equity holders of the parent for distribution in the form of dividend.

The restrictions for dividend distribution are described in Note 31.4 of explanatory notes to these consolidated financial statements.

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders, which gives PLN 0.15 per share. This amount is composed of the Company's net profit for 2010 in the amount of PLN 190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represents part of the Company's net profit for 2009 allocated to the reserve capital. The dividend payment date was 20 July 2011.

On 4 March 2010, the Ordinary General Shareholders' Meeting resolved to allocate the Company's net profit for 2009 of PLN 184,535 thousand for payment from profit made under separate regulations in the amount of PLN 8,376 thousand and for the Company's reserve capital in the amount of PLN 176,159 thousand.

The dividend per share paid by the parent for particular years is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Dividend paid per share (PLN)	0.15	–

30. Business combinations and acquisitions of non-controlling interests

Issues relating to acquisitions and business combinations are generally regulated in IFRS 3 *Business Combinations*. However, transactions between entities under joint control are excluded from the scope of this standard. The entities contributed to the Company in 2007 were under the control of the State Treasury, which means that, at the moment of contribution, both the Company and the entities contributed were under joint control of the State Treasury. Therefore, in the opinion of the Company, the transaction of contribution of companies meets the definition of a transaction under joint control and is therefore excluded from the scope of IFRS 3.

The situation where a given transaction or business event which should be recognized in the IFRS financial statements is not regulated by the provisions of the individual standards is regulated by the provisions of IAS 8 paragraphs 10–12. These provisions require an entity preparing financial statements in accordance with IFRS to establish its own set of accounting policies, while indicating the following features of such accounting policies: faithful representation of financial position, results of operations and cash flows, reflecting the economic substance of the transaction, neutrality, prudence and completeness in all respects.

From the analyses performed by the Company, it is preferable to apply the pooling of interests method in the accounting for a combination of entities under joint control.

The assumption underlying this method is that the combining entities were controlled by the same shareholder both before and after the transaction and therefore the consolidated financial statements reflect the continuity of joint control and do not reflect any change of the value of net assets to fair value (or recognition of new assets) or valuation of goodwill, since none of the combining entities is in fact acquired. Therefore, the financial statements are prepared as if the combining entities had always been combined.

(in PLN thousand)

Acquisition of shares in Górnośląski Zakład Elektroenergetyczny S.A.

On the basis of the preliminary agreement for the sale of shares in Górnośląski Zakład Elektroenergetyczny S.A. (GZE S.A.) signed with Vattenfall AB on 23 August 2011 and having fulfilled, on 30 November 2011, the condition precedent which was to obtain unconditional consent of the President of the Competition and Consumers Protection Office (UOKiK) for the transaction and, on 13 December 2011, contractual conditions including the payment of cash required under the transaction, on 13 December 2011 TAURON Polska Energia S.A. acquired 1,249,693 shares in the share capital of GZE S.A. with a nominal value of PLN 100 each and a total nominal value of PLN 124,969 thousand, representing 99.98% of the company's share capital.

The total value of the transaction was PLN 4,625,955 thousand, of which PLN 3,623,517 thousand was paid on the transaction date (this amount includes the deposit of PLN 120,000 thousand that had been provided to Vattenfall AB under the preliminary purchase agreement, together with accrued interest), while the amount of PLN 1,002,438 thousand represents Vattenfall AB's debt towards GZE S.A. and its subsidiaries that has been taken over by TAURON Polska Energia S.A. as part of the transaction. Costs directly attributable to the acquisition, amounting to PLN 5,500 thousand, were charged against profit.

As a result of acquisition of GZE S.A.'s shares, TAURON Polska Energia S.A. became an indirect owner of shares in the following significant subsidiaries of GZE S.A.: Vattenfall Distribution Poland S.A., Vattenfall Sales Poland Sp. z o.o., Vattenfall Network Services Poland Sp. z o.o., Vattenfall Wolin-North Sp. z o.o., and Vattenfall Business Services Poland Sp. z o.o.

As the above-mentioned transaction took place near the end of the financial year, TAURON as the acquirer has not completed its valuation of the acquired assets and liabilities and it therefore presents temporary amounts in these consolidated financial statements for those items for which the accounting process has not been completed.

Temporary fair value of identifiable assets, liabilities and contingent liabilities of GZE S.A. and its subsidiaries at the date of acquisition

Property, plant and equipment	3 113 437
Intangible assets	131 992
Shares in subsidieries and associates	10 457
Other long-term non-financial assets	6 249
Inventories	2 277
Trade and other receivables	349 639
Financial assets	81 974
Cash and cash equivalents	314 792
Other current non-financial assets	13 532
Long-term provisions	(88 948)
Deferred tax liability	(68 575)
Deferred income and long-term government grants	(43 242)
Trade and other payables	(391 975)
Income tax payable	(7 067)
Deferred income and short-term government grants	(15 589)
Short-term provisions and accrued expenses	(184 778)
Other current liabilities	(110 153)
Net assets	**3 114 022**
Net assets attributable to TAURON	**3 113 243**
Cost of acquisition	**3 618 157**
Goodwill arising on acquisition	**504 914**

Goodwill of PLN 504,914 thousand was allocated to the specific CGUs which are expected to generate synergies arising from acquisition. In this case, the CGUs correspond to the operating segments of the TAURON Group. Allocation of goodwill was made based on the allocation key consisting in the share of the individual segments being acquired in the valuation made for the purpose of the acquisition of GZE S.A.'s assets.

(in PLN thousand)

Goodwill allocated to operating segments

Generation of electricity using renewable sources	Electricity distribution	Sales of electricity and other energy market products	Total
9 504	442 756	52 654	**504 914**

Calculation of the cost of acquisition of GZE S.A.

Cash paid	3 623 517
Seller's debt taken over by TAURON	1 002 438
Settlement of the relationship existing at the date of acquisition – payables of the TAURON Group to GZE S.A.	(1 007 802)
Settlement of the relationship existing at the date of acquisition – receivables of the TAURON Group from GZE S.A.	4
Cost of acquisition	**3 618 157**

The value of non-controlling interests in the Group increased by PLN 778 thousand as a result of the aforementioned transaction.

Acquisition of special purpose entity Lipniki Sp. z o.o.

On 28 September 2011, TAURON Ekoenergia Sp. z o.o. acquired 100% of shares in Lipniki Sp. z o.o., including the Lipniki wind farm, from German power corporation WSB Neue Energien GmbH. Lipniki Sp. z o.o. is a special purpose entity set up for the purpose of building and operating the Lipniki wind park including 15 wind turbines with a total capacity of 30.75 MW, which was made operational in July 2011.

The selling price was determined at a total amount of PLN 93,317 thousand, which includes settlement of refundable additional payments made by the seller to Lipniki Sp. z o.o. in the amount of PLN 19,358 thousand. The selling price was determined as the difference between the sum total of the value of the enterprise and the amount of its cash, and the company's net debt. Immediately after the acquisition, the Company repaid the bank loan existing at that date using intercompany funding.

The acquisition of Lipniki Sp. z o.o. gave rise to a goodwill of PLN 51,902 thousand, which was allocated to the Renewable Sources of Energy Segment.

The fair value of the identifiable assets, liabilities and contingent liabilities of Lipniki Sp. z o.o. at the date of its acquisition is presented in the table below.

Fair value of identifiable assets, liabilities and contingent liabilities of Lipniki Sp. z o.o. at the date of acquisition

Property, plant and equipment	176 932
Inventories	996
Other long-term non-financial assets	4 218
Other current non-financial assets	1 048
Cash and cash equivalents	762
Interest-bearing loans and borrowings	(141 087)
Deferred tax liability	(166)
Other current liabilities	(1 288)
Net assets	**41 415**
Cost of acquisition	**93 317**
Goodwill arising on acquisition	**51 902**

Since the date of its acquisition, Lipniki Sp. z o.o. generated revenues of PLN 6,640 thousand and a loss of PLN 999 thousand, which were included in the consolidated statement of comprehensive income for the reporting period.

(in PLN thousand)

Calculation of the cost of acquisition of Lipniki Sp. z o.o.

Cash paid	72 201
Cash paid – amount relating to rights to refundable additional payments	19 358
Settlement of the relationship existing at the date of acquisition – payables of the TAURON Group to Lipniki Sp. z o.o.	(438)
Settlement of the relationship existing at the date of acquisition – receivables of the TAURON Group from Lipniki Sp. z o.o.	2 196
Cost of acquisition	**93 317**

Analysis of cash flows arising from the acquisition of Lipniki Sp. z o.o.

Cash paid for the acquisition of the subsidiary (included under investing activities)	(72 201)
Cash held by the subsidiary at the date of acquisition	762
Expenditures directly attributable to the acquisition (included under operating activities)	(922)
Total	**(72 361)**

Total cash flows arising from the acquisition of the subsidiaries by the Group, presented under investing activities in the consolidated cash flow statement, are as follows:

	Year ended 31 December 2011
Cash paid for the acquisition of subsidiaries	(3 694 251)
Cash held by the subsidiaries at the date of acquisition	315 555
Change in liabilities arising from acquisition of subsidiaries	(919)
Total	**(3 379 615)**

Merger of subsidiaries

Due to the reorganization of the Group's structure significant mergers of subsidiaries took place in the third quarter of 2011.

On 31 August 2011, merger of Południowy Koncern Energetyczny S.A. (acquirer) and Elektrownia Stalowa Wola S.A. (acquiree) was registered with the National Court Register. On 1 September 2011, Południowy Koncern Energetyczny S.A. changed its name to TAURON Wytwarzanie S.A.

On 1 September 2011, merger of EnergiaPro S.A. (acquirer) and ENION S.A. (acquiree) was registered with the National Court Register. At the same time, EnergiaPro S.A changed its name to TAURON Dystrybucja S.A.

On 1 September 2011, merger of Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. (acquirer) and Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. (acquiree) was registered with the National Court Register. At the same time, Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. changed its name to TAURON Ciepło S.A.

The above-mentioned business combinations were effected through merger by acquisition i.e. in accordance with Article 492 § 1 point 1 of the Code of Commercial Companies, by the transfer of all assets and liabilities of the acquired company (acquiree) to the acquiring company (acquirer) in exchange for shares which the acquirer issues to the shareholders of the acquiree. As a result, the acquired companies were dissolved without liquidation.

The aforementioned mergers resulted in the reduction of non-controlling interests by PLN 62 thousand and the increase of retained earnings by PLN 25 thousand.

Division of TAURON Obsługa Klienta Sp. z o.o.

At the beginning of 2011, the organizational structure of the Group's companies dealing with sales was changed. The existing selling companies of the TAURON Group changed the scope of their operations: TAURON Sprzedaż Sp. z o.o. sells electricity to all clients (under the TAURON Polska Energia brand), while TAURON Obsługa Klienta Sp. z o.o. provides customer service to mass clients and part of business clients. The integration of activities relating to sales and customer service results from the Group's implementation of a business model representing part of its restructuring plan.

On 3 January 2011, the District Court in Cracow registered the increase of the share capital of TAURON Sprzedaż Sp. z o.o. The division of TAURON Obsługa Klienta Sp. z o.o. was effected pursuant to Article 529 § 1 point 4 of the CCC, i.e. by way of the acquisition by TAURON Sprzedaż Sp. z o.o. of part of the assets of TAURON Obsługa Klienta Sp. z o.o. representing an organized part of the enterprise which comprised tangible and intangible assets and liabilities related to the sale of electricity. The share capital of

TAURON Sprzedaż Sp. z o.o. was increased by PLN 196,433 thousand, from PLN 282,597 thousand to PLN 479,030 thousand, by way of creating 3,928,649 shares with a nominal value of PLN 50 each, all of which were taken up by TAURON Polska Energia S.A.

As a result of the division of TAURON Obsługa Klienta Sp. z o.o., its share capital was decreased by PLN 32,932 thousand, from PLN 35,650 thousand to PLN 2,718 thousand, by way of redemption of 329,316 shares with a value of PLN 100 each. The decrease of the share capital was registered on 31 December 2010.

Due to the fact that the changes discussed above were of restructuring nature and took place in the Group companies, they had no impact on the consolidated financial statements prepared as at 31 December 2011.

Increase of interest in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In March 2011, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. signed contracts for the purchase of 200 of its own shares with a total nominal value of PLN 1,200 thousand from the shareholders of Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz Sp. z o.o.

The purchase of shares for the purpose of redeeming them using the net profit was made based on the resolution of the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. dated 30 December 2010. The consideration for the shares was paid to both of the existing shareholders until the end of March 2011. On 21 April 2011, the District Court in Katowice registered redemption of shares of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

As a result of this transaction, the direct interest of TAURON Polska Energia S.A. in the share capital of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. increased from 10% to 12.50% (in the governing body: – from 27.78% to 31.25% votes), while the direct interest of Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie S.A.) – from 70% to 87.50% (in the governing body – from 61.11% to 68.75% of votes).

The reacquisition of own shares for the purpose of their redemption by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. resulted in the decrease of non-controlling interests by PLN 11,833 thousand and in the increase of retained earnings by PLN 207 thousand.

On 26 July 2011, Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A., signed an agreement with TAURON Polska Energia S.A. for the disposal of shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in lieu of fulfilling part of Południowy Koncern Energetyczny S.A.'s liability to pay a dividend due to TAURON Polska Energia S.A. for the financial year ended 31 December 2010. Południowy Koncern Energetyczny S.A. disposed of all of its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., i.e. 700 shares with a total nominal value of PLN 4,200 thousand, for a total of PLN 42,170 thousand. The value of the acquired shares was determined based on the valuation dated 20 June 2011. On 26 July 2011 the shares were transferred to the Company. As a result of this transaction, TAURON Polska Energia S.A. increased its direct interest in the company's capital and governing body to 100%, which resulted in the reduction of non-controlling interests and a simultaneous increase of retained earnings by PLN 213 thousand.

Acquisition of non-controlling interests

In August 2011, TAURON Polska Energia S.A. acquired the following from non-controlling equity holders:

- 9,477 shares in Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A., with a nominal value of PLN 10 each, representing 0.0061% of the company's share capital, for the price of PLN 235 thousand,
- 6,149,541 shares in ENION S.A., currently TAURON Dystrybucja S.A., with a nominal value of PLN 0.01 each, representing 0.0245% of the company's share capital, for the price of PLN 676 thousand.

Consideration for the acquired shares was paid in August 2011.

As a result of the acquisition of shares, the amount of non-controlling interests decreased by PLN 1,104 thousand, while retained earnings increased by PLN 192 thousand.

Mandatory squeeze-out

During the year 2011, the processes of mandatory squeeze-out were continued by the following companies of the TAURON Polska Energia S.A. Group: TAURON Wytwarzanie S.A. (including, before the date of the merger, by Południowy Koncern Energetyczny S.A. and Elektrownia Stalowa Wola S.A.), TAURON Dystrybucja S.A. (including, before the date of the merger, by ENION S.A. and EnergiaPro S.A.), Elektrociepłownia Tychy S.A., and also, before the date of the merger – by Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.

As a result of the reacquisition of own shares, the amount of non-controlling interests decreased during the year 2011 by PLN 38,536 thousand, while retained earnings increased by PLN 14,772 thousand.

(in PLN thousand)

31. Issued capital and other items of equity

31.1. Issued capital

Issued capital as at 31 December 2011

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

Issued capital as at 31 December 2010

Class/issue	Type of shares	Type of preference	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	–	1 589 438 762	9	14 304 949	cash/in-kind contribution
BB	registered shares	–	163 110 632	9	1 467 996	in-kind contribution
		Total	**1 752 549 394**		**15 772 945**	

On 25 March 2011, the District Court in Katowice registered a decrease of the Company's share capital effected by way of the reduction of the nominal value of shares. The share capital decreased from PLN 15,772,945 thousand to PLN 8,762,747 thousand, due to the reduction of the nominal value of each share from PLN 9 to PLN 5. The resulting amount of PLN 7,010,198 thousand was allocated to the reserve capital. The decrease of the share capital was made in order to restructure the Company's equity.

Shareholding structure as at 31 December 2011 *(to the Company's best knowledge)*

Shareholder	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury (notification of 29 March 2011)	2 634 419	30.06%	30.06%
KGHM Polska Miedź S.A. (notification of 23 March 2011)	910 553	10.39%	10.39%
ING Otwarty Fundusz Emerytalny (notification of 28 December 2011)	443 715	5.06%	5.06%
Other shareholders	4 774 060	54.49%	54.49%
Total	**8 762 747**	**100.00%**	**100.00%**

Shareholding structure as at 31 December 2010 *(to the Company's best knowledge)*

Shareholder	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury (notification of 28 February 2011)	6 618 257	41.96%	41.96%
KGHM Polska Miedź S.A.*	736 402	4.67%	4.67%
Other shareholders	8 418 286	53.37%	53.37%
Total	**15 772 945**	**100.00%**	**100.00%**

** According to the notification of 1 July 2010, the share of KGHM Polska Miedź S.A. in the share capital and total vote was 5.15%. On 2 November 2010, there was an increase in the share capital and in the number of shares to 1,752,549,394, as a result of which the share of KGHM Polska Miedź S.A. in the share capital and total vote as at 31 December 2010 amounted to 4.67%.*

(in PLN thousand)

31.2. Shareholders rights

State Treasury rights

On 18 August 2005, the Act of 3 June 2005 on Special Powers of the State Treasury and their Exercise in Companies of Significant Importance for Public Order or Public Security (Journal of Laws No. 132, item 1108) came into force. TAURON Polska Energia S.A. is subject to the provisions of this Act under relevant executive regulations. In the directors' opinion, the Company operates in conformity with the binding law. No observer has been appointed as at the date of these financial statements.

31.3. Reserve capital

Reserve capital results from appropriations of profits generated by the parent in previous financial years, amounting to PLN 240,209 thousand, and the surplus of the issue price of shares class BB (PLN 10.44 each) over their par value (PLN 9 each), amounting to PLN 234,879 thousand.

In the current period, movements in reserve capital resulted from the following events:

- In accordance with the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 6 May 2011, described in detail in Note 29 to the consolidated financial statements, part of the Company's reserve capital in the amount of PLN 72,404 thousand resulting from the net profit for 2009 was allocated for the payment of dividend to the Company's shareholders.
- As a result of registration of the decrease of the Company's share capital by way of reduction of the nominal value of shares with the District Court in Katowice on 25 March 2011, as described in detail in Note 31.1 to the consolidated financial statements, an amount of PLN 7,010,198 thousand was allocated to the Company's reserve capital.

31.4. Retained earnings and restrictions on distribution

Retained earnings also include amounts that are not eligible for distribution i.e. cannot be distributed in the form of dividends by the parent:

	As at 31 December 2011	As at 31 December 2010
Retained earnings not distributable by the parent:	**(1 581 456)**	**(1 733 447)**
– retained earnings of subsidiaries, attributable to equity holders of the parent	(1 435 805)	(1 587 796)
– 8% statutory net profit of the parent allocated to reserve capital under the Commercial Companies Code	–	–
– retained earnings from accounting for merger with subsidiaries	(145 651)	(145 651)
Retained earnings of the parent eligible for distribution	**1 083 461**	**190 510**
Total retained earnings in the consolidated financial statements, attributable to equity holders of the parent	**(497 995)**	**(1 542 937)**

In accordance with the provisions of the Code of Commercial Companies, the parent and the subsidiaries having the legal form of a joint-stock company are required to a create a reserve capital for absorption of losses. Transferred to this capital category is at least 8% of the profit for the given financial year reported in the separate financial statements of the company until such time as the balance of the reserve capital reaches at least one third of the issued share capital of the company. As the amount of the Company's reserve capital exceeds one third of its issued share capital, the Company is not required to transfer 8% of the profit for the year to the reserve capital. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the issued share capital may be used solely for the absorption of losses reported in the separate financial statements of the company and shall not be used for any other purpose.

As at 31 December 2011, the value of the issued share capital of the parent reported in the statutory financial statements was PLN 8,762,747 thousand, and the value of the reserve capital was PLN 7,412,882 thousand.

Retained earnings arising from the settlement of capital resulting from share-based payments after the completion of the share option plan as well as retained earnings arising from accounting for business combinations with the subsidiaries are not available for distribution.

As at 31 December 2011 and as at the date of authorization of these financial statements for issue, there are no other restrictions on distribution of profit in the form of dividends.

(in PLN thousand)

31.5. Non-controlling interests

	Year ended 31 December 2011	Year ended 31 December 2010
At the beginning of period	**507 246**	**2 375 100**
Dividends paid by subsidiaries	(14 278)	(6 027)
Share in the change in value of financial instruments	–	135
Acquisition of non-controlling interests by the Group	(1 104)	(1 983 152)
Mandatory squeeze-out	(50 582)	(11 537)
Share in subsidiaries' net profit or loss	19 349	132 727
Acquisition of subsidiaries from the GZE S.A. Group	778	–
Change in non-controlling interests due to mergers	(62)	–
At the end of period	**461 347**	**507 246**

The expenditures incurred for the acquisition of non-controlling interests, presented in the consolidated cash flow statement at an amount of PLN 37,800 thousand, are comprised of the following: expenditures of PLN 25,225 thousand incurred by the Group subsidiaries for the mandatory squeeze-out of shares, expenditures of PLN 11,626 thousand incurred by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for the acquisition of shares with a view to their redemption, and expenditures of PLN 949 thousand incurred by the parent for the acquisition of non-controlling interests in the subsidiaries.

32. Provisions

32.1. Movements in provisions

Year ended 31 December 2011

	Provision for counterparty claims, court disputes, onerous contracts, disputes with employees	Provision for restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**34 274**	**612**	**34 699**	**101 173**	**787 031**	**66 903**	**1 024 692**
Acquisition of subsidiary	576	765	8 679	–	100 559	30 575	**141 154**
Discount rate adjustment	–	–	1 014	–	–	–	**1 014**
Recognition	12 640	797	23 726	187 132	1 018 586	20 948	**1 263 829**
Reversal	(7 905)	(1)	–	–	–	(29 336)	**(37 242)**
Utilisation	(96)	(1 229)	–	(101 173)	(1 199 103)	(4 222)	**(1 305 823)**
Other movements	3 660	–	1 732	–	(3 624)	1 360	**3 128**
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	16	**16**
Closing balance	**43 149**	**944**	**69 850**	**187 132**	**703 449**	**86 244**	**1 090 768**
CURRENT	**43 149**	**944**	**3 250**	**187 132**	**703 449**	**85 404**	**1 023 328**
NON-CURRENT	**–**	**–**	**66 600**	**–**	**–**	**840**	**67 440**

(in PLN thousand)

Year ended 31 December 2010

	Provision for counterparty claims, court disputes, onerous contracts, disputes with employees	Provision for restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**19 552**	**238**	**22 639**	**–**	**750 015**	**62 360**	**854 804**
Discount rate adjustment	–	–	961	–	–	–	**961**
Recognition	18 777	374	8 461	101 173	1 071 510	13 939	**1 214 234**
Reversal	(3 948)	–	(256)	–	(10 478)	(2 006)	**(16 688)**
Utilisation	(107)	–	–	–	(1 024 016)	(7 390)	**(1 031 513)**
Other movements	–	–	2 894	–	–	–	**2 894**
Closing balance	**34 274**	**612**	**34 699**	**101 173**	**787 031**	**66 903**	**1 024 692**
CURRENT	**34 274**	**612**	**–**	**101 173**	**787 031**	**66 163**	**989 253**
NON-CURRENT	**–**	**–**	**34 699**	**–**	**–**	**740**	**35 439**

32.2. Details of significant provisions

32.2.1. Provision for counterparty claims, court disputes, onerous contracts

Provision for proceedings before the Consumers and Competition Protection Office

Provision for the proceedings pending before the Competition and Consumers Protection Office amounts to PLN 11,576 thousand. Part of the provision amounting to PLN 4,274 thousand was reversed in December 2011 as a result of winning part of the dispute.

Provision for claims of ArcelorMittal Poland S.A.

The provision for the claims of ArcelorMittal Poland S.A. amounts to PLN 7,200 thousand and did not change in comparison to the provision as at 31 December 2010.

Provision for the claims of IPW Polin Sp. z o.o.

The subsidiary Elektrociepłownia EC Nowa Sp. z o.o. recognized provisions for a potential dispute with IPW Polin Sp. z o.o. over settlements arising from the use of invention projects. In December 2011, the company was served with a suit for the calculation and payment of cash to IPW Polin for the use of a technology enhancing boiler efficiency which was covered by invention projects. Also in December 2011, the company was served with a summons before a court in the capacity of a defendant in a case relating to consideration for the use of inventions registered for protection with the Polish Patent Office. The suit was filed by one of the co-authors of the invention projects enhancing boilers efficiency. The company's management, being aware of the difficulties in estimating the probability of a favorable outcome of the court dispute, decided to recognize provisions for the full amount of the claims, i.e. PLN 8,731 thousand.

In the settlements with IPW Polin Sp. z o.o., the subject of the dispute also includes the results of the application of new technologies in the operation of turbogenerators. The company's management estimates that the provision for a potential settlement of invention projects relating to turbogenerators should account for 50% of the total estimated settlement. Based on the methodology applied to date, the estimated provision in this respect amounts to PLN 1,550 thousand.

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

Under the Geological and Mining Law, Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. recognize provisions for future decommissioning costs of their mining facilities. These provisions are recognized based on the estimate of the anticipated decommissioning costs related to the dismantling and removal of mining and other technological facilities and the restoration of land to its original condition after completion of mining activities. The amounts of the provisions are estimated based on expert studies and technological and economic analyses prepared by in-house staff or external experts. The amounts of the provisions are estimated and reviewed at each balance sheet date on the basis of current cost estimates, assessments of the usage of land and inflation and discount rates. As at 31 December 2011, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o.

amounted to PLN 3,591 thousand, and the provision recognized by Południowy Koncern Węglowy S.A., including the Mine Decommissioning Fund, amounted to PLN 25,691 thousand.

In 2011, TAURON Wytwarzanie S.A. recognized a provision for the restoration of land under waste dumps at an amount of PLN 18,000 thousand.

Vattenfall Wolin-North Sp. z o.o. and Lipniki Sp. z o.o. recognized a provision for the cost of dismantling wind farms after the completion of their usage, at an amount of PLN 8,698 thousand and PLN 4,912 thousand, respectively.

Due to the legal obligation to dismantle and remove fixed assets after the period of their usage, TAURON Wytwarzanie S.A. recognizes a provision for the estimated future costs necessary to discharge this obligation. As at 31 December 2011, the provision amounted to PLN 8,958 thousand.

32.2.3. Provision for obligation to surrender energy certificates

Due to the sale of electricity to final users, the Group is required to surrender for cancellation a certain number of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 December 2011, the provision recognized in this respect amounted to PLN 703,449 thousand.

32.2.4. Provision for gas emission related obligations

As a result of the purchase of greenhouse gas emission allowances by TAURON Wytwarzanie S.A., Elektrociepłownia EC Nowa Sp. z o.o. and Elektrociepłownia Tychy S.A., during the year under review those companies recognized a provision for the cost of surrendering those allowances for cancellation. As at 31 December 2011, the provision amounted to PLN 187,132 thousand.

32.2.5. Other provisions

Provision for use of land without a contract

The Group companies recognize provisions for all claims reported by the owners of real estate on which distribution systems and heat installations are located. As at 31 December 2011, the provision amounted to PLN 42,466 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

Provision for real estate tax

Due to pending tax proceedings, and taking into consideration the verdict of the Constitutional Tribunal of 13 September 2011 as well as the current case law, Południowy Koncern Węglowy S.A. recognizes a provision for the real estate tax on structures located in underground workings. As at 31 December 2011, the provision for real estate tax including interest amounted to PLN 2,036 thousand. In 2011, the company reversed a provision for real estate tax including interest in the amount of PLN 13,938 thousand.

The remaining amount of provisions includes provisions for reported and acknowledged mining damages and potential penalties and indemnities.

33. Capital commitments

As at 31 December 2011, the Group has commitments to incur expenditures for property, plant and equipment at an amount of PLN 1,603,316 thousand, which mainly include the capital commitment of PLN 165,914 thousand relating to boiler accommodation in the Jaworzno III Power Plant, being the property of TAURON Wytwarzanie S.A., to reduce emission of greenhouse gases, and the capital commitment of PLN 151,795 thousand relating to the restoration of production capacity in the Bielsko-Biała CHP Plant, being part of TAURON Wytwarzanie S.A.

As at 31 December 2010, the TAURON Polska Energia S.A. Group had commitments to incur expenditures for property, plant and equipment at an amount of PLN 1,096,642 thousand. The largest item was the capital commitment of PLN 360,700 thousand relating to the restoration of production capacities in the Bielsko-Biała CHP Plant, being part of TAURON Wytwarzanie S.A.

34. Contingent liabilities

Mining damages

The Group, as part of its policy to recognize provisions for future liabilities, recognizes and presents in its consolidated financial statements provisions for mining damages resulting from the mining activities of the mining companies, at the amount of documented claims reported, acknowledged or examined by courts in this respect. The mining companies being part of the Group are not aware of any method to determine the amount of future mining damages that would enable them to reliably estimate the amount of future costs of repair of mining damages arising in the course of extraction of deposits.

(in PLN thousand)

Use of real estate without a contract

The distribution companies being part of the Group does not have the legal title to all plots of land on which the distribution systems and the related equipment are situated. In the future the Group may be required to incur costs for the use of real estate without underlying contracts; however, it must be emphasized that the risk of loss of assets is remote. The Group recognizes a provision for all court disputes in this respect. The Group does not recognize a provision for unreported potential claims from owners of land with an unregulated status due to the lack of a detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims. However, considering the history of reported claims and the costs incurred in this respect in previous years, the risk of incurring significant costs in respect of such claims can be considered as remote.

Compensation for stranded costs

As a result of the Act of 29 June 2007 on the Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Power Purchase Agreements (Journal of Laws of 2007, No. 130, item 905 – "the PPA Act") coming into effect, TAURON Wytwarzanie S.A. volunteered to join the program of early termination of long-term power purchase agreements ("PPAs") by signing an agreement to terminate such contracts. The signing of such an agreement provides a basis for electricity generators to receive funds to cover their expenses that are not covered by the income derived from the sale of generated electricity, reserve capacity and system-related services on a competitive market after early termination of PPAs, resulting from the expenditures incurred by such companies for assets related to electricity generation up to 1 May 2004. Under the PPA Act, the maximum amount of stranded costs and the amounts used in the calculation of annual adjustments to stranded costs were established for each electricity generator. After termination of PPAs, beginning from the year 2008, TAURON Wytwarzanie S.A. receives quarterly cash advances based on the submitted requests. Annual adjustments will be subsequently made to stranded costs throughout the so-called adjustment period, lasting until the expiry of the longest long-term agreement held by the given company. The final adjustment to stranded costs will be made in the year following the year in which the adjustment period of the given company ceases.

In accordance with the accounting policy adopted, in 2008, 2009, 2010 and 2011 Południowy Koncern Energetyczny S.A. (now TAURON Wytwarzanie S.A.) recognized, based on the developed financial model, compensation revenue amounting to PLN 192,163 thousand, PLN 483,956 thousand, PLN 437,875 thousand and PLN 414,795 thousand, respectively.

Under the decision of the President of the Energy Regulatory Office (URE) dated 31 July 2009, TAURON Wytwarzanie S.A. was required to return an amount of PLN 159,508 thousand to Zarządca Rozliczeń S.A. by 30 September 2009. The company appealed against the above decision to the Regional Court in Warsaw – the Court for Competition and Consumers Protection through the President of URE and submitted a motion to suspend its execution. On 24 September 2009, the Court issued a decision to suspend the execution of the decision with regard to amounts exceeding PLN 79,754 thousand. In accordance with the Court's ruling, the company paid the amount referred to above.

In the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection dated 26 May 2010, the Court modified the challenged decision and acknowledged the company's right to make a positive adjustment to stranded costs of PLN 79,088 thousand.

On 8 July 2010, the President of URE lodged an appeal against the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection with the Court of Appeal in Warsaw (The 6th Civil Department).

On 9 February 2012, a hearing was held before the Court of Appeal in Warsaw in the case relating to the President of URE's appeal from the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection dated 26 May 2010. The Court of Appeal did not pass a judgment; instead it adjourned the hearing and obligated the President of URE to submit additional explanations within 14 days. The deadline for the next hearing is to be set ex officio. It is expected that the next hearing will be held no earlier than in two months.

At the date of these consolidated financial statements, the issue of the annual adjustment to stranded costs for 2008 is still under dispute.

In the decision of 29 July 2011, the President of URE determined the amount of the annual adjustment to be made by TAURON Wytwarzanie S.A. to stranded costs for 2010 at PLN 205,703 thousand. On 30 September 2011, Zarządca Rozliczeń S.A. paid the amount of the annual adjustment for the year 2010 to the company.

	Year ended 31 December 2011	Year ended 31 December 2010
Revenue from compensations for terminated PPAs	414 795	437 875
Proceeds from compensations for terminated PPAs	373 975	339 323

Antimonopoly proceedings

The Competition and Consumers Protection Office is conducting two antimonopoly proceedings with respect to TAURON Dystrybucja S.A. These proceedings relate to the alleged abuse of the dominant position on the electricity distribution market. Appeals have been filed against the decision of the Competition and Consumers Protection Office (see Note 32.2.1 concerning provisions). The Company's directors and management of TAURON Dystrybucja S.A. believe that the company's operations in the area of electricity distribution are carried out in conformity with binding regulations and the outcome of the above-mentioned proceedings will have no significant impact on the Group's financial position.

Administrative proceedings instituted by the President of the Energy Regulatory Office

TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o.

Due to interruptions in electricity supply, in 2010 the President of the Energy Regulatory Office (URE) instituted ex officio proceedings in the matter of imposing cash penalties on ENION S.A. (now TAURON Dystrybucja S.A.) and TAURON Sprzedaż Sp. z o.o. due to the identification of a breach of law in their operations consisting in the application of rates and charges that were inconsistent with the terms relating to bonuses granted for interruptions in electricity supply. These proceedings ended with the Decision of the President of URE of 11 March 2011 imposing cash penalties on ENION S.A. at an amount of PLN 1,000 thousand and on TAURON Sprzedaż Sp. z o.o. at an amount of PLN 500 thousand. Both companies filed an appeal against the aforementioned decision with the Court of Competition and Consumers Protection. At the same time, in March 2011 TAURON Sprzedaż Sp. z o.o. recognized a provision of PLN 500 thousand for the potential obligation to pay the above-mentioned penalty. On 22 September 2011 TAURON Sprzedaż Sp. z o.o. received a reply of the President of URE to the company's appeal. In his reply the President of URE asked for the dismissal of the appeal. As at the date of these consolidated financial statements, no date has been set for the hearing before the Court of Competition and Consumers Protection.

Vattenfall Sales Poland Sp. z o.o.

In addition, the President of URE instituted administrative proceedings in the matter of imposing a cash penalty on Vattenfall Sales Poland Sp. z o.o. under Article 56 section 1 point 5 of the Energy Law, based on the allegation that, in 2008–2011, the company used prices and tariffs which had not been submitted for the required approval. The company is of the opinion that it did not breach any law in this respect. In order to avoid being charged with a direct allegation of failing to fulfill the request of the President of URE and thus falling under the provisions of the Energy Law, the company, at the request of the President of URE, submitted electricity tariffs for the years 2008–2011 for approval, although it was exempt from the requirement to submit electricity tariffs (exemption based on the position of the President of URE dated 28 June 2001). However, the applications for the years 2008, 2009 and 2011 were not approved, and the proceedings for the approval of the electricity tariff for 2010 were cancelled based on the Decision of the President of URE.

The administrative proceedings for the approval of the tariff for 2011 are pending since 11 February 2011. Vattenfall Sales Poland Sp. z o.o. filed an appeal with the Court for Competition and Consumers Protection from the Decision of the President of URE refusing to approve electricity tariffs for 2011. The President of URE filed a reply to the company's appeal. The case is pending at the date of authorization of these financial statements.

Elektrociepłownia EC Nowa Sp. z o.o.

On 23 February 2012, the subsidiary Elektrociepłownia EC Nowa Sp. z o.o. was served with a notification about administrative proceedings instituted on 17 February 2012 by the President of Energy Regulatory Office in the matter of imposing a cash penalty. These proceedings relate to the disclosure of irregularities consisting in non-compliance with the requirements referred to in Article 49a section 1 of the Energy Law, i.e. the requirement to sell electricity generated in the period from 9 August 2010 to 31 December 2010 on commodity exchange markets or on a regulated market.

As of 9 August 2010, an amendment to the Energy Law imposing a requirement on electricity generators to sell not less than 15% of electricity on commodity exchange markets (Article 49a) came into effect. Among others, this requirement did not extend to power which:

- was supplied by a power generating company to the final user through a direct line,
- was produced in cogeneration,
- was produced in a generation unit with total installed capacity not exceeding 50 MW.

In its correspondence with the Energy Regulatory Office, EC Nowa Sp. z o.o. expressed an opinion that all the above-mentioned exemptions apply to the company. However, despite the numerous arguments in favor of the application to EC Nowa of the three aforementioned exemptions from the requirement to sell electricity through power exchange markets, the Energy Regulatory Office in Warsaw instituted administrative proceedings in this matter. The amount of the cash penalty that may be imposed by the President of URE may not exceed 15% of revenue from licensed activities. Thus, the maximum amount of the potential penalty may be as follows:

- for the period from 9 August to 31 December 2010: PLN 2,927 thousand,
- for the period from 1 January to 31 December 2011: PLN 9,706 thousand.

In the company's opinion, the Energy Regulatory Office made an overinterpretation of the conditions for exemption from the requirement to sell electricity, by changing or supplementing the original provisions of the Energy Law. In addition, the President of URE did not take into consideration all of the company's explanations previously made in this respect. The company, therefore, maintains its position that it is exempt from the requirement to sell part of electricity through exchange markets. The company's management believe that the probability of an unfavorable outcome in this case, even in the court, is minimal. Therefore, it has not recognized any provision for those events.

(in PLN thousand)

Administrative proceedings instituted by the President of the Competition and Consumers Protection Office

In the letter dated 26 July 2011, the President of the Competition and Consumers Protection Office (UOKiK) notified TAURON Sprzedaż Sp. z o.o. about instituting administrative proceedings with regard to the company's alleged use of practices violating collective consumers' interests. In the letter dated 16 September 2011, the company's attorney applied for conducting the said proceedings in the direction of issuing a decision imposing on the company the requirement to fulfill an obligation to discontinue activities violating collective consumers' interests and to undertake activities to prevent continued existence of the alleged violations. On 14 November 2011, the President of the Competition and Consumers Protection Office accepted the obligation of TAURON Sprzedaż Sp. z o.o. and imposed on it a requirement to fulfill the obligation, while setting the deadline for its fulfillment at 1 June 2012. The Company is in the course of fulfilling the obligation imposed on it.

Claims of Huta Łaziska S.A.

In recent years, the subsidiary Górnośląski Zakład Elektroenergetyczny S.A. (GZE) was party to court disputes with Huta Łaziska S.A. (Huta). The main reason for this was the withholding of electricity supplies to Huta by GZE in 2001 due to payment arrears.

Based on the decision of 12 October 2001, the President of URE ordered GZE to resume electricity supplies to Huta on the terms of the agreement dated 30 July 2001 at the price of PLN 67/MWh until the date of final resolution of the dispute, and on 14 November 2001 the President of URE finally resolved the dispute by issuing a decision stating that the withholding of electricity supplies was not unjustified. Huta appealed against this decision. On 25 July 2006, the Court of Appeal in Warsaw passed a final judgment ending the dispute over the decision of the President of URE dated 14 November 2001. Huta lodged a cassation appeal against the judgment of the Court of Appeal, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to the withholding of electricity supplies, Huta has raised a number of various claims against GZE, none of which was recognized by the courts as justified. Currently an action is pending under Huta's suit of 13 March 2007 against GZE and the State Treasury for the payment of PLN 182,060 thousand together with interest from the date of filing the suit to the date of payment, for damages to be paid for alleged losses resulting from alleged GZE's failure to comply with the decision of the President of URE dated 12 October 2001. In this case, on 26 October 2009 the Regional Court in Warsaw passed a judgment dismissing the claim in whole, and the Court of Appeal dismissed in whole Huta's appeal; however, in the judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeal and remanded the case for reexamination by this Court.

Based on the company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the company believes that they are groundless and the risk of their satisfaction is remote. As a result, there is no need to recognize a provision for any costs associated with these claims.

Excise

Contingent liabilities resulting from excise are presented in Note 35.

Other contingent liabilities

	As at 31 December 2011	As at 31 December 2010
Loans'/credits' repayment guarantee	2 408	3 108
Promissory note's repayment guarantee	–	414
Bank's guarantee liabilities	1 898	2 251
Legal action's liabilities	2 797	2 400
Other contingent liabilities	2 863	2 195
Total contingent liabilities	**9 966**	**10 368**

35. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

(in PLN thousand)

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2011.

As at the date of these consolidated financial statements, the following proceedings are pending in the Group companies in respect of state budget settlements:

Excise

Due to the non-compliance of Polish regulations regarding excise charged on electricity with EU regulations, on 11 February 2009 the power plants and combined heat and power plants being part of the TAURON Group submitted corrections of their tax declarations along with requests to recognize an overpayment of excise for the years 2006–2008 and for January and February 2009. The total amount of the overpayment stated in the requests (excluding interest) was approximately PLN 901,428 thousand. Currently proceedings relating to the individual companies in the TAURON Group are pending before the appropriate Customs Chambers and Voivodship Administrative Courts.

On 12 February 2009, the European Court of Justice passed a judgment confirming that Poland had breached the EU law by failing to adjust, until 1 January 2006, its electricity taxation system to the requirements of Article 21 paragraph 5 of the European Council Directive 2003/96/EC of 27 October 2003 on Restructuring the Community Framework for the Taxation of Energy Products and Electricity (amended by the Council Directive 2004/74/EC dated 29 April 2004), as, in the period until 28 February 2009, the tax obligation in respect of excise on electricity in Poland arose at the moment the electricity was issued by the generator instead of at the moment of its supply by the distributor or redistributor.

In the light of the above, there are grounds for obtaining a refund of the excise paid in breach of the EU law. The Ministry of Finance is, however, of the opinion that such a refund would result in an unjustified enrichment of electricity-generators and hence it is groundless. For this reason, the process of excise recovery may extend until court decisions.

At the same time, certain contractors of the TAURON Group submitted claims against companies selling electricity for adjustment of the prices of purchased electricity, on the grounds that the price of electricity included excise which should be refunded by the State Treasury to electricity purchasers.

Due to the significant uncertainty regarding the final resolution of the above issue, in these consolidated financial statements the Group did not recognize any effects of the potential refund of overpaid excise or the existing or potential claims of electricity purchasers.

Real estate tax

The details of provisions for disputes relating to real estate tax on workings and the related structures are presented in Note 32.2.5.

The approach to taxation of equipment used for generation and transmission of electricity with real estate tax is subject to varying interpretations. Due to the fact that the real estate tax is collected by local authorities, their approach is not consistent and sometimes the calculation of taxable base is challenged. At the date of these consolidated financial statements, the potential outcomes of the proceedings conducted in this respect are not significant for the TAURON Group. The Group's position with regard to taxation of energy equipment with real estate tax may change in the future, depending on the decisions issued by courts and potential changes in law.

36. Related party disclosures

The main shareholder of the Group is the State Treasury of the Republic of Poland, therefore State Treasury companies are treated as related parties.

36.1. Transactions with State Treasury companies

The total value of transactions with State Treasury companies is presented in the table below.

Revenues and expenses

	Year ended 31 December 2011	Year ended 31 December 2010 (*adjusted figures*)
Revenue	1 746 443	1 502 099
Costs*	(3 168 992)	(3 585 358)

** Includes costs recognized in the statement of comprehensive income.*

(in PLN thousand)

Receivables and payables

	As at 31 December 2011	As at 31 December 2010 (adjusted figures)
Receivables	469 020	249 525
Payables	571 740	379 597

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the year 2011: PSE Operator S.A., KGHM Polska Miedź S.A. and Kompania Węglowa S.A. Total sales to these counterparties accounted for almost 85% of revenue from transactions with State Treasury companies. The largest purchase transactions were made by the Group with PSE Operator S.A., Kompania Węglowa S.A. Purchases from these counterparties accounted for over 77% of the value of purchases from the State Treasury companies during the year 2011.

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the year 2010: PSE Operator S.A., KGHM Polska Miedź S.A. and Kompania Węglowa S.A. Total sales to these counterparties accounted for almost 78% of revenue from transactions with State Treasury companies. The largest purchase transactions were made by the Group with PSE Operator S.A. and Kompania Węglowa S.A. The related costs accounted for 62% of the costs incurred as a result of purchases from the State Treasury companies during the year 2010. The Group enters into significant transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only deals with organization of commodities exchange trading, a decision was taken not to consider purchase and sale transactions made through this entity as related party transactions. The comparative figures for 2010 have been restated.

Transactions with State Treasury companies mainly relate to the operating activities of the Group and are made at an arm's length.

36.2. Compensation of key management personnel

Up until 28 June 2010, the compensation of the Directors and Supervisory Board members was subject to the provisions of the Act of 3 March 2000 on Remunerating Individuals Being in Charge of Certain Legal Entities (companies with a majority shareholding of the State Treasury). In accordance with the provisions of this Act, the maximum monthly remuneration cannot exceed six times the amount of the average monthly remuneration in the business sector excluding profit-based bonuses in the fourth quarter of the preceding year, as announced by the President of the Central Statistical Office. The amount of the annual bonus for the Board of Directors must not exceed three times their average monthly remuneration in the year preceding the year in which the bonus was granted.

Other transactions, arising from civil law contracts concluded between the parent and members of its governing bodies, relate to the use of business cars for private purposes.

In addition, during the year covered by these consolidated financial statements, members of the executive and supervisory bodies of the Group companies received loans from the Social Fund. The balance of outstanding loans as at 31 December 2011 was PLN 18 thousand.

	Parent		Subsidiaries	
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2010
Board of Directors	**8 863**	**5 967**	**23 860**	**15 318**
Short-term employee benefits (salaries and surcharges)	7 933	5 200	20 740	14 282
Jubilee bonuses	–	73	42	246
Post-employment benefits	83	41	756	–
Employment termination benefits	–	–	325	31
Other	847	653	1 997	759
Supervisory Board	**812**	**329**	**2 067**	**2 872**
Short-term employee benefits (salaries and surcharges)	812	329	1 971	2 691
Jubilee bonuses	–	–	–	–
Post-employment benefits	–	–	–	–
Employment termination benefits	–	–	–	–
Other	–	–	96	181
Total	**9 675**	**6 296**	**25 927**	**18 190**
Other key management personnel	**7 163**	**5 745**	**33 846**	**32 826**
Short-term employee benefits (salaries and surcharges)	6 245	5 079	32 472	31 549
Jubilee bonuses	202	91	842	736
Post-employment benefits	–	–	–	61
Employment termination benefits	88	–	305	–
Other	628	575	227	480

(in PLN thousand)

37. Financial instruments

37.1. Carrying amounts and fair values of categories and classes of financial instruments

Categories and classes of financial assets	Carrying amount	
	As at 31 December 2011	As at 31 December 2010
1 Assets at fair value through profit or loss	**100 225**	**7 658**
Shares in unlisted and listed companies (current)	716	553
Investment fund units	2	6 848
Derivative instruments	–	257
Bonds, T-bills and other debt securities	99 507	–
2 Financial assets available for sale	**170 223**	**156 089**
Shares in unlisted and listed companies (non-current)	161 286	148 514
Shares in unlisted and listed companies (current)	4 588	1 058
Investment fund units	2 124	2 958
Bonds, T-bills and other debt securities	2 225	1 500
Other financial assets available for sale	–	2 059
3 Financial assets held to maturity	–	–
4 Loans and receivables	**2 778 390**	**2 315 043**
Trade receivables	1 881 992	1 567 937
Deposits	25 250	35 493
Loans granted	–	240
Other financial receivables	871 148	711 373
5 Financial assets excluded from the scope of IAS 39	**22 717**	**764**
Investments in associates and joint ventures recognised using the equity method	22 717	764
5 Derivative hedging instruments (assets)	–	–
6 Cash and cash equivalents	**505 670**	**1 473 981**
Total, including	**3 577 225**	**3 953 535**
Non-current assets	**220 187**	**178 216**
Investments in associates and joint ventures recognised using the equity method	22 717	764
Other long-term financial assets	197 470	177 452
Current assets	**3 357 038**	**3 775 319**
Trade and other receivables	2 743 344	2 273 145
Other current financial assets	108 024	28 193
Cash and cash equivalents	505 670	1 473 981

(in PLN thousand)

Categories and classes of financial liabilities	Carrying amount	
	As at 31 December 2011	As at 31 December 2010
1 Financial liabilities at fair value through profit or loss	**80**	**6 917**
Derivative instruments	80	6 917
2 Financial liabilities measured at amortized cost	**6 823 202**	**3 030 921**
Preferential loans	176 966	243 323
Arm's length loans	141 973	309 411
Bank overdrafts	–	2 464
Issued debentures and other debt securities	4 147 174	846 007
Trade payables	1 471 434	945 457
Other financial liabilities	71 744	90 057
Commitments resulting from purchases of fixed and intangible assets	630 295	388 467
Salaries and wages	148 393	178 482
Insurance contracts	35 223	27 253
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**70 993**	**91 262**
Obligations under finance leases and hire purchase contracts	70 993	91 262
4 Derivative hedging instruments (liabilities)	–	–
Total, inclusing	**6 894 275**	**3 129 100**
Long-term liabilities	**4 316 144**	**1 150 898**
Interest-bearing loans and borrowings	4 251 944	1 076 178
Finance lease and hire purchase commitments	56 232	67 810
Trade payables and other financial long-term liabilities	7 968	6 910
Short-term liabilities	**2 578 131**	**1 978 202**
Trade and other payables	2 349 201	1 629 723
Current portion of interest-bearing loans and borrowings	214 169	325 027
Current portion of finance lease and hire purchase commitments	14 761	23 452

The fair value of the financial instruments held by the Group as at 31 December 2011 and 31 December 2010 did not significantly differ from their carrying amounts in the financial statements for the individual years, due to the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments relate to arm's length transactions; and
- where necessary, the carrying amount of shares not traded on an active market was determined taking into account impairment and approximates fair value.

(in PLN thousand)

37.2. Items of income, expense, gains and losses recognized in the statement of comprehensive income, by category of financial instruments

Year ended 31 December 2011

	Assets at fair value through profit or loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	–	8 196	–	–	7	–	–	–	–	**8 203**
Interest income/(expense)	54 015	–	18	37 369	–	(2 892)	(54 902)	(5 765)	–	**27 843**
Currency translation differences	(204)	–	–	7 763	–	(2)	(11 548)	(1 177)	–	**(5 168)**
Reversal of impairment losses/ "upwards" revaluation	18	1 060	315	5 940	–	1 694	–	–	–	**9 027**
Recognition of impairement losses/ "downwards" revaluation	(5)	(268)	–	(7 442)	–	(337)	–	–	–	**(8 052)**
Commission relating to borrowings and debt securities	–	–	–	–	–	–	(6 205)	–	–	**(6 205)**
Gain/(loss) on disposal of investments	(35)	(2 590)	–	–	–	–	–	–	–	**(2 625)**
Net profit (loss)	**53 789**	**6 398**	**333**	**43 630**	**7**	**(1 537)**	**(72 655)**	**(6 942)**	**–**	**23 023**

Year ended 31 December 2010

	Assets at fair value through profit or loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends and shares in profits	3	4 351	–	–	450	–	–	–	–	**4 804**
Interest income/(expense)	36 437	–	570	38 969	–	(16)	(100 703)	(6 880)	(6 065)	**(37 688)**
Currency translation differences	(196)	–	–	(589)	–	–	(521)	476	–	**(830)**
Reversal of impairment losses/ "upwards" revaluation	759	–	–	8 994	–	–	–	–	–	**9 753**
Recognition of impairement losses/ "downwards" revaluation	(192)	(1 802)	(2 932)	(4 881)	–	–	–	–	(5 772)	**(15 579)**
Commission relating to borrowings and debt securities	–	–	–	–	–	–	(30 751)	–	–	**(30 751)**
Gain/(loss) on disposal of investments	(107)	8	–	–	–	–	–	–	–	**(99)**
Net profit (loss)	**36 704**	**2 557**	**(2 362)**	**42 493**	**450**	**(16)**	**(131 975)**	**(6 404)**	**(11 837)**	**(70 390)**

(in PLN thousand)

37.3. Details of significant items within the individual categories of financial instruments

37.3.1. Assets at fair value through profit or loss

The largest item of assets at fair value through profit or loss is comprised of State Treasury bonds in the amount of PLN 99,507 thousand, acquired by Vattenfall Sales Poland Sp. z o.o. and Vattenfall Distribution Poland S.A.

37.3.2. Financial assets available for sale

Available-for-sale financial assets are mainly comprised of shares in the following companies:

- shares in Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o. with a value of PLN 35,694 thousand;
- shares in Knauf Jaworzno III Sp. z o.o. with a value of PLN 19,857 thousand,
- shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. Tychy with a value of PLN 31,608 thousand.

The increase in the value of shares in comparison to 2010 is mainly due to the acquisition of shares in Vattenfall Generation Poland Sp. z o.o., amounting to PLN 9,337 thousand.

37.3.3. Loans and receivables

Trade receivables are described in detail in Notes 21 and 38.

37.3.4. Financial assets excluded from the scope of IAS 39

As at 31 December 2011 and 31 December 2010, the Group had a joint venture which was accounted for using the equity method. This is the special purpose entity Elektrociepłownia Stalowa Wola S.A., in which Elektrownia Stalowa Wola S.A., currently TAURON Wytwarzanie S.A., and PGNiG Energia S.A. hold 50% stakes in the share capital and in the governing body. The investment has been described in detail in Note 2.

37.3.5. Financial liabilities measured at amortized cost

Loans taken out

The tables below present loans taken out as at 31 December 2011 and 31 December 2010.

Loans taken out as at 31 December 2011

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	297 859	297 859	32 909	164 609	52 503	30 776	8 062	9 000
	fixed	12 055	12 055	493	1 507	1 903	1 359	2 717	4 076
Total PLN		**309 914**	**309 914**	**33 402**	**166 116**	**54 406**	**32 135**	**10 779**	**13 076**
EUR	floating	1 898	8 381	906	2 039	2 718	2 718	–	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		**1 898**	**8 381**	**906**	**2 039**	**2 718**	**2 718**	–	–
USD	floating	17	59	–	59	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		**17**	**59**	–	**59**	–	–	–	–
Total			**318 354**	**34 308**	**168 214**	**57 124**	**34 853**	**10 779**	**13 076**
Interest increasing carrying amount			585						
Total loans			**318 939**						

(in PLN thousand)

Loans taken out as at 31 December 2010

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	534 046	534 046	152 240	158 589	168 500	36 576	18 119	22
	fixed	210	210	210	–	–	–	–	–
Total PLN		**534 256**	**534 256**	**152 450**	**158 589**	**168 500**	**36 576**	**18 119**	**22**
EUR	floating	2 461	9 748	609	1 828	2 437	2 437	2 437	–
	fixed	–	–	–	–	–	–	–	–
Total EUR		**2 461**	**9 748**	**609**	**1 828**	**2 437**	**2 437**	**2 437**	**–**
USD	floating	3 641	10 793	–	10 793	–	–	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		**3 641**	**10 793**	**–**	**10 793**	**–**	**–**	**–**	**–**
Total			**554 797**	**153 059**	**171 210**	**170 937**	**39 013**	**20 556**	**22**
Interest increasing carrying amount			401						
Total loans			**555 198**						

The table below demonstrates movements in the balance of loans without interest increasing their carrying amount for the years ended 31 December 2011 and 31 December 2010.

	Year ended 31 December 2011	Year ended 31 December 2010
Opening balance	**554 797**	**1 178 270**
Acquisition of a subsidiary	**138 261**	**–**
Movement in bank overdrafts	**(2 464)**	**(56 989)**
Movement in loans (excluding bank overdrafts):	**(372 240)**	**(566 484)**
Taken out	87 254	167 115
Repaid	(467 183)	(744 020)
Change in valuation	7 689	10 421
Closing balance	**318 354**	**554 797**

Significant items of loans as at 31 December 2011 are the investment loans taken out by TAURON Wytwarzanie S.A. for investment projects including mainly construction of a power unit at the Łagisza Power Plant, which was financed using a preferential loan granted by the National Fund for Environmental Protection and Water Management and an investment loan granted by Bank Ochrony Środowiska S.A. These liabilities are denominated in Polish currency and have floating interest rates. Their carrying amounts as at 31 December 2011 and 31 December 2010 are presented in the table below.

Lender	As at 31 December 2011	As at 31 December 2010	Final repayment deadline
National Fund for Environmental Protection and Water Management	85 604	176 000	20 December 2012
Bank Ochrony Środowiska S.A.	48 486	60 000	31 December 2013
Total	**134 090**	**236 000**	

In addition, as at 31 December 2011 TAURON Dystrybucja S.A. had an investment loan with the carrying amount of PLN 77,782 thousand. The loan was granted under the loan agreement signed in 2010 with Bank Polska Kasa Opieki S.A. for the refinancing of capital expenditures incurred in 2008 and 2009. The final deadline for the repayment of the loan is in the fourth quarter of 2014.

In 2011, TAURON Wytwarzanie S.A. repaid a loan received for the reconstruction of units I and II in the Siersza Power Plant, with the carrying amount of PLN 48,395 thousand as at 31 December 2010.

In 2011, due to the implementation of the central financing model and the refinancing of part of the subsidiaries' debt by the parent, EnergiaPro S.A., currently TAURON Dystrybucja S.A., made an early repayment of an investment loan with the initial cost of PLN 80,000 thousand, maturing in August 2013. The carrying amount of the loan as at 31 December 2010 was PLN 53,592 thousand.

In addition, a loan of PLN 138,261 thousand, increased by accrued interest, which had been taken over by the Group as a result of the acquisition of Lipniki Sp. z o.o. was repaid by the company immediately after its acquisition.

TAURON Polska Energia S.A. took out two preferential loans from the European Investment Bank with a total value of PLN 510,000 thousand. Agreements were signed on 24 October 2011. Those funds will be used for the implementation of two investment projects in the area of generation.

The Company received two loans:

- PLN 300,000 thousand to be used for the conversion and making available for use of a high-efficiency coal-fired cogeneration unit together with the accompanying infrastructure in Zespół Elektrociepłowni w Bielsku-Białej. Thanks to these funds the TAURON Group will replace the current unit with a higher efficiency 50 MWe and 182 MWt unit. The construction of this unit started in August 2010 and the project will be realized until mid 2013;
- PLN 210,000 thousand to be used for the construction and start-up of a new 50 MWe and 45 MWt biomass-fired boiler in the Jaworzno III Power Plant, which is planned to be made available in 2012, as well as the repair of the steam turbine.

As at the balance sheet date, the Company has not applied for the payment of funds under any of the above-mentioned loans.

Debentures issued

On 16 December 2010, agreements were signed between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Nordea Bank Polska S.A., with respect to the program of issue of TAURON Polska Energia S.A.'s debentures for an amount of PLN 1,300,000 thousand. Under these agreements, the Company was entitled to issue debentures in two tranches, A and B.

Under Tranche A, on 29 December 2010 Tauron Polska Energia S.A. issued 5-year corporate debentures with a nominal value of PLN 848,200 thousand in order to refinance the existing debt of Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.), ENION S.A. (currently TAURON Dystrybucja S.A.) and Południowy Koncern Węglowy S.A. Under Tranche B, the Company is entitled to issue a number of next series of debentures during the term of the program as well as to redeem and reissue debentures up to the amount of Tranche B i.e. PLN 400,000 thousand, with a proviso that any unused amount of Tranche A not exceeding PLN 50,000 thousand can be added to Tranche B up to the total amount not exceeding PLN 450,000 thousand.

On 28 October 2011, annexes to the agreements dated 16 December 2010 were signed between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., BRE Bank S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Nordea Bank Polska S.A. and Nordea Bank AB under which the value of the debenture issue program was increased by Tranche C with a value of PLN 3,000,000 thousand, up to the total amount of PLN 4,300,000 thousand. The purpose of this increase was to acquire funds for the purchase of Górnośląski Zakład Elektroenergetyczny S.A. or implementation of investments in the TAURON Group.

On 12 December 2011, the Company issued debentures with a total value of PLN 3,300,000 thousand. Debentures were issued in two tranches (B and C). Tranche B included debentures with a total nominal value of PLN 300,000 thousand and maturity of 12 December 2015. Tranche C included debentures with a total nominal value of PLN 3,000,000 thousand and maturity of 12 December 2016.

Debentures are issued in a dematerialized form. These are unsecured coupon debentures with a floating interest rate of WIBOR 6M plus a fixed margin. Interest on these debentures is payable on a semi-annual basis. The Company provided a declaration of submission to enforcement up to PLN 5,160,000 thousand as a security for the debenture issue program.

The agreements signed by the Company with banks include legal and financial commitments (covenants), which are commonly used in such transactions. As at 31 December 2011, none of these covenants has been breached.

As at 31 December 2011 and 31 December 2010, the liabilities of the TAURON Group arising from debt securities were solely comprised of the liability of TAURON Polska Energia S.A. under issued debentures. Under the central financing model implemented by the Group, the subsidiaries only issue intercompany debentures which are acquired by the parent, while external funding is acquired at the level of the parent.

Consequently, on 30 December 2010 Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A., redeemed external debentures with a value of PLN 41,308 thousand and paid the accrued interest of PLN 18,462 thousand in accordance with the repayment schedule, and additionally used the amount of PLN 782,940 thousand obtained from the issue of intercompany debentures to early redeem the entire outstanding balance of debentures issued to external parties, amounting to PLN 526,076 thousand, and to pay the commission on early redemption of PLN 15,952 thousand.

The tables below present the balances of the Group's liability under issued debentures, together with accrued interest, as at 31 December 2011 and 31 December 2010.

(in PLN thousand)

Carrying amount of debentures issued as at 31 December 2011

Company	Tranche	Interest rate	Currrency	As at balance sheet date		of which maturing within (from the balance sheet date)					
				Interest accrued	Principal at amortised cost	Less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
TAURON Polska Energia S.A.	Tranche A	floating	PLN	412	846 106	–	–	–	–	846 106	–
TAURON Polska Energia S.A.	Tranche B	floating	PLN	968	298 920	–	–	–	–	298 920	–
TAURON Polska Energia S.A.	Tranche C	floating	PLN	9 682	2 991 086	–	–	–	–	2 991 086	–
Total debentures				**11 062**	**4 136 112**	–	–	–	–	**4 136 112**	–

Carrying amount of debentures issued as at 31 December 2010

Company	Tranche	Interest rate	Currrency	As at balance sheet date		of which maturing within (from the balance sheet date)					
				Interest accrued	Principal at amortised cost	Less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
TAURON Polska Energia S.A.	Tranche A	floating	PLN	357	845 650	–	–	–	–	845 650	–
Total debentures				**357**	**845 650**	–	–	–	–	**845 650**	–

37.3.6. Assets pledged as security

The Group uses various forms of security to secure payment of liabilities. The most frequently used ones include mortgages, registered pledges, liens and lease agreements relating to real estate and other items of property, plant and equipment as well as inventories, receivables, or frozen cash in bank accounts.

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

Carrying amount of assets pledged as security for liabilities

	As at 31 December 2011	As at 31 December 2010
Real estate	730 416	3 313 463
Plant and equipment	136 201	275 467
Motor vehicles	2 439	4 241
Assets under construction	75	224
Cash	663	3 772
Other financial and non-financial receivables	5 771	16 850
Total assets pledged as security for liabilities	**875 565**	**3 614 017**

The significant decrease in the carrying amount of assets pledged as security for liabilities is due to the restructuring of debt within the Group. Using the funds obtained from the issue of intercompany debentures that were acquired by TAURON Polska Energia S.A. in December 2010 and in January 2011, Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A., redeemed the debentures previously issued and repaid its investment loans. As a result, the following mortgages and registered pledges were deleted from the registers: in respect of real estate – for an amount of PLN 2,540,281 thousand, plant and machinery – PLN 26,721 thousand, and other financial and non-financial receivables – PLN 15,001 thousand. Likewise, Południowy Koncern Węglowy S.A. deleted mortgages (PLN 32,640 thousand) and registered pledges on plant and machinery (PLN 89,873 thousand) from the registers due to the repayment of loans.

Description of other forms of security

In addition to the collaterals listed above, the Group also uses other forms of security, of which the most significant ones as at 31 December 2011 relate to loans taken out by TAURON Wytwarzanie S.A. and include: assignment of receivables amounting to PLN 88,000 thousand, authorizations to bank accounts – PLN 138,000 thousand and blank promissory notes for PLN 163,000 thousand. Loans taken out by TAURON Dystrybucja S.A. have been secured by granting authorizations to dispose of the funds in the borrowers' bank accounts up to the balance of the outstanding loan plus interest and other amounts due to the bank – a total of PLN 107,786 thousand as at 31 December 2011. Elektrociepłownia Tychy S.A. issued a blank promissory note for an amount of PLN 92,383 thousand to secure a sale and leaseback agreement signed in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate and plant and machinery (in the table above) and authorization to dispose of bank accounts.

Under the debentures issue program, the parent signed a declaration of submission to enforcement for the following amounts:

- up to PLN 1,560,000 thousand – valid until 31 December 2016,
- up to PLN 3,600,000 thousand – valid until 31 December 2018.

In order to secure two agreements for bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided declarations of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 48,000 thousand and PLN 62,000 thousand, valid until 31 December 2012 and 31 December 2015, respectively.

In order to secure the transactions made by TAURON Polska Energia S.A. in electricity markets through Towarowa Giełda Energii S.A. and its participation in the system securing the liquidity of settlements, restrictions were placed on the EUAs of TAURON Wytwarzanie S.A. entered in the National Register of Emission Allowances (KRUE). In addition, TAURON Wytwarzanie S.A. issued a suretyship to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT S.A.) for the settlement of the Company's future transactions up to the amount of PLN 145,000 thousand. It was agreed that the Company would pay a consideration to TAURON Wytwarzanie S.A. for setting up collateral in the form of a suretyship.

In addition, on 28 December 2011, TAURON Polska Energia S.A. entered into a collateral transfer of ownership agreement with IRGIT S.A., under which restrictions were placed on 6,000,000 EUAs of TAURON Polska Energia S.A. in order to secure transactions made on Towarowa Giełda Energii S.A. The agreement came into force on 29 December 2011 i.e. the date of registration of additional emission allowances subject to the transfer of ownership, and it is valid until 16 March 2012. The collateral was established on the emission allowances purchased from the subsidiary, TAURON Wytwarzanie S.A., with a commitment to sell them back on 20 March 2012.

In order to secure funds for future decommissioning costs, the mining companies that are part of the Group have recognized a Mine Decommissioning Fund. Details are presented in Note 15.

38. Financial risk management objectives and policies

The Group companies manage financial risk in a mindful and responsible manner, based on the developed and adopted Policy for Specific Risk Management in the Area of Finance, which includes a set of principles and standards consistent with best practices in this respect. A comprehensive risk management framework that is consistent with business processes allows for identification and management of correlations between the risk incurred and the level of income that can be earned. The intention of those managing risk at the Group companies is to keep the exposure within the pre-agreed and authorized safety levels rather than to fully eliminate the exposure arising from changes in the identified and monitored risk factors.

The primary objective of financial risk management is to manage the risk so as to reduce as much as possible the sensitivity of the Group's cash flows to changing financial risks and to minimize finance costs and hedging expenses incurred under derivative transactions.

Apart from derivatives, the key financial instruments used by the Group include bank and other loans, debentures, finance leases and hire purchase contracts, cash and deposits. The main purpose of using these financial instruments is to provide funds for the operations of the Group companies. Due to the nature of its business processes, the Group also holds and uses other financial instruments, such as trade receivables and payables, which arise directly in the course of the Group's business activities.

The Group's current policy and the policy in place during the entire period covered by these consolidated financial statements has been not to engage in trading in financial instruments.

The key risks arising from the Group's financial instruments are interest rate risk, liquidity risk, currency risk and credit risk.

On 10 May 2011, the Board of Directors of the parent passed a resolution implementing in the Group a policy for specific risk management in the area of finance, the objectives of which are as follows:

- Defining the financial risk management strategy and principles in the Group;
- Defining acceptable tools for hedging financial risk;
- Defining the decision-making process in the area of financial risk management in the Group,

(in PLN thousand)

- Implementation of general standards in the area of financial risk management, in line with the Group's requirements and the related best practices;
- Defining the general rules for organization of activities relating to financial risk in the Group, including delegation of duties to enable proper control of the activities relating to financial risk management;
- Defining general principles of hedge accounting in the Group which define the principles and types of hedge accounting and the accounting treatment of hedging instruments and hedged items to be applied as part of hedge accounting under IFRS.

The policy for specific risk management in the area of finance defines the strategy of financial risk management in the area of currency and interest rate risks.

The aim of the currency risk management is to reduce the negative impact of changes in foreign exchange rates on the Group's cash flows to an acceptable level. The aim of the interest rate risk management is to reduce, to an acceptable level, the negative impact of fluctuations in market interest rates on cash flows and the annual net interest expense being part of finance income and costs presented in the Group's consolidated financial statements.

The policy for specific risk management in the area of finance and hedge accounting policies refer to the cash flow risk and do not include fair value risk due to its low significance for the Group.

As a result of the implementation of the policy for specific risk management in the area of finance, the financial risk management function was centralized in order to optimize the financial risk management process, including minimization of the Group's costs in this area. From the perspective of financial risk management in the Group, the individual companies are responsible for identifying, measuring and reporting the financial risk associated with their activities to the parent company.

In 2011, the Group did not enter into any derivative transactions falling under hedge accounting. However, in accordance with its financial risk management policy, TAURON Polska Energia S.A., which, in accordance with the policy, is the only one in the Group to enter into transactions with external entities, plans to make use of derivative instruments which, due to their nature, will enable it to apply hedge accounting in the future.

In addition, in the second half of 2011, the Group companies implemented a Policy for Management of Financial Liquidity in the TAURON Group. Owing to this policy, which includes, among others, precise weekly updates of financial plans, scenario analyses and comparative analyses, management of the liquidity position of the TAURON Group is optimized and the risk of loss of liquidity is reduced. Based on the adopted policy, TAURON Polska Energia S.A. sets the optimum amount and structure of the liquidity reserve and performs measurements and assessments of the liquidity risk at the level of the TAURON Group.

It has been assumed that each employee is responsible for risk management. Employees are aware of the risks arising in their areas of operations and feel responsible for risk management. The Group companies also monitor the market price risk arising from all financial instruments held by the Group. The Group companies' accounting policies relating to derivatives are set out in Note 11.

38.1. Interest rate risk

The Group is exposed to the risk of changes in interest rates due to acquiring financing subject to variable interest rates and investing in assets that are subject to variable and fixed interest rates. The Group companies are additionally exposed to the risk of lost benefits in respect of their fixed interest debt due to declines in the interest rates.

The tables below present the carrying amounts of the Group's financial instruments exposed to interest rate risk, analyzed by maturity.

31 December 2011 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	2 604	20 991	–	–	–	**23 595**
Bonds, T-bills and other debt securities	99 507	–	–	–	–	**99 507**
Financial liabilities						
Preferential loans	1 996	1 903	1 359	2 717	4 076	**12 051**

(in PLN thousand)

31 December 2011 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	607	–	–	–	1 048	**1 655**
Loans granted	–	–	–	–	–	–
Cash and cash equivalents	505 670	–	–	–	–	**505 670**
Financial liabilities						
Issued debentures and other debt securities	11 062	–	–	4 136 112	–	**4 147 174**
Bank overdrafts	–	–	–	–	–	–
Preferential loans	116 704	25 517	5 632	8 062	9 000	**164 915**
Arm's length loans	84 405	29 706	27 862	–	–	**141 973**

31 December 2010 – fixed interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	2 603	17 170	–	–	–	**19 773**
Bonds, T-bills and other debt securities	–	–	–	–	–	–
Financial liabilities						
Preferential loans	210	–	–	–	–	**210**

31 December 2010 – floating interest rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Deposits	14 815	–	–	–	905	**15 720**
Loans granted	60	60	60	60	–	**240**
Cash and cash equivalents	1 473 981	–	–	–	–	**1 473 981**
Financial liabilities						
Issued debentures and other debt securities	357	–	–	845 650	–	**846 007**
Bank overdrafts	2 464	–	–	–	–	**2 464**
Preferential loans	103 335	106 890	25 217	7 649	22	**243 113**
Arm's length loans	218 661	64 047	13 796	12 907	–	**309 411**

Interest on financial instruments with floating interest rates is updated in periods of less than 1 year. Interest on financial instruments with fixed interest rates is fixed over the entire period to maturity of these instruments. Other financial instruments of the Group, which have not been included in the tables above, are non-interest bearing and are therefore not exposed to interest rate risk.

(in PLN thousand)

38.2. Currency risk

The Group companies are exposed to changes in EUR/PLN, USD/PLN and CZK/PLN exchange rates due to their operational and financial activities. The tables below present the Group's exposure to currency risk, analyzed by the particular classes of financial instruments in the years 2010 and 2011.

Currency position as at 31 December 2011

	Total carrying amount in PLN	EUR		USD		CZK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Trade receivables and other financial receivables	2 753 140	1 388	6 131	–	–	96 885	16 577
Cash and cash equivalents	505 670	7 052	31 146	–	–	20 298	3 473
Total		**8 440**	**37 277**	**–**	**–**	**117 183**	**20 050**
Financial liabilities							
Arm's length loans	141 973	1 900	8 394	18	60	–	–
Trade payables	1 471 434	5 136	22 684	1	5	21 303	3 645
Commitments resulting from purchases of fixed and intangible assets	630 295	263	1 161	–	–	–	–
Finance lease and hire purchase commitments	70 993	2 448	10 813	–	–	–	–
Total		**9 747**	**43 052**	**19**	**65**	**21 303**	**3 645**
Net currency position		**(1 307)**	**(5 775)**	**(19)**	**(65)**	**95 880**	**16 405**

Currency position as at 31 December 2010

	Total carrying amount in PLN	EUR		USD		CZK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Trade receivables and other financial receivables	2 279 310	2 023	8 012	–	–	57 271	9 049
Cash and cash equivalents	1 473 981	2 782	11 018	–	–	13 759	2 174
Total		**4 805**	**19 030**	**–**	**–**	**71 030**	**11 223**
Financial liabilities							
Arm's length loans	309 411	2 461	9 748	3 649	10 817	–	–
Trade payables	945 457	2 181	8 638	–	–	19 354	3 058
Commitments resulting from purchases of fixed and intangible assets	388 467	–	–	–	–	–	–
Finance lease and hire purchase commitments	91 262	2 970	11 762	–	–	–	–
Total		**7 612**	**30 148**	**3 649**	**10 817**	**19 354**	**3 058**
Net currency position		**(2 807)**	**(11 118)**	**(3 649)**	**(10 817)**	**51 676**	**8 165**

In 2011, the TAURON Group, as part of its financial risk management, hedged the exposure to currency risk arising in the course of trading activities of the Group companies, by entering into forward contracts. The aim of these transactions was to hedge the Group companies against cash flows variability arising from fluctuations in currency rates. As at 31 December 2011, the TAURON Group had one open derivative transaction amounting to PLN 80 thousand (liability).

38.3. Commodity price risk

The TAURON Polska Energia S.A. Group companies are exposed to unfavorable impact of risks associated with changes in cash flows and financial results denominated in Polish currency due to changes in prices of commodities. The Group's exposure to commodity price risk is reflected in the volume of purchases of basic raw materials and goods for resale, which include hard coal, gas and energy. The volumes and purchase costs of basic raw materials from external suppliers are presented in the table below.

Fuel type	Unit	2011		2010	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	8 919 257	2 175 352	7 839 301	1 777 636
Gas	thousand m^3	3 180 555	199 619	3 001 016	192 025
Electricity	MWh	44 940 029	8 920 476	17 774 911	3 422 567
Heat energy	GJ	5 807 432	166 867	7 081 741	188 693
Total			**11 462 314**		**5 580 921**

The increase in the volume and purchase cost of electricity in the year ended 31 December 2011 in relation to the comparative period is mainly due to the amended Energy Law which came into force on 9 August 2010 and imposed an obligation on generators to sell electricity to the public, as discussed in detail in Note 13.1.

38.4. Credit risk

Credit risk arises from a potential credit event which may take the form of the following: contractor's insolvency, payment of part of a receivable, a significant delay in payment of a receivable or other unexpected departure from contractual terms.

Apart from individual customers, the Group companies trade only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Where necessary, the contractor is required to submit proper collateral in the form of bank, insurance or corporate guarantees as well as clauses providing for the withholding of power supplies in the case of late payment of liabilities. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The TAURON Polska Energia S.A. Group companies are exposed to credit risk arising in the following areas:

- core activities – credit risk arises mainly from purchases and sales of electricity and heat energy, purchases and sales of fossil fuels etc.;
- investment activities – credit risk arises from transactions relating to implementation of investment projects, the success of which depends on the financial position of the Group's suppliers;
- business activities (market risk management) – credit risk arises from possible default of the counterparty in a derivative transaction if the fair value of the derivative transaction is positive for the Group;
- investing available cash – credit risk arises from the Group companies investing available cash in securities subject to credit risk i.e. financial instruments other than those issued by the State Treasury.

Classes of financial instruments giving rise to exposure to credit risk, which have different characteristics of credit risk include:

- deposits;
- bonds, Treasury bills and other debt securities;
- trade receivables;
- loans granted;
- other financial receivables;
- other financial assets;
- cash and cash equivalents;
- derivative instruments.

There is no significant concentration of credit risk within the Group's core activities, except as listed in Note 38.4.2.

With respect to credit risk arising from financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

38.4.1. Bonds, Treasury bills and other debt securities held by the Group

Debt securities held by the Group are described in detail in Note 37.3.1.

(in PLN thousand)

38.4.2. Trade receivables

Trade receivables mainly include receivables from sale of energy and additional services. Due to on-going monitoring of trade receivables there is no additional credit risk that would exceed the doubtful debts allowance recognized for trade receivables of the Group.

In managing credit risk, the Group uses mainly the following mechanisms and techniques:

- assessment of contractors' financial standing and assignment of credit limits;
- requesting specific collateral from clients with poor financial standing;
- use of standard contractual provisions for credit risk and standard collateral for transactions made on credit terms;
- on-going monitoring of payments and early debt collection system;
- systematic measurement of credit risk arising in trading activities; and
- on-going monitoring of the client's financial standing; cooperation with credit bureaus and debt collection companies.

As at 31 December 2011, the Group's largest trade receivables were due from Kompania Węglowa S.A.: PLN 71,406 thousand, PSE Operator S.A.: PLN 57,180 thousand, ArcelorMittal Poland S.A.: PLN 49,397 thousand.

As at 31 December 2010, the Group's largest trade receivables were due from PSE Operator S.A.: PLN 105,353 thousand, ArcelorMittal Poland S.A.: PLN 103,116 thousand, KGHM Polska Miedź S.A.: PLN 94,369 thousand and Kompania Węglowa S.A.: PLN 65,255 thousand.

38.4.3. Deposits, cash and cash equivalents

The Group manages credit risk related to cash and cash equivalents by diversifying the banks in which surplus cash is invested. All of the entities with which the Group enters into deposit transactions operate in the financial sector. They only include banks with a high rating and an appropriate level of equity as well as strong and stable market position.

The share of three banks with which the Group holds the largest cash balances as at 31 December 2011 accounted for 65% of all cash balances.

38.4.4. Derivative instruments

All the entities with which the Group enters into derivative transactions operate in the financial sector. They include Polish banks with a high financial rating and an appropriate level of equity as well as a strong and stable market position.

38.4.5. Impairment write-downs/allowances and ageing of financial assets

As at 31 December 2011 and 31 December 2010, impairment write-downs/allowances were recognized against trade receivables, other receivables and other financial assets.

In determining the impairment of these assets, the Group considered the factors that are discussed in detail in Note 11 of these consolidated financial statements. The Group has no material items that were non-recoverable at the balance sheet date and for which no allowance was recognized.

38.4.5.1. Impairment write-downs/allowances and ageing analysis of trade and other receivables

Impairment write-downs/allowances for trade and other receivables

	Year ended 31 December 2011	Year ended 31 December 2010
Allowance/write-down at the beginning of period	**(154 882)**	**(158 024)**
Recognised	(73 802)	(73 691)
Utilized	31 098	24 487
Reversed	24 127	52 376
Cancelled	59	40
Other movements	(464)	(70)
Allowance/write-down at the end of period	**(173 864)**	**(154 882)**
Value of item before allowance	**2 917 208**	**2 428 027**
Value of item net of allowance (carrying amount)	**2 743 344**	**2 273 145**

(in PLN thousand)

Ageing analysis of trade and other receivables as at 31 December 2011

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	2 411 143	239 598	75 789	33 887	42 288	114 503	**2 917 208**
Allowance/write-down	(18 208)	(1 697)	(3 213)	(6 160)	(33 233)	(111 353)	**(173 864)**
After allowance/write-down	**2 392 935**	**237 901**	**72 576**	**27 727**	**9 055**	**3 150**	**2 743 344**

Ageing analysis of trade and other receivables as at 31 December 2010

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	2 011 581	171 716	69 364	33 741	39 171	102 454	**2 428 027**
Allowance/write-down	(18 862)	(1 167)	(2 300)	(4 555)	(27 184)	(100 814)	**(154 882)**
After allowance/write-down	**1 992 719**	**170 549**	**67 064**	**29 186**	**11 987**	**1 640**	**2 273 145**

38.4.5.2. Impairment allowances/write downs for other financial assets

Impairment allowances/write downs for other financial assets as at 31 December 2011

	Other long-term receivables	Shares of non-consolidated entities	Bonds, T-bills and other debt securities	Deposits	Other	Total
Allowance/write-down as at 1 January 2011	–	**(3 263)**	**(3 700)**	–	**403**	**(6 560)**
Recognised	–	(501)	–	–	–	**(501)**
Utilized	–	7	–	–	–	**7**
Reversed	–	513	733	–	(1 507)	**(261)**
Cancelled	–	–	–	–	–	–
Other movements	–	–	–	–	(834)	**(834)**
Allowance/write-down as at 31 December 2011	–	**(3 244)**	**(2 967)**	–	**(1 938)**	**(8 149)**
Value of item before allowance	**9 796**	**169 834**	**104 699**	**25 250**	**4 064**	**313 643**
Value of item net of allowance (carrying amount), of which:	**9 796**	**166 590**	**101 732**	**25 250**	**2 126**	**305 494**
non-current	9 796	166 590	–	21 084	–	**197 470**
current	–	–	101 732	4 166	2 126	**108 024**

Impairment allowances/write downs for other financial assets as at 31 December 2010

	Other long-term receivables	Shares of non-consolidated entities	Bonds, T-bills and other debt securities	Deposits	Other	Total
Allowance/write-down as at 1 January 2010	–	**(2 707)**	**(3 295)**	–	**362**	**(5 640)**
Recognised	–	(1 104)	(405)	–	(293)	**(1 802)**
Utilized	–	2	–	–	–	**2**
Reversed	–	304	–	–	–	**304**
Cancelled	–	71	–	–	–	**71**
Other movements	–	171	–	–	334	**505**
Allowance/write-down as at 31 December 2010	–	**(3 263)**	**(3 700)**	–	**403**	**(6 560)**
Value of item before allowance	**6 405**	**153 388**	**5 200**	**35 493**	**11 719**	**212 205**
Value of item net of allowance (carrying amount), of which:	**6 405**	**150 125**	**1 500**	**35 493**	**12 122**	**205 645**
non-current	6 405	148 515	1 500	18 074	2 958	**177 452**
current	–	1 610	–	17 419	9 164	**28 193**

(in PLN thousand)

38.5. Liquidity risk

The Group maintains a balance between continuity of funding and flexibility through the use of various sources of financing, such as bank overdrafts, bank loans, debentures, finance leases and hire purchase contracts. The use of such sources of financing enables management of liquidity risk and successfully minimizes any negative effects following from realization of such risk.

In order to minimize any cash flow disturbances and the risk of loss of liquidity, the TAURON Group applied the cash pooling mechanism, as it was the case in the previous year. Cash pooling, irrespective of the funds gathered by the particular participants, is linked to a flexible credit facility in the form of an overdraft in current account, the amount of which has been increased from 100,000 thousand in 2011 to 300,000 thousand in 2012–2014.

The tables below summarize the maturity profile of the Group's financial liabilities as at 31 December 2011 and 31 December 2010 based on contractual undiscounted payments.

Financial liabilities as at 31 December 2011

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	Total
Interest-bearing loans and issued debentures	38 984	422 312	301 943	275 952	4 552 548	14 256	**5 605 995**
Trade payables	1 468 200	400	2 434	400	–	–	**1 471 434**
Commitments resulting from purchases of fixed and intangible assets	630 295	–	–	–	–	–	**630 295**
Derivative instruments	80	–	–	–	–	–	**80**
Other financial liabilities	200 822	46 570	5 416	1 359	745	448	**255 360**
Obligations under finance leases and hire purchase contracts	5 249	9 510	14 353	23 783	18 098	–	**70 993**
Guarantees granted and similar items	4 306	–	–	–	–	–	**4 306**
Total	**2 347 936**	**478 792**	**324 146**	**301 494**	**4 571 391**	**14 704**	**8 038 463**

Financial liabilities as at 31 December 2010

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years	Total
Interest-bearing loans and issued debentures	153 814	214 049	213 769	81 847	954 424	22	**1 617 925**
Trade payables	943 255	1 002	400	400	400	–	**945 457**
Commitments resulting from purchases of fixed and intangible assets	388 108	359	–	–	–	–	**388 467**
Derivative instruments	6 917	–	–	–	–	–	**6 917**
Other financial liabilities	249 399	39 484	5 243	316	541	809	**295 792**
Obligations under finance leases and hire purchase contracts	8 578	14 877	14 887	13 085	24 050	15 785	**91 262**
Guarantees granted and similar items	5 773	–	–	–	–	–	**5 773**
Total	**1 755 844**	**269 771**	**234 299**	**95 648**	**979 415**	**16 616**	**3 351 593**

38.6. Derivatives

As at 31 December 2011, the Group recognized a liability arising from derivative instruments in the amount of PLN 80 thousand. The liability in question was recognized as a result of the measurement of a forward currency contract held by TAURON Polska Energia S.A. as at 31 December 2011. The parent hedges against the risk of changes in foreign exchange rates due to entering into transactions in foreign currencies.

As at 31 December 2010, the Group recognized liabilities arising from derivative instruments, amounting to PLN 6,917 thousand. These included interest rate swaps (IRS) which were entered into by Południowy Koncern Energetyczny S.A. (now TAURON Wytwarzanie S.A.) in order to hedge against the interest rate risk arising from:

- issued debentures, amounting to PLN 4,443 thousand,
- investment loans, amounting to PLN 2,474 thousand.

On 30 December 2010, Południowy Koncern Energetyczny S.A. (now TAURON Wytwarzanie S.A.) repaid the full amount of the liability arising from debentures issued to external parties. As a result, the cumulative loss on the measurement of derivative instruments, which up until that date had been recognized in other comprehensive income, was transferred from the revaluation reserve resulting from valuation of hedging instruments to the net profit. After the balance sheet date, those derivative instruments were settled with an effect of PLN (616) thousand. As at 31 December 2010, the Company held one interest rate swap maturing in January 2011, which had been entered into in order to hedge against the interest rate risk arising from the investment loan. This interest rate swap was settled on 10 January 2011 with a profit of PLN 83 thousand. No hedge accounting was applied with respect to derivatives held at the 2010 year-end.

38.7. Market risk – sensitivity analysis

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

- interest rate risk,
- currency risk,
- electricity price risk,
- risk of changes in the prices of CO_2 emission allowances and energy certificates and
- risk of changes in the prices of commodities (e.g. coal).

Currently, the Group is mainly exposed to the risk of changes in the EUR/PLN, USD/PLN and CZK/PLN exchange rates. In addition, the Group is exposed to changes in reference interest rates for PLN, EUR and USD.

The Group uses scenario analysis in analyzing sensitivity to changes in market risk factors. The Group uses expert scenarios reflecting its subjective assessments with respect to individual market risk factors in the future.

The aim of the scenario analyses presented in this section is to analyze the effect of changes in market risk factors on the Group's results. Only those items which meet the definition of financial instruments in accordance with IFRS were included in the analysis.

The potential changes in foreign exchange rates are determined within a time horizon up until the date of the next financial statements and were calculated based on annual implied volatilities for currency options quoted on the interbank market for a given currency pair at the balance sheet date or – if no market quotations were available – based on historical volatilities for a period of one year preceding the balance sheet date.

In the interest rate risk sensitivity analysis, the Group makes use of a parallel shift in the interest rate curve for a potential change in reference interest rates within a time horizon up until the date of the next financial statements. For the purpose of interest rate risk sensitivity analysis, the Group used the average levels of the reference interest rates in a given year. The magnitude of potential changes in the interest rates was estimated based on the implied volatilities of the ATMF interest rate options quoted on the interbank market for the currencies for which the Group had an interest rate risk exposure at the balance sheet date.

In the case of the interest rate risk sensitivity analysis, the effect of changes in risk factors has been included in interest income/expense for financial instruments measured at amortized cost and in the fair value at the balance sheet date for financial instruments with variable interest rates carried at fair value.

Presented below is a sensitivity analysis for each type of market risk the Group was exposed to at the balance sheet date, indicating the effect that the potential changes in the individual risk factors would have on profit before taxation, by class of financial assets and liabilities.

38.7.1. Currency risk sensitivity analysis

The Group identifies its exposure to the risk of changes in the EUR/PLN, USD/PLN and CZK/PLN exchange rates. The tables below present sensitivity of profit before taxation to potential reasonable changes in foreign exchange rates within a time horizon up until the date of the next financial statements, assuming there are no changes in other risk factors:

Year ended 31 December 2011

The risk exposure as at 31 December 2011 is representative of the Group's risk exposure within the 1-year period preceding that date.

Classes of financial instruments	31 December 2011		Sensitivity analysis for currency risk as at 31 December 2011					
			EUR/PLN		USD/PLN		CZK/PLN	
	Carrying amount	Value at Risk	exchange rate EUR/PLN +14.05%	exchange rate EUR/PLN -14.05%	exchange rate USD/PLN +23.35%	exchange rate USD/PLN -23.35%	exchange rate CZK/PLN +11.33%	exchange rate CZK/PLN -11.33%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*		*Profit/(Loss)*	
Trade receivables and other financial receivables	2 753 140	22 708	862	(862)	–	–	1 878	(1 878)
Cash and cash equivalents	505 670	34 619	4 376	(4 376)	–	–	393	(393)
Arm's length loans	141 973	8 454	(1 179)	1 179	(14)	14	–	–
Trade payables	1 471 434	26 334	(3 188)	3 188	–	–	(413)	413
Obligations under finance leases and hire purchase contracts	70 993	10 813	(1 520)	1 520	–	–	–	–
Commitments resulting from purchases of fixed and intangible assets	630 295	1 161	(163)	163	–	–	–	–
Total			**(812)**	**812**	**(14)**	**14**	**1 858**	**(1 858)**

Year ended 31 December 2010

The risk exposure as at 31 December 2010 is representative of the Group's risk exposure within the 1-year period preceding that date.

Classes of financial instruments	31 December 2010		Sensitivity analysis for currency risk as at 31 December 2010					
			EUR/PLN		USD/PLN		CZK/PLN	
	Carrying amount	Value at Risk	exchange rate EUR/PLN +12.3%	exchange rate EUR/PLN -12.3%	exchange rate USD/PLN +20.3%	exchange rate USD/PLN -20.3%	exchange rate CZK/PLN +9.6%	exchange rate CZK/PLN -9.6%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*		*Profit/(Loss)*	
Trade receivables and other financial receivables	2 279 310	17 061	985	(985)	–	–	869	(869)
Cash and cash equivalents	1 473 981	13 192	1 355	(1 355)	–	–	209	(209)
Arm's length loans	309 411	20 565	(1 199)	1 199	(2 196)	2 196	–	–
Trade payables	945 457	11 696	(1 062)	1 062	–	–	(294)	294
Obligations under finance leases and hire purchase contracts	91 262	11 762	(1 447)	1 447	–	–	–	–
Commitments resulting from purchases of fixed and intangible assets	388 467	–	–	–	–	–	–	–
Total			**(1 368)**	**1 368**	**(2 196)**	**2 196**	**784**	**(784)**

38.7.2. Interest rate risk sensitivity analysis

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and in 2010 LIBOR USD. The tables below present sensitivity of profit before taxation to reasonable potential changes in interest rates within a time horizon up until the date of the next financial statements, assuming there are no changes in other risk factors:

Year ended 31 December 2011

Classes of financial instruments	31 December 2011		Sensitivity analysis for interest rate risk as at 31 December 2011			
			WIBOR		EURIBOR	
	Carrying amount	Value at Risk	WIBOR + 84 bp	WIBOR - 84 bp	EURIBOR + 72 bp	EURIBOR - 72 bp
	In PLN thousand	In PLN thousand	Profit/(loss)		Profit/(loss)	
Deposits	25 250	1 655	14	(14)	–	–
Cash and cash equivalents	505 670	505 670	3 957	(3 957)	224	(224)
Preferential loans	176 966	164 915	(1 385)	1 385	–	–
Arm's length loans	141 973	141 973	(1 122)	1 122	(60)	60
Issued debentures and debt securities	4 147 174	4 147 174	(34 836)	34 836	–	–
Total			**(33 372)**	**33 372**	**164**	**(164)**

Year ended 31 December 2010

Classes of financial instruments	31 December 2010		Sensitivity analysis for interest rate risk as at 31 December 2010					
			WIBOR		EURIBOR		LIBOR USD	
	Carrying amount	Value at Risk	WIBOR + 60 bp	WIBOR - 60 bp	EURIBOR + 33 bp	EURIBOR - 33 bp	LIBOR USD + 36 bp	LIBOR USD - 36 bp
	In PLN thousand	In PLN thousand	Profit/(loss)		Profit/(loss)		Profit/(loss)	
Deposits	35 493	15 720	94	(94)	–	–	–	–
Loans granted	240	240	1	(1)	–	–	–	–
Cash and cash equivalents	1 473 981	1 473 981	8 765	(8 765)	36	(36)	–	–
Preferential loans	243 323	243 113	(1 459)	1 459	–	–	–	–
Arm's length loans	309 411	309 411	(1 733)	1 733	(32)	32	(39)	39
Bank overdrafts	2 464	2 464	(15)	15	–	–	–	–
Issued debentures and debt securities	846 007	846 007	(5 076)	5 076	–	–	–	–
Total			**577**	**(577)**	**4**	**(4)**	**(39)**	**39**

39. Capital management

In accordance with the adopted strategy, the parent centralized the finance management function in the TAURON Group and thus maximized its ability to discharge the liabilities incurred. The key instruments ensuring effective management of financial resources include the central financing model implemented in 2010 and the policy for management of financial liquidity implemented in the second half of 2011 together with the cash pooling mechanism being in use from 2010. In addition, the finance management system is supported by the central policy for financial risk management implemented in 2011 and the Group's central insurance policy, whereby TAURON Polska Energia S.A. is the one to manage and set the directions for the activities undertaken, thus enabling the setting of appropriate exposure limits.

In accordance with the central financing model, TAURON is responsible for acquisition of funding for the Group companies. This model enables reduction of borrowing costs, increases funding opportunities, reduces the number and forms of collaterals set up on the assets of the TAURON Group and the number of covenants required by financial institutions, and also reduces administrative expenses. In addition, the central financing model enables access to funding which is not available to individual companies. The implementation of the central financing model effectively changed the approach to the funding of investment projects in the Group. Funding is acquired based on the consolidated balance sheet of the whole TAURON Group and is incurred in order to cover the financial gap at the level of the Group rather than being assigned to specific investment projects.

(in PLN thousand)

The second important factor affecting the effectiveness of finance management is the liquidity management policy. The implementation of proper forecasting standards makes it possible to determine the precise liquidity position, which allows for optimization of the selection of the moment of acquiring funding and the maturities and types of investment instruments as well as the proper level of the liquidity reserve. This results in both the reduction of costs and the improvement of safety. Day-to-day liquidity management is supported by the cash pooling mechanism implemented in 2010. Its primary objective is to ensure financial liquidity in the TAURON Group while reducing the costs of short-term external borrowings and maximizing the amount of finance income generated using surplus cash.

In the course of their day-to-day financing activities, the TAURON Group companies effectively managed cash flows by matching the maturities of their liabilities and receivables. In addition, in 2011 the Group implemented a uniform program of bank guarantees that can be used by all of the Group companies.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and adjusts it to reflect changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or adjust the level of its external debt.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Within net debt, the Group includes interest-bearing loans and borrowings (including debt securities), trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less the net unrealized gains reserve.

	As at 31 December 2011	As at 31 December 2010
Interest-bearing loans and borrowings	4 466 113	1 401 205
Trade and other payables and finance lease and hire purchase commitments	2 428 162	1 727 895
Less cash and cash equivalents	505 670	1 473 981
Net debt	**6 388 605**	**1 655 119**
Equity attributable to equity holders of the parent	15 677 721	14 704 825
Revaluation reserve from valuation of hedging instruments	–	–
Total capital	**15 677 721**	**14 704 825**
Capital and net debt	**22 066 326**	**16 359 944**
Leverage ratio	29%	10%

The increase of the leverage ratio to 29% as at 31 December 2011 compared with 10% as at 31 December 2010 results from the increase of the liability arising from issued debentures due to the issue of debentures with a nominal value of PLN 3,300,000 thousand in December 2011.

40. Employment structure

The average employment in the Group in the reporting periods covered by these financial statements was as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Management of the parent	5	5
Managements of subsidiaries	53	49
Administration	4 098	4 098
Sales department	1 962	2 059
Manufacturing	20 139	21 326
Others	1 247	943
Total	**27 504**	**28 480**

The level of employment in the acquired GZE S.A. Group companies during the period from the date of acquiring control to the balance sheet date amounted on average to 1,627 FTEs. In addition, as a result of the voluntary redundancy scheme carried out by the Group in 2011, employment contracts were terminated mainly with the employees of TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A, as discussed in Note 27.

(in PLN thousand)

41. Auditor's fees

These consolidated financial statements of the TAURON Polska Energia S.A. Group were audited by Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, Rondo ONZ 1. The audit contract between TAURON Polska Energia S.A. and Ernst & Young Audit Sp. z o.o. was concluded on 19 November 2010 and covers the audit of the Company's separate and consolidated financial statements for the years 2010–2012. The amount of the auditor's fees is presented in the table below.

	Year ended 31 December 2011	Year ended 31 December 2010
Statutory audit, of which:	**1 088**	**719**
– consolidated financial statements	36	37
– separate financial statements	34	64
– separate financial statements of subsidiaries	1 018	618
Other assurance services rendered for the Group	**163**	**86**
Other services (including training) rendered for the Group	**382**	**266**
Total	**1 633**	**1 071**

The fees paid by the Company to Ernst & Young Audit Sp. z o.o. in 2010 due to the preparation of a prospectus amounted to PLN 1,469 thousand.

42. Events after the balance sheet date

On 19 January 2012, the Company filed an application for payment of a tranche of PLN 210,000 thousand of the loan granted by the European Investment Bank under the agreement dated 24 October 2011 (as described in detail in Note 37.3.5). The purpose of this loan is to provide funding for the construction and start-up of a new biomass boiler in the Jaworzno III Power Plant. The loan will be repaid in ten equal annual installments, the last one payable on 15 December 2021. The funds were received by the Company into its bank account on 30 January 2012.

In addition, on 30 January 2012 the Company issued 1,500 Tranche B debentures with an issue price and nominal value of the debenture equal to PLN 100 thousand, i.e. the total value of the debentures equal to PLN 150,000 thousand. The maturity date of those debentures is 30 January 2015, and interest is payable on a semi-annual basis. At the date of authorization of these financial statements, the total nominal value of the Company's debt under issued debentures (without accrued interest) is PLN 4,298,200 thousand, including PLN 848,200 thousand under tranche A, PLN 450,000 thousand under tranche B and PLN 3,000,000 thousand under tranche C.

Board of Directors of the Company

Katowice, 6 March 2012

Dariusz Lubera	– President	....
Joanna Schmid	– Vice President	....
Dariusz Stolarczyk	– Vice President	....
Krzysztof Zamasz	– Vice President	....
Krzysztof Zawadzki	– Vice President	....