TAURON POLSKA ENERGIA S.A.

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

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(in PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	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		8 823 744	7 172 814
Excise		(15 122)	–
Sale of goods for resale, finished goods and materials		8 808 622	7 172 814
Rendering of services		36 526	12 444
Other income		4	13
Sales revenue	**11.1**	**8 845 152**	**7 185 271**
Cost of sales	**11.4**	(8 662 983)	(7 067 452)
Gross profit		**182 169**	**117 819**
Other operating income		2 520	742
Selling and distribution expenses	**11.4**	(22 850)	(12 493)
Administrative expenses	**11.4**	(79 563)	(95 789)
Other operating expenses		(1 210)	(652)
Operating profit		**81 066**	**9 627**
Dividend income	**11.2**	1 009 580	181 948
Other finance income	**11.2**	111 520	13 700
Finance costs	**11.3**	(97 524)	(6 476)
Profit before tax		**1 104 642**	**198 799**
Income tax expense	**12**	(21 213)	(8 321)
Net profit from continuing operations		**1 083 429**	**190 478**
Net profit for the period		**1 083 429**	**190 478**
Other comprehensive income		–	–
Total comprehensive income for the period		**1 083 429**	**190 478**
Earnings per share (in PLN)	**22**		
– basic, for profit for the period		0.62	0.12
– basic, for profit from continuing operations for the period		0.62	0.12
– diluted, for profit for the period		0.62	0.12
– diluted, for profit from continuing operations for the period		0.62	0.12

Accounting policies and explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	As at 31 December 2011	As at 31 December 2010 (*adjusted figures*)
ASSETS			
Non-current assets			
Property, plant and equipment		11 591	5 425
Intangible assets	**15**	15 487	7 322
Shares in unlisted and listed companies	**16**	21 028 076	16 353 470
Bonds, T-bills and other debt securities	**33**	1 137 040	848 200
Other long-term non-financial assets		830	1 686
Deferred tax asset	**12**	37 204	8 514
		22 230 228	**17 224 617**
Current assets			
Current intangible assets	**15, 7.1**	33 120	9 773
Inventories	**17**	41 028	9 238
Corporate income tax receivables		–	2 822
Trade and other receivables	**18, 33**	991 975	634 531
Bonds, T-bills and other debt securities	**33**	13 003	383
Other financial assets	**33**	2	257
Other current non-financial assets	**20**	3 581	36 553
Cash and cash equivalents	**19**	258 038	527 011
		1 340 747	**1 220 568**
Non-current assets classified as held for sale		–	–
TOTAL ASSETS		**23 570 975**	**18 445 185**

Accounting policies and explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 – continued

	Note	As at 31 December 2011	As at 31 December 2010 (*adjusted figures*)
EQUITY AND LIABILITIES			
Equity			
Issued capital	**21.1**	8 762 747	15 772 945
Reserve capital	**21.3**	7 412 882	475 088
Retained earnings/Accumulated losses	**21.4**	1 168 599	275 648
Total equity		**17 344 228**	**16 523 681**
Non-current liabilities			
Interest-bearing loans and borrowings	**26, 33**	4 136 112	845 650
Finance lease and hire purchase commitments	**25.2, 33**	990	136
Long-term provisions and employee benefits	**23**	3 052	2 606
		4 140 154	**848 392**
Current liabilities			
Trade and other payables	**33**	325 928	540 702
Current portion of interest-bearing loans and borrowings	**26, 33**	1 468 066	461 627
Income tax payable		33 687	–
Current portion of finance lease and hire purchase commitments	**25.2, 33**	627	906
Other current liabilities	**30**	84 778	26 094
Accruals and government grants	**31**	8 175	6 719
Short-term provisions and employee benefits	**23, 24**	165 332	37 064
		2 086 593	**1 073 112**
Total liabilities		**6 226 747**	**1 921 504**
TOTAL EQUITY AND LIABILITIES		**23 570 975**	**18 445 185**

Accounting policies and explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2011		**15 772 945**	**475 088**	**275 648**	**16 523 681**
Profit for the period		–	–	1 083 429	**1 083 429**
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	**1 083 429**	**1 083 429**
Appropriation of prior year profits		–	–	–	–
Issue of shares		–	–	–	–
Payment from profit		–	–	–	–
Dividends	**14**	–	(72 404)	(190 478)	**(262 882)**
Decrease in issued capital through a reduction of the nominal value of shares	**21.1**	(7 010 198)	7 010 198	–	–
As at 31 December 2011		**8 762 747**	**7 412 882**	**1 168 599**	**17 344 228**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2010		**13 986 284**	**64 050**	**176 159**	**14 226 493**
Profit for the period		–	–	190 478	**190 478**
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	**190 478**	**190 478**
Appropriation of prior year profits	**14**	–	176 159	(176 159)	–
Issue of shares		1 786 661	–	–	**1 786 661**
Payment from profit		–	–	32	**32**
Dividends		–	–	–	–
Surplus of the value of shares contributed over the nominal value of issued capital		–	234 879	–	**234 879**
Accounting for merger with subsidiaries		–	–	85 138	**85 138**
As at 31 December 2010		**15 772 945**	**475 088**	**275 648**	**16 523 681**

Accounting policies and explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Profit/(loss) before taxation		1 104 642	198 799
Adjustments for:			
Depreciation and amortization		5 105	3 224
(Gain)/loss on foreign exchange differences		61	44
Interest and dividends, net		(1 009 815)	(181 801)
(Gain)/loss on investing activities		(477)	(259)
(Increase)/decrease in receivables		(141 168)	(273 492)
(Increase)/decrease in inventories		(31 790)	(9 129)
Increase/(decrease) in payables excluding loans and borrowings		(163 160)	44 140
Change in other non-current and current assets		10 987	(37 960)
Change in deferred income, government grants and accruals		1 456	2 700
Change in provisions		128 715	38 183
Income tax paid		(13 393)	(7 206)
Other		–	37
Net cash from (used in) operating activities		**(108 837)**	**(222 720)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		192	11
Purchase of property, plant and equipment and intangible assets		(14 069)	(6 970)
Proceeds from sale of bonds, T-bills, other debt securities and investment fund units		134 460	–
Purchase of bonds, T-bills, other debt securities and investment fund units		(433 302)	(848 200)
Purchase of shares in unlisted and listed companies		(3 623 031)	(80 711)
Dividends received		967 409	181 948
Interest received		54 800	–
Repayment of loans granted		168 000	–
Loans granted		(348 009)	–
Other		–	3 548
Net cash from (used in) investing activities		**(3 093 550)**	**(750 374)**
Cash flows from financing activities			
Acquisition of treasury shares		–	(245)
Payment of finance lease liabilities		(926)	(811)
Issue of debt securities		3 300 000	848 200
Dividends paid		(262 882)	–
Interest paid		(45 506)	(178)
Commissions paid		(12 735)	(1 700)
Net cash from (used in) financing activities		**2 977 951**	**845 266**
Net increase/(decrease) in cash and cash equivalents		**(224 436)**	**(127 828)**
Net foreign exchange difference		(61)	(44)
Cash and cash equivalents at the beginning of the period		**85 574**	**213 402**
Cash and cash equivalents at the end of the period, of which:	**19**	**(138 862)**	**85 574**
restricted cash		161 649	154 589

Accounting policies and explanatory notes are an integral part of these financial statements.

EXPLANATORY NOTES

1. General information

The financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("the Company") with its registered office in Katowice at ul. ks. Piotra Ściegiennego 3, whose shares are in public trading. The financial statements of the Company cover the year ended 31 December 2011 and include comparative data for the year ended 31 December 2010.

The Company was set up based on a Notarial Deed dated 6 December 2006 under the name Energetyka Południe S.A. and was registered on 8 January 2007 by the Katowice–Wschód District Court Economic Department of the National Court Register under Entry No. KRS 0000271562. The change of the Company's name into TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007.

The Company was granted a statistical number REGON 240524697 and tax identification number NIP 9542583988.

TAURON Polska Energia S.A. has an unlimited period of operation.

The principal business activities of TAURON Polska Energia S.A. include:

- Activities of head offices and holdings, excluding financial holdings – PKD 70.10 Z,
- Trading in electricity – PKD 35.14 Z.

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

2. Basis of preparation of financial statements

Based on the resolution of the Company's Extraordinary General Shareholders' Meeting held on 7 June 2010, the Company prepares its financial statements in accordance with IFRS starting from the financial statements for the periods beginning on 1 January 2010.

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the 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 Company'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 ("IFRIC").

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

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of authorization of these financial statements, management is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Company.

These financial statements for the year ended 31 December 2011 were authorized for issue on 6 March 2012.

The Company also prepared consolidated financial statements for the year ended 31 December 2011, which were authorized for issue on 6 March 2012.

3. 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, 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 Company's financial assets. The Company will assess this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent,
- 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 until 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 until 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 Company is discussed in detail in Note 23.
- 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 Company's accounting policies.

4. Changes in accounting policies

The accounting policies applied to these financial statements are consistent with those applied to the annual financial statements of TAURON Polska Energia S.A. 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:

- Amendments 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 Company as there were no events to which they applied.
- IAS 24 *Related Party Disclosures* (revised in November 2009) – applicable to annual periods beginning on or after 1 January 2011. The revised IAS 24 is applied by the Company 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 Minimum Funding Requirements* – 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 Company 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 Company.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: 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 Company.
- 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 Company.

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

5. Summary of significant accounting policies

These financial statements were prepared using the standards and interpretations effective for annual periods beginning on 1 January 2011.

The latest published annual financial statements of the Company were the financial statements for the year ended 31 December 2010, prepared in accordance with IFRS and authorized for issue on 1 March 2011.

(in PLN thousand)

5.1. 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 using the historical 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.

Exchange differences resulting from translation are recorded under finance income or finance costs, or, in cases specified in accounting policies, are capitalized in the cost of the assets. Non-monetary assets and liabilities recognized at historical cost are translated using the historical 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
EUR	4.4168	3.9603
CZK	0.1711	0.1580

5.2. Property, plant and equipment

Property, plant and equipment are fixed assets which:

- are held by the enterprise for use in production, supply of goods or services or for administrative purposes, 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.

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 were incurred.

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.

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

Tangible fixed assets by type	Average remaining depreciation period in years
Plant and machinery	2 years
Motor vehicles	3 years
Other tangible fixed assets	2 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.

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.

5.3. Intangible assets

Intangible assets of the Company 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,
- development expenses,
- 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 initially measured at cost (purchase price or manufacturing cost in the case of development activity). 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 Company to be either finite or indefinite. If they are finite, the Company 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 estimated 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.

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 Company 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 activity 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:

Intangible assets by type	Average remaining amortization period in years
Software	7 years
Other intangible assets	3 years

5.4. 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 Company 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 Company 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.

5.5. 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.

5.6. 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 Company 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 documented 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.

5.7. Impairment of financial assets

The Company 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 Company 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.

5.8. Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are stated at historical cost less any impairment allowances.

5.9. Derivative financial instruments

The Company uses derivative financial instruments such as forward currency contracts 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.

5.10. Hedge accounting

The Company 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 Company 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 Group formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge.

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.

The Company did not enter into any transactions falling under the hedge accounting policy.

5.11. Other non-financial assets

The Company recognizes prepayments under other non-financial assets if the following conditions are satisfied:

- 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 Company 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,
- 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.

5.12. Short-term intangible assets

Short-term intangible assets include renewable energy and cogeneration certificates which are intended to be used for internal purposes and have been acquired for cancellation due to sale of electricity to final users. On initial recognition, energy certificates are measured at acquisition cost.

5.13. 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 rendering of services.

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

Inventories are initially recognized at cost.

At the balance sheet date inventories are measured at the lower of cost and 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. If the cost of inventories is higher than the net realizable value, the Company recognizes an appropriate write-down.

The closing balance of materials and goods for resale is determined on the weighted average basis. The cost of advertising and promotional materials as well as stationary materials can be expensed directly in the costs of materials usage at the moment of purchase.

5.14. 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.

5.15. 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 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 statement of cash flows is presented net of the outstanding bank overdrafts. In addition, the balance of cash and cash equivalents is adjusted for the balances of loans granted and taken out under cash pool transactions, due to the fact that they mainly serve the purpose of management of current financial liquidity.

5.16. Issued capital

The issued share capital in the financial statements is recorded at the amount stated in the Company'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.

5.17. Provisions

Provisions are recognized when the Company 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 Company 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 Company has recognized the following provisions:

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

  In accordance with internal remuneration regulations, employees of the Company 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,

  – 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 Company'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 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.

- *provision for obligation to submit 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.

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

5.18. 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.

5.19. Loans, borrowings and 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.

5.20. Trade and other 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.

5.21. 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.

5.22. 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 Company operates such a Fund and makes periodic contributions to the Fund. The Fund's purpose is to subsidize social activities of the Company, to grant loans to its employees and to incur other social expenses.

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

5.23. Leases

Company as lessee

Finance leases, which transfer to the Company 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 should be 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.

5.24. 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 Company 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 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.

The income tax relating to items that are recognized outside the profit or loss is also recognized outside the profit or loss: under other comprehensive income for items recognized under other comprehensive income or directly in equity for items recognized directly under equity.

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.

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.

5.25. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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 and finished goods

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 as well as other services relating to principal activities, determined on the basis of the net price, net of rebates and discounts granted and net of excise.

5.26. Costs

Costs 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.

5.27. 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.

5.28. 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 Company offsets 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 Company 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.

5.29. 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.

5.30. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

6. Significant judgments and estimates

In the process of applying the accounting policies with respect to the matters stated below, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the 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 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 Company 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 its subsidiaries. However, these cash flows were not found to be lower than the book values 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 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 in the consolidated financial statements.

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. The economic useful lives are reviewed annually by the Company based on current estimates.

Valuation of provisions for employee benefits

Provisions for employee benefits (provision for retirement and disability benefits, provision for transfers to the Social Fund for future pensioners, provision for special electricity rates and charges granted to employees) were determined using actuarial valuations. The assumptions made are presented in note 23.

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 Company recognizes deferred tax assets based on the assumption that taxable profits will be available in the future 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.

The intercompany debentures issued in 2011 by subsidiaries and acquired by TAURON Polska Energia S.A., with a total nominal value of PLN 1,137,040 thousand and maturity date up to one year, have been classified as long-term instruments. Such a classification reflects the nature of the financing being part of the intercompany debentures issue program, under which funds are managed in a mid-term and long-term horizon. The intercompany debentures issued on 28 March 2011 by the subsidiary Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., with a nominal value of PLN 10,000 thousand and maturity date of 20 March 2012, have been classified as short-term instruments. The subsidiary issued debentures in order to cover liabilities arising from the redemption of its shares held by Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz Sp. z o.o. and intends to redeem those debentures at their maturity date.

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 Company applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of the individual financial instruments are presented in Note 33.

Allowances for doubtful debts

At the balance sheet date the Company 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 Company recognizes an allowance to bring down the carrying amount to the present value of the expected cash flows.

(in PLN thousand)

7. Changes in presentation and estimates

7.1. 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 have been recognized under non-current assets as intangibles. The Company decided to change the presentation of such property rights (energy certificates) in the statement of financial position as, in the opinion of the Company's management, an intangible asset in the form of an energy certificate meets the definition of a current asset due to the expected timing of its realization through cancellation in the year immediately following the end of a given financial year. 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 Company presents energy certificates under current assets, as short-term intangible assets. Comparative figures as at 31 December 2010 have been restated accordingly, as presented in the table below.

	As at 31 December 2010 (*approved figures*)	Presentation change relating to property rights arising from energy certificates	**As at 31 December 2010 (*restated figures*)**
Non-current assets	**170 234 390**	**(9 773)**	**170 224 617**
Intangible assets	17 095	(9 773)	7 322
Current assets	**1 210 795**	**9 773**	**1 220 568**
Current intangible assets	–	9 773	9 773

7.2. Changes in estimates

In the period covered by these financial statements, there were no significant changes in estimates which affected the amounts presented in the financial statements.

(in PLN thousand)

8. Shares in unlisted and listed related entities

As at 31 December 2011, TAURON Polska Energia S.A. held, either directly or indirectly, shares in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 31 December 2011	% held by TAURON in the entity's governing body	Holder of shares as at 31 December 2011
1.	TAURON Wytwarzanie S.A.[1] (formerly: Południowy Koncern Energetyczny S.A.)	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.[1] (formerly: EnergiaPro S.A.)	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 services	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. – 95.47%	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.[1] (formerly: Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.)	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 of 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%
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%

(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 31 December 2011	% held by TAURON in the entity's governing body	Holder of shares as at 31 December 2011
16.	Górnośląski Zakład Elektroenergetyczny S.A.	44-100 Gliwice; ul. Barlickiego 2	Activities of financial head offices and holdings	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. Under agreements for the usufruct of shares, TAURON Polska Energia S.A. holds 100% interests in the share capital and in the governing body of the company 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.

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.

Acquisition of shares in Górnośląski Zakład Elektroenergetyczny S.A.

On the basis of a preliminary purchase agreement with Vattenfall AB dated 23 August 2011 and after acquiring unconditional consent of the President of the Competition and Consumers Protection Office (UOKiK) for acquisition of control over Górnośląski Zakład Elektroenergetyczny S.A. (GZE S.A.), on 13 December 2011 TAURON Polska Energia S.A. purchased 1,249,693 shares in GZE S.A.'s share capital, with a nominal value of PLN 100 each and a total nominal value of PLN 124,969 thousand, representing 99.98% of the share capital of that company.

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.

The transaction relating to purchase of GZE S.A.'s shares is described in detail in Note 16.

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. – from 70% to 87.50% (in the governing body – from 61.11% to 68.75% of votes).

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%.

Acquisition of shares in subsidiaries

Due to the agreements for the purchase of shares in Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.) and ENION S.A. (currently TAURON Dystrybucja S.A.) held by minority shareholders, which were signed in August 2011, the Company purchased 9,447 shares of Południowy Koncern Energetyczny 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, and 6,149,541 shares of ENION 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.

9. Composition of the 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 Board of Directors.

10. Segment information

10.1. Operating segment

The Company's operations are presented in the following two segments: the "Sale of Electricity and Other Energy Market Products" segment and the "Holding activity" segment.

Assets of the "Holding activity" segment comprise shares in subsidiaries, debentures acquired from subsidiaries and cash pool loan receivables including the cash pool deposit. Segment liabilities mainly comprise debentures issued by TAURON Polska Energia S.A., cash pool loan liabilities and a liability arising from the purchase of long-term investments, representing Vattenfall AB's debt to GZE S.A. and its subsidiaries, which was taken over by the Company as a part of the purchase of GZE S.A. Finance income and costs comprise dividend income and net interest income and costs generated and incurred by the Company due to the Group's central financing model.

In the first quarter of 2011, the Company decided to change the method of unallocated expenses analysis and to include administrative expenses under this item. Administrative expenses are incurred for the whole Group and they cannot be allocated directly to a single 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 were presented within the "Sale 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.

(in PLN thousand)

Year ended 31 December 2011	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 914 509	–	–	**1 914 509**
Sales within the Group	6 930 643	–	–	**6 930 643**
Segment revenue	**8 845 152**	–	–	**8 845 152**
Profit/(loss) of the segment	**160 629**	–	–	**160 629**
Unallocated expenses	–	–	(79 563)	**(79 563)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**160 629**	–	**(79 563)**	**81 066**
Net finance income/(costs)	–	1 020 941	2 635	**1 023 576**
Profit/(loss) before income tax	**160 629**	**1 020 941**	**(76 928)**	**1 104 642**
Income tax expense	–	–	(21 213)	**(21 213)**
Net profit/(loss) for the period	**160 629**	**1 020 941**	**(98 141)**	**1 083 429**
Assets and liabilities				
Segment assets	1 119 556	22 233 775	–	**23 353 331**
Unallocated assets	–	–	217 644	**217 644**
Total assets	**1 119 556**	**22 233 775**	**217 644**	**23 570 975**
Segment liabilities	579 317	5 609 678	–	**6 188 995**
Unallocated liabilities	–	–	37 752	**37 752**
Total liabilities	**579 317**	**5 609 678**	**37 752**	**6 226 747**
Other segment information				
Capital expenditure*	19 655	–	–	**19 655**
Depreciation/amortization	(5 105)	–	–	**(5 105)**

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

In the year ended 31 December 2011, the Company's revenue from its main client, amounting to the total of PLN 5,532,478 thousand, accounted for 63% of the Company's total revenue in the "Sale of electricity and other energy market products" segment.

In the year ended 31 December 2010, the Company's revenue from its two main clients, amounting to the total of PLN 5,986,877 thousand, accounted for 83% of the Company's total revenue in the "Sale of electricity and other energy market products" segment.

(in PLN thousand)

Year ended 31 December 2010	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	498 535	–	–	**498 535**
Sales within the Group	6 686 736	–	–	**6 686 736**
Segment revenue	**7 185 271**	–	–	**7 185 271**
Profit/(loss) of the segment	**105 416**	–	–	**105 416**
Unallocated expenses	–	–	(95 789)	**(95 789)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**105 416**	–	**(95 789)**	**9 627**
Net finance income (costs)	–	181 948	7 224	**189 172**
Profit/(loss) before income tax	**105 416**	**181 948**	**(88 565)**	**198 799**
Income tax expense	–	–	(8 321)	**(8 321)**
Net profit/(loss) for the period	**105 416**	**181 948**	**(96 886)**	**190 478**
Assets and liabilities				
Segment assets	1 211 720	17 221 872	–	**18 433 592**
Unallocated assets	–	–	11 593	**11 593**
Total assets	**1 211 720**	**17 221 872**	**11 593**	**18 445 185**
Segment liabilities	609 217	1 307 303	–	**1 916 520**
Unallocated liabilities	–	–	4 984	**4 984**
Total liabilities	**609 217**	**1 307 303**	**4 984**	**1 921 504**
Other segment information				
Capital expenditure*	6 441	–	–	**6 441**
Depreciation/amortization	(3 224)	–	–	**(3 224)**

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

10.2. Operations by geographical areas

The Company's operations are mainly conducted on the territory of Poland. Sales to overseas customers in the years ended 31 December 2011 and 31 December 2010 amounted to PLN 472,710 thousand and PLN 158,776 thousand, respectively.

(in PLN thousand)

11. Revenues and expenses

11.1. Sales revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Sale of goods for resale, finished goods and materials, of which:	**8 808 622**	**7 172 814**
Electricity	8 354 930	6 981 780
Property rights arising from energy certificates	284	–
Emission allowances	436 503	184 286
Other	16 905	6 748
Rendering of services, of which:	**36 526**	**12 444**
Trading income	28 385	9 716
Other	8 141	2 728
Other income, of which:	**4**	**13**
Rental income	4	13
Total sales revenue	**8 845 152**	**7 185 271**

Due to the commencement of sales to final users, beginning from 1 January 2011 the Company is subject to tax obligation in respect of excise. Since the beginning of the year, each quantity of electricity delivered to users who have no concession for the production, transmission, distribution or trading in electricity is subject to excise. The amount of excise that was deducted from revenue from sale of electricity in 2011 is PLN 15,122 thousand.

11.2. Finance income

	Year ended 31 December 2011	Year ended 31 December 2010
Income from financial instruments, of which:	**1 119 854**	**195 582**
Interest income	109 390	13 186
Dividends	1 009 580	181 948
Foreign exchange differences	884	–
Remeasurement of derivative instruments	–	257
Net income from realized derivative instruments	–	78
Other finance income	–	113
Other finance income	**1 246**	**66**
Income from granted collaterals, guarantees, funding commitments and similar items	1 246	66
Total finance income	**1 121 100**	**195 648**

The increase in finance income in 2011 compared with 2010 is mainly due to higher income from dividends due from the subsidiaries for 2010 compared with income from dividends for 2009. In 2011, dividend income amounted to PLN 1,009,580 thousand, while in 2010 it was PLN 181,948 thousand.

In addition, the increase in finance income results from the launching of the cash pool service in the second quarter of 2010 as well as the implementation of the debentures issue program in order to refinance debt within the Group, which started in December 2010. The implementation of the cash pool service and the debentures issue program also resulted in the increase of finance costs compared with the comparative period.

(in PLN thousand)

11.3. Finance costs

	Year ended 31 December 2011	Year ended 31 December 2010
Financial instrument costs, of which:	**(96 953)**	**(6 096)**
Interest costs	(92 245)	(4 855)
Foreign exchange losses	–	(544)
Remeasurement of derivative instruments	(337)	–
Net costs from realized derivative instruments	(926)	–
Commissions	(3 445)	(697)
Other finance costs, of which:	**(571)**	**(380)**
Interest on employee benefits	(201)	(135)
Interest on amounts due to the state budget	(31)	(231)
Other finance costs	(339)	(14)
Total finance costs	**(97 524)**	**(6 476)**

11.4. 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	(5 105)	(3 224)
Impairment of property, plant and equipment and intangible assets	(10 399)	–
Materials and energy	(2 391)	(935)
Maintenance and repair services	(49)	(42)
Consultancy services	(10 680)	(12 790)
Other external services	(12 180)	(16 666)
Taxes and charges	(13 680)	(9 695)
Employee benefits expense	(58 287)	(45 224)
Inventory write-downs	205	(205)
Allowance for doubtful debts	–	(11)
Distribution services	(1 913)	(1 487)
Advertising expenses	(15 720)	(15 630)
Other	(2 239)	(2 260)
Total costs by type	**(132 438)**	**(108 169)**
Change in inventories, prepayments, accruals and deferred income	2 255	(2 533)
Cost of goods produced for internal purposes	143	229
Selling and distribution expenses	22 850	12 493
Administrative expenses	79 563	95 789
Cost of goods for resale and materials sold	(8 635 356)	(7 065 261)
Cost of sales	**(8 662 983)**	**(7 067 452)**

(in PLN thousand)

11.5. Employee benefits expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	(45 367)	(33 515)
Social security costs	(5 325)	(3 988)
Jubilee bonuses	(413)	(1 442)
Transfers to the Social Fund	(631)	(593)
Post-employment benefits expenses, of which:	(3 199)	(2 432)
Retirement, disability and similar benefits	(196)	(167)
Special electricity rates and charges	(73)	(145)
Social Fund	(24)	(45)
Costs of employee retirement plans	(2 906)	(2 075)
Other employee benefits expenses	(3 352)	(3 254)
Employee benefits expenses, of which:	**(58 287)**	**(45 224)**
Items included in cost of sales	(8 314)	(3 622)
Items included in selling and distribution expenses	(7 353)	(7 100)
Movement in stocks of finished goods	(2 844)	(1 894)
Items included in administrative expenses	(39 776)	(32 608)

12. Income tax

12.1. Tax expense in the statement of comprehensive income

Major components of income tax expense in the statement of comprehensive income are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax	**(49 902)**	**(13 480)**
Current income tax expense	(50 255)	(13 480)
Adjustments to current income tax from previous years	353	–
Deferred tax	**28 689**	**5 159**
Income tax expense in the statement of comprehensive income	**(21 213)**	**(8 321)**

12.2. Reconciliation of the effective income tax rate

	As at 31 December 2011	As at 31 December 2010
Profit/(loss) before tax from continuing operations	**1 104 642**	**198 799**
Profit/(loss) before tax	**1 104 642**	**198 799**
Tax at Poland's statutory tax rate of 19%	**(209 882)**	**(37 772)**
Adjustments to income tax from previous years	353	–
Tax resulting from tax non-deductible costs, of which:	(3 956)	(5 072)
National Disabled Persons Rehabilitation Fund (PFRON)	(42)	(34)
Donations	(51)	(53)
Costs relating to IPO	–	(3 246)
Other	(3 863)	(1 739)
Tax resulting from income not included in taxable profit, of which:	192 272	34 570
Dividends	191 820	34 570
Reversal of non-tax provisions and write-downs	452	–
Other	–	(47)
Tax at the effective tax rate of 1.9% (2010: 4.2%)	**(21 213)**	**(8 321)**
Income tax expense in the statement of comprehensive income	(21 213)	(8 321)

(in PLN thousand)

12.3. Deferred income tax

Deferred income tax relates to the following:

	As at 31 December 2011	As at 31 December 2010
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	1 211	691
– difference between tax base and carrying amount of financial assets	613	174
– other	37	99
Deferred tax liability	**1 861**	**964**

	As at 31 December 2011	As at 31 December 2010
Deferred tax assets		
– provisions for the obligation to surrender energy certificates	31 323	6 991
– other provisions	2 210	1 869
– difference between tax base and carrying amount of fixed and intangible assets	2 150	27
– difference between tax base and carrying amount of financial liabilities	2 734	–
– other accrued expenses	597	299
– other	51	292
Deferred tax assets	**39 065**	**9 478**
After the offsetting of the balances, deferred tax is presented as a deferred tax asset in the statement of financial position	**37 204**	**8 514**

12.4. 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.

13. Social assets, Social Fund liabilities

The transfer to the Social Fund amounted to PLN 631 thousand in the year ended 31 December 2011 and PLN 593 thousand in the year ended 31 December 2010.

14. Dividends paid and proposed

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 in the amount of PLN 184,535 thousand for payment from profit made in accordance with separate regulations (PLN 8,376 thousand) and to the Company's reserve capital (PLN 176,159 thousand).

(in PLN thousand)

15. Intangible assets

Long-term intangible assets, year ended 31 December 2011

	Software	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	**8 044**	**617**	**505**	**9 166**
Direct purchase	–	–	10 434	**10 434**
Allocation of intangible assets not made available for use	10 173	146	(10 319)	–
Liquidation	(42)	–	–	**(42)**
Other	–	(39)	–	**(39)**
Closing balance	**18 175**	**724**	**620**	**19 519**
ACCUMULATED AMORTIZATION				
Opening balance	**(1 583)**	**(261)**	–	**(1 844)**
Amortization for the period	(2 069)	(151)	–	**(2 220)**
Liquidation	32	–	–	**32**
Other	–	–	–	–
Closing balance	**(3 620)**	**(412)**	–	**(4 032)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**6 461**	**356**	**505**	**7 322**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**14 555**	**312**	**620**	**15 487**

Long-term intangible assets, year ended 31 December 2010

	Software	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	**3 727**	**375**	**657**	**4 759**
Direct purchase	–	–	4 391	**4 391**
Allocation of intangible assets not made available for use	4 301	242	(4 543)	–
Other	16	–	–	**16**
Closing balance	**8 044**	**617**	**505**	**9 166**
ACCUMULATED AMORTIZATION				–
Opening balance	**(690)**	**(130)**	–	**(820)**
Amortization for the period	(878)	(131)	–	**(1 009)**
Other	(15)	–	–	**(15)**
Closing balance	**(1 583)**	**(261)**	–	**(1 844)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**3 037**	**245**	**657**	**3 939**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**6 461**	**356**	**505**	**7 322**

(in PLN thousand)

Short-term intangible assets, year ended 31 December 2011

	Energy certificates
COST	
Opening balance	**9 773**
Direct purchase	41 384
Cancellation of energy certificates	(7 638)
Closing balance	**43 519**
ACCUMULATED AMORTIZATION	
Opening balance	–
Increase of impairment allowance	(10 399)
Closing balance	**(10 399)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**9 773**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**33 120**

Short-term intangible assets, year ended 31 December 2010

	Energy certificates
COST	
Opening balance	–
Direct purchase	9 773
Cancellation of energy certificates	–
Closing balance	**9 773**
ACCUMULATED AMORTIZATION	
Opening balance	–
Increase of impairment allowance	–
Closing balance	–
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	–
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**9 773**

(in PLN thousand)

16. Shares in unlisted and listed companies

The tables below present movements in long-term investments in the period from 1 January 2011 to 31 December 2011 and in the comparative period from 1 January 2010 to 31 December 2010.

Changes in the balance of long-term investments in the period from 1 January to 31 December 2011

No.	Company	Opening balance	Increases	Decreases	Closing balance
1.	TAURON Wytwarzanie S.A.	7 562 250	555 932	–	**8 118 182**
2.	ENION S.A.	3 356 415	–	(3 356 415)	–
3.	TAURON Dystrybucja S.A.	2 557 110	3 357 091	–	**5 914 201**
4.	Elektrownia Stalowa Wola S.A.	555 697	–	(555 697)	–
5.	Elektrociepłownia Tychy S.A.	40 862	–	–	**40 862**
6.	TAURON Ciepło S.A.	345 285	162 595	–	**507 880**
7.	TAURON Obsługa Klienta Sp. z o.o.	345 015	–	(318 707)	**26 308**
8.	TAURON Ekoenergia Sp. z o.o.	897 069	–	–	**897 069**
9.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o.,	6 959	–	–	**6 959**
10.	Elektrociepłownia EC Nowa Sp. z o.o.	217 413	–	–	**217 413**
11.	TAURON Sprzedaż Sp. z o.o.	294 798	318 707	–	**613 505**
12.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	6 886	42 170	–	**49 056**
13.	Zespół Elektrowni Wodnych Rożnów Sp. z o.o.	931	–	–	**931**
14.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	162 557	–	(162 557)	–
15.	TAURON Czech Energy s.r.o.	4 223	–	–	**4 223**
16.	Energopower Sp. z o.o.	–	5	–	**5**
17.	Enpower service Sp. z o.o.	–	5	–	**5**
18.	Enpower Sp. z o.o.	–	5	–	**5**
19.	Poen Sp. z o.o.	–	5	–	**5**
20.	Górnośląski Zakład Elektroenergetyczny S.A.	–	4 631 455	–	**4 631 455**
21.	CC Poland Plus Sp. z o.o.	–	12	–	**12**
	Total	**16 353 470**	**9 067 982**	**(4 393 376)**	**21 028 076**

Acquisition of shares in GZE 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, 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 was 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 had been taken over by TAURON Polska Energia S.A. as part of the transaction. Additionally, the book value of the acquired shares was increased by PLN 5,500 thousand of costs directly attributable to their purchase.

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.

Mergers of subsidiaries

The decrease in TAURON Polska Energia S.A.'s investments in:

- ENION S.A. by PLN 3,356,415 thousand,
- Elektrownia Stalowa Wola S.A. by PLN 555,697 thousand and
- Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. by PLN 162,557 thousand

results from mergers of subsidiaries that took place during the reporting period, as discussed in detail in Note 8.

Investments in the following companies: TAURON Dystrybucja S.A., TAURON Wytwarzanie S.A and TAURON Ciepło S.A. have increased by the same amounts, respectively.

Due to merger of Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. with Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A., TAURON Polska Energia S.A. made additional payments to the share capital of TAURON Ciepło S.A. amounting to PLN 38 thousand.

Acquisition of shares in subsidiaries

The Company's investment in TAURON Wytwarzanie S.A. has increased by PLN 235 thousand and the investment in TAURON Dystrybucja S.A. by PLN 676 thousand due to TAURON Polska Energia S.A.'s acquisition of shares from non-controlling interests in August 2011, as discussed in detail in Note 8.

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

In the reporting period, the division of TAURON Obsługa Klienta Sp. z o.o. took place by way of acquisition by TAURON Sprzedaż Sp. z o.o. of part of TAURON Obsługa Klienta Sp. z o.o.'s assets representing an organized part of the enterprise and comprising tangible and intangible assets and liabilities related to sale of electricity. The division was effected pursuant to art. 529 § 1 point 4 of the CCC.

On 3 January 2011, the District Court in Kraków registered an increase of the share capital of TAURON Sprzedaż Sp. z o.o. resulting from its acquisition of part of TAURON Obsługa Klienta Sp. z o.o.'s assets. As a result of the above, the Company reallocated the value of shares between TAURON Obsługa Klienta Sp. z o.o. and TAURON Sprzedaż Sp. z o.o., by dividing the value of the shares in TAURON Obsługa Klienta Sp. z o.o. in proportion to the relation of the value of assets transferred to TAURON Sprzedaż Sp. z o.o. (as determined for the purposes of the division) to the value of total assets of TAURON Obsługa Klienta Sp. z o.o. determined for the purposes of the division.

Increase of investment in PE PKH Sp. z o.o.

The PLN 42,170 thousand increase of the investment in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. results from the Company's receipt of shares from Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A., in lieu of fulfilling part of the liability to pay the dividend due to TAURON Polska Energia S.A., as discussed in detail in Note 8.

Other changes

On 8 July 2011, TAURON Polska Energia S.A. as one of the shareholders signed the deed of association of CC Poland Plus Sp. z o.o., which provides the basis for the functioning of the Polish knowledge node of the Knowledge and Innovation Community KIC InnoEnergy. The primary objective of the Polish knowledge node is conducting research and coordinating activities in the area of the so-called clean coal technologies. These will also be the primary objectives of the newly founded company. On 23 December 2011, the Company made a payment for its stake in the share capital of CC Poland Plus Sp. z o.o. amounting to PLN 12 thousand.

Long-term investments also include shares in four newly founded companies: Energopower Sp. z o.o., Enpower service Sp. z o.o., Enpower Sp. z o.o. and Poen Sp. z o.o., each of them with a share capital of PLN 5 thousand.

(in PLN thousand)

Changes in the balance of long-term investments in the period from 1 January to 31 December 2010

No.	Company	Opening balance	Increases	Decreases	Closing balance
1.	Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.)	6 697 999	864 251	–	**7 562 250**
2.	ENION S.A.	2 948 630	407 785	–	**3 356 415**
3.	EnergiaPro S.A. (currently TAURON Dystrybucja S.A.)	2 206 153	350 957	–	**2 557 110**
4.	Elektrownia Stalowa Wola S.A.	475 106	80 591	–	**555 697**
5.	Elektrociepłownia Tychy S.A.	40 862	–	–	**40 862**
6.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. (currently TAURON Ciepło S.A.)	345 285	–	–	**345 285**
7.	Energomix Servis Sp. z o.o.	586 092	–	(586 092)	–
8.	TAURON Obsługa Klienta Sp. z o.o.	–	345 015	–	**345 015**
9.	TAURON Ekoenergia Sp. z o.o.	–	897 069	–	**897 069**
10.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o.	–	6 959	–	**6 959**
11.	Elektrociepłownia EC Nowa Sp. z o.o.	125 327	92 086	–	**217 413**
12.	ENION Zarządzanie Aktywami Sp. z o.o.	578 017	–	(578 017)	–
13.	TAURON Sprzedaż Sp. z o.o.	–	692 550	(397 752)	**294 798**
14.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	–	6 886	–	**6 886**
15.	Zespół Elektrowni Wodnych Rożnów Sp. z o.o.	–	931	–	**931**
16.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	162 557	–	–	**162 557**
17.	TAURON Czech Energy s.r.o.	4 223	–	–	**4 223**
	Total	**14 170 251**	**3 745 080**	**(1 561 861)**	**16 353 470**

The changes in the balances of the Company's long-term investments in the period from 1 January to 31 December 2010 were due to the following events:

- Merger of the parent, TAURON Polska Energia S.A., with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o. As a result of the merger, the balance of long-term investments was reduced due to the derecognition of investments in the acquired companies, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., amounting to PLN 1,164,109 thousand.
- Division of TAURON Sprzedaż Sp. z o.o. by way of a take-over by TAURON Ekoenergia Sp. z o.o. of some of the assets of TAURON Sprzedaż Sp. z o.o. representing an organized part of the enterprise, comprising tangible and intangible assets connected with generation of electricity using renewable sources of energy – hydroelectric plants. The division was effected pursuant to Article 529 § 1 section 4 of the Code of Commercial Companies. On 1 October 2010, the District Court in Wrocław recorded an increase in the share capital of TAURON Ekoenergia Sp. z o.o., and at the same time the division of TAURON Sprzedaż Sp. z o.o. In addition, TAURON Polska Energia S.A. contributed PLN 2 thousand to TAURON Ekoenergia Sp. z o.o. As a result of the above division, the Company reallocated the value of shares between TAURON Sprzedaż Sp. z o.o. and TAURON Ekoenergia Sp. z o.o., by dividing the value of shares in TAURON Sprzedaż Sp. z o.o. in proportion to the relation of the value of assets allocated to TAURON Ekoenergia Sp. z o.o., as determined for the purpose of the division, to the value of total assets of TAURON Sprzedaż Sp. z o.o. determined for the purpose of the division.
- Contributions in kind made by the State Treasury on 21 October 2010 for the increase of the Company's share capital, which included the following key subsidiaries: Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.) with fair value of PLN 863,754 thousand, Elektrownia Stalowa Wola S.A. with fair value of PLN 80,524 thousand, ENION S.A. with fair value of PLN 407,740 thousand and EnergiaPro S.A. (currently TAURON Dystrybucja S.A.) with fair value of PLN 350,858 thousand. On 21 December 2010, the Company acquired additional shares in the aforementioned companies in exchange for cash, i.e. in Południowy Koncern Energetyczny S.A. for PLN 497 thousand, in Elektrownia Stalowa Wola S.A. for PLN 67 thousand, in ENION S.A. for PLN 45 thousand and in EnergiaPro S.A. for PLN 99 thousand.
- Acquisition on 23 November 2010 of 80 thousand shares with a nominal value of PLN 1 thousand each in the increased share capital of TAURON Ekoenergia Sp. z o.o., in exchange for cash.

On 17 May 2010, the Company signed an agreement with Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie S.A.) for the usufruct of shares, under which as at 31 December 2010 TAURON Polska Energia S.A. was the usufructuary of the shares of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. Under this agreement, the Company disposed of an 80% interest in the share capital and an 88.88% interest in the governing body of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

(in PLN thousand)

On 22 December 2010, TAURON Polska Energia S.A. and Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.) signed agreements for the usufruct of shares in Kopalnia Wapienia Czatkowice Sp. z o.o. and Południowy Koncern Węglowy S.A., owned by Południowy Koncern Energetyczny S.A. In consequence, TAURON Polska Energia S.A. disposes of a 100% interest 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 68.01% votes at the company's General Shareholders' Meeting.

17. Inventories

	As at 31 December 2011	As at 31 December 2010
Historical cost		
Property rights arising from energy certificates	39 396	4 779
CO_2 emission allowances	–	4 664
Merchandise	1 451	–
Materials	181	–
Total	**41 028**	**9 443**
Write-downs to net realizable value		
CO_2 emission allowances	–	(205)
Total	**–**	**(205)**
Net realizable value		
Property rights arising from energy certificates	39 396	4 779
CO_2 emission allowances	–	4 459
Merchandise	1 451	–
Materials	181	–
Total	**41 028**	**9 238**

18. Trade and other receivables

As at 31 December 2011, the balance of trade and other receivables amounted to PLN 991,975 thousand, including PLN 742,730 thousand of trade receivables, PLN 180,438 thousand of receivables from a loan granted to an affiliate, PLN 55,656 thousand of cash pool loan receivables and PLN 13,151 thousand of other financial receivables. The largest balance of other financial receivables related to collaterals paid by the Company in the amount of PLN 12,995 thousand.

Trade receivables are non-interest-bearing and are usually receivable within 30 days. Sales are only made 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 the Company's trade receivables.

As at 31 December 2011, the largest balance of trade receivables are the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 405,960 thousand. The decrease of receivables from TAURON Obsługa Klienta Sp. z o.o. as at 31 December 2011 results from the take-over of operations relating to sale of electricity by TAURON Sprzedaż Sp. z o.o. from TAURON Obsługa Klienta Sp. z o.o.

The loan of PLN 180,438 thousand results from the agreement dated 20 December 2011 under which TAURON Polska Energia S.A. purchased 5,859,673 units of CO_2 emission allowances from TAURON Wytwarzanie S.A. at an agreed price of 30.72 PLN/EUA, for the total amount of PLN 180,009 thousand. At the same time, the Company committed to sell back the same amount of allowances on 20 March 2012 at an agreed price of 31.46 PLN/EUA. Due to the nature of this transaction, it was recognized as a loan (purchase with a commitment to sell back), as, in the Company's opinion, the related risks and rewards, including the risk of changes in fair value, had not been transferred to the Company. At the balance sheet date, interest accrued on this loan amounted to PLN 429 thousand.

Expenditures for the purchase of CO_2 emission allowances under the above-mentioned transaction are presented as part of loans granted under investing activities in the cash flow statement. In addition, in 2011 the cash flow statement items related to the granting and repayment of loans as part of investing activities include cash flows related to the buy-sell back transaction of 22 December 2010 involving purchase of 3,000,000 CO_2 emission allowances from Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie S.A.) for the total amount of PLN 168,000 thousand with a commitment to sell them back.

As at 31 December 2010, the balance of trade and other receivables amounted to PLN 634,531 thousand, including trade receivables of PLN 605,425 thousand, other financial receivables of PLN 9,287 thousand and cash pool loans of PLN 19,819 thousand. Bid bonds and collaterals of PLN 9,097 thousand represented the largest item of other financial receivables.

(in PLN thousand)

As at 31 December 2010, the largest balances of trade receivables were the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 261,939 thousand and from TAURON Obsługa Klienta Sp. z o.o. amounting to PLN 227,728 thousand.

Related party transactions and balances are presented in Note 32.

The aging structure and allowances/write-downs recognized for trade and other financial receivables are presented in the tables below.

Trade and other financial 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	
Value of item before allowance/write-down							
Trade and other financial receivables	755 881	–	–	–	–	306	**756 187**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	180 438	–	–	–	–	–	**180 438**
Total	**991 975**	**–**	**–**	**–**	**–**	**306**	**992 281**
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	–	(306)	**(306)**
Cash Pool	–	–	–	–	–	–	–
Other loans	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**(306)**	**(306)**
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	755 881	–	–	–	–	–	**755 881**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	180 438	–	–	–	–	–	**180 438**
Total	**991 975**	**–**	**–**	**–**	**–**	**–**	**991 975**

Trade and other financial 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	
Value of item before allowance/write-down							
Trade and other financial receivables	614 694	18	5	–	–	301	**615 018**
Cash Pool	19 819	–	–	–	–	–	**19 819**
Other loans	–	–	–	–	–	–	–
Total	**634 513**	**18**	**5**	**–**	**–**	**301**	**634 837**
Allowance/write-down							
Trade and other financial receivables	–	–	(5)	–	–	(301)	**(306)**
Cash Pool	–	–	–	–	–	–	–
Other loans	–	–	–	–	–	–	–
Total	**–**	**–**	**(5)**	**–**	**–**	**(301)**	**(306)**
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	614 694	18	–	–	–	–	**614 712**
Cash Pool	19 819	–	–	–	–	–	**19 819**
Other loans	–	–	–	–	–	–	–
Total	**634 513**	**18**	**–**	**–**	**–**	**–**	**634 531**

(in PLN thousand)

19. Cash and cash equivalents

For the purposes of the 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	215 033	321 942
Short-term deposits (up to 3 months)	2 005	205 069
Cash in transit	41 000	–
Total cash and cash equivalents presented in the statement of financial position, of which:	**258 038**	**527 011**
– restricted cash	161 649	154 589
Cash pool	(396 976)	(441 451)
Foreign exchange and other differences	76	14
Total cash and cash equivalents presented in the statement of cash flows	**(138 862)**	**85 574**

Restricted cash consists of cash held in the settlement account for trading in electricity at Towarowa Giełda Energii S.A. (Commodities Exchange), amounting to PLN 150,775 thousand, and cash held in the special purpose account for trading in electricity at the POEE energy exchange, amounting to PLN 10,874 thousand.

The balances of loans granted and taken out under cash pool transactions, which mainly serve the purpose of management of current financial liquidity in the Group, do not represent cash flows from investing or financing activity, but instead they represent an adjustment to the balance of cash and cash equivalents.

The details of cash pool balances are presented in Note 26 hereto.

20. Other current non-financial assets

	As at 31 December 2011	As at 31 December 2010
Other deferred costs	2 067	1 408
Prepayments for deliveries	–	250
Receivables from input VAT	1 363	34 883
Other current assets	151	12
Total	**3 581**	**36 553**

21. Issued capital and other items of equity

21.1. 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**	

(in PLN thousand)

On 25 March 2011, the District Court in Katowice registered a decrease of the Company's share capital effected by way of 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 Company's reserve capital. The decrease of the share capital was made in order to restructure the Company's equity.

21.2. Shareholders with significant interest

Shareholding structure as at 31 December 2011 (to the best knowledge of the Company)

Shareholder	Value of shares	% of issued capital	% 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 best knowledge of the Company)

Shareholder	Value of shares	% of issued capital	% 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 amounts to 4.67%.*

21.3. Reserve capital

Changes in the reserve capital in 2011 included the following:

- 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 14 to these financial statements, part of the Company's reserve capital in the amount of PLN 72,404 thousand resulting from the Company's 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 21.1 to these financial statements, an amount of PLN 7,010,198 thousand was allocated to the Company's reserve capital.

(in PLN thousand)

21.4. Retained earnings and restrictions on distribution

Changes in retained earnings in 2011 included:

- The net profit for the period of PLN 1,083,429 thousand,
- 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 14 to these financial statements, an amount of PLN 190,478 thousand resulting from the Company's profit for 2010 was allocated for the payment of dividend to the Company's shareholders.

	As at 31 December 2011	As at 31 December 2010
Non-distributable amounts included in retained earnings:	85 138	85 138
– 8% of statutory net profit of the Company allocated to reserve capital under the Commercial Companies Code	–	–
– retained earnings from merger with subsidiaries	85 138	85 138
Retained earnings of the Company eligible for distribution	1 083 461	190 510

As a result of registration, on 25 March 2011, of the decrease of the Company's share capital effected by the resolution of the Extraordinary Shareholders' Meeting of TAURON Polska Energia S.A. dated 10 November 2010 (described in detail in Note 21.1) with the District Court in Katowice, the Company will not be required to allocate 8% of the statutory net profit for the year 2011 to the reserve capital for absorption of losses.

22. Earnings per share

Presented below are figures relating to profit and the number of shares, which were 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	1 083 429	190 478
Net profit from discontinued operations	–	–
Net profit	**1 083 429**	**190 478**
Net profit attributable to ordinary shareholders, used in calculation of diluted earnings per share	1 083 429	190 478
Number of ordinary shares, used in calculation of basic earnings per share	1 752 549 394	1 600 730 480
Number of ordinary shares, used in calculation of diluted earnings per share	1 752 549 394	1 600 730 480

23. Employee benefits

Based on a valuation performed using actuarial methods, the Company 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 future pensioners,
- jubilee bonuses.

The amounts of these provisions and reconciliation presenting the movements in provisions during the financial year are presented in the tables below. The corridor approach presented below does not relate to provisions for jubilee bonuses.

(in PLN thousand)

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**387**	**315**	**98**	**2 075**	**2 875**
Current service costs	187	66	24	924	**1 201**
Actuarial gains and losses	9	7	–	(511)	**(495)**
Benefits paid	(8)	–	–	(430)	**(438)**
Interest expense	38	28	7	128	**201**
Closing balance	**613**	**416**	**129**	**2 186**	**3 344**
CURRENT	**78**	**4**	**2**	**208**	**292**
NON-CURRENT	**535**	**412**	**127**	**1 978**	**3 052**

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
Present value of liability at the end of the period	**708**	**494**	**129**	**1 331**
Unrecognized liability, of which:	(95)	(78)	–	**(173)**
Unrecognized actuarial gains/losses	(95)	(78)	–	**(173)**
Net liability at the end of period	**613**	**416**	**129**	**1 158**
Present value of the liability at the beginning of period	**594**	**469**	**117**	**1 180**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(207)**	**(154)**	**(19)**	**(380)**
Corridor limits	59	47	12	**118**
Exceeded	(148)	(107)	(7)	**(262)**
Actuarial gain (loss) to be recognized	(9)	(7)	–	**(16)**
Actuarial gain (loss) for the period	103	69	19	**191**
Unrecognized actuarial gains/(losses) at the end of period	**(95)**	**(78)**	–	**(173)**

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**193**	**139**	**46**	**1 109**	**1 487**
Current service costs	156	126	42	781	**1 105**
Actuarial gains and losses	11	19	3	660	**693**
Benefits paid	–	–	–	(545)	**(545)**
Interest expense	27	31	7	70	**135**
Closing balance	**387**	**315**	**98**	**2 075**	**2 875**
CURRENT	**10**	**1**	**2**	**256**	**269**
NON-CURRENT	**377**	**314**	**96**	**1 819**	**2 606**

(in PLN thousand)

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
Present value of liability at the end of the period	**594**	**469**	**117**	**1 180**
Unrecognized liability, of which:	(207)	(154)	(19)	**(380)**
Unrecognized actuarial gains/losses	(207)	(154)	(19)	**(380)**
Net liability at the end of period	**387**	**315**	**98**	**800**
Present value of the liability at the beginning of period	**388**	**473**	**98**	**959**
Net cumulative unrecognized actuarial gains/(losses) at the beginning of period	**(195)**	**(334)**	**(52)**	**(581)**
Corridor limits	39	47	10	**96**
Exceeded	(156)	(287)	(42)	**(485)**
Actuarial gain (loss) to be recognized	(11)	(19)	(3)	**(33)**
Actuarial gain (loss) for the period	(23)	161	30	**168**
Unrecognized actuarial gains/(losses) at the end of period	**(207)**	**(154)**	**(19)**	**(380)**

The Company 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 Company 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:

	Year ended 31 December 2011	Year ended 31 December 2010
Discount rate (%)	5.75%	5.50%
Estimated inflation rate (%)	2.52%	2.50%
Employee rotation rate (%)	3.46%	2.85%
Estimated salary increase rate (%)	2.52%	2.50%
Estimated electricity price increase rate (%)	3.48%	2.80%
Estimated increase rate for contribution to the Social Fund (%)	5.00%	4.20%
Remaining average employment period	14.16	16.30

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 Company'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 Company 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.

24. Provisions

Due to the sale of electricity to final users, the Company is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 December 2011, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation, amounting to PLN 164,856 thousand.

As at 31 December 2010, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation, amounting to PLN 36,795 thousand. The increase of the balance of this provision as at 31 December 2011 results from the increase in sales of electricity to final users.

25. Leases

25.1. Operating lease commitments

As at 31 December 2011, the Company rents, under two lease agreements, a real estate located in Katowice at ul. Lwowska 23, with a surface of 4,474.03 m^2. The lessor of this property is TAURON Wytwarzanie S.A. Monthly rentals amount to PLN 344 thousand net. The lease agreements were concluded in 2008 for an undefined period of time.

In addition, the Company rents, under a long-term lease agreement, three cars from TAURON Obsługa Klienta Sp. z o.o. and one car from PUH ETRANS Sp. z o.o. Monthly rentals for each of those cars amount to PLN 2.5 thousand net.

25.2. Finance lease and hire purchase commitments

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	705	627	987	906
Within 1 to 5 years	1 047	990	143	136
More than 5 years	–	–	–	–
Minimum lease payments, total	**1 752**	**1 617**	**1 130**	**1 042**
Less amounts representing finance charges	(135)	–	(88)	–
Present value of minimum lease payments, of which:	**1 617**	**1 617**	**1 042**	**1 042**
current	627	627	906	906
non-current	990	990	136	136

26. Interest-bearing loans and borrowings (including issued debentures)

As at 31 December 2011, the Company's liabilities under loans taken out and issued debentures related to:

- debentures issued under the debenture issue program:
  - on 29 December 2010 – Tranche A,
  - on 12 December 2011 – Tranche B and Tranche C;
- loans taken out from affiliates under the "Agreement for the Provision of Cash Pool Services";
- liabilities related to acquisition of long-term investments.

Interest-bearing loans and borrowings, including issued debentures, as at 31 December 2011 and 31 December 2010 are presented in the table below.

Interest-bearing loans and borrowings (including issued debentures)

	As at 31 December 2011	As at 31 December 2010
Non-current portion of loans and borrowings, including issued debentures:		
Issued debentures	4 136 112	845 650
Total	**4 136 112**	**845 650**
Current portion of loans and borrowings, including issued debentures:		
Issued debentures	11 062	357
Cash pool loans received, including accrued interest	452 632	461 270
Liabilities arising from acquisition of long-term investments	1 004 372	–
Total	**1 468 066**	**461 627**

(in PLN thousand)

Issue of debentures

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 bonds in two tranches A and B.

Under Tranche A, on 29 December 2010, 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., TAURON Polska Energia S.A. issued 5-year corporate debentures with a nominal value of PLN 848,200 thousand. 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 agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 31 December 2011, none of these covenants has been breached.

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

Issued debentures as at 31 December 2011

	Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	**Principal at amortized cost**	**less than 3 months**	**3–12 months**	**1–2 years**	**2–3 years**	**3–5 years**	**over 5 years**
Tranche A	floating	PLN	412	846 106	–	–	–	–	846 106	–
Tranche B	floating	PLN	968	298 920	–	–	–	–	298 920	–
Tranche C	floating	PLN	9 682	2 991 086	–	–	–	–	2 991 086	–
Total debentures			**11 062**	**4 136 112**	–	–	–	–	**4 136 112**	–

Issued debentures as at 31 December 2010

	Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	**Principal at amortized cost**	**less than 3 months**	**3–12 months**	**1–2 years**	**2–3 years**	**3–5 years**	**over 5 years**
Tranche A	floating	PLN	357	845 650	–	–	–	–	845 650	–
Total debentures			**357**	**845 650**	–	–	–	–	**845 650**	–

(in PLN thousand)

Cash pool

The purpose of the "Agreement for the Provision of Cash Pool Services" is to ensure the most effective management of cash held by the companies, efficient funding of day-to-day working capital requirements of the Group companies, improvement of financial liquidity and optimization of finance income and finance costs of the individual Group companies participating in the agreement as well as of the entire TAURON Polska Energia S.A. Group. TAURON Polska Energia S.A. plays the role of the pool leader. The first cash pool transactions were made in June 2010. Interest terms have been determined at an arm's length.

The balances of receivables and payables arising from cash pool transactions are presented in the tables below.

	As at 31 December 2011	As at 31 December 2010
Loans granted under cash pool agreement	55 549	19 700
Interest receivable on loans granted under cash pool agreement	107	119
Total	**55 656**	**19 819**

	As at 31 December 2011	As at 31 December 2010
Loans received under cash pool agreement	451 086	460 051
Interest payable on loans received under cash pool agreement	1 546	1 219
Total	**452 632**	**461 270**
Balance of cash pool	**396 976**	**441 451**

The surplus of cash acquired by the Company under the cash pool agreement is mainly invested in bank accounts.

Under the cash pool agreement the Company may use external funding amounting to PLN 100,000 thousand by 31 December 2011. Starting from 1 January 2012, the Company may use external funding amounting to PLN 300,000 thousand.

Liabilities arising from acquisition of long-term investments

The Company has a liability arising from acquisition of long-term investments amounting to PLN 1 004 372 thousand, which represents Vattenfall AB's debt towards GZE S.A. and its subsidiaries that has been taken over by the Company as part of the purchase of GZE S.A.'s shares, as discussed in detail in Note 16.

Loans from the European Investment Bank

TAURON Polska Energia S.A. acquired two preferential loans from the European Investment Bank, for a total amount of PLN 510,000 thousand. The respective loan agreements were signed on 24 October 2011. The funds acquired under these loans will be used for the implementation of two investment projects in the area of production.

The Company acquired two loans:

- PLN 300,000 thousand to be used for the conversion and transfer for use of a high efficiency cogeneration unit with the accompanying infrastructure in the Bielsko-Biała CHP Plant. Those funds will be used by the TAURON Group to replace the current unit with a unit of a higher efficiency amounting to 50 MWe and 182 MWt. Construction of this unit started in August 2010 and will last 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 boiler in the Jaworzno III Power Plant, which is planned to be made available for use in 2012, and the repair of a steam turbine.

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

27. Capital commitments

As at 31 December 2011, the Company had capital commitments of PLN 768 thousand, which resulted from the agreement for the implementation of the electronic WorkFlow system relating to purchase invoices and development of the functionalities of the ERP system used by the Company.

As at 31 December 2010, the Company had capital commitments of PLN 1,126 thousand, which resulted from the contract signed for the implementation of the SAP integrated system. As at 31 December 2011, this investment has been completed.

28. Contingent liabilities

Guarantees issued by the Company as at 31 December 2011 amounted to PLN 7,839 thousand and included the following:

- A guarantee of EUR 1,000 thousand (PLN 4,417 thousand) granted in favor of TAURON Czech Energy s.r.o. in connection with the EFET framework agreement for sale of electricity, for the benefit of CEZ a.s. The guarantee is valid for the period from 1 April 2010 to 31 December 2011; as of 1 January 2012 it was reduced to EUR 500 thousand;
- A bank guarantee for OTE a.s. amounting to CZK 20,000 thousand (PLN 3,422 thousand), granted in favor of TAURON Czech Energy s.r.o. for the benefit of UniCredit Bank Czech Republik a.s. The guarantee is valid for the period from 9 June 2011 to 8 June 2012.

Guarantees issued by the Company as at 31 December 2010 amounted to PLN 5,940 thousand and included the following:

- A guarantee of EUR 1,000 thousand (PLN 3,960 thousand) granted in favor of TAURON Czech Energy s.r.o. in connection with the EFET framework agreement for sale of electricity, for the benefit of CEZ a.s., which is also valid as at 31 December 2011;
- A bank guarantee for OTE amounting to EUR 500 thousand (PLN 1,980 thousand), granted in favor of TAURON Czech Energy s.r.o. for the benefit of UniCredit Bank Czech Republik a.s. The guarantee was valid in the period from 9 June 2010 to 8 June 2011.

In December 2010, the Company issued two blank promissory notes with a maturity date of 15 December 2022, for a total amount of PLN 40,000 thousand, for the benefit of the Voivodship Fund for Environmental Protection and Water Management in Katowice *(Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej w Katowicach*), in order to secure the loan granted by the Fund to its subsidiary, Południowy Koncern Energetyczny S.A., currently TAURON Wytwarzanie S.A.

In January 2011, TAURON Polska Energia S.A. guaranteed a blank promissory note issued by Elektrownia Stalowa Wola S.A., currently TAURON Wytwarzanie S.A., for the benefit of Polskie Sieci Elektroenergetyczne Operator S.A., for an amount of PLN 4,000 thousand.

In September 2011, the Company issued blank promissory notes together with an attached promissory note agreement for a total amount of PLN 30,000 thousand to the Voivodship Fund for Environmental Protection and Water Management in Katowice in order to secure performance of a loan agreement concluded between the Fund and the Elektrociepłownia Tychy S.A. subsidiary. The security will last until Elektrociepłownia Tychy S.A. fulfils all of its obligations under the loan agreement towards the Voivodship Fund for Environmental Protection and Water Management.

On 25 February 2011, TAURON Polska Energia S.A. declared to provide a financial support in the amount of PLN 87,040 thousand to its subsidiary Elektrociepłownia Tychy S.A., in order to cover the costs of the project relating to “Construction of a biomass power plant and modernization of the fluidized OF-135 boiler in Elektrociepłownia Tychy S.A.”. Costs of the investment project amounting to PLN 30,000 thousand will be funded by a loan granted by the Voivodship Fund for Environmental Protection and Water Management in Katowice.

Due to the application of the subsidiary TAURON Wytwarzanie S.A. for funding of an investment project relating to “Construction of a biomass boiler in PKE S.A. Elektrownia Jaworzno III – Elektrownia II” under the Infrastructure and Environment Operational Programme, Priority IX “Environmentally friendly energy infrastructure and energy efficiency”, Activity 9.4. “Energy production from renewable sources”, and to ensure the coverage of the remaining costs of this project, TAURON Polska Energia S.A. committed to submit a declaration to provide project funding in the amount of PLN 200,000 thousand by 31 December 2012. The application is addressed to the Ministry of Economy.

In addition, TAURON Polska Energia S.A. granted collaterals in respect of the following companies acquired in December 2011:

- collateral in respect of Vattenfall Network Services Poland Sp. z o.o. – a suretyship issued to Nordea Bank Polska S.A. in connection with a guarantee granted by the bank for an amount of PLN 672 thousand, valid until 31 March 2014,
- collateral in respect of Vattenfall Sales Poland Sp. z o.o. – a suretyship issued to Nordea Bank Polska S.A. in connection with a guarantee granted by the bank for an amount up to PLN 4,000 thousand. This guarantee expired on 31 December 2011.

29. Assets pledged as security

Under the debentures issue program the Company provided a declaration of submission to enforcement:

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

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

In order to secure the transactions made by the Company on 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 PLN thousand)

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 by the Company 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 (a loan granted with a commitment to sell back, as described in detail in Note 18).

Liabilities secured on the assets of TAURON Polska Energia S.A. include lease agreements, which are secured by pledges on the vehicles leased by the Company. The carrying amount of vehicles leased by the Company amounted to PLN 2,039 thousand as at 31 December 2011 and PLN 1,576 thousand as at 31 December 2010.

30. Other current non-financial liabilities

	As at 31 December 2011	As at 31 December 2010
Taxes, customs, social security and other payables, of which:	**84 778**	**25 432**
Excise tax	1 406	–
VAT	80 455	22 904
Social security	1 845	1 619
Personal Income Tax	1 052	894
Other	20	15
Other non-financial liabilities:	–	**662**
Supply advances received from clients	–	662
Total	**84 778**	**26 094**

31. Deferred income and government grants

	As at 31 December 2011	As at 31 December 2010
Unused holidays	1 377	1 050
Bonuses	6 638	5 489
Audit fees	70	70
Other accrued expenses	8	7
Other deferred income	82	103
Total, of which:	**8 175**	**6 719**
non-current	–	–
current	8 175	6 719

32. Related party disclosures

32.1. Transactions with related companies and State Treasury companies

The Company enters into transactions with related companies as presented in Note 8. In addition, due to the fact that the Company's main shareholder is the State Treasury of the Republic of Poland, State Treasury companies are treated as related parties. Transactions with State Treasury companies mainly relate to the operating activity of the Company. All transactions with related companies are made on an arm's length basis.

The total value of revenues and costs from transactions with the aforementioned entities and the balances of receivables and payables are presented in the tables below.

(in PLN thousand)

Revenues and expenses

	Year ended 31 December 2011	Year ended 31 December 2010 (*adjusted figures*)
Revenue from related companies, of which:	**8 002 258**	**6 869 937**
Revenue from operating activities	6 930 643	6 687 400
Dividends	1 008 705	181 126
Finance income	62 897	1 270
Other income	13	141
Revenue from State Treasury companies	**992 155**	**294 459**
Costs from related companies, of which:	**(866 449)**	**(3 845 812)**
Costs of operating activities	(829 837)	(3 841 480)
Finance costs	(36 612)	(4 332)
Costs from State Treasury companies	**(194 164)**	**(827 605)**

Receivables and payables

	As at 31 December 2011	As at 31 December 2010 (*adjusted figures*)
Loans granted to related companies and receivables from related companies, of which:	**1 929 450**	**1 412 053**
Trade receivables	543 313	543 651
Debentures	1 150 043	848 583
Loans granted under cash pool agreement	55 656	19 819
Other loans	180 438	–
Receivables from State Treasury companies	**141 658**	**53 563**
Payables to related companies, of which:	**589 395**	**811 964**
Trade payables	136 763	350 694
Loans received under cash pool agreement	452 632	461 270
Liabilities arising from acquisition of investments	–	–
Payables to State Treasury companies	**10 867**	**45 605**

Among the State Treasury companies, the largest contractors of TAURON Polska Energia S.A. in the year ended 31 December 2011 as regards sales revenue included Kompania Węglowa S.A. and KHGM Polska Miedź S.A. Revenue from those companies accounted for 81% of total revenue from transactions with State Treasury companies. The largest costs were incurred as a result of purchases from Zespół Elektrowni Pątnów Adamów Konin S.A. and PSE Operator S.A., representing 95% of total costs incurred as a result of purchases from State Treasury companies.

The Company 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, the Company does not consider purchase and sale transactions made through this entity as related party transactions. The comparative figures for 2010 have been restated

(in PLN thousand)

32.2. Compensation of key management personnel

Until 28 June 2010, the compensation of the Directors and the 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).

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the Company for the year ended 31 December 2011 and 31 December 2010 is presented in the table below.

	Year ended 31 December 2011	Year ended 31 December 2010
Board of Directors	**8 862**	**5 967**
Short-term employee benefits (salaries and surcharges)	7 933	5 200
Other	929	767
Supervisory Board	**812**	**329**
Short-term employee benefits (salaries and surcharges)	812	329
Total	**9 674**	**6 296**
Other members of key management personnel	**7 163**	**5 745**
Short-term employee benefits (salaries and surcharges)	6 245	5 079
Other	918	666

No loans were granted from the Social Fund to members of the parent's Board of Directors, Supervisory Board members or other members of key management personnel.

33. Financial instruments

33.1. Carrying amounts and fair values of the categories and classes of financial instruments

The fair values of the financial instruments held by the Company as at 31 December 2011 and 31 December 2010 did not significantly differ from their values presented in the financial statements for the particular periods, 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.

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 31 December 2011 and 31 December 2010 are presented in the tables below.

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	**2**	**257**
2 Financial assets available for sale	**7 922**	**7 890**
3 Financial assets held to maturity	–	–
4 Loans and receivables	**2 142 018**	**1 483 114**
Trade receivables	742 730	605 425
Bonds, T-bills and other debt securities	1 150 043	848 583
Loans granted	236 094	19 819
Other	13 151	9 287
5 Financial assets excluded from the scope of IAS 39	**21 020 154**	**16 345 580**
6 Cash and cash equivalents	**258 038**	**527 011**

(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**	**–**
2 Financial liabilities measured at amortized cost	**5 930 026**	**1 847 979**
Arm's length loans, of which:	1 457 004	461 270
Liabilities arising from acquisition of long-term investments	1 004 372	–
Issued debentures	4 147 174	846 007
Trade payables	311 986	533 969
Other financial liabilities	6 035	3 969
Commitments resulting from purchases of fixed and intangible assets	5 594	803
Salaries and wages	2 233	1 961
Insurance contracts	–	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**1 617**	**1 042**
Obligations under finance leases and hire purchase contracts	1 617	1 042

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

Bonds, treasury bills and other debt securities in the category of loans and receivables, amounting to PLN 1,150,043 thousand, and issued debentures amounting to PLN 4,147,174 thousand relate to the program of issue of external and intercompany debentures which was launched in December 2010.

In the period from 1 January 2011 to 31 December 2011, the Company acquired debentures issued by the following subsidiaries: Elektrownia Stalowa Wola S.A. (currently TAURON Wytwarzanie S.A.), Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., Elektrociepłownia Tychy S.A., ENION S.A. (currently TAURON Dystrybucja S.A.), TAURON Ekoenergia Sp. z o.o., TAURON Dystrybucja S.A. and TAURON Wytwarzanie S.A. On 29 December 2011, the subsidiaries: TAURON Dystrybucja S.A., TAURON Wytwarzanie S.A. and Południowy Koncern Węglowy S.A. redeemed the debentures purchased by the Company on 29 December 2010. At the same time, TAURON Dystrybucja S.A. and TAURON Wytwarzanie S.A. issued intercompany debentures at the amount of the debentures redeemed.

The increase in the balance of liabilities under issued debentures is due to the new issue of debentures Tranches B and C with a nominal value of PLN 3,300,000 thousand on 12 December 2011, as discussed in detail in Note 26.

Under loans granted, the Company included receivables arising from the buy-sell back of CO_2 emission allowances amounting to PLN 180,438 thousand, as discussed in detail in Note 18, and cash pool loans amounting to PLN 55,656 thousand.

Loans granted to the Company at an arm's length, amounting to PLN 1,457,004 thousand, include an amount of PLN 452,632 thousand relating to intercompany cash pool service transactions and PLN 1,004,372 thousand representing Vattenfall AB's debt towards GZE S.A. and its subsidiaries, including accrued interest of PLN 1,934 thousand, which has been taken over by the Company as part of the purchase of GZE S.A.'s shares, as discussed in detail in Note 16. The balances resulting from cash pool service transactions and the issue of debentures are described in Note 26.

Under financial assets excluded from the scope of IAS 39, the Company shows shares held in subsidiaries, associates and joint ventures. The increase in the balance of financial assets excluded from the scope of IAS 39 mainly results from the purchase of shares in Górnośląski Zakład Elektroenergetyczny S.A. as well as other transactions relating to the purchase of shares from non-controlling interests and restructuring in the TAURON Group, as discussed in detail in Note 16.

The decrease in the balance of cash and cash equivalents in the period from 1 January 2011 to 31 December 2011 mainly results from the PLN 200,074 thousand decrease in the balance of cash pool deposits.

Financial assets available for sale, amounting to PLN 7,922 thousand, include shares in Zespół Elektrowni Wodnych Rożnów Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o., which were acquired as a result of the Company's merger with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., in 2010, four new companies founded in 2011: Energopower Sp. z o.o., Enpower service Sp. z o.o., Enpower Sp. z o.o., Poen Sp. z o.o., and shares purchased in the company CC Poland Plus Sp. z o.o., as described in Note 16.

(in PLN thousand)

33.3. 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 measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	875	–	–	1 008 705	–	–	–	**1 009 580**
Interest income/(expense)	45 687	–	–	62 237	1 466	–	(92 172)	(73)	**17 145**
Commissions	–	–	–	–	–	–	(3 445)	–	**(3 445)**
Exchange differences	360	–	–	7 766	–	–	(7 242)	–	**884**
Reversal of impairment losses/ “upwards” revaluation	–	–	–	–	–	–	–	–	–
Recognition of impairment losses/ “downwards” revaluation	–	–	–	–	–	(337)	–	–	**(337)**
Other	–	–	–	–	–	(926)	–	–	**(926)**
Net profit/(loss)	**46 047**	**875**	–	**70 003**	**1 010 171**	**(1 263)**	**(102 859)**	**(73)**	**1 022 901**

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 measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	822	–	–	181 126	–	–	–	**181 948**
Interest income/(expense)	6 769	–	–	6 417	–	–	(4 680)	(175)	**8 331**
Commissions	–	–	–	–	–	–	(697)	–	**(697)**
Exchange differences	(39)	–	–	(505)	–	–	–	–	**(544)**
Reversal of impairment losses/ “upwards” revaluation	257	–	–	6	–	–	–	–	**263**
Recognition of impairment losses/ “downwards” revaluation	–	–	–	–	–	–	–	–	–
Other	78	–	–	107	–	–	–	–	**185**
Net profit/(loss)	**7 065**	**822**	–	**6 025**	**181 126**	–	**(5 377)**	**(175)**	**189 486**

(in PLN thousand)

34. Financial risk management objectives and policies

The Company manages financial risk, understood as currency risk and interest rate risk, in a mindful and responsible manner, based on the adopted Specific Financial Risk Management Policy, which includes a set of principles and standards consistent with best practices in this respect. Due to correlation between the risk incurred and the level of income that can be earned, financial risk management is applied in order to keep the exposures within the pre-agreed and authorized safety levels rather than to fully eliminate them. The primary objective of financial risk management is to manage the risk so as to reduce as much as possible the sensitivity of the Company's cash flows to financial risks and to minimize finance costs and hedging expenses incurred under derivative transactions. The above-mentioned policy also implements hedge accounting policies, 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 Company has not applied hedge accounting to date. However, in accordance with its financial risk management policy, TAURON Polska Energia S.A. plans to make use of derivative instruments which, due to their nature, will enable it to apply hedge accounting in the future.

The Specific Financial Risk Management Policy is discussed in detail in Note 38 to the Consolidated Financial Statements for the year ended 31 December 2011.

34.1. Interest rate risk

The Company is exposed to the risk of changes in interest rates due to acquiring funding subject to variable interest rates as well as holding available cash subject to variable interest rates. The Company has no liabilities with fixed interest rates.

The tables below present the carrying amounts of the Company's financial instruments exposed to the interest rate risk, analyzed by maturity as at 31 December 2011 and 31 December 2010.

Interest rate risk as at 31 December 2011 – variable interest rates

	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds, T-bills and other debt securities	2 984	–	–	1 137 040	–	**1 140 024**
Loans granted	55 656	–	–	–	–	**55 656**
Cash and cash equivalents	258 038	–	–	–	–	**258 038**
Total	**316 678**	–	–	**1 137 040**	–	**1 453 718**
Financial liabilities						
Arm's length loans	1 457 004	–	–	–	–	**1 457 004**
Issued debentures and other debt securities	11 062	–	–	4 136 112	–	**4 147 174**
Total	**1 468 066**	–	–	**4 136 112**	–	**5 604 178**

As at 31 December 2011, the Company had the following financial assets with fixed interest rates: short-term debentures amounting to PLN 10,019 thousand and a loan with a commitment to sell back amounting to PLN 180,438 thousand, as described in detail in Note 18. All intercompany debentures are issued by the Group companies for the period of one year with fixed interest rates; however, due to the intention to roll over the debentures and the ability to change the interest rate in each case, the remaining intercompany debentures amounting to PLN 1,140,024 thousand (included in the table above) have been classified as long-term financial instruments with variable interest rates.

Interest rate risk as at 31 December 2010 – variable interest rates

	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds, T-bills and other debt securities	383	–	–	848 200	–	**848 583**
Loans granted	19 819	–	–	–	–	**19 819**
Cash and cash equivalents	527 011	–	–	–	–	**527 011**
Total	**547 213**	–	–	**848 200**	–	**1 395 413**
Financial liabilities						
Arm's length loans	461 270	–	–	–	–	**461 270**
Issued debentures and other debt securities	357	–	–	845 650	–	**846 007**
Total	**461 627**	–	–	**845 650**	–	**1 307 277**

The remaining financial instruments of the Company, which have not been included in the tables above, are non-interest-bearing and are therefore not subject to the interest rate risk.

(in PLN thousand)

34.2. Currency risk

In 2011, TAURON Polska Energia S.A. used currency forward contracts in the management of currency risk. The aim of such transactions is to hedge the Company against the currency risk arising in the course of the trading activity of the TAURON Group. The Company did not apply hedge accounting.

The tables below present the Company's exposure to currency risk, analyzed by the particular classes of financial instruments as at 31 December 2011 and 31 December 2010.

Currency position as at 31 December 2011

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	755 881	6 209	27 425	13 672	2 340
Cash and cash equivalents	258 038	4 624	20 422	–	–
Total	**1 013 919**	**10 833**	**47 847**	**13 672**	**2 340**
Financial liabilities					
Trade payables	311 986	10 818	47 781	–	–
Commitments resulting from purchases of fixed and intangible assets	5 594	256	1 129	–	–
Total	**311 986**	**10 818**	**47 781**	**–**	**–**
Net currency position		**15**	**66**	**13 672**	**2 340**

Currency position as at 31 December 2010

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	614 712	1 048	4 151	12 214	1 930
Cash and cash equivalents	527 011	2 115	8 376	2 681	424
Total	**1 141 723**	**3 163**	**12 527**	**14 895**	**2 354**
Financial liabilities					
Trade payables	533 969	1 393	5 518	–	–
Commitments resulting from purchases of fixed and intangible assets	803	–	–	–	–
Total	**533 969**	**1 393**	**5 518**	**–**	**–**
Net currency position		**1 770**	**7 009**	**14 895**	**2 354**

34.3. Commodity price risk

The Company is exposed to unfavorable impact of risks associated with changes in cash flows and financial results denominated in Polish currency due to changes in the prices of commodities in relation to the opened market position. The Company's exposure to commodity price risk is reflected in the volume of purchases of electricity. The volumes and purchase costs of electricity are presented in the table below.

Fuel type	Unit	2011		2010	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	40 471 436	8 025 133	35 543 625	6 815 339
Total		**40 471 436**	**8 025 133**	**35 543 625**	**6 815 339**

(in PLN thousand)

34.4. 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.

The Company monitors credit risk arising in the course of its business activity on a regular basis. In 2010, the Company was exposed to credit risk arising from concluded trade contracts. In order to mitigate credit risk, as a result of regular analyses of the creditworthiness and financial standing of its contractors, in justified cases the Company requested the contractors to provide proper collateral in the form of bank, insurance or corporate guarantees, and introduced clauses providing for the possibility of suspending power supplies in the event of late payment of liabilities.

The Company is exposed to credit risk arising in the following areas:

- core activities – credit risk arises mainly from sales of electricity;
- investment activities – credit risk arises from transactions resulting from the implementation of investment projects, where it is a common practice to make prepayments;
- 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 Company;
- investing available cash – credit risk arises from investing available cash (mainly in bank deposits).

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 Company's core activities, except as listed in Note 18.

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

34.5. Liquidity risk

The Company maintains a balance between continuity of funding, cost and flexibility through the use of various sources of financing, which enable management of liquidity risk and successfully minimize any negative effects following from realization of such risk. The tables below summarize the maturity profiles of the Company's financial liabilities

Financial liabilities as at 31 December 2011

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including issued debentures)	1 457 004	242 129	238 522	238 522	4 539 200	–	**6 715 377**
Trade payables	311 986	–	–	–	–	–	**311 986**
Commitments to purchase fixed and intangible assets	5 594	–	–	–	–	–	**5 594**
Other financial liabilities	8 268	–	–	–	–	–	**8 268**
Finance lease and hire purchase commitments	185	442	510	480	–	–	**1 617**
Guarantees granted and similar items	81 839	–	–	–	–	–	**81 839**
Total	**1 864 876**	**242 571**	**239 032**	**239 002**	**4 539 200**	–	**7 124 681**

(in PLN thousand)

Financial liabilities as at 31 December 2010

	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years	Total
Interest-bearing loans and borrowings (including issued debentures)	460 051	42 834	42 834	42 834	933 868	–	**1 522 421**
Trade payables	533 969	–	–	–	–	–	**533 969**
Commitments to purchase fixed and intangible assets	803	–	–	–	–	–	**803**
Other financial liabilities	5 744	186	–	–	–	–	**5 930**
Finance lease and hire purchase commitments	257	649	136	–	–	–	**1 042**
Guarantees granted and similar items	45 940	–	–	–	–	–	**45 940**
Total	**1 046 764**	**43 669**	**42 970**	**42 834**	**933 868**	–	**2 110 105**

34.6. Market risk – sensitivity analysis

The Company 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.

Currently, TAURON Polska Energia S.A. is mainly exposed to the risk of changes in the EUR/PLN and CZK/PLN exchange rates. In addition, the Company is exposed to changes in reference interest rates for PLN and EUR.

The Company uses scenario analysis in analyzing sensitivity to changes in market risk factors. The Company 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 Company'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 Company 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 Company 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 interest rate options quoted on the interbank market for the currencies for which the Company 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 Company 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.

34.6.1. Currency risk sensitivity analysis

The Company identifies its exposure to the risk of changes in the EUR/PLN and CZK/PLN exchange rates. The tables below demonstrate the sensitivity of profit before taxation to reasonably possible changes in foreign exchange rates within a time horizon up until the date of the next financial statements, with all other variables held constant.

Year ended 31 December 2011

The risk exposure as at 31 December 2011 is representative of the Company'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		CZK/PLN	
	Carrying amount	Value at Risk	exchange rate EUR/PLN +14.05%	exchange rate EUR/PLN -14.05%	exchange rate CZK/PLN +11.33%	exchange rate CZK/PLN -11.33%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*	
Trade receivables and other financial receivables	755 881	29 765	3 853	(3 853)	265	(265)
Cash and cash equivalents	258 038	20 422	2 869	(2 869)	–	–
Trade payables	311 986	47 781	(6 713)	6 713	–	–
Commitments resulting from purchases of fixed and intangible assets	5 594	1 129	(159)	159	–	–
Total			**(150)**	**150**	**265**	**(265)**

Year ended 31 December 2010

The risk exposure as at 31 December 2010 is representative of the Company'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		CZK/PLN	
	Carrying amount	Value at Risk	exchange rate EUR/PLN +12.3%	exchange rate EUR/PLN -12.3%	exchange rate CZK/PLN +9.6%	exchange rate CZK/PLN -9.6%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*	
Trade receivables and other financial receivables	614 712	6 081	511	(511)	185	(185)
Cash and cash equivalents	527 011	8 800	1 030	(1 030)	41	(41)
Trade payables	533 969	5 518	(1)	1	–	–
Total			**1 540**	**(1 540)**	**226**	**(226)**

34.6.2. Interest rate risk sensitivity analysis

The Company identifies its exposure to the risk of changes in WIBOR and EURIBOR interest rates. The tables below demonstrate the sensitivity of profit before taxation to reasonably possible changes in interest rates within a time horizon up until the date of the next financial statements, with all other variables held constant.

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)*	
Bonds, T-bills and other debt securities	1 150 043	1 140 024	9 576	(9 576)	–	–
Loans granted	236 094	55 656	468	(468)	–	–
Cash and cash equivalents	258 038	258 038	1 996	(1 996)	147	(147)
Arm's length loans	1 457 004	1 457 004	(12 239)	12 239	–	–
Issued debentures and debt securities	4 147 174	4 147 174	(34 836)	34 836	–	–
Total			**(35 035)**	**35 035**	**147**	**(147)**

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	
	Carrying amount	Value at Risk	WIBOR +60 bp	WIBOR -60 bp	EURIBOR +33 bp	EURIBOR -33 bp
	In PLN thousand	In PLN thousand	*Profit/(loss)*		*Profit/(loss)*	
Bonds, T-bills and other debt securities	848 583	848 583	5 092	(5 092)	–	–
Loans granted	19 819	19 819	119	(119)	–	–
Cash and cash equivalents	527 011	527 011	3 109	(3 109)	28	(28)
Arm's length loans	461 270	461 270	(2 768)	2 768	–	–
Issued debentures and debt securities	846 007	846 007	(5 076)	5 076	–	–
Total			**476**	**(476)**	**28**	**(28)**

35. Capital management

Capital management takes place at the level of the TAURON Polska Energia S.A. Group. 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 monitors the level of its equity using the leverage ratio, which has been presented in the consolidated financial statements for the year ended 31 December 2011.

TAURON Polska Energia S.A. makes use of a cash pool service, the purpose of which is to ensure the most effective management of the cash held, efficient funding of day-to-day working capital requirements of the Group companies, improvement of financial liquidity and optimization of finance income and finance costs of the individual Group companies participating in the agreement as well as of the entire TAURON Polska Energia S.A. Group.

In addition, in 2010 the TAURON Group implemented a central financing model which, among others, results in the reduction of borrowing costs and increases the opportunities for acquiring funding, reduces the number of covenants in agreements and reduces the need to secure assets as collateral. As part of its central finance management model, the TAURON Group launched an intercompany debentures issue program which provides a framework for management of cash in a medium- and long-term horizon.

In addition, the Group's finance management system is supported by the following instruments that were implemented in 2011: financial liquidity management policy, central financial risk management policy and central insurance policy.

36. Employment structure

	Year ended 31 December 2011	Year ended 31 December 2010
Management	5	5
Administration	202	165
Sales department	63	66
Total	**270**	**236**

37. Auditor's fees

On 19 November 2010, TAURON Polska Energia S.A. entered into a contract with Ernst & Young Audit Sp. z o.o. for the audit of:

- the financial statements of the Company for the years 2010–2012 prepared according to IFRS,
- the financial statements of selected Group companies for the years 2010–2012 prepared according to the accounting regulations applicable to such companies, i.e. IFRS or the Accounting Act,
- consolidated financial statements for the years 2010–2012 prepared according to IFRS.

The scope of the contract also includes periodic reviews of half-year financial statements of the Company and consolidated financial statements of the TAURON Group prepared according to IFRS for the periods ending 30 June 2011 and 30 June 2012.

(in PLN thousand)

The amount of the auditor's fees for the services rendered to the Company is presented in the table below:

	Year ended 31 December 2011	Year ended 31 December 2010
Statutory audit	70	64
Other assurance services	30	–
Audit services relating to IPO	–	1 469
Other services (including training)	103	86
Total	**203**	**1 619**

38. 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 26). 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	....