TAURON POLSKA ENERGIA S.A.

FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2012
INCLUDING THE INDEPENDENT AUDITOR'S REPORT

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(in PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		9 823 438	8 823 744
Excise		(3 219)	(15 122)
Sale of goods for resale, finished goods and materials		9 820 219	8 808 622
Rendering of services		69 643	36 522
Other income		10	4
Sales revenue	**11.1**	**9 889 872**	**8 845 148**
Cost of sales	**11.4**	(9 710 955)	(8 663 010)
Gross profit		**178 917**	**182 138**
Other operating income		1 979	3 354
Selling and distribution expenses	**11.4**	(27 142)	(22 850)
Administrative expenses	**11.4**	(104 439)	(79 544)
Other operating expenses		(2 205)	(1 268)
Operating profit		**47 110**	**81 830**
Dividend income	**11.2**	1 550 613	1 009 580
Other finance income	**11.2**	214 365	112 597
Finance costs	**11.3**	(332 132)	(96 096)
Profit before tax		**1 479 956**	**1 107 911**
Income tax expense	**12**	(44 768)	(21 818)
Net profit from continuing operations		**1 435 188**	**1 086 093**
Net profit for the year		**1 435 188**	**1 086 093**
Other comprehensive income			
Change in the value of hedging instruments		(189 756)	–
Actuarial gains/(losses) related to provisions for post-employment benefits		(177)	191
Income tax expense relating to other comprehensive income items	**12.1**	(36)	(36)
Other comprehensive income for the year, net of tax		**(189 969)**	**155**
Total comprehensive income for the year		**1 245 219**	**1 086 248**
Earnings per share (in PLN)	**23**		
– basic and diluted, for profit for the period		0.82	0.62
– basic and diluted, for profit from continuing operations for the period		0.82	0.62

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012	As at 31 December 2011 (*restated figures*)	As at 31 January 2011 (*restated figures*)
ASSETS				
Non-current assets				
Property, plant and equipment	**15**	20 786	11 611	5 425
Intangible assets	**14.1**	53 053	15 487	7 322
Shares in unlisted and listed companies	**16**	20 184 404	20 184 103	16 353 470
Bonds and other debt securities	**35.1**	2 615 000	1 137 040	848 200
Loans granted	**19**	117 802	–	–
Other non-financial assets		6 599	830	1 686
Deferred tax asset	**12.3**	–	37 562	8 586
		22 997 644	**21 386 633**	**17 224 689**
Current assets				
Intangible assets	**14.2**	113 302	33 120	9 773
Inventories	**17**	176 172	41 028	9 238
Corporate income tax receivable		–	852	2 822
Trade and other receivables	**18**	1 460 484	1 062 438	634 531
Bonds and other debt securities	**35.1**	40 261	13 003	383
Derivative instruments	**35.1**	466	–	257
Cash and cash equivalents	**20**	910 421	281 852	527 011
Other non-financial assets	**21**	59 319	4 128	36 553
		2 760 425	**1 436 421**	**1 220 568**
Non-current assets classified as held for sale		–	–	–
TOTAL ASSETS		**25 758 069**	**22 823 054**	**18 445 257**

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2012	As at 31 December 2011 (*restated figures*)	As at 31 January 2011 (*restated figures*)
EQUITY AND LIABILITIES				
Equity				
Issued capital	**22.1**	8 762 747	8 762 747	15 772 945
Reserve capital	**22.3**	7 953 021	7 412 882	475 088
Revaluation reserve from valuation of hedging instruments	**22.4**	(189 756)	–	–
Retained earnings/Accumulated losses	**22.5**	1 515 996	1 165 569	275 340
Total equity		**18 042 008**	**17 341 198**	**16 523 373**
Non-current liabilities				
Interest-bearing loans and borrowings	**27**	5 125 082	4 136 112	845 650
Derivative instruments	**35.1**	150 594	–	–
Provisions for employee benefits	**24**	4 605	3 225	2 986
Liabilities under finance leases	**26.2**	480	990	136
Accruals, deferred income and government grants	**32**	95	–	–
		5 280 856	**4 140 327**	**848 772**
Current liabilities				
Trade and other payables		723 253	326 126	540 702
Current portion of interest-bearing loans and borrowings	**27**	1 392 660	719 380	461 627
Derivative instruments	**35.1**	40 624	80	–
Income tax payable		54 057	33 687	–
Current portion of liabilities under finance leases	**26.2**	510	627	906
Other non-financial liabilities	**31**	93 365	85 702	26 094
Accruals, deferred income and government grants	**32**	10 532	8 223	6 719
Provisions for employee benefits	**24**	1 166	292	269
Other provisions	**25**	119 038	167 412	36 795
		2 435 205	**1 341 529**	**1 073 112**
Total liabilities		**7 716 061**	**5 481 856**	**1 921 884**
TOTAL EQUITY AND LIABILITIES		**25 758 069**	**22 823 054**	**18 445 257**

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Note	Issued capital	Reserve capital	Revaluation capital of hedging instruments	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2012 (*restated figures*)		**8 762 747**	**7 412 882**	–	**1 165 569**	**17 341 198**
Profit for the period		–	–	–	1 435 188	**1 435 188**
Other comprehensive income		–	–	(189 756)	(213)	**(189 969)**
Total comprehensive income for the year		–	–	**(189 756)**	**1 434 975**	**1 245 219**
Appropriation of prior year profits	**22.3**	–	540 139	–	(540 139)	–
Dividends	**13**	–	–	–	(543 290)	**(543 290)**
Accounting for merger with GZE		–	–	–	(1 119)	**(1 119)**
As at 31 December 2012		**8 762 747**	**7 953 021**	**(189 756)**	**1 515 996**	**18 042 008**

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**
Change in accounting policy		–	–	(308)	**(308)**
As at 1 January 2011 (*restated figures*)		**15 772 945**	**475 088**	**275 340**	**16 523 373**
Profit for the period		–	–	1 086 093	**1 086 093**
Other comprehensive income		–	–	155	**155**
Total comprehensive income for the year		–	–	**1 086 248**	**1 086 248**
Appropriation of prior year profits		–	–	–	–
Dividends	**13**	–	(72 404)	(190 478)	**(262 882)**
Reduction of share capital by reducing the par value of shares		(7 010 198)	7 010 198	–	–
Accounting for merger with GZE		–	–	(5 541)	**(5 541)**
As at 31 December 2011 (*restated figures*)		**8 762 747**	**7 412 882**	**1 165 569**	**17 341 198**

Explanatory notes are an integral part of these financial statements.

(in PLN thousand)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Cash flows from operating activities			
Profit/(loss) before taxation		1 479 956	1 107 911
Adjustments for:			
Depreciation and amortization		14 083	5 105
(Gain)/loss on foreign exchange differences		1 435	61
Interest and dividends, net		(1 420 840)	(1 009 815)
(Gain)/loss on investing activities		2 330	(477)
(Increase)/decrease in receivables		(521 824)	(142 171)
(Increase)/decrease in inventories		(135 144)	(31 790)
Increase/(decrease) in payables excluding loans and borrowings		382 772	(334 700)
Change in other non-current and current assets		(133 195)	11 534
Change in deferred income, government grants and accruals		2 262	1 383
Change in provisions		(46 294)	127 477
Income tax paid		(40 841)	(15 804)
Other		(60)	–
Net cash from (used in) operating activities		**(415 360)**	**(281 286)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		191	192
Purchase of property, plant and equipment and intangible assets		(46 503)	(14 069)
Proceeds from sale of bonds, T-bills, other debt securities and investment fund units		1 455 041	134 460
Purchase of bonds, other debt securities and investment fund units		(2 922 999)	(433 302)
Purchase of shares in unlisted and listed companies		(262 131)	(3 426 768)
Dividends received		1 550 613	967 409
Interest received		118 261	54 800
Repayment of loans granted	**18**	416 512	168 000
Loans granted		(396 093)	(348 009)
Other		(946)	–
Net cash from (used in) investing activities		**(88 054)**	**(2 897 287)**
Cash flows from financing activities			
Payment of finance lease liabilities		(597)	(926)
Issue of debt securities	**27.1**	150 000	3 300 000
Proceeds from loans and borrowings	**27.3**	960 000	–
Repayment of loans and borrowings	**27.3**	(51 000)	–
Dividends paid	**13**	(543 290)	(262 882)
Interest paid		(279 378)	(45 506)
Other		(10 793)	(12 735)
Net cash from (used in) financing activities		**224 942**	**2 977 951**
Net increase/(decrease) in cash and cash equivalents		**(278 472)**	**(200 622)**
Net foreign exchange difference		(1 435)	(61)
Cash and cash equivalents at the beginning of the period	**20**	**(115 048)**	**85 574**
Cash and cash equivalents at the end of the period, of which:	**20**	**(393 520)**	**(115 048)**
restricted cash	**20**	269 888	162 214

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 2012 and include comparative data for the year ended 31 December 2011.

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 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,
- Trading in coal and biomass — PKD 46.71.Z,
- Trading in gaseous fuels in a network system — PKD 35.23.Z.

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

2. Basis of preparation of financial statements

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the European Union ("EU"). At the date of authorization of these financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the 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 for the year ended 31 December 2012.

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 2012 were authorized for issue on 12 March 2013.

The Company prepared consolidated financial statements for the year ended 31 December 2012, which were authorized for issue on 12 March 2013.

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:

- The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the EU as at the date of authorization of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases when issued, to present a comprehensive picture,
- 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,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest,
- 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 – in the EU, applicable to annual periods beginning on or after 1 January 2013 at the latest,

- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company plans to implement IFRS 10 starting from the annual period beginning on 1 January 2014,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company plans to implement IFRS 11 starting from the annual period beginning on 1 January 2014,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest. The Company plans to implement IFRS 12 starting from the annual period beginning on 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – 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,
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – in the EU, applicable to annual periods beginning on or after 1 January 2014 at the latest,
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013,
- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – 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,
- *Improvements to IFRSs* (issued in May 2012) – 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 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31 October 2012) – 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 early application of the revised IAS 19 *Employee Benefits*, the Company has not decided to early apply any standard or interpretation that has already been issued but is not yet effective.

Due to the planned date of implementation of IFRS 10, IFRS 11 and IFRS 12 starting from the annual period beginning on 1 January 2014, as at the date of authorization of these financial statements for issue the Company is in the course of analyzing the impact of those IFRSs on the accounting policies applied by the Company. The Management Board believes that the implementation of the other standards and interpretations mentioned above will have no significant impact on the accounting policies applied by the Company.

4. Changes to accounting policies and the effect of merger with GZE S.A.

The accounting policies applied while preparing these financial statements are consistent with those applied in preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2011, except for the following changes:

- **Change to accounting policy resulting from early application of the revised IAS 19 *Employee Benefits***

  The revised IAS 19 *Employee Benefits* is applicable to annual periods beginning on or after 1 January 2013; however, early application is allowed. The Company decided to early apply the revised IAS 19 beginning from 1 January 2012, with an appropriate restatement of the comparable period ended 31 December 2011.

  The most important amendment 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.

  Accordingly, as at 1 January 2011 the Company recognized all actuarial gains and losses and increased the amount of the provision for post-employment employee benefits by PLN 380 thousand. The Company's retained earnings decreased by PLN 308 thousand. As at 31 December 2011, provision for employee benefits increased by PLN 173 thousand and retained earnings decreased by PLN 140 thousand.

- Amendment to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on or after 1 July 2011. The Company has reflected changes to disclosures arising from the adopted amendment to IFRS 7 in the financial statements for the year ended 31 December 2012.

(in PLN thousand)

Restatement of comparable data due to the Company's merger with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A.

TAURON Polska Energia S.A.'s merger with Górnośląski Zakład Elektroenergetyczny S.A., dated 12 June 2012, has been accounted for using the pooling of interests method, which means that the financial statements of the acquiree were aggregated as of 13 December 2011 i.e. the date on which TAURON Polska Energia S.A. acquired control over Górnośląski Zakład Elektroenergetyczny S.A.

The accounting policy adopted by the Company in accounting for combinations of business entities under joint control is presented in Note 5.23.

The effect of the aforementioned changes on the statement of financial position as at 31 December 2011 and as at 1 January 2011 is presented in the tables below:

	As at 31 December 2011 (*authorized figures*)	Change resulting from merger	Change in accounting policy resulting from application of revised IAS 19	**As at 31 December 2011 (*restated figures*)**
Non-current assets	**22 230 228**	**(843 628)**	**33**	**21 386 633**
Property, plant and equipment	11 591	20	–	11 611
Shares in unlisted and listed companies	21 028 076	(843 973)	–	20 184 103
Deferred tax asset	37 204	325	33	37 562
Current assets	**1 340 747**	**95 674**	**–**	**1 436 421**
Corporate income tax receivable	–	852	–	852
Trade and other receivables	991 977	70 461	–	1 062 438
Cash and cash equivalents	258 038	23 814	–	281 852
Other non-financial assets	3 581	547	–	4 128
TOTAL ASSETS	**23 570 975**	**(747 954)**	**33**	**22 823 054**
Equity	**17 344 228**	**(2 890)**	**(140)**	**17 341 198**
Retained earnings/Accumulated losses	1 168 599	(2 890)	(140)	1 165 569
Non-current liabilities	**4 140 154**	**–**	**173**	**4 140 327**
Provisions for employee benefits	3 052	–	173	3 225
Current liabilities	**2 086 593**	**(745 064)**	**–**	**1 341 529**
Trade and other payables	325 848	278	–	326 126
Current portion of interest-bearing loans and borrowings	1 468 066	(748 686)	–	719 380
Other non-financial liabilities	84 778	924	–	85 702
Accruals, deferred income and government grants	8 175	48	–	8 223
Other provisions	165 040	2 372	–	167 412
TOTAL EQUITY AND LIABILITIES	**23 570 975**	**(747 954)**	**33**	**22 823 054**

(in PLN thousand)

	As at 1 January 2011 (*restated figures presented in the financial statements for the year ended 31 December 2011*)	Change in accounting policy resulting from application of revised IAS 19	As at 1 January 2011 (*restated figures*)
Non-current assets	**17 224 617**	**72**	**17 224 689**
Deferred tax asset	8 514	72	8 586
TOTAL ASSETS	**18 445 185**	**72**	**18 445 257**
Total equity	**16 523 681**	**(308)**	**16 523 373**
Retained earnings/Accumulated losses	275 648	(308)	275 340
Non-current liabilities	**848 392**	**380**	**848 772**
Provisions for employee benefits	2 606	380	2 986
TOTAL EQUITY AND LIABILITIES	**18 445 185**	**72**	**18 445 257**

5. Summary of significant accounting policies

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.

The following exchange rates were used for valuation purposes:

Currency	31 December 2012	31 December 2011
EUR	4.0882	4.4168
CZK	0.1630	0.1711

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. 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	4 years
Motor vehicles	2 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.

5.3. Intangible assets

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

- certificates of energy generated using renewable sources, in cogeneration or natural gas, acquired for cancellation to fulfill the obligation for the next years,
- 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 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.

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.

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	4 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. 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

The Company has no assets held to maturity.

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 criteria from IAS 39 are met.

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.

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 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.

5.6. 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.

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.

5.7. Shares in subsidiaries

Shares in subsidiaries are stated at cost less impairment losses, if any. The need to recognize an impairment loss is assessed in accordance with IAS 36 *Impairment of Assets*, by comparing the carrying amount with the higher of the fair value less costs to sell and the value in use.

5.8. Derivative financial instruments

The Company enters into forward currency contracts to hedge against the risks associated with fluctuations in foreign exchange rates.

The Company also enters into forward contracts and futures for the purchase and sale of emission allowances and energy certificates. Transactions concluded and held in order to satisfy internal requirements are excluded from the scope of IAS 39. Transactions concluded and held for speculative purposes meet the definition of a financial instrument and, in accordance with IAS 39, are subject to measurement at the reporting date.

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.

5.9. Hedge accounting

The Company uses derivative financial instruments such as Interest Rate Swaps to hedge against the risks associated with interest rate fluctuations. These transactions are subject to hedge accounting, which includes the use of instruments hedging cash flows associated with issued debentures.

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.

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.

5.10. 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.

The following items are, among others, 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.

5.11. 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, in order to fulfill the cancellation requirement for the current year. On initial recognition, energy certificates are measured at acquisition cost.

5.12. Inventories

Inventories 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 directly charged to costs of materials consumption at the moment of purchase.

5.13. 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.

5.14. 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.

5.15. 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.

5.16. 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. In accordance with the revised IAS 19, actuarial gains and losses for post-employment benefits are recognized in full under other comprehensive income.

- *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 the certificates held at the balance sheet date – in the first turn, at the amounts arising from forward contracts concluded for the purchase of energy certificates to be used to fulfill the obligation for the current year, and then at the market value of the certificates required to fulfill the obligation at the balance sheet date or at the amount of the compensation fee – in accordance with the Company's intention regarding the method of fulfilling the obligation.

  The provision is charged to operating expenses.

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

5.17. Loans 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.

5.18. Trade and other payables

Current trade payables are carried at the amount due and payable. Other payables include wages and salaries and payables for the purchase of fixed assets, which are measured at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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 liability has been extinguished, i.e. when the obligation under the liability is discharged or cancelled or expires.

5.19. 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.

5.20. 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.

5.21. 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.

5.22. Taxes

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.

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

The Company 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.

5.23. Business combinations

The Company uses the pooling of interests method for accounting for business combinations of entities under joint control.

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

In accounting for a business combination using the pooling of interests method, the following items are eliminated:

- share capital of the acquiree,
- intercompany receivables and payables as well as other similar settlements between merging companies,
- revenues and costs of business transactions made during the period for which the financial statements are prepared, which took place between merging companies before their merger,
- gains or losses from business transactions made between merging companies before their merger, included in the values of combined assets and liabilities.

In accounting for a business combination, the Company uses consolidated financial statements as a source of the value of assets and liabilities of the acquired subsidiary. The value of shares held by the acquired company in subsidiaries has been determined by reference to the value of net assets of these entities in the consolidated financial statements as well as the goodwill relating to the given subsidiary.

The difference between the book value of the net assets recognized in the statement of financial position of the acquirer as a result of the merger and the value of the investment previously recognized in the accounting records of the acquirer is recognized in the acquirer’s equity.

5.24. 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.

5.25. Costs

Cost of sales

Cost of sales includes:

- cost of production incurred during the given reporting period, adjusted for the movement in the balance of inventories 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.

5.26. 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.

5.27. Finance income and finance costs

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

- participation in the profits of other enterprises, including mainly dividends,
- interest,
- disposal of financial assets,
- re-measurement of financial instruments, excluding financial assets available for sale, for which the effects of revaluation are recognized under revaluation reserve,
- 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 unwinding of the discount effect),
- 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.

5.28. 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.

5.29. 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

Taking into account the indications that the Company's capitalization has recently been below carrying amount as well as the projected economic slow-down, the Company conducted a test for the impairment of the value of shares included in non-current assets. Shares in unlisted and listed companies account for 78% of total assets.

The test has been conducted based on the present value of estimated cash flows from operations of significant companies, based on detailed projections for 2013–2022 and the estimated residual value. The use of projections exceeding 5 years is mainly due to long-term investment processes in the power industry. The macroeconomic and industry-specific assumptions used in projections are updated whenever any premises for their modification are observed on the market. Any legal developments known at the date of the test are also included in the projections.

The level of the weighted average cost of capital (WACC) during the projection period as used in the calculations is between 8.61%–11.15% at nominal value before tax. WACC is computed taking into account a risk-free interest rate calculated based on the yield on 10-year State Treasury bonds (5.2%) and a premium for the risk specific to operations conducted in the power industry (5%). The rate of increase used in extrapolation of cash flow projections beyond the specific period included in planning is 2.5% and corresponds to the expected long-term inflation rate.

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

- The adopted track of boiler coal prices, other coal assortments and fuel gases.
- The adopted development track of wholesale prices of electricity, taking into account, among others, the impact of the balance between the supply and demand of electricity on the market, fuel costs and costs of purchase of CO_2 allowances;
- Emission caps for 2012 for the particular CGUs according to NAP II for the period 2013–2020 in accordance with the derogation notice sent by the Polish government to the European Commission;
- The volumes of green, red and yellow energy production arising from production capacities along with the track of prices for particular energy certificates;
- The receipt of compensation by eligible generators for early termination of long-term contracts according to financial models valid at the testing dates;
- Regulated income of distribution companies ensuring coverage of reasonable costs and a reasonable return on capital employed. The level of the return depends on the so-called Regulatory Value of Assets;
- The adopted development track of retail electricity prices based on wholesale black energy prices, taking into account excise cost, cost of the obligation to surrender energy certificates for cancellation and an appropriate level of margin;
- Sales volumes taking into account the rise in GDP as well as growing market competition;
- Tariff income of heat generation companies ensuring coverage of reasonable costs and a reasonable return on capital employed;
- Maintenance or extension of the existing non-current assets' production capacities as a result of replacement and development investments.

In addition, the Company conducted a test for the impairment of fixed assets. For this purpose, the Company used the relevant assumptions described in the test for the impairment of the value of shares.

Based on test results, there is no need to recognize any impairment losses against the value of the assets held.

(in PLN thousand)

Sensitivity analyses performed by the Company indicate that the forecasted prices of electricity and the adopted discount rates are the most significant factors affecting the estimated cash flows of significant companies. The Company believes that no reasonably possible and highly probable change of any key assumption used in the analyses will result in the carrying amount of its shares in unlisted and listed companies or the carrying amount of fixed assets exceeding their recoverable amounts.

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.

Key assumptions used by the actuary at the balance sheet to calculate the amount of the obligation are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Discount rate (%)	4.00%	5.75%
Estimated inflation rate (%)	2.50%	2.52%
Employee rotation rate (%)	4.19%	3.46%
Estimated salary increase rate (%)	2.50%	2.52%
Estimated electricity price increase rate (%)	3.50%	3.48%
Estimated increase rate for contribution to the Social Fund (%)	4.00%	5.00%
Remaining average employment period	13.28	14.16

A significant decrease in government bond yields and rates of return on high quality corporate bonds in Poland in the fourth quarter of 2012 resulted in a need of significant reduction of the discount rate adopted for the valuation of provisions for employee benefits.

The sensitivity of the results of the valuation as at 31 December 2012 to a change in basic actuarial assumptions by 0.5 percentage points is presented in the table below:

Provision	Financial discount rate		Planned increases in base amount	
	-0,5 p.p.	+0,5 p.p.	-0,5 p.p.	+0,5 p.p.
Provision for retirement, disability and similar benefits	1 022	873	852	1 005
Employee electricity rates	789	592	590	790
Social Fund	193	148	148	194
Jubilee bonuses	4 136	3 840	3 829	4 185
Provision, total	**6 140**	**5 453**	**5 419**	**6 174**

A decrease of the discount rate by 0.5 percentage points would have caused an increase of the provision for employee benefits as discussed in detail in Note 24 from PLN 5,771 thousand to PLN 6,140 thousand, while an increase of the discount rate by 0.5 percentage points, i.e. the use of a 4.5% rate, would have caused a decrease of the provision to PLN 5,453 thousand.

Deferred tax asset

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.

Due to the tax loss incurred for the year ended 31 December 2012 and tax losses anticipated for the Company in the years 2012–2014, the Company did not recognize the net deferred tax asset of PLN 62,729 thousand, which resulted in the reduction of the net profit by PLN 26,607 thousand and the reduction of the deferred tax included in other comprehensive income at the amount of PLN 36,122 thousand.

The forecasts for the Tax Capital Group (TCG) to which the Company belongs provide for taxable profits in 2012 and in subsequent years; therefore, the deferred tax asset will be realized at the level of the TCG.

Write-downs against inventories

Inventories were measured at the balance sheet date at their net realizable values. The estimates of the net realizable values of property rights related to energy certificates and emission allowances recognized under inventories take into account the decline in their market prices. As a result, the Company recognized write-downs of PLN 34,774 thousand for property rights related to energy certificates and write-downs of PLN 200 thousand for emission allowances.

Intercompany debentures

Intercompany debentures issued by the subsidiaries and acquired by TAURON Polska Energia S.A., with a total nominal value at the balance sheet date of PLN 2,615,000 thousand and maturities up to 1 year, have been classified as long-term instruments. Such classification reflects the nature of the funding being part of the intercompany debentures issue program under which funds are managed in a mid-term and long-term horizon.

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 IRS and forward currency contracts

The fair value of forward currency contracts is determined based on the discounted future cash flows generated by these transactions, calculated based on the difference between the forward price and the transaction price. The forward price is calculated based on the NBP fixing rate and the interest rate curve implied from FX swap transactions.

The fair value of interest rate swaps is determined based on the discounted future cash flows generated by these transactions, calculated based on the difference between the forward price and the transaction price. The forward price is calculated based on the zero-coupon interest rate curve.

Fair value of other 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 35.1.

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 the year ended 31 December 2012, the Company recognized an allowance for trade receivables in the amount of PLN 236 thousand.

During the reporting period, there were no other significant changes in estimates or methodologies for making estimates that would have an impact on the current period or on future periods.

(in PLN thousand)

7. Shares in related entities

As at 31 December 2012, TAURON Polska Energia S.A. held direct interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Direct interest of TAURON in the entity's share capital	Direct interest of TAURON in the entity's governing body
1.	TAURON Wytwarzanie S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	99.79%
2.	TAURON Dystrybucja S.A.[1]	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.68%	99.69%
3.	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Trading in electricity	100.00%	100.00%
4.	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer services	100.00%	100.00%
5.	TAURON Ekoenergia Sp. z o.o.[1]	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	100.00%
6.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	41-400 Mysłowice; Obrzeżna Północna 12	Trading in electricity	100.00%	100.00%
7.	TAURON Ciepło S.A.[1]	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	88.27%	89.12%
8.	TAURON Czech Energy s.r.o.	720 00 Ostrava; Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	100.00%
9.	TAURON Sprzedaż GZE Sp. z o.o.[2]	44-100 Gliwice; ul. Barlickiego 2a	Trading in electricity	99.998%	99.998%
10.	TAURON Obsługa Klienta GZE Sp. z o.o.	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Customer services	100.00%	100.00%

[1] In the year ended 31 December 2012, changes were made to organizational and equity relationships, which mainly included reorganization and resulted from mergers of the companies owned by TAURON Polska Energia S.A., as discussed in detail in Note 16.

[2] TAURON Polska Energia S.A. holds indirectly through its subsidiary TAURON Serwis GZE Sp. z o.o. a 0.002% interest in the share capital and in the governing body of TAURON Sprzedaż GZE Sp. z o.o. As a result the Company holds 100% interests in the share capital and in the governing body of TAURON Sprzedaż GZE Sp. z o.o.

(in PLN thousand)

As at 31 December 2012, TAURON Polska Energia S.A. held indirect interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 December 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 December 2012
1.	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	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%	99.79%	TAURON Wytwarzanie S.A. – 100.00%
2.	Południowy Koncern Węglowy S.A.[1]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.87%	TAURON Wytwarzanie S.A. – 68.01%
3.	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%
4.	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%
5.	TAURON Serwis GZE Sp. z o.o.	44-100 Gliwice; ul. Myśliwska 6	Repair and maintenance of electrical machinery and equipment, electrical installations, construction of power lines	99.68%	TAURON Dystrybucja S.A. – 100.00%	99.69%	TAURON Dystrybucja S.A. – 100.00%

[1] TAURON Polska Energia S.A. is the usufructuary of shares owned by TAURON Wytwarzanie S.A. Under the agreements for usufruct of shares, TAURON Polska Energia S.A. holds a 100% interest 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.

In addition, as at 31 December 2012, TAURON Polska Energia S.A. held indirect interests in the following significant jointly controlled entities:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 December 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 December 2012
1.	Elektrociepłownia Stalowa Wola S.A.	37-450 Stalowa Wola; ul. Energetyków 13	Generation, transmission, distribution and trading of electricity	49.86%	TAURON Wytwarzanie S.A. – 50.00%	49.90%	TAURON Wytwarzanie S.A. – 50.00%
2.	Elektrownia Blachownia Nowa Sp. z o.o.	47-225 Kędzierzyn Koźle ul. Energetyków 11	Generation of electricity	49.86%	TAURON Wytwarzanie S.A. – 50.00%	49.90%	TAURON Wytwarzanie S.A. – 50.00%

Movements in the balances of shares in the period ended 31 December 2012 have been described in detail in Note 16.

8. Composition of the Board of Directors

As at 31 December 2012, 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 29 November 2012, the Company's Vice President Krzysztof Zamasz resigned from his position as Vice President of the Board of Directors with effect from 31 December 2012.

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

9. Seasonality of operations

The Company's operations in the area of trading in electricity are not seasonal in nature, hence the Company's results in this area show no significant fluctuations during the year.

As a result of the Company's holding activities, its finance income may show significant fluctuations due to dividend revenue, which is recognized at the date of the resolution on the payment of dividend, unless the resolution indicates a different date for establishing the right to the dividend.

In 2012, resolutions on the appropriation of the subsidiaries' profits for 2011 and allocation of prior year profits to dividend payments were taken in the 2nd quarter of 2012. In the period ended 31 December 2012, the Company received dividends from subsidiaries in the amount of PLN 1,550,613 thousand, including PLN 270,042 thousand of dividends from subsidiaries received by Górnośląski Zakład Elektroenergetyczny S.A. prior to merger with the Company.

In 2011, resolutions on the appropriation of the subsidiaries' profits for 2010 and allocation of prior year profits to dividend payments were also taken in the 2nd quarter of 2011. Revenue from dividends in 2011 amounted to PLN 1,009,580 thousand.

10. Segment information

10.1. Operating segments

The Company's operations are presented in the following two segments: the "Sales" segment and the "Holding activity" segment.

Segment assets in the "Holding activity" segment comprise:

- shares in subsidiaries;
- debentures acquired from subsidiaries;
- cash pool loan receivables including the cash pool deposit;
- receivables from other loans granted to affiliates.

Segment liabilities in the "Holding activity" segment comprise:

- debentures issued by the Company together with the liability resulting from the valuation of hedging instruments related to the debentures issued;
- loans obtained from the European Investment Bank for the implementation of investments in subsidiaries;
- liabilities arising from loans received under the cash pool service.

The "Holding activity" segment includes intercompany debtors and creditors related to income tax settlements of the companies comprising the Tax Capital Group.

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.

Unallocated expenses include the Company's administrative expenses, as they are incurred for the whole Group and are not directly attributable to operating segments.

EBITDA is understood by the Company to mean the profit/loss from continued operations before taxation, finance income and finance expenses, increased by depreciation/amortization charges.

(in PLN thousand)

Year ended 31 December 2012	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	2 455 294	–	–	**2 455 294**
Sales within the Group	7 434 578	–	–	**7 434 578**
Segment revenue	**9 889 872**	–	–	**9 889 872**
Profit/(loss) of the segment	**151 549**	–	–	**151 549**
Unallocated expenses	–	–	(104 439)	**(104 439)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**151 549**	–	**(104 439)**	**47 110**
Net finance income/(costs)	–	1 449 781	(16 935)	**1 432 846**
Profit/(loss) before income tax	**151 549**	**1 449 781**	**(121 374)**	**1 479 956**
Income tax expense	–	–	(44 768)	**(44 768)**
Net profit/(loss) for the year	**151 549**	**1 449 781**	**(166 142)**	**1 435 188**
EBITDA	**165 632**	–	**(104 439)**	**61 193**
Assets and liabilities				
Segment assets	1 853 929	23 903 676	–	**25 757 605**
Unallocated assets	–	–	464	**464**
Total assets	**1 853 929**	**23 903 676**	**464**	**25 758 069**
Segment liabilities	934 851	6 720 558	–	**7 655 409**
Unallocated liabilities	–	–	60 652	**60 652**
Total liabilities	**934 851**	**6 720 558**	**60 652**	**7 716 061**
Other segment information				
Capital expenditure*	61 132	–	–	**61 132**
Depreciation/amortization	(14 083)	–	–	**(14 083)**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets.*

(in PLN thousand)

Year ended 31 December 2011 (*restated figures*)	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 914 505	–	–	**1 914 505**
Sales within the Group	6 930 643	–	–	**6 930 643**
Segment revenue	**8 845 148**	–	–	**8 845 148**
Profit/(loss) of the segment	**161 374**	–	–	**161 374**
Unallocated expenses	–	–	(79 544)	**(79 544)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**161 374**	–	**(79 544)**	**81 830**
Net finance income (costs)	–	1 023 446	2 635	**1 026 081**
Profit/(loss) before income tax	**161 374**	**1 023 446**	**(76 909)**	**1 107 911**
Income tax expense	–	–	(21 818)	**(21 818)**
Net profit/(loss) for the year	**161 374**	**1 023 446**	**(98 727)**	**1 086 093**
EBITDA	**166 479**	–	**(79 544)**	**86 935**
Assets and liabilities				
Segment assets	1 144 398	21 640 239	–	**22 784 637**
Unallocated assets	–	–	38 417	**38 417**
Total assets	**1 144 398**	**21 640 239**	**38 417**	**22 823 054**
Segment liabilities	582 754	4 860 992	–	**5 443 746**
Unallocated liabilities	–	–	38 110	**38 110**
Total liabilities	**582 754**	**4 860 992**	**38 110**	**5 481 856**
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.*

In the year ended 31 December 2012, the Company's revenue from its main client, amounting to the total of PLN 5,915,112 thousand, accounted for 60% of the Company's total revenue in the "Sales" segment.

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 "Sales" segment.

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 2012 and 31 December 2011 amounted to PLN 540,290 thousand and PLN 472,710 thousand, respectively.

(in PLN thousand)

11. Revenues and expenses

11.1. Sales revenue

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Sale of goods for resale, finished goods and materials, of which:	**9 820 219**	**8 808 622**
Electricity	9 298 615	8 354 930
Gas	6 934	–
Property rights arising from energy certificates	127 579	284
Emission allowances	376 240	436 503
Other	10 851	16 905
Rendering of services, of which:	**69 643**	**36 522**
Trading income	51 993	28 385
Other	17 650	8 137
Other income	**10**	**4**
Total sales revenue	**9 889 872**	**8 845 148**

Starting from 2012, the Company acts as an agent in transactions of purchase of biomass and coal for the Group companies in the Generation and Heat Segment. The Company purchases raw materials from external companies as well as from the TAURON Group companies, whereas all of the sales are made to the Group companies. The Company recognizes revenue only from agency services – organization of supplies.

In the year ended 31 December 2012, the value of raw materials purchased and simultaneously sold as a result of the above-mentioned transactions was PLN 1,719,833 thousand, while revenue recognized by the Company on agency services amounted to PLN 26,635 thousand.

11.2. Finance income

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Income from financial instruments, of which:	**1 761 125**	**1 120 165**
Interest income	206 278	109 644
Dividends	1 550 613	1 009 580
Foreign exchange differences	–	884
Net income from realized derivative instruments	4 234	–
Other finance income	–	57
Other finance income	**3 853**	**2 012**
Total finance income	**1 764 978**	**1 122 177**

The increase in finance income in 2012 compared with 2011 is mainly due to higher income from dividends due from the subsidiaries. In 2012, dividend income amounted to PLN 1,550,613 thousand, while in 2011 it was PLN 1,009,580 thousand.

In addition, the increase in finance income in 2012 results from the increase of interest income from debentures acquired from subsidiaries. In 2012, interest income amounted to PLN 145,081 thousand, while in 2011 it was PLN 55,379 thousand.

(in PLN thousand)

11.3. Finance costs

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Financial instrument costs, of which:	**(330 103)**	**(95 502)**
Interest costs	(320 744)	(90 794)
Foreign exchange losses	(1 370)	–
Remeasurement of derivatives	(916)	(337)
Net costs from realized derivatives	–	(926)
Commissions	(7 073)	(3 445)
Other finance costs	**(2 029)**	**(594)**
Total finance costs	**(332 132)**	**(96 096)**

The PLN 236,036 thousand increase in finance costs in the year ended 31 December 2012 compared with the comparative period mainly results from interest expense on the debentures issued in December 2011 and in January 2012, as discussed in Note 27.1. Interest expense on debentures issued in 2012 amounted to PLN 249,112 thousand, while in 2011 it was PLN 55,838 thousand.

11.4. Costs by type

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(14 083)	(5 105)
Impairment of property, plant and equipment and intangible assets	10 399	(10 399)
Materials and energy	(2 888)	(2 391)
Distribution services	(2 366)	(1 913)
Consultancy services	(11 330)	(10 680)
Other external services	(15 793)	(12 203)
Taxes and charges	(16 177)	(13 681)
Employee benefits expense	(66 313)	(58 271)
Inventory write-downs	–	205
Allowance for doubtful debts	(236)	–
Advertising expenses	(24 301)	(15 720)
Other	(3 082)	(2 288)
Total costs by type	**(146 170)**	**(132 446)**
Change in inventories, prepayments, accruals and deferred income	(2 361)	2 255
Cost of goods produced for internal purposes	–	143
Selling and distribution expenses	27 142	22 850
Administrative expenses	104 439	79 544
Cost of goods for resale and materials sold	(9 694 005)	(8 635 356)
Cost of sales	**(9 710 955)**	**(8 663 010)**

The increase in depreciation expense in the year ended 31 December 2012 in relation to the comparative period results mainly from the full write-off of low-cost items of property, plant and equipment acquired in the 1st quarter of 2012 and the increase in the value of intangible assets made available in the 4th quarter of 2012.

The reversal of the write-down recognized against property rights included in intangible assets had no effect on the result for 2012, as simultaneously the Company reversed the provision for cancellation of energy certificates. In accordance with the accounting policy, the portion of the provision covered by the energy certificates held is recognized at the value of the certificates held, which means that recognition of a write-down resulted in the reduction of the cost of recognition of the provision in 2011 and the method of accounting for it in 2012. In the 1st quarter of 2012, energy certificates covered by the impairment write-down were surrendered for cancellation, as a result of which the impairment write-down recognized in 2011 in the amount of PLN 10,399 thousand was utilized.

The increase in administrative expenses in the year ended 31 December 2012 in relation to the comparative period mainly results from the increase in depreciation expense (as discussed above) and advertising expenses.

(in PLN thousand)

11.5. Employee benefits expenses

	Year ended 31 December 2012	Year ended 31 December 2011 (*restated figures*)
Wages and salaries	(50 357)	(45 367)
Social security costs	(6 545)	(5 325)
Jubilee bonuses	(1 935)	(413)
Transfers to the Social Fund	(332)	(631)
Post-employment benefits expenses, of which:	(3 483)	(3 183)
Retirement, disability and similar benefits	(191)	(187)
Special electricity rates and charges	(70)	(66)
Social Fund	(26)	(24)
Costs of employee retirement plans	(3 196)	(2 906)
Other employee benefits expenses	(3 661)	(3 352)
Employee benefits expenses, of which:	**(66 313)**	**(58 271)**
Items included in cost of sales	(11 339)	(8 314)
Items included in selling and distribution expenses	(7 545)	(7 353)
Movement in stocks of finished goods	(304)	(2 844)
Items included in administrative expenses	(47 125)	(39 760)

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 2012	Year ended 31 December 2011 (*restated figures*)
Current income tax	**(7 242)**	**(50 970)**
Current income tax expense	(6 978)	(51 323)
Adjustments to current income tax from previous years	(264)	353
Deferred tax	**(37 526)**	**29 152**
Income tax expense	**(44 768)**	**(21 818)**
Income tax expense in the statement of comprehensive income	**(36)**	**(36)**

Current income tax expense for the year ended 31 December 2012, amounting to PLN 7,242 thousand, results from the dividend tax of PLN 4,201 thousand, the income tax of the acquiree, GZE S.A., for the period up to the date of merger with the Company, amounting to PLN 2,777 thousand, and corrections of the Company's income tax for 2011, amounting to PLN 264 thousand.

(in PLN thousand)

12.2. Reconciliation of the effective income tax rate

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Profit/(loss) before tax from continuing operations	**1 479 956**	**1 107 911**
Profit/(loss) before tax	**1 479 956**	**1 107 911**
Tax at Poland's statutory tax rate of 19%	**(281 192)**	**(210 503)**
Adjustments to income tax from previous years	(264)	353
Tax resulting from tax non-deductible costs, of which:	(3 554)	(3 956)
National Disabled Persons Rehabilitation Fund (PFRON)	(84)	(42)
Donations	(48)	(51)
Expenses not allowable for tax purposes under Article 15 Clause 2 of the Corporate Income Tax Act	(1 842)	(2 710)
Other	(1 580)	(1 153)
Tax resulting from income not included in taxable profit, of which:	294 616	192 288
Dividends	294 616	191 820
Reversal of non-tax provisions and write-downs	–	468
Unrecognized deferred tax asset	(26 604)	–
Tax losses utilized by other companies in the TCG	(23 811)	–
Other	(1 182)	
Income tax expense acquired under merger with GZE S.A.	(2 777)	–
Tax at the effective tax rate of 3.0% (2011 2.0%)	**(44 768)**	**(21 818)**
Income tax expense in profit/(loss)	(44 768)	(21 818)

12.3. Deferred income tax

Deferred income tax results from the following items:

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	2 468	1 211
– interest receivable on bonds	7 650	571
– difference between tax base and carrying amount of financial assets	1 061	57
– other	530	37
Deferred tax liability	**11 709**	**1 876**

(in PLN thousand)

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Deferred tax assets		
– provisions for the obligation to surrender energy certificates	22 468	31 323
– other provisions	3 240	2 567
– difference between tax base and carrying amount of fixed and intangible assets	708	2 150
– difference between tax base and carrying value of inventories	6 645	–
– difference between tax base and carrying amount of financial liabilities	3 874	2 734
– valuation of hedging instruments	36 227	–
– other accrued expenses	886	597
– other	390	67
Deferred tax assets	**74 438**	**39 438**
Deferred tax assets recognized in profit or loss	38 315	39 405
Deferred tax assets recognized in statement of comprehensive income	36 123	33
Deferred tax asset, net	–	**37 562**
Unrecognized deferred tax assets	62 729	–
Recognized deferred tax assets	11 709	37 562
Deferred tax in the statement of financial position	–	**37 562**

The reasons for not recognizing the deferred tax asset in the statement of financial position are presented in Note 6.

12.4. Tax Capital Group

As at 31 December 2012, the Tax Capital Group had a corporate income tax liability amounting to PLN 53,631 thousand. At the same time, due to the Company's settlements as Representing Company with the subsidiaries being part of the Tax Capital Group, the Company had a liability to these subsidiaries arising from income tax overpayment of PLN 11,048 thousand, which is presented in the statement of financial position under "Trade and other payables", as well as a receivable from the subsidiaries being part of the Tax Capital Group arising from tax underpayment of PLN 65,870 thousand, which is presented in the statement of financial position under "Trade and other receivables".

13. Dividends paid and proposed

As at the date of authorization of these financial statements for issue, no decision has yet been taken on the proposed payment of dividend from the profit for the year 2012.

On 24 April 2012, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 543,290 thousand for dividends to the Company's shareholders, which gives PLN 0.31 per share. The dividend was paid from the Company's net profit for 2011 amounting to PLN 1,083,429 thousand. The dividend day was set at 2 July 2012 and the dividend payment date at 20 July 2012. As at the balance sheet date, the above-mentioned dividend liability was fully paid off.

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 gave PLN 0.15 per share. This amount was 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 represented part of the Company's net profit for 2009 allocated to the reserve capital.

(in PLN thousand)

14. Intangible assets

14.1. Non-current intangible assets

Non-current intangible assets for the year ended 31 December 2012

	Software and licenses	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	**18 175**	**724**	**620**	**19 519**
Direct purchase	–	–	44 502	**44 502**
Allocation of intangible assets not made available for use	40 861	380	(41 241)	–
Closing balance	**59 036**	**1 104**	**3 881**	**64 021**
ACCUMULATED AMORTIZATION				
Opening balance	**(3 620)**	**(412)**	–	**(4 032)**
Amortization for the period	(6 790)	(146)	–	**(6 936)**
Closing balance	**(10 410)**	**(558)**	–	**(10 968)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**14 555**	**312**	**620**	**15 487**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**48 626**	**546**	**3 881**	**53 053**

In the year ended 31 December 2012, the Company made available for use software and licenses with a total value of PLN 40,861 thousand. The most significant purchases included SAP licenses, Microsoft licenses, Oracle licenses and software, and a support system for purchases' organization. They are to be used by the Company for its internal purposes as well as to make them available for use by the TAURON Group companies as part of consolidation of license agreements. Future benefits will be generated by way of earning revenue from granting sublicenses or from the right to use the software.

Non-current intangible assets for the year ended 31 December 2011

	Software and licenses	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**
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**

(in PLN thousand)

14.2. Current intangible assets

Current property rights arising from energy certificates

	Year ended 31 December 2012	Year ended 31 December 2011
COST		
Opening balance	**43 519**	**9 773**
Direct purchase	117 697	41 384
Cancellation of energy certificates	(47 914)	(7 638)
Closing balance	**113 302**	**43 519**
IMPAIRMENT ALLOWANCES		
Opening balance	**(10 399)**	–
Increase of impairment allowances	–	(10 399)
Decrease of impairment allowances	10 399	–
Closing balance	–	**(10 399)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**33 120**	**9 773**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**113 302**	**33 120**

The decrease of the impairment write-down for property rights arising from energy certificates has been described in detail in Note 11.4.

(in PLN thousand)

15. Property, plant and equipment

Year ended 31 December 2012

	Right of perpetual usufruct of land	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
Cost							
Opening balance	**20**	**11 305**	**4 915**	**2 088**	**18 328**	**899**	**19 227**
Direct purchase	–	–	–	–	–	16 630	**16 630**
Allocation of assets under construction	–	8 626	–	8 903	**17 529**	(17 529)	–
Sale, disposal	(20)	(15)	(783)	–	**(818)**	–	**(818)**
Liquidation	–	(45)	–	–	**(45)**	–	**(45)**
Closing balance	–	**19 871**	**4 132**	**10 991**	**34 994**	–	**34 994**
ACUMULATED DEPRECIATION							
Opening balance	–	**(4 154)**	**(1 745)**	**(1 717)**	**(7 616)**	–	**(7 616)**
Depreciation for the period	–	(2 830)	(1 140)	(3 177)	**(7 147)**	–	**(7 147)**
Sale, disposal	–	15	495	–	**510**	–	**510**
Liquidation	–	45	–	–	**45**	–	**45**
Closing balance	–	**(6 924)**	**(2 390)**	**(4 894)**	**(14 208)**	–	**(14 208)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**20**	**7 151**	**3 170**	**371**	**10 712**	**899**	**11 611**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	–	**12 947**	**1 742**	**6 097**	**20 786**	–	**20 786**

Year ended 31 December 2011 *(restated figures)*

	Right of perpetual usufruct of land	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
Cost							
Opening balance	–	**5 275**	**3 254**	**1 962**	**10 491**	**297**	**10 788**
Direct purchase	–	–	–	–	–	7 722	**7 722**
Allocation of assets under construction	–	6 371	609	140	**7 120**	(7 120)	–
Sale, disposal	–	(324)	(448)	–	**(772)**	–	**(772)**
Legal merger with a subsidiary	20	–	–	–	**20**	–	**20**
Donations and free-of-charge transfers	–	(12)	–	–	**(12)**	–	**(12)**
Liquidation	–	(5)	–	(14)	**(19)**	–	**(19)**
Received for use under lease agreements	–	–	1 500	–	**1 500**	–	**1 500**
Closing balance	**20**	**11 305**	**4 915**	**2 088**	**18 328**	**899**	**19 227**
ACUMULATED DEPRECIATION							
Opening balance	–	**(2 624)**	**(1 362)**	**(1 377)**	**(5 363)**	–	**(5 363)**
Depreciation for the period	–	(1 865)	(667)	(354)	**(2 886)**	–	**(2 886)**
Sale, disposal	–	318	284	–	**602**	–	**602**
Donations and free-of-charge transfers	–	12	–	–	**12**	–	**12**
Liquidation	–	5	–	14	**19**	–	**19**
Closing balance	–	**(4 154)**	**(1 745)**	**(1 717)**	**(7 616)**	–	**(7 616)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	–	**2 651**	**1 892**	**585**	**5 128**	**297**	**5 425**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**20**	**7 151**	**3 170**	**371**	**10 712**	**899**	**11 611**

(in PLN thousand)

16. Shares in unlisted and listed companies

Movements in the balance of long-term investments in the period from 1 January to 31 December 2012

No.	Company	Opening balance (*restated figures*)	Increases/ Decreases	Closing balance
1.	TAURON Wytwarzanie S.A.	8 118 182	–	**8 118 182**
2.	TAURON Dystrybucja S.A.	5 914 201	3 597 427	**9 511 628**
3.	TAURON Ciepło S.A.	507 880	265 454	**773 334**
4.	Elektrociepłownia EC Nowa Sp z o.o. (currently TAURON Ciepło S.A.)	217 413	(217 413)	–
5.	Elektrociepłownia Tychy S.A. (currently TAURON Ciepło S.A.)	40 862	(40 862)	–
6.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o. (currently TAURON Ciepło S.A.)	6 959	(6 959)	–
7.	TAURON Ekoenergia Sp. z o.o.	897 069	42 696	**939 765**
8.	TAURON Sprzedaż Sp. z o.o.	613 505	–	**613 505**
9.	TAURON Obsługa Klienta Sp. z o.o.	26 308	–	**26 308**
10.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	49 056	–	**49 056**
11.	TAURON Ekoserwis Sp. z o.o. (formerly Zespół Elektrowni Wodnych Rożnów Sp. z o.o.)	931	(931)	–
12.	TAURON Czech Energy s.r.o.	4 223	–	**4 223**
13.	TAURON Dystrybucja GZE S.A.	3 572 747	(3 572 747)	–
14.	TAURON Serwis GZE Sp. z o.o.	24 679	(24 679)	–
15.	TAURON Sprzedaż GZE Sp. z o.o.	129 821	–	**129 821**
16.	TAURON Ekonenergia GZE Sp. z o.o.	41 765	(41 765)	–
17.	TAURON Obsługa Klienta GZE Sp. z o.o.	13 523	–	**13 523**
18.	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	**4 935**
19.	CONCORDE INVESTISSEMENT S.A.	12	–	**12**
20.	CC Poland Plus Sp. z o.o.	12	–	**12**
21.	Energopower Sp. z o.o.	5	20	**25**
22.	Enpower Service Sp. z o.o.	5	20	**25**
23.	Enpower Sp. z o.o.	5	20	**25**
24.	Poen Sp. z o.o.	5	20	**25**
	Total	**20 184 103**	**301**	**20 184 404**

Movements in the balance of long-term investments which took place in the year ended 31 December 2012 were mainly due to the reorganization of the Group and resulted from mergers of the companies owned by TAURON Polska Energia S.A.

The most significant movements in the balance of long-term investments for the period ended 31 December 2012 were due to the following events:

Merger of TAURON Polska Energia S.A. with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A.

On 12 June 2012, the District Court in Katowice registered the merger of TAURON Polska Energia S.A. with its subsidiary, Górnośląski Zakład Elektroenergetyczny S.A. The merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a transfer of all of the assets of Górnośląski Zakład Elektroenergetyczny S.A. to its sole owner i.e. TAURON Polska Energia S.A.

As a result of the merger, the Company acquired shares in the following significant companies that were previously owned by Górnośląski Zakład Elektroenergetyczny S.A.:

- TAURON Dystrybucja GZE S.A. (currently TAURON Dystrybucja S.A.),
- TAURON Serwis GZE Sp. z o.o.,
- TAURON Sprzedaż GZE Sp. z o.o.,
- TAURON Ekoenergia GZE Sp. z o.o. (currently TAURON Ekoenergia Sp. z o.o.),
- TAURON Obsługa Klienta GZE Sp. z o.o.,
- TAURON Wytwarzanie GZE Sp. z o.o.

The merger and the method of accounting for it are described in detail in Note 33.

Merger of subsidiaries from the Heat Segment

On 30 April 2012, merger of TAURON Ciepło S.A. – acquirer with the following acquirees: Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o. was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a transfer of all of the assets of the acquired companies to TAURON Ciepło S.A., in exchange for shares issued by TAURON Ciepło S.A. to the shareholders of Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o. The exchange ratio was determined as follows:

- 1 share of Elektrociepłownia Tychy S.A. corresponds to 1,364 shares of TAURON Ciepło S.A.,
- 1 share of Elektrociepłownia EC Nowa Sp. z o.o. corresponds to 60,170 shares of TAURON Ciepło S.A.,
- 1 share of Energetyka Cieplna w Kamiennej Górze Sp. z o.o. corresponds to 88,837 shares of TAURON Ciepło S.A.

The share capital of TAURON Ciepło S.A. was increased from PLN 444,664 thousand to PLN 865,937 thousand, i.e. by PLN 421,273 thousand.

TAURON Polska Energia S.A. reclassified the book value of investments in the following companies: Elektrociepłownia Tychy S.A. (PLN 40,862 thousand), Elektrociepłownia EC Nowa Sp. z o.o. (PLN 217,413 thousand) and EC w Kamiennej Górze Sp. z o.o. (PLN 6,959 thousand) to the value of the investment in TAURON Ciepło S.A. (PLN 265,234 thousand in total).

Merger of TAURON Dystrybucja S.A. with TAURON Dystrybucja GZE S.A. and TAURON Ekoenergia Sp. z o.o. with TAURON Ekoenergia GZE Sp. z o.o.

On 1 October 2012, merger of the following companies: TAURON Dystrybucja S.A. (acquirer) and TAURON Dystrybucja GZE S.A. (acquiree) and TAURON Ekoenergia Sp. z o.o. (acquirer) and TAURON Ekoenergia GZE Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a take-over of all of the assets of the acquiree by the acquirer.

Accordingly, TAURON Polska Energia S.A. reclassified the book value of the investment in TAURON Dystrybucja GZE S.A. to the value of the investment in TAURON Dystrybucja S.A., amounting to PLN 3,572,747 thousand, and the value of the investment in TAURON Ekoenergia GZE Sp. z o.o. to the value of the investment in TAURON Ekoenergia Sp. z o.o., amounting to PLN 41,765 thousand.

Contribution of shares in TAURON Ekoserwis Sp. z o.o. to TAURON Ekoenergia Sp. z o.o.

On 18 April 2012, the District Court for Wrocław–Fabryczna in Wrocław entered the increase of the share capital of TAURON Ekoenergia Sp. z o.o. from PLN 536,070 thousand to PLN 537,733 thousand, i.e. by PLN 1,663 thousand. The share capital was increased as a result of making an in-kind contribution by TAURON Polska Energia S.A. in the form of 100% of shares in ZEW Rożnów Sp. z o.o. (now: TAURON Ekoserwis Sp. z o.o.) in order to cover new shares in the share capital. The agreement for the transfer of the contribution in kind was signed on 4 April 2012.

TAURON Polska Energia S.A. reclassified the book value of its shares in ZEW Rożnów Sp. z o.o. (now: TAURON Ekoserwis Sp. z o.o.) of PLN 931 thousand to the value of shares in TAURON Ekoenergia Sp. z o.o.

Contribution of shares in TAURON Serwis GZE Sp. z o.o. to TAURON Dystrybucja S.A.

On 7 December 2012, agreements were signed for the transfer of a contribution in kind and for the acquisition of registered "I" class shares in the increased share capital of TAURON Dystrybucja S.A. by TAURON Polska Energia S.A. The share capital of TAURON Dystrybucja S.A. was increased from PLN 251,176 thousand to PLN 256,067 thousand, i.e. by PLN 4,891 thousand. The share capital increase was effected by way of a new issue of 489,111 thousand registered "I" class shares with a nominal value of PLN 0.01 and an issue price of PLN 0.40, all of which were acquired by TAURON Polska Energia S.A. in exchange for an in-kind contribution of 499 shares in TAURON Serwis GZE Sp. z o.o., with a fair value of PLN 195,644 thousand.

TAURON Polska Energia S.A. reclassified the book value of the shares in TAURON Serwis GZE Sp. z o.o. amounting to PLN 24,679 thousand to the value of shares in TAURON Dystrybucja S.A.

Purchase of the shares of TAURON Ciepło S.A.

On 24 August 2012, TAURON Polska Energia S.A. acquired from the State Treasury 50,803,138 shares of its subsidiary, TAURON Ciepło S.A., which accounted for 0.06% of the share capital of TAURON Ciepło S.A., for PLN 220 thousand.

(in PLN thousand)

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 (*authorized figures*)	Change resulting from merger with GZE S.A.	Closing balance (*restated figures*)
1.	TAURON Wytwarzanie S.A.	7 562 250	555 932	**8 118 182**	–	**8 118 182**
2.	ENION S.A. (currently TAURON Dystrybucja S.A.)	3 356 415	(3 356 415)	–	–	–
3.	TAURON Dystrybucja S.A.	2 557 110	3 357 091	**5 914 201**	–	**5 914 201**
4.	Elektrownia Stalowa Wola S.A. (currently TAURON Wytwarzanie S.A.)	555 697	(555 697)	–	–	–
5.	Elektrociepłownia Tychy S.A. (currently TAURON Ciepło S.A.)	40 862	–	**40 862**	–	**40 862**
6.	TAURON Ciepło S.A.	345 285	162 595	**507 880**	–	**507 880**
7.	TAURON Obsługa Klienta Sp. z o.o.	345 015	(318 707)	**26 308**	–	**26 308**
8.	TAURON Ekoenergia Sp. z o.o.	897 069	–	**897 069**	–	**897 069**
9.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o. (currently TAURON Ciepło S.A.)	6 959	–	**6 959**	–	**6 959**
10.	Elektrociepłownia EC Nowa Sp. z o.o. (currently TAURON Ciepło S.A.)	217 413	–	**217 413**	–	**217 413**
11.	TAURON Sprzedaż Sp. z o.o.	294 798	318 707	**613 505**	–	**613 505**
12.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	6 886	42 170	**49 056**	–	**49 056**
13.	Zespół Elektrowni Wodnych Rożnów Sp. z o.o. (currently TAURON Ekoserwis Sp. z o.o.)	931	–	**931**	–	**931**
14.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. (currently TAURON Ciepło S.A.)	162 557	(162 557)	–	–	–
15.	TAURON Czech Energy s.r.o.	4 223	–	**4 223**	–	**4 223**
16.	Górnośląski Zakład Elektroenergetyczny S.A.	–	4 631 455	**4 631 455**	(4 631 455)	–
17.	TAURON Dystrybucja GZE S.A.	–	–	–	3 572 747	**3 572 747**
18.	TAURON Serwis GZE Sp. z o.o.	–	–	–	24 679	**24 679**
19.	TAURON Sprzedaż GZE Sp. z o.o.	–	–	–	129 821	**129 821**
20.	TAURON Ekonenergia GZE Sp. z o.o.	–	–	–	41 765	**41 765**
21.	TAURON Obsługa Klienta GZE Sp. z o.o.	–	–	–	13 523	**13 523**
22.	TAURON Wytwarzanie GZE Sp. z o.o.	–	–	–	4 935	**4 935**
23.	CONCORDE INVESTISSEMENT S.A.	–	–	–	12	**12**
24.	CC Poland Plus Sp. z o.o.	–	12	**12**	–	**12**
25.	Energopower Sp. z o.o.	–	5	**5**	–	**5**
26.	Enpower Service Sp. z o.o.	–	5	**5**	–	**5**
27.	Enpower Sp. z o.o.	–	5	**5**	–	**5**
28.	Poen Sp. z o.o.	–	5	**5**	–	**5**
	Total	**16 353 470**	**4 674 606**	**21 028 076**	**(843 973)**	**20 184 103**

As a result of the Company's merger with Górnośląski Zakład Elektroenergetyczny S.A. and the accounting for the merger using the pooling of interests method at the date of acquisition of control, i.e. 13 December 2011, the cost of the shares in GZE S.A. was derecognized. Shares in the companies held by GZE S.A. were recognized in the Company's financial statements at the amount of its share in the net assets of these companies measured at fair value.

(in PLN thousand)

17. Inventories

	As at 31 December 2012	As at 31 December 2011
Historical cost		
Property rights arising from energy certificates	208 279	39 396
Greenhouse gas emission allowances	2 434	–
Merchandise	13	1 451
Materials	420	181
Total	**211 146**	**41 028**
Write-downs to net realizable value		
Property rights arising from energy certificates	(34 774)	–
Emission allowances	(200)	–
Total	**(34 974)**	–
Net realizable value		
Property rights arising from energy certificates	173 505	39 396
Greenhouse gas emission allowances	2 234	–
Merchandise	13	1 451
Materials	420	181
Total	**176 172**	**41 028**

The increase of the value of inventories is mainly due to the purchase of 925,000 property rights related to renewable energy certificates with a value of PLN 193,574 thousand from TAURON Wytwarzanie S.A. in December 2012.

18. Trade and other receivables

As at 31 December 2012, the balance of trade and other receivables amounted to PLN 1,460,484 thousand and included:

- trade receivables amounting to PLN 1,108,553 thousand;
- loans granted with accrued interest of PLN 114,935 thousand, of which PLN 114,924 thousand is a loan arising from the purchase of CO_2 emission allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back, as discussed in detail below;
- accrued interest on cash pool loans amounting to PLN 62 thousand;
- other financial receivables of PLN 236,934 thousand, the largest items of which were as follows: a receivable of PLN 134,680 thousand resulting from an overpayment of the loan arising from the purchase of CO_2 emission allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back (returned by TAURON Wytwarzanie S.A. to the Company's bank account on 23 January 2013), a receivable from the subsidiaries making up the Tax Capital Group, arising from an underpayment of tax of PLN 65,870 thousand, as discussed in detail in Note 12.4, and cash paid in as collateral of PLN 31,356 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 that there is no additional credit risk that would exceed the doubtful debts allowance recognized for the Company's trade receivables.

As at 31 December 2012, the largest balance of trade receivables consists of the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 443,082 thousand.

As at 31 December 2011, the largest balance of trade receivables consisted of the receivables from TAURON Sprzedaż Sp. z o.o. amounting to PLN 405,960 thousand.

The loan of PLN 114,924 thousand results from the agreement dated 13 December 2012 under which TAURON Polska Energia S.A. purchased 7,000,000 units of CO_2 emission allowances from TAURON Wytwarzanie S.A. at an agreed price of 16.37 PLN/EUA, for the total amount of PLN 114,590 thousand. At the same time, the Company committed to sell back the same amount of allowances on 13 March 2013 at an agreed price of 16.70 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 334 thousand. The expenditures incurred 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 PLN thousand)

In the year ended 31 December 2012, the following loans were repaid (in total PLN 416,512 thousand):

- two loans granted to TAURON Wytwarzanie S.A. under loan agreements signed in December 2011, which resulted from the purchase of CO_2 allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back and amounted to PLN 180,009 thousand and PLN 142,003 thousand. Cash in the amount of PLN 142,003 thousand was transferred to the company in 2012, while the amount of PLN 180,009 thousand was transferred to it in 2011;
- the loan granted to TAURON Sprzedaż GZE Sp. z o.o. and the loan granted to TAURON Ekoenergia GZE Sp. z o.o. in the total amount of PLN 70,000 thousand;
- the loan granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 24,500 thousand.

Related party transactions and balances are presented in Note 34.

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

Trade and other receivables as at 31 December 2012

	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	1 341 266	4 212	7	–	271	339	**1 346 095**
Cash Pool	62	–	–	–	–	–	**62**
Other loans	114 935	–	–	–	–	–	**114 935**
Total	**1 456 263**	**4 212**	**7**	**–**	**271**	**339**	**1 461 092**
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	(269)	(339)	**(608)**
Total	**–**	**–**	**–**	**–**	**(269)**	**(339)**	**(608)**
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	1 341 266	4 212	7	–	2	–	**1 345 487**
Cash Pool	62	–	–	–	–	–	**62**
Other loans	114 935	–	–	–	–	–	**114 935**
Total	**1 456 263**	**4 212**	**7**	**–**	**2**	**–**	**1 460 484**

Trade and other receivables as at 31 December 2011

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down							
Trade and other financial receivables	756 338	–	–	–	6	306	**756 650**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	250 438	–	–	–	–	–	**250 438**
Total	**1 062 432**	**–**	**–**	**–**	**6**	**306**	**1 062 744**
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	–	(306)	**(306)**
Total	**–**	**–**	**–**	**–**	**–**	**(306)**	**(306)**
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	756 338	–	–	–	6	–	**756 344**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	250 438	–	–	–	–	–	**250 438**
Total	**1 062 432**	**–**	**–**	**–**	**6**	**–**	**1 062 438**

19. Long-term receivables

Long-term receivables of PLN 117,802 thousand include a loan granted to Elektrociepłownia Stalowa Wola S.A. together with accrued interest.

Under the following two agreements concluded on 20 June 2012 between PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A. in order to meet the conditions for granting funds to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank, TAURON Polska Energia S.A. granted Elektrociepłownia Stalowa Wola S.A. two loans in the total amount of PLN 139,500 thousand:

- A syndicated loan agreement signed in order to provide funding for the implementation of an investment project involving construction and operation of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola together with auxiliary installations. The syndicated loan agreement means that the repayment of loan and interest will be deferred and subordinated to the repayment of the amounts due to the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 152,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 115,000 thousand. The Company accrued interest due on the loan in the amount of PLN 2,802 thousand. The loan is to be fully repaid no later than by the end of 2032;
- The VAT loan agreement, which will provide funds for the funding of output VAT related to the costs of implementation of the investment project involving construction of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola, incurred at the stage of designing, constructing and making the investment available for use. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 20,000 thousand. The loan is renewable. The timetable of its utilization is consistent with the planned dates for payments related to the implementation of the investment project. The balance of utilization of the loan is decreased by the funds obtained from the VAT refund. Final repayment is due 6 months after the date of completion of the investment project. In the 2nd quarter of 2012, the Company transferred funds PLN 13,000 thousand to Elektrociepłownia Stalowa Wola. In the 3rd quarter of 2012, Elektrociepłownia Stalowa Wola S.A. repaid that amount together with accrued interest. In the 4th quarter of 2012, the Company transferred funds of PLN 11,500 thousand to Elektrociepłownia Stalowa Wola S.A. At the balance date, this amount has been repaid by Elektrociepłownia Stalowa Wola S.A. At the balance sheet date, the Company has a receivable arising from interest accrued on the aforementioned loan in the amount of PLN 11 thousand.

(in PLN thousand)

20. Cash and cash equivalents

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

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Cash at bank and in hand	276 060	216 838
Short-term deposits (up to 3 months)	634 361	24 013
Cash in transit	–	41 001
Total cash and cash equivalents presented in the statement of financial position, of which:	**910 421**	**281 852**
– restricted cash	269 888	162 214
Cash pool	(1 175 886)	(396 976)
Overdraft	(129 566)	–
Foreign exchange and other differences	1 511	76
Total cash and cash equivalents presented in the statement of cash flows	**(393 520)**	**(115 048)**

The balances of loans granted and taken out under cash pool transactions, due to the fact that they are mainly used to manage the current financial liquidity of the Group, do not represent cash flows from investing or financing activity; instead they represent an adjustment to the balance of cash and cash equivalents.

Restricted cash consists of cash held in the settlement account for trading in electricity at Towarowa Giełda Energii S.A., amounting to PLN 248,211 thousand, cash held in special purpose accounts for trading on the Internet Based Electricity Trading Platform (POEE) of PLN 3,516 thousand as well as on the European Energy Exchange (EEX) and European Climate Exchange (ICE) of PLN 18,161 thousand.

The details of cash pool balances are presented in Note 27.2.

21. Other current non-financial assets

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Other deferred costs	2 367	2 070
Prepayments for deliveries	6 658	–
Receivables from input VAT	50 253	1 902
Other current assets	41	156
Total	**59 319**	**4 128**

The increase in the VAT receivable is due to the VAT overpayment resulting mainly from the tax obligation which arose on the purchases of intangible assets in the form of licenses and software made in the 4th quarter of 2012 and the purchase of property rights related to energy certificates.

(in PLN thousand)

22. Issued capital and other items of equity

22.1. Issued capital

Issued capital as at 31 December 2012

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

As at 31 December 2012, the value of issued capital, the number of shares and nominal value per share have not changed since 31 December 2011.

22.2. Shareholders with significant interests

Shareholding structure as at 31 December 2012 *(to the Company's best knowledge)*

Shareholder	Number of shares	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 29 March 2011)	526 883 897	2 634 419	30.06%	30.06%
KGHM Polska Miedź S.A. (notification of 23 March 2011)	182 110 566	910 553	10.39%	10.39%
ING Otwarty Fundusz Emerytalny (notification of 28 December 2011)	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 812 002	4 774 060	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100.00%**	**100.00%**

The shareholding structure as at 31 December 2012, according to the Company's best knowledge, did not change in comparison to 31 December 2011.

22.3. Reserve capital

During the year ended 31 December 2012, reserve capital increased by PLN 540,139 thousand as a result of the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 24 April 2012 on the allocation of the amount of PLN 540,139 thousand from the net profit for 2011 to the reserve capital.

22.4. Revaluation reserve from valuation of hedging instruments

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from issued debentures, as discussed in detail in Note 36.

As at 31 December 2012, the revaluation reserve from valuation of hedging instruments includes an amount of PLN 189,756 thousand which represents a liability arising from the valuation of IRSs at the balance sheet date, amounting to PLN 190,666 thousand, adjusted for the portion of valuation relating to accrued interest on debentures as at the balance sheet date, amounting to PLN 910 thousand, which was taken to profit.

22.5. Retained earnings and restrictions on dividend payments

Movements in retained earnings during the period under review resulted from:

- allocation of the amount of PLN 540,139 thousand from the Company's net profit for 2011 to the reserve capital,
- allocation of the amount of PLN 543,290 thousand from the Company's net profit for 2011 for the payment of dividend,
- the net profit for the period of PLN 1,435,188 thousand,
- recognition of actuarial gains/losses relating to provisions for post-employment benefits in accordance with the revised IAS 19 – a decrease of retained earnings by PLN 213 thousand.
- accounting for the Company's merger with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A. – a decrease in retained earnings by the amount of PLN 1,119 thousand.

(in PLN thousand)

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Non-distributable amounts included in retained earnings/accumulated losses:	**78 113**	**79 444**
Actuarial gains/losses related to provisions for post-employment benefits	(366)	(153)
Retained earnings from merger	78 479	79 597
Retained earnings of the Company eligible for distribution, of which:	**1 437 883**	**1 086 125**
Profit for the period	1 435 188	1 086 093
Retained earnings from merger eligible for distribution	2 651	–
Other	44	32
Total retained earnings/accumulated losses in the statement of financial position	**1 515 996**	**1 165 569**

23. Earnings per share

Presented below are figures relating to profit and 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 2012	Year ended 31 December 2011 (*restated figures*)
Net profit from continuing operations	1 435 188	1 086 093
Net profit from discontinued operations	–	–
Net profit	**1 435 188**	**1 086 093**
Net profit attributable to ordinary shareholders, used in calculation of diluted earnings per share	1 435 188	1 086 093
Number of ordinary shares, used in calculation of basic and diluted earnings per share	1 752 549 394	1 752 549 394

24. 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 and present pensioners,
- jubilee bonuses.

The IASB made amendments to IAS 19 *Employee Benefits*, which are applicable for annual periods beginning on or after 1 January 2013, with the possibility of early application. The Company decided to early apply the revised IAS 19, beginning from the year ended 31 December 2012. Comparative data has been restated as appropriate.

The key amendments from the Company's perspective include the liquidation of the "corridor approach" as an allowed method of accounting for actuarial gains and losses and the introduction of the requirement to present the effects of remeasurement in other comprehensive income. In accordance with the adopted accounting policy, the Company applied the corridor approach in determining the defined benefit obligation and recognizing actuarial gains and losses in profit or loss. Elimination of this method resulted in the requirement to immediately recognize all actuarial gains and losses in other comprehensive income and caused an increase in the provision for employee benefits recognized in the statement of financial position up to the present value of the obligation according to actuarial valuation. The effect of the amendments on comparative data has been presented in Note 4.

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

(in PLN thousand)

Movement in provisions for employee benefits, year ended 31 December 2012

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**708**	**494**	**129**	**2 186**	**3 517**
Current service costs	191	70	26	843	**1 130**
Actuarial gains and losses	80	89	8	1 092	**1 269**
Benefits paid	(99)	(2)	(3)	(264)	**(368)**
Interest expense	43	30	8	142	**223**
Closing balance	**923**	**681**	**168**	**3 999**	**5 771**
CURRENT	**62**	**38**	**9**	**1 057**	**1 166**
NON-CURRENT	**861**	**643**	**159**	**2 942**	**4 605**

Movement in provisions for employee benefits, year ended 31 December 2011 *(restated figures)*

	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**
Adjustments to OB	207	153	20	–	**380**
Opening balance, after adjustments	**594**	**468**	**118**	**2 075**	**3 255**
Current service costs	187	66	24	924	**1 201**
Actuarial gains and losses	(103)	(68)	(20)	(511)	**(702)**
Benefits paid	(8)	–	–	(430)	**(438)**
Interest expense	38	28	7	128	**201**
Closing balance	**708**	**494**	**129**	**2 186**	**3 517**
CURRENT	**78**	**4**	**2**	**208**	**292**
NON-CURRENT	**630**	**490**	**127**	**1 978**	**3 225**

25. Other provisions

As at 31 December 2012, other short-term provisions recognized by the Company amounted to PLN 119,038 thousand (as at 31 December 2011 – PLN 167,412 thousand).

The main positions of the other provisions are as follows:

Provision for the obligation to surrender energy certificates

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 2012, short-term provision for the obligation to surrender energy certificates for cancellation amounted to PLN 118,250 thousand.

As at 31 December 2011, the Company recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 164,856 thousand.

The provision recognized at the 2011 year-end was utilized in the 1st quarter of 2012 up to the amount of PLN 164,556 thousand and exceeded the costs of fulfilling the obligation by PLN 300 thousand. In 2012, the Company surrendered energy certificates with a value of PLN 37,515 thousand for cancellation and paid a compensation fee of PLN 126,978 thousand as well as cancellation fees of PLN 63 thousand.

Provision for real estate tax

The provision for real estate tax, acquired as a result of merger with Górnośląski Zakład Elektroenergetyczny S.A., which amounted to PLN 1,411 thousand as at 31 December 2011, was reversed in 2012 due to the lapse of the limitation period for any claims arising from real estate tax.

(in PLN thousand)

Provision for compensation payments to GZE employees

The provision for compensation payments to employees was recognized due to the privatization of Górnośląski Zakład Elektroenergetyczny S.A. Compensation payments for shares are due under the Employee, Social and Trade Union Guarantee Package of 17 November 2000 as well as under Agreement No. 1 of 13 December 2000 on the principles of making compensation payments. Compensation payments were made based on the Compensation Payments Allocation Regulations dated 26 April 2001 with subsequent amendments and the decision on payments dated 30 September 2003. The condition underlying a compensation payment was the sale of all of the shares held by the eligible individual to the majority shareholder. Such payments (in the form of donations) were made successively in 2003–2009.

As at 31 December 2012, the provision for outstanding compensation payments amounted to PLN 765 thousand and its balance did not change compared to 31 December 2011.

26. Leases

26.1. Operating lease commitments

As at 31 December 2012, the Company rents, under lease agreements, real estate located in Katowice at ul. Ks. Piotra Ściegiennego 3 and at ul. Lwowska 23. The lessor of the property at ul. Lwowska 23 is TAURON Wytwarzanie S.A. Monthly rentals amounted to PLN 344 thousand net. During the year 2012, they were reduced to PLN 20 thousand net due to the movement of the Company's head office to the property located at ul. Ks. Piotra Ściegiennego 3 in March 2012. Average monthly rentals for the Company's head office in 2012 amounted to PLN 239 thousand (for the first 7 months the Company used a discount granted by the lessor i.e. GHELAMCO GP2 Sp. z o.o.).

In addition, during 2012 the Company rented office space in Warsaw. The lessor of the property is REGUS BUSINESS CENTRE Sp. z o.o. Monthly rentals for this property amount to PLN 35 thousand.

Furthermore, 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. Since 16 April 2012 the Company has also been renting a car from TAURON Sprzedaż GZE Sp. z o.o., with monthly rentals amounting to PLN 2 thousand net.

26.2. Finance lease

Future minimum rentals payable under finance leases and the present value of the net minimum lease payments are as follows:

	As at 31 December 2012		As at 31 December 2011	
	Minimum lease payments	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
Within 1 year	552	510	705	627
Within 1 to 5 years	494	480	1 047	990
More than 5 years	–	–	–	–
Minimum lease payments, total	**1 046**	**990**	**1 752**	**1 617**
Less amounts representing finance charges	(56)	–	(135)	–
Present value of minimum lease payments, of which:	**990**	**990**	**1 617**	**1 617**
current	510	510	627	627
non-current	480	480	990	990

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

As at 31 December 2012, the Company's liabilities under loans taken out and issued debentures related to:

- debentures issued under the debentures issue program with a total value of PLN 4,301,834 thousand;
- loans taken out from affiliates under the "Agreement for the Provision of Cash Pool Services" in the total amount of PLN 1,175,948 thousand;
- loans from the European Investment Bank of PLN 910,394 thousand,
- an overdraft of PLN 129,566 thousand (external funding under the cash pool agreement).

Interest-bearing loans and borrowings, including issued debentures, as at 31 December 2012 and 31 December 2011 are presented in the table below.

(in PLN thousand)

Interest-bearing loans and borrowings, including issued debentures

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Non-current portion of loans and borrowings, including issued debentures:		
Issued debentures	4 288 247	4 136 112
Loans received from the European Investment Bank	836 835	–
Total	**5 125 082**	**4 136 112**
Current portion of loans and borrowings, including issued debentures:		
Issued debentures	13 587	11 062
Cash pool loans received, including accrued interest	1 175 948	452 632
Liabilities arising from acquisition of long-term investments	–	255 686
Loans from the European Investment Bank	73 559	–
Overdraft	129 566	–
Total	**1 392 660**	**719 380**

27.1. Debentures issued

As at 31 December 2012, the Company's liability under issued debentures amounted to PLN 4,301,834 thousand. This liability arose as a result of issue of debentures in the following tranches:

- on 29 December 2010, Tranche A debentures were issued with a nominal value of PLN 848,200 thousand and maturity date of 29 December 2015,
- on 12 December 2011, Tranche B debentures were issued with a total nominal value of PLN 300,000 thousand and maturity date of 12 December 2015;
- on 12 December 2011, Tranche C debentures were issued with a total nominal value of PLN 3,000,000 thousand and maturity date of 12 December 2016;
- on 30 January 2012, Tranche B debentures were issued with a value of PLN 150,000 thousand and maturity date of 30 January 2015.

Debentures are issued in a dematerialized form. These are unsecured coupon debentures with a floating interest rate of WIBOR 6M plus a fixed margin. Interest on these debentures is payable on a semi-annual basis.

The Company hedged a portion of interest-related cash flows resulting from issued debentures by entering into interest rate swaps (IRS), as discussed in detail in Note 36.

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 31 December 2012, 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 2012 and 31 December 2011.

Debentures as at 31 December 2012

	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	349	846 524	–	–	–	846 524	–	–
Tranche B	floating	PLN	4 707	449 150	–	–	–	449 150	–	–
Tranche C	floating	PLN	8 531	2 992 573	–	–	–	–	2 992 573	–
Total debentures			**13 587**	**4 288 247**	**–**	**–**	**–**	**1 295 674**	**2 992 573**	**–**

(in PLN thousand)

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**	**–**

On 29 June 2012, an agreement was 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., Nordea Bank AB, BNP Paribas Bank Polska S.A. and Bank Zachodni WBK S.A., under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by tranches D and E with a value of, respectively, PLN 2,475,000 thousand and PLN 275,000 thousand, i.e. up to the total amount of PLN 7,050,000 thousand. The funds that will be acquired from the issue of debentures under tranches D and E will be used to finance investment projects in the TAURON Group as well as general corporate needs in the TAURON Group.

27.2. 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 Group companies, efficient funding of their day-to-day working capital requirements, 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. 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 2012	As at 31 December 2011
Loans granted under cash pool agreement	–	55 549
Interest receivable on loans granted under cash pool agreement	62	107
Total	**62**	**55 656**

	As at 31 December 2012	As at 31 December 2011
Loans received under cash pool agreement	1 171 892	451 086
Interest payable on loans received under cash pool agreement	4 056	1 546
Total	**1 175 948**	**452 632**
Balance of cash pool	**1 175 886**	**396 976**

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

As of 1 January 2012, under the cash pool agreement the Company may use external funding amounting to PLN 300,000 thousand. As at 31 December 2012, the Company's liability in this respect amounted to PLN 129,549 thousand, and accrued interest amounted to PLN 17 thousand.

27.3. Loans from the European Investment Bank

TAURON Polska Energia S.A. acquired two 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 and the funds were transferred in the 1st quarter of 2012.

The funds acquired under these loans are used for the implementation of two investment projects in the area of production:

- PLN 300,000 thousand is used for the conversion and transfer for use of a high efficiency coal-fired 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 December 2008 and will last until mid 2013;

(in PLN thousand)

- PLN 210,000 thousand is used for the construction and start-up of a new 50 MWe and 45 MWt biomass boiler in the Jaworzno III Power Plant, which was made available for use at the end of 2012, and the repair of a steam turbine.

The above-mentioned loans are being repaid in installments on an annual basis, with the total amount of the installment amounting to PLN 51,000 thousand. The repayment date for principal installments is 15th December of each year and the date for the repayment of the whole principal is 15 December 2021. Interest on the borrowed funds is payable on a semi-annual basis, on 15 June and 15 December each year.

Interest on loans is calculated based on a fixed rate binding until 15 June 2016. On this date, new terms will be specified with respect to the amount of interest and/or change in the basis for its calculation.

On 3 July 2012, the Company entered into another loan agreement with the European Investment Bank for total funding of PLN 900,000 thousand. The funds obtained from this loan are to be used for grid investments – for the implementation of a 5-year investment program aimed at modernization and development of the power grids of TAURON Dystrybucja S.A. located in Southern Poland. The total cost of the project is appx. PLN 2,000,000 thousand. The first tranche of the loan amounting to PLN 450,000 thousand was made available in July 2012.

The tranche will be paid in installments, on a half-year basis, in the amount of PLN 20,455 thousand. The dates for payment of principal installments are 15 June and 15 December each year. The first payment is due on 15 December 2013 and the total repayment of the principal amount is due on 15 June 2024. Interest on the loan is payable on a half-year basis, on 15 June and 15 December each year.

Interest on the tranche of the loan that has been made available is calculated using a fixed rate binding until 15 December 2017. On this date, new financing terms will be determined with respect to the amount of interest and/or change in the basis of its calculation.

The next tranches of the loan were made available after the balance sheet date, as discussed in detail in Note 40.

At the balance sheet date, the balance of liabilities under loans obtained from the European Investment Bank amounted to PLN 910,394 thousand, of which PLN 2,140 thousand represented accrued interest.

28. Capital commitments

As at 31 December 2012, the Company had capital commitments of PLN 372 thousand net, which related to adaptation works at the Company's head office building.

29. Contingent liabilities

The Company's contingent liabilities arising from collaterals and guarantees granted to subsidiaries are presented in the table below.

Type of contingent liability	Currency	As at 31 December 2012		Company in respect of which contingent liability has been granted	Beneficiary
		Value in foreign currency	Value in domestic currency		
blank promissory note	PLN		40 000	TAURON Wytwarzanie S.A.	Voivodship Fund for Environmental Protection and Water Management in Katowice
blank promissory note	PLN		30 000	TAURON Ciepło S.A.	Voivodship Fund for Environmental Protection and Water Management in Katowice
declaration to provide financial support	PLN		200 000	TAURON Wytwarzanie S.A.	TAURON Wytwarzanie S.A.
guarantee	EUR	500	2 044	TAURON Czech Energy s.r.o.	CEZ a.s.
collateral for bank guarantee	PLN		202	TAURON Serwis GZE Sp. z o.o.	Nordea Bank Polska S.A.
collateral for bank guarantee	PLN		300	TAURON Sprzedaż GZE Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
collateral for bank guarantee	PLN		253	TAURON Sprzedaż Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
collateral for bank guarantee	PLN		1 000	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.
collateral for bank guarantee	EUR	500	2 044	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.

The following changes took place in the year ended 31 December 2012:

- The agreement signed by TAURON Polska Energia S.A. on 25 February 2011, concerning declaration to provide financial support in the amount of PLN 87,040 thousand to the 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.", expired in February 2012.
- The agreement signed by TAURON Polska Energia S.A. in January 2011, concerning a guarantee for a blank promissory note issued by the subsidiary Elektrownia Stalowa Wola S.A. (currently TAURON Wytwarzanie S.A.) for the benefit of Polskie Sieci Elektroenergetyczne Operator S.A. (as of 10 January 2013, following the change of the business name – Spółki Polskie Sieci Elektroenergetyczne S.A.), for an amount of PLN 4,000 thousand, was terminated in the 1st quarter of 2012.
- The guarantee granted in favor of TAURON Czech Energy s.r.o. for an amount of CZK 20,000 thousand, for the benefit of UniCredit Bank Czech Republik a.s., expired in June 2012;
- Under the framework agreement for bank guarantees with PKO Bank Polski S.A., at the Company's request the bank issued bank guarantees for the following subsidiaries: TAURON Sprzedaż GZE Sp. z o.o., TAURON Sprzedaż Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. (the total balance at the reporting date is PLN 3,597 thousand).

Claims of Huta Łaziska S.A.

Due to the Company's merger with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A.

In recent years, GZE was party to court disputes with Huta Łaziska S.A. The main reason for this was Huta's failure to fulfill its obligation to pay the amounts due for electricity supplies, which resulted in the withholding of electricity supplies to Huta Łaziska by GZE in 2001.

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

Due to the withholding of electricity supplies, Huta raised a claim against GZE for damages amounting to PLN 182,060 thousand. Currently an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of URE for the payment of PLN 182,060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of URE dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in the judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeal and remanded the case for reexamination by this Court. On 5 June 2012, the Court of Appeal overruled the judgment of the Regional Court and remanded the case for reexamination by the Regional Court. The hearing before the Court of first instance was held on 27 November 2012 and the next one on 25 February 2013. The date of the next hearing was set at 24 April 2013.

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

30. 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 6,900,000 thousand – valid until 31 December 2018 (as at 31 December 2011, up to PLN 3,600,000 thousand – the increase of this amount by another PLN 3,300,000 thousand is due to the signing of another agreement under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by PLN 2,750,000 thousand, up to the total amount of PLN 7,050,000 thousand, as discussed in detail in Note 27.1).

In order to secure the framework agreement concerning bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 125,000 thousand, valid until 31 December 2017. An additional collateral for this agreement is authorization to the bank account held with PKO Bank Polski S.A. As at 31 December 2012, the maximum amount of the limit set for the guarantees is PLN 100,000 thousand. The agreement will be valid until 31 December 2016.

Under the aforementioned agreement, PKO Bank Polski S.A., at the Company's request, issued bank guarantees in order to secure the liabilities of the subsidiaries of TAURON Polska Energia S.A. (Note 29) and to secure the Company's transactions:

(in PLN thousand)

- up to PLN 80,000 thousand – guarantee for Izba Rozliczeniowa Giełd Towarowych S.A. valid until 31 March 2013,;
- up to EUR 800 thousand (PLN 3,271 thousand) – guarantee for CAO Central Allocation Office Gmbh valid until 3 February 2014.

The bank guarantee agreement with PKO Bank Polski S.A., for which the Company provided a declaration of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 48,000 thousand, valid until 31 December 2012, expired in the 1st quarter of 2012.

In order to secure the transactions made by the Company on electricity markets through Towarowa Giełda Energii S.A. (Polish Power Exchange) and its participation in the system securing the liquidity of settlements, TAURON Wytwarzanie S.A. issued a suretyship to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT S.A.) in respect of 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 order to secure IRGIT's claims under the suretyship agreement signed between TAURON Wytwarzanie S.A. and IRGIT S.A. in respect of TAURON Polska Energia S.A.'s liabilities, restrictions were placed on the EUAs of TAURON Wytwarzanie S.A. entered in the National Register of Emission Allowances (KRUE) amounting to 10,000 thousand tonnes. In accordance with Annex of 31 December 2012 to the Agreement between TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., the validity period of the security has been extended until 31 March 2013.

In order to secure futures transactions for emission allowances and for energy made on the ICE Futures Europe Exchange and on the European Energy Exchange, the Company transfers initial deposits for such transactions into separate bank accounts – the total amount of such deposits as at 31 December 2012 was PLN 17,553 thousand.

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 950 thousand as at 31 December 2012 (PLN 2,039 thousand as at 31 December 2011).

31. Other current non-financial liabilities

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Taxes, customs, social security and other payables, of which:	**92 600**	**84 938**
Excise tax	803	1 406
VAT	88 764	80 455
Social security	1 871	1 845
Personal Income Tax	1 140	1 056
Other	22	176
Other non-financial liabilities:	**765**	**764**
Excess of Social Fund liabilities over Social Fund assets	301	183
Other special funds	464	581
Total	**93 365**	**85 702**

32. Accruals, deferred income and government grants

	As at 31 December 2012	As at 31 December 2011 (*restated figures*)
Unused holidays	1 749	1 377
Bonuses	8 600	6 638
Audit fees	75	118
Other accrued expenses	8	8
Government grants	143	–
Other deferred income	52	82
Total, of which:	**10 627**	**8 223**
non-current	95	–
current	10 532	8 223

(in PLN thousand)

33. Business combinations

On 12 June 2012, the District Court Katowice–Wschód in Katowice, 8th Economic Department of the National Court Register entered the merger of TAURON Polska Energia S.A. and Górnośląski Zakład Elektroenergetyczny S.A. (GZE) in the Register of Entrepreneurs of the National Court Register. The merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies, i.e. by way of a transfer of all of the assets of Górnośląski Zakład Elektroenergetyczny S.A. as the acquiree to TAURON Polska Energia S.A. as the acquirer. The purpose of the merger is to arrange the structure of the TAURON Group in accordance with the assumptions of the "Corporate Strategy of the TAURON Group for 2011–2015 with an Outlook up to 2020", which provides for consolidation of the TAURON Group companies. As a result of the buy-out of the shares of Górnośląski Zakład Elektroenergetyczny S.A. conducted before the merger, since 16 April 2012 TAURON Polska Energia S.A. has been a holder of 100% of shares in the share capital of Górnośląski Zakład Elektroenergetyczny S.A.

The Company selected the pooling of interests method to account for the merger of the parent with its subsidiary, as discussed in detail in Note 5.23. The application of the pooling of interests method means that the financial statements of Górnośląski Zakład Elektroenergetyczny S.A. were aggregated with the financial statements of TAURON Polska Energia S.A. as of the date on which the Company acquired control over GZE, i.e. as of 13 December 2011.

Net assets of Górnośląski Zakład Elektroenergetyczny S.A. as at 13 December 2011 are presented in the table below.

Net assets of GZE S.A.	As at 13 December 2011
Non-current assets	
Property, plant and equipment	20
Shares in unlisted and listed companies	3 787 483
Deferred tax asset	(140)
	3 787 363
Current assets	
Corporate income tax receivable	(532)
Trade and other receivables	450
Deposits	746 279
Other current non-financial assets	1 094
Other current financial assets	70 000
Cash and cash equivalents	196 263
Other balances arising from restatements (assets)	1 414
	1 014 968
TOTAL ASSETS	**4 802 331**
Current liabilities	
Trade and other payables	172 402
Other current non-financial liabilities	341
Accruals and government grants	121
Short-term provisions and employee benefits	3 553
TOTAL LIABILITIES	**176 417**
NET ASSETS	**4 625 914**

As a result of the Company's merger with its subsidiary, net assets of the acquired company with a total value of PLN 4,625,914 thousand were recognized as at the date of acquisition of control, i.e. 13 December 2011. In accordance with the adopted accounting policy, the Company accounts for the merger using the consolidated financial statements as a source of the value of assets and liabilities in the acquired subsidiary, and the value of the acquiree's shares in subsidiaries is determined based on the value of net assets of these entities in the consolidated financial statements and the value of goodwill relating to the given subsidiary. Consequently, the total value of shares of Górnośląski Zakład Elektroenergetyczny S.A. in subsidiaries that has been recognized in the Company's financial statements is PLN 3,787,483 thousand. At the same time, the previous investment in Górnośląski Zakład Elektroenergetyczny S.A. with a value of PLN 4,631,455 thousand as at 13 December 2011 was derecognized.

The difference between the book value of net assets recognized as a result of the merger and the value of the investment in GZE that had been previously recognized in the accounting records of TAURON Polska Energia S.A., amounting to PLN 5,541 thousand, was posted to retained earnings, causing a reduction of the retained earnings. As at 31 December 2011, movement in retained earnings resulting from merger with GZE, after taking into account GZE's profit for the period from the date of acquisition of control to 31 December 2011 of PLN 2,651 thousand, amounted to PLN 2,890 thousand, as presented in Note 4.

(in PLN thousand)

34. Related party disclosures

34.1. Transactions with related companies and State Treasury companies

The Company enters into transactions with related companies as presented in Note 7. 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 transactions with the aforementioned entities and the balances of receivables and payables are presented in the tables below.

Revenues and expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue from related companies, of which:	**10 876 426**	**8 002 258**
Revenue from operating activities	9 155 009	6 930 643
Dividends	1 550 613	1 008 705
Finance income	170 797	62 897
Other income	7	13
Revenue from State Treasury companies	**1 285 321**	**992 155**
Costs from related companies, of which:	**(1 516 535)**	**(866 449)**
Costs of operating activities	(1 479 764)	(829 837)
Finance costs	(36 771)	(36 612)
Costs from State Treasury companies	**(1 467 499)**	**(194 164)**

Receivables and payables

	As at 31 December 2012	As at 31 December 2011
Loans granted to related companies and receivables from related companies, of which:	**3 966 997**	**1 929 450**
Trade receivables	878 387	543 313
Other financial receivables	134 680	–
Receivables from the TCG	65 870	–
Debentures	2 655 261	1 150 043
Loans granted under cash pool agreement	62	55 656
Other loans	232 737	180 438
Receivables from State Treasury companies	**128 725**	**141 658**
Payables to related companies, of which:	**1 331 544**	**589 395**
Trade payables	144 548	136 763
Loans received under cash pool agreement	1 175 948	452 632
Liabilities arising from acquisition of investments	11 048	–
Payables to State Treasury companies	**245 124**	**10 867**

Among the State Treasury companies, the largest contractors of TAURON Polska Energia S.A. in the year ended 31 December 2012 as regards sales revenue included KGHM Polska Miedź S.A., PKP Energetyka S.A. and Kompania Węglowa S.A. Revenue from those companies accounted for 65% of total revenue from transactions with State Treasury companies. The largest costs were incurred as a result of transactions with Kompania Węglowa S.A., PGE Polska Grupa Energetyczna S.A. and Katowicki Holding Węglowy S.A., which accounted for 75% 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.

(in PLN thousand)

34.2. Compensation of key management personnel

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the Company for the years ended 31 December 2012 and 31 December 2011 is presented in the table below.

	Year ended 31 December 2012	Year ended 31 December 2011
Board of Directors	**8 071**	**8 862**
Short-term employee benefits (salaries and surcharges)	7 267	7 933
Other	804	929
Supervisory Board	**937**	**812**
Short-term employee benefits (salaries and surcharges)	937	812
Other members of key management personnel	**9 477**	**7 163**
Short-term employee benefits (salaries and surcharges)	8 507	6 245
Post-employment benefits	126	–
Other	844	918
Total	**18 485**	**16 837**

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

(in PLN thousand)

35. Financial instruments

35.1. 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 2012 and 31 December 2011 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 2012 and 31 December 2011 are presented in the tables below.

Categories and classes of financial assets	As at 31 December 2012		As at 31 December 2011 (*restateted figures*)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss	**466**	**466**	**–**	**–**
Derivatives	466	466	–	–
2 Financial assets available for sale	**5 057**	**–**	**4 977**	**–**
Long-term shares in unlisted and listed companies*	5 057	–	4 977	–
3 Loans and receivables	**4 233 547**	**4 233 547**	**2 212 481**	**2 212 481**
Trade receivables	1 108 553	1 108 553	743 191	743 191
Bonds and other debt securities	2 655 261	2 655 261	1 150 043	1 150 043
Loans granted to Cash Pool	62	62	55 656	55 656
Other loans granted	232 737	232 737	250 438	250 438
Other	236 934	236 934	13 153	13 153
4 Financial assets excluded from the scope of IAS 39	**20 179 347**	**–**	**20 179 126**	**–**
Shares in subsidiaries*	20 179 347	–	20 179 126	–
5 Cash and cash equivalents	**910 421**	**910 421**	**281 852**	**281 852**
Total financial assets, of which in the statement of financial position:	**25 328 838**		**22 678 436**	
Non-current assets	**22 917 206**		**21 321 143**	
Shares in unlisted and listed companies	20 184 404		20 184 103	
Bonds and other debt securities	2 615 000		1 137 040	
Loans granted	117 802		–	
Current assets	**2 411 632**		**1 357 293**	
Trade and other receivables	1 460 484		1 062 438	
Bonds and other debt securities	40 261		13 003	
Derivatives	466		–	
Cash and cash equivalents	910 421		281 852	

** The Company is unable to reliably determine the fair value of the shares held in companies which are not listed on active markets. They are measured at the balance sheet date at cost less impairment losses.*
In accordance with the Company's accounting policy, shares in subsidiaries are also measured at cost less impairment losses.

(in PLN thousand)

Categories and classes of financial liabilities	As at 31 December 2012		As at 31 December 2011 (*restateted figures*)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss	**552**	**552**	**80**	**80**
Derivative instruments	552	552	80	80
2 Financial liabilities measured at amortized cost	**7 240 995**	**7 240 995**	**5 181 618**	**5 181 618**
Arm's length loans, of which:	2 086 342	2 086 342	708 318	708 318
Liability under the cash pool loan	1 175 948	1 175 948	452 632	452 632
Loan from the European Investment Bank	910 394	910 394	–	–
Liabilities arising from acquisition of long-term investments	–	–	255 686	255 686
Overdraft	129 566	129 566	–	–
Issued debentures	4 301 834	4 301 834	4 147 174	4 147 174
Trade payables	679 612	679 612	312 062	312 062
Other financial liabilities	17 206	17 206	6 237	6 237
Commitments resulting from purchases of fixed and intangible assets	24 011	24 011	5 594	5 594
Salaries and wages	2 403	2 403	2 233	2 233
Insurance contracts	21	21	–	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**990**	**990**	**1 617**	**1 617**
Liabilities under finance leases	990	990	1 617	1 617
4 Hedging derivative instruments (liabilities)	**190 666**	**190 666**	**–**	**–**
Total financial liabilities, of which in the statement of financial position:	**7 433 203**		**5 183 315**	
Non-current liabilities	**5 276 156**		**4 137 102**	
Interest-bearing loans and borrowings	5 125 082		4 136 112	
Derivative instruments	150 594		–	
Liabilities under finance leases	480		990	
Current liabilities	**2 157 047**		**1 046 213**	
Trade and other payables	723 253		326 126	
Current portion of interest-bearing loans and borrowings	1 392 660		719 380	
Derivative instruments	40 624		80	
Current portion of liabilities under finance leases	510		627	

35.2. Fair value hierarchy

Classes of financial instruments	As at 31 December 2012	
	1 level	2 level
Assets		
Derivate instruments – commodity	466	–
Liabilities		
Derivate instruments – currency	–	552
Derivate instruments – IRS	–	190 666

Classes of financial instruments	As at 31 December 2011	
	1 level	2 level
Liabilities		
Derivate instruments – currency	–	80

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

Bonds and other debt securities

Bonds, treasury bills and other debt securities in the category of loans and receivables, amounting to PLN 2,655,261 thousand, include debentures issued by subsidiaries that were purchased by the Company.

The change of the balance in the year ended 31 December 2012 in relation to the comparative period is due to the Company's acquisition of debentures issued by the subsidiaries for a total amount of PLN 2,920,000 thousand, redemption of debentures for a total amount of PLN 1,452,040 thousand as well as the increase of accrued interest by the amount of PLN 37,258 thousand.

Cash pool loans granted and cash pool loan liabilities

The Company has a receivable resulting from loans granted and liabilities resulting from loans received under the cash pool service agreement, as discussed in detail in Note 27.2.

Other loans granted

Under loans granted, the Company presented:

- a long-term loan granted to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 117,802 thousand (including accrued interest of PLN 2,802 thousand) and a liability under interest accrued at the balance sheet date on a short-term VAT loan of PLN 11 thousand, as discussed in detail in Note 19;
- a short-term loan of PLN 114,924 thousand (including accrued interest of PLN 334 thousand) granted to TAURON Wytwarzanie S.A. and secured by CO_2 emission allowances with a commitment to sell them back, as discussed in detail in Note 18.

Trade and other receivables

Trade and other receivables have been discussed in detail in Note 18.

Financial assets excluded from the scope of IAS 39

Financial assets excluded from the scope of IAS 39, amounting to PLN 20,179,347 thousand, include shares held by the Company in subsidiaries, as discussed in detail in Note 16.

Financial assets available for sale

Financial assets available for sale, amounting to PLN 5,057 thousand, mainly include shares in TAURON Wytwarzanie GZE Sp. z o.o. amounting to PLN 4,934 thousand, which were acquired as a result of the Company's merger with Górnośląski Zakład Elektroenergetyczny S.A. in June 2012.

Loans from the European Investment Bank

The loans received from the European Investment Bank, amounting to PLN 910,394 thousand, have been described in detail in Note 27.3.

Liability arising from purchase of long-term investment

In the 1st quarter of 2012, the Company paid the liability arising from the purchase of long-term investments together with accrued interest, which consisted of Vattenfall AB's debt towards GZE S.A. and its subsidiaries that had been taken over by the Company as part of the purchase of GZE S.A.'s shares.

Overdraft

Under the cash pool agreement, the Company may use external funding up to the amount of PLN 300,000 thousand. As at 31 December 2012, the Company had an overdraft of PLN 129,566 thousand.

Issued debentures

The increase of liabilities under issued debentures is due to the new issue of debentures with a nominal value of PLN 150,000 thousand on 30 January 2012 as part of tranche B, as discussed in detail in Note 27.1.

Hedging derivative instruments (relating to liabilities)

Hedging derivative instruments amounting to PLN 190,666 thousand include valuation of derivative instruments entered into in order to hedge the interest rate risk arising from issued debentures, as discussed in detail in Note 36.

(in PLN thousand)

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

Year ended 31 December 2012

	Assets at fair value through profit or loss	Financial assets available for sale	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	Hedging instruments	Total
Dividends and shares in profits	–	–	–	1 550 613	–	–	–	–	**1 550 613**
Interest income/(expense)	37 413	–	168 865	–	–	(327 131)	(79)	6 466	**(114 466)**
Commissions	–	–	–	–	–	(7 073)	–	–	**(7 073)**
Exchange differences	(1 737)	–	367	–	–	–	–	–	**(1 370)**
Reversal of impairment losses/“upwards” revaluation	466	–	–	–	–	–	–	–	**466**
Recognition of impairment losses/“downwards” revaluation	–	–	–	–	(472)	–	–	(910)	**(1 382)**
Other	4 704	–	–	–	(470)	–	–	–	**4 234**
Net profit/(loss)	**40 846**	**–**	**169 232**	**1 550 613**	**(942)**	**(334 204)**	**(79)**	**5 556**	**1 431 022**

Year ended 31 December 2011

	Assets at fair value through profit or loss	Financial assets available for sale	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	Hedging instruments	Total
Dividends and shares in profits	–	875	–	1 008 705	–	–	–	–	**1 009 580**
Interest income/(expense)	45 780	–	63 849	1 466	–	(92 172)	(73)	–	**18 850**
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	57	–	–	–	(926)	–	–	–	**(869)**
Net profit/(loss)	**46 197**	**875**	**71 615**	**1 010 171**	**(1 263)**	**(102 859)**	**(73)**	**–**	**1 024 663**

(in PLN thousand)

36. Financial risk management

On 10 May 2011, the Company's Board of Directors passed a resolution implementing a policy for specific risk management in the area of finance in the TAURON Polska Energia S.A. Capital Group, which defines the strategy for management of specific risk in the area of finance, i.e. the currency and interest rate risk. This policy has also introduced the principles of hedge accounting in the Group which define the principles and types of hedge accounting and the accounting treatment of hedging instruments and hedged items to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting policies relate to the cash flow risk and do not include fair value risk due to its low significance for the Group. The policy for specific risk management in the area of finance has been described in detail in Note 41 of the Additional Explanatory Notes to the Consolidated Financial Statements for the year ended 31 December 2012.

Hedge accounting

As at 31 December 2012, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance. In accordance with the decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged against the interest rate risk arising from debentures issued under the Debentures Issue Program by entering into an interest rate swap (IRS) for a period of 5 years. This transaction was entered into due to variability of the expected future cash flows from interest payments resulting from the issue of debentures in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

The Company applies hedge accounting to the above-mentioned transactions. At the balance sheet date, as a result of valuation of hedging instruments (IRS) the Company recognized a liability of PLN 190,666 thousand, which was posted to the revaluation reserve. In the year ended 31 December 2012, the Company earned revenue from IRS transactions of PLN 5,556 thousand, of which PLN 6,466 thousand is the amount received from realization of the hedge and relates to interest payments realized by the Company, while the amount of PLN (910) thousand is the portion of valuation relating to accrued interest on debentures as at the balance sheet date that has been transferred from the revaluation reserve. In the statement of comprehensive income, the above-mentioned revenue from IRS transactions reduced finance costs arising from interest on issued debentures. In the statement of cash flows, the amount received by the Company from realization of the hedge reduced the expenditure related to interest paid on debentures, which has been presented under cash flows from financing activities.

	Revaluation reserve from valuation of hedging instruments
As at 1 January 2012	–
Valuation of hedging instruments as at 31 December 2012	190 666
Transfer of valuation relating to accrued interest on debentures as at 31 December 2012 to net result	(910)
As at 31 December 2012	**189 756**

36.1. 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 investing in assets subject to variable and fixed interest rates. The Company is also exposed to the realization of the risk of lost profits due to a decline in interest rates, in the case of fixed interest rate debt.

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 2012 and 31 December 2011.

(in PLN thousand)

Interest rate risk as at 31 December 2012 – variable interest rates

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds and other debt securities	40 261	–	2 615 000	–	–	**2 655 261**
Loans granted	73	–	–	–	117 802	**117 875**
Cash and cash equivalents	910 421	–	–	–	–	**910 421**
Total	**950 755**	–	**2 615 000**	–	**117 802**	**3 683 557**
Financial liabilities						
Arm's length loans	1 175 947	–	–	–	–	**1 175 947**
Overdraft	129 566	–	–	–	–	**129 566**
Issued debentures and other debt securities	4 875	–	856 440	–	–	**861 315**
Total	**1 310 388**	–	**856 440**	–	–	**2 166 828**

Interest rate risk as at 31 December 2012 – fixed interest rates

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Loans granted	114 924	–	–	–	–	**114 924**
Total	**114 924**	–	–	–	–	**114 924**
Financial liabilities						
Arm's length loans	73 560	91 833	91 833	183 666	469 503	**910 395**
Issued debentures and other debt securities	8 712	–	439 234	2 992 573	–	**3 440 519**
Hedging derivative instruments (IRS)	40 071	55 811	53 215	41 569	–	**190 666**
Total	**122 343**	**147 644**	**584 282**	**3 217 808**	**469 503**	**4 541 580**

Interest rate risk as at 31 December 2011 – variable interest rates *(restated figures)*

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds and other debt securities	2 984	–	–	1 137 040	–	**1 140 024**
Loans granted	125 656	–	–	–	–	**125 656**
Cash and cash equivalents	281 852	–	–	–	–	**281 852**
Total	**410 492**	–	–	**1 137 040**	–	**1 547 532**
Financial liabilities						
Arm's length loans	708 318	–	–	–	–	**708 318**
Issued debentures and other debt securities	11 062	–	–	4 136 112	–	**4 147 174**
Total	**719 380**	–	–	**4 136 112**	–	**4 855 492**

Interest rate risk as at 31 December 2011 – fixed interest rates *(restated figures)*

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds and other debt securities	10 019	–	–	–	–	**10 019**
Loans granted	180 438	–	–	–	–	**180 438**
Total	**190 457**	–	–	–	–	**190 457**

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)

36.2. Currency risk

The tables below present the Company's exposure to currency risk, analyzed by the particular classes of financial instruments as at 31 December 2012 and 31 December 2011.

Currency position as at 31 December 2012

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	1 345 487	2 716	11 105	–	–
Cash and cash equivalents	910 421	5 506	22 508	–	–
Derivatives (assets)	466	92	376		
Total	**2 256 374**	**8 314**	**33 989**	**–**	**–**
Financial liabilities					
Trade payables	679 612	188	768	–	–
Commitments resulting from purchases of fixed and intangible assets	24 011	95	389	–	–
Derivatives (liabilities)	191 218	135	552	–	–
Total	**894 841**	**418**	**1 709**	**–**	**–**
Net currency position		**7 896**	**32 280**	**–**	**–**

Currency position as at 31 December 2011 *(restated figures)*

	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	756 344	6 209	27 425	13 672	2 340
Cash and cash equivalents	281 852	4 624	20 422	–	–
Total	**1 038 196**	**10 833**	**47 847**	**13 672**	**2 340**
Financial liabilities					
Trade payables	312 062	10 818	47 781	–	–
Commitments resulting from purchases of fixed and intangible assets	5 594	256	1 129	–	–
Total	**317 656**	**11 074**	**48 910**	**–**	**–**
Net currency position		**(241)**	**(1 063)**	**13 672**	**2 340**

In 2012, TAURON Polska Energia S.A. used forward contracts in its currency risk management. These transactions are aimed to hedge the Company against currency risk arising in the course of trading activities of the TAURON Group. The Company did not apply hedge accounting to hedge against currency risk.

36.3. 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 and gas. The volumes and purchase costs of electricity and gas are presented in the table below.

Fuel type	Unit	2012		2011	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	45 027 918	9 049 944	40 471 436	8 025 133
Gas	k m3	29 750	6 758	–	–
Total			**9 056 702**		**8 025 133**

In terms of trading in coal and biomass, the Company is not exposed to price risk because it acts as an intermediary and only generates revenue from brokerage services.

36.4. 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 2012, 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 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.

(in PLN thousand)

36.5. 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 2012

	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)	1 310 088	352 464	386 434	1 662 812	3 402 427	544 480	**7 658 705**
Trade payables	679 612	–	–	–	–	–	**679 612**
Commitments to purchase fixed and intangible assets	24 011	–	–	–	–	–	**24 011**
Other financial liabilities	19 630	–	–	–	–	–	**19 630**
Derivative instruments (liabilities)	552	40 072	55 811	53 215	41 568	–	**191 218**
Finance lease	125	385	480	–	–	–	**990**
Guarantees granted and similar items	75 843	–	–	–	–	–	**75 843**
Total	**2 109 861**	**392 921**	**442 725**	**1 716 027**	**3 443 995**	**544 480**	**8 650 009**

Financial liabilities as at 31 December 2011 *(restated figures)*

	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	312 062	–	–	–	–	–	**312 062**
Commitments to purchase fixed and intangible assets	5 594	–	–	–	–	–	**5 594**
Other financial liabilities	8 470	–	–	–	–	–	**8 470**
Derivative instruments (liabilities)	80	–	–	–	–	–	**80**
Finance lease	185	442	510	480	–	–	**1 617**
Guarantees granted and similar items	81 839	–	–	–	–	–	**81 839**
Total	**1 865 234**	**242 571**	**239 032**	**239 002**	**4 539 200**	**–**	**7 125 039**

36.6. 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 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 and other comprehensive income before taxation, by class of financial assets and liabilities.

36.6.1. Currency risk sensitivity analysis

The Company identifies its exposure to the risk of changes in the EUR/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 2012

Classes of finacial instruments	31 December 2012		Sensitivity analysis for currency risk as at 31 December 2012	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +8.65%	exchange rate EUR/PLN -8.65%
	In PLN thousand	In PLN thousand	*Profit/(Loss)*	*Profit/(Loss)*
Trade and other receivables	1 345 487	11 105	961	(961)
Cash and cash equivalents	910 421	22 508	1 947	(1 947)
Derivative instruments (assets)	466	376	32	(32)
Trade payables	679 612	768	(66)	66
Commitments resulting from purchases of fixed and intangible assets	24 011	389	(34)	34
Derivative instruments (liabilities)	191 218	552	(48)	48
Total			**2 792**	**(2 792)**

The risk exposure as at 31 December 2012 is representative of the Company's risk exposure within the 1-year period preceding that date.

Year ended 31 December 2011 (*restated figures*)

Classes of finacial 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	756 344	29 765	3 853	(3 853)	265	(265)
Cash and cash equivalents	281 852	20 422	2 869	(2 869)	–	–
Trade payables	312 062	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)**

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

36.6.2. 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 and other comprehensive income 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 2012

Classes of finacial instruments	31 December 2012		Sensitivity analysis for interest rate risk as at 31 December 2012					
	Carrying amount	Value at risk	WIBOR				EURIBOR	
			WIBOR +113 bp		WIBOR -113 bp		EURIBOR +91 bp	EURIBOR -91 bp
	In PLN thousand	In PLN thousand	*Profit/ (Loss)*	*Other comprehensive income*	*Profit/ (Loss)*	*Other comprehensive income*	*Profit/ (Loss)*	*Profit/ (Loss)*
Bonds and other debt securities	2 655 261	2 655 261	30 004	–	(30 004)	–	–	–
Loans granted	232 799	117 875	1 332	–	(1 332)	–	–	–
Cash and cash equivalents	910 421	910 421	10 033	–	(10 033)	–	205	(205)
Arm's lenght loans	2 086 342	1 175 947	(13 288)	–	13 288	–	–	–
Overdrafts	129 566	129 566	(1 464)	–	1 464	–	–	–
Issued debentures and debt securities	4 301 834	4 301 834	(48 611)	–	48 611	–	–	–
Derivate Instruments (liabilities)	191 218	190 666	–	125 667	–	(125 667)	–	–
Total			**(21 994)**	**125 667**	**21 994**	**(125 667)**	**205**	**(205)**

Year ended 31 December 2011 (*restated figures*)

Classes of finacial instruments	31 December 2011		Sensitivity analysis for interest rate risk as at 31 December 2011			
	Carrying amount	Value at Risk	WIBOR		EURIBOR	
			WIBOR +84 bp	WIBOR -84 bp	EURIBOR +72 bp	EURIBOR -72 bp
	In PLN thousand	In PLN thousand	*Profit/(Loss)*		*Profit/(Loss)*	
Bonds and other debt securities	1 150 043	1 140 024	9 576	(9 576)	–	–
Loans granted	306 094	125 656	1 056	(1 056)	–	–
Cash and cash equivalents	281 852	281 852	2 196	(2 196)	147	(147)
Arm's length loans	708 318	708 318	(5 950)	5 950	–	–
Issued debentures and debt securities	4 147 174	4 147 174	(34 836)	34 836	–	–
Total			**(27 958)**	**27 958**	**147**	**(147)**

37. Finance management

Capital management takes place at the level of the TAURON Polska Energia S.A. Group as discussed in detail in Note 42 to the Consolidated Financial Statements for the year ended 31 December 2012.

(in PLN thousand)

38. Employment structure

The table below presents the average number of employees during the annual periods ended 31 December 2012 and 31 December 2011.

	Year ended 31 December 2012	Year ended 31 December 2011
Management	5	5
Administration	198	202
Sales department	100	63
Total	**303**	**270**

39. Auditor's fees

The details of the auditor's fees are presented in in Note 3.10 of the Directors' Report of TAURON Polska Energia S.A. for the year ended 31 December 2012.

40. Events after the balance sheet date

Loans from the European Investment Bank

After the balance sheet date, the Company received further tranches of loans from the European Investment Bank under the loan agreement signed on 3 July 2012:

- on 25 January 2013 – PLN 200,000 thousand,
- on 22 February 2013 – PLN 250,000 thousand.

As a result, the Company has utilized the full amount of the funding available under the aforementioned agreement, i.e. PLN 900,000 thousand. The funds obtained from the loan are used for grid investments.

Merger of the subsidiary TAURON Obsługa Klienta Sp. z o.o. with TAURON Obsługa Klienta GZE Sp. z o.o.

On 31 January 2013, merger of TAURON Obsługa Klienta sp. z o.o. with its registered office in Wrocław (acquiring company) with TAURON Obsługa Klienta GZE sp. z o.o. with its registered office in Gliwice (acquired company) was entered in the Register of Entrepreneurs of National Court Register. As a result, share capital of TAURON Obsługa Klienta sp. z o.o. was increased by the amount PLN 2,202 thousand from the amount PLN 2,718 thousand to PLN 4,920 thousand. As a consequence, as at the date of authorization of these financial statements to issue the Company possesses shares only in TAURON Obsługa Klienta sp. z o.o. as an acquiring company

Signing of an annex to the framework agreement for joint prospecting and extraction of shale hydrocarbons

On 21 February 2013, Annex No. 2 was signed to the Framework Agreement of 4 July 2012 for Joint Prospecting and Extraction of Shale Hydrocarbons. The parties to this agreement are as follows: Polskie Górnictwo Naftowe i Gazownictwo S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and TAURON Polska Energia S.A. The parties agreed to extend the deadline for determining specific terms of collaboration until 4 May 2013. If the parties do not agree specific terms of their collaboration by this date, each of them may terminate the agreement. In addition, the agreement shall expire if the parties do not acquire all the required corporate consents within three months of making such arrangements, or if the consents required for concentration are not obtained by 31 December 2013. The change of the deadlines as referred to above is due to pending negotiations on the specific terms of collaboration, under which, among others, project documentation is being developed.

Board of Directors of the Company

Katowice, 12 March 2013

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