The TAURON Polska Energia S.A. Capital Group

Condensed interim consolidated financial statements prepared in accordance with the International Financial Reporting Standards for the 3-month period ended 31 March 2014

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited restated figures)*
Continuing operations			
Sales revenue	**10**	4 887 264	5 164 102
Cost of sales	**11**	(3 972 141)	(4 078 650)
Gross profit		**915 123**	**1 085 452**
Other operating income		34 668	26 739
Selling and distribution expenses		(123 000)	(135 865)
Administrative expenses		(167 391)	(169 590)
Other operating expenses		(26 966)	(17 336)
Operating profit		**632 434**	**789 400**
Finance income		13 071	27 038
Finance costs		(87 509)	(78 442)
Share in profit/(loss) of joint venture		(406)	(869)
Profit before tax		**557 590**	**737 127**
Income tax expense	**12**	(158 904)	(156 329)
Net profit from continuing operations		**398 686**	**580 798**
Net profit for the period		**398 686**	**580 798**
Other comprehensive income subject to reclassification to profit or loss:		**6 240**	**2 626**
Change in the value of hedging instruments		7 607	3 331
Foreign exchange differences from translation of foreign entities		78	(72)
Income tax		(1 445)	(633)
Other comprehensive income not subject to reclassification to profit or loss:		**7 752**	**5 993**
Actuarial gains/(losses) related to provisions for post-employment benefits		9 568	7 399
Income tax		(1 816)	(1 406)
Other comprehensive income for the period, net of tax		**13 992**	**8 619**
Total comprehensive income for the period		**412 678**	**589 417**
Net profit:			
Attributable to equity holders of the parent		395 930	559 158
Attributable to non-controlling interests		2 756	21 640
Total comprehensive income:			
Attributable to equity holders of the parent		409 901	567 108
Attributable to non-controlling interests		2 777	22 309
Earnings per share (in PLN):			
- basic and diluted, for profit for the period attributable to equity holders of the parent		0.23	0.32
- basic and diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.23	0.32

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	**14**	25 237 787	25 127 639
Goodwill	**15**	247 057	247 057
Intangible assets	**16**	1 202 192	1 160 005
Investments in joint ventures	**17**	42 837	44 398
Other financial assets		359 305	587 166
Other non-financial assets		355 911	354 704
Deferred tax asset	**12.2**	33 505	46 039
		27 478 594	**27 567 008**
Current assets			
Intangible assets	**18**	746 775	1 156 550
Inventories	**19**	504 152	509 224
Corporate income tax receivable	**12.3**	82 673	31 890
Trade and other receivables	**20**	2 148 195	2 134 641
Other financial assets		16 103	15 878
Other non-financial assets		319 724	270 429
Cash and cash equivalents	**21**	347 699	636 909
		4 165 321	**4 755 521**
Non-current assets classified as held for sale		**26 162**	**33 041**
TOTAL ASSETS		**31 670 077**	**32 355 570**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	**22.1**	8 762 747	8 762 747
Reserve capital	**22.2**	9 037 699	9 037 699
Revaluation reserve from valuation of hedging instruments	**22.3**	(120 489)	(126 651)
Foreign exchange differences from translation of foreign entities		(1 553)	(1 631)
Retained earnings/Accumulated losses		135 928	(344 999)
		17 814 332	**17 327 165**
Non-controlling interests		**54 808**	**466 334**
Total equity		**17 869 140**	**17 793 499**
Non-current liabilities			
Interest-bearing loans and borrowings	**23**	5 827 367	5 500 532
Liabilities under finance leases		56 025	61 643
Trade and other payables		7 299	7 827
Derivative instruments		96 139	87 573
Provisions for employee benefits	**24**	1 491 859	1 497 814
Other provisions	**25**	142 931	141 408
Accruals, deferred income and government grants	**26**	677 044	668 487
Deferred tax liability	**12.2**	1 483 655	1 339 057
		9 782 319	**9 304 341**
Current liabilities			
Current portion of interest-bearing loans and borrowings	**23**	613 883	284 633
Current portion of liabilities under finance leases		17 535	17 327
Trade and other payables		1 234 267	2 023 537
Derivative instruments		75 609	73 358
Provisions for employee benefits	**24**	156 783	162 368
Other provisions	**25**	893 922	1 563 019
Accruals, deferred income and government grants	**26**	230 966	239 639
Income tax payable		7 010	79 035
Other non-financial liabilities		788 643	814 814
		4 018 618	**5 257 730**
Total liabilities		**13 800 937**	**14 562 071**
TOTAL EQUITY AND LIABILITIES		**31 670 077**	**32 355 570**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2014 *(unaudited)*

	Note	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2014		**8 762 747**	**9 037 699**	**(126 651)**	**(1 631)**	**(344 999)**	**17 327 165**	**466 334**	**17 793 499**
Profit for the period		-	-	-	-	395 930	**395 930**	2 756	**398 686**
Other comprehensive income		-	-	6 162	78	7 731	**13 971**	21	**13 992**
Total comprehensive income for the period		**-**	**-**	**6 162**	**78**	**403 661**	**409 901**	**2 777**	**412 678**
Acquisition of non-controlling interests	**27**	-	-	-	-	72 545	**72 545**	(382 545)	**(310 000)**
Mandatory squeeze-out	**27**	-	-	-	-	5 532	**5 532**	(32 569)	**(27 037)**
Change in non-controlling interests due to division of a subsidiary	**27**	-	-	-	-	(811)	**(811)**	811	**-**
As at 31 March 2014 *(unaudited)*		**8 762 747**	**9 037 699**	**(120 489)**	**(1 553)**	**135 928**	**17 814 332**	**54 808**	**17 869 140**

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2013 *(unaudited restated figures)*

	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2013	**8 762 747**	**7 953 021**	**(153 703)**	**(370)**	**(326 585)**	**16 235 110**	**493 123**	**16 728 233**
Change in the accounting policy resulting from the method of recognising revenue from power and heat collisions	-	-	-	-	71 571	**71 571**	216	**71 787**
As at 1 January 2013 *(restated figures)*	**8 762 747**	**7 953 021**	**(153 703)**	**(370)**	**(255 014)**	**16 306 681**	**493 339**	**16 800 020**
Profit for the period	-	-	-	-	559 158	**559 158**	21 640	**580 798**
Other comprehensive income	-	-	2 698	(72)	5 324	**7 950**	669	**8 619**
Total comprehensive income for the period	**-**	**-**	**2 698**	**(72)**	**564 482**	**567 108**	**22 309**	**589 417**
Mandatory squeeze-out	-	-	-	-	146	**146**	(870)	**(724)**
Change in non-controlling interests due to division of a subsidiary	-	-	-	-	(1 054)	**(1 054)**	1 054	**-**
As at 31 March 2013 *(unaudited restated figures)*	**8 762 747**	**7 953 021**	**(151 005)**	**(442)**	**308 560**	**16 872 881**	**515 832**	**17 388 713**

(in PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited restated figures)*
Cash flows from operating activities			
Profit/(loss) before taxation		**557 590**	**737 127**
Adjustments for:			
Share in profit/(loss) of joint venture	**17**	406	869
Depreciation and amortization		455 747	432 521
(Gain)/loss on foreign exchange differences		122	929
Interest and dividens, net		66 005	49 643
(Gain)/loss on investing activities		17 162	1 418
(Increase)/decrease in receivables		(3 427)	192 772
(Increase)/decrease in inventories		3 107	172 998
Increase/(decrease) in payables excluding loans and borrowings		(466 194)	(576 726)
Change in other non-current and current assets		308 637	420 507
Change in deferred income, government grants and accruals		(30 297)	(47 210)
Change in provisions		(675 084)	(518 316)
Income tax paid		(127 327)	(205 615)
Other		(204)	(386)
Net cash generated from operating activities		**106 243**	**660 531**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		23 411	4 929
Purchase of property, plant and equipment and intangible assets	**35.1**	(919 039)	(1 141 405)
Proceeds from sale of financial assets		84	-
Purchase of financial assets		(4 109)	(3 406)
Dividends received		146	5 514
Interest received		11	457
Repayment of loans granted		-	5 850
Loans granted		(5 850)	(38 850)
Other		-	2
Net cash used in investing activities		**(905 346)**	**(1 166 909)**
Cash flows from financing activities			
Payment of finance lease liabilities		(5 541)	(4 752)
Proceeds from loans and borrowings		-	451 180
Repayment of loans and borrowings	**35.2**	(30 340)	(7 900)
Issue of debt securities	**35.2**	800 000	-
Redemption of debt securities	**35.2**	(200 000)	-
Dividends paid to non-controlling interests		(32)	(81)
Interest paid		(13 933)	(8 799)
Acquisition of non-controlling interests	**35.2**	(104 504)	(732)
Subsidies received		24 748	4 478
Commission paid		(4 135)	(3 463)
Net cash generated from financing activities		**466 263**	**429 931**
Net increase/(decrease) in cash and cash equivalents		**(332 840)**	**(76 447)**
Net foreign exchange difference		(14)	(720)
Cash and cash equivalents at the beginning of the period		**541 148**	**891 654**
Cash and cash equivalents at the end of the period, *of which*:	**21**	**208 308**	**815 207**
restricted cash	**21**	111 047	490 815

EXPLANATORY NOTES

1. General information

The TAURON Polska Energia S.A. Capital Group ("the Group", "the TAURON Group") is composed of TAURON Polska Energia S.A. ("Parent", "Company") and its subsidiaries. The Group's condensed interim consolidated financial statements cover the 3-month period ended 31 March 2014 and present comparative data for the 3-month period ended 31 March 2013 as well as figures as at 31 December 2013. The data for the 3-month period ended 31 March 2014 and the comparative data for the 3-month period ended 31 March 2013, as contained herein, have not been audited or reviewed by a certified auditor. The comparative data as at 31 December 2013 were audited by a certified auditor.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562.

The Parent was assigned statistical number REGON: 240524697.

Duration of the Parent and companies in the Capital Group is unlimited.

The core business of the Group includes:

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

The operations are based on relevant concessions granted to individual companies of the Group.

(in PLN '000)

2. Composition of the Capital Group

As at 31 March 2014, TAURON Polska Energia S.A. held direct shares in the following key subsidiaries:

Item	Company name	Registered office	Segment	Direct share of TAURON in the entity's capital	Direct share of TAURON in the entity's governing body
1	TAURON Wytwarzanie S.A.	Katowice	Generation	99.79%	99.79%
2	TAURON Ekoenergia Sp. z o.o.[1]	Jelenia Góra	Renewable sources of energy	100.00%	100.00%
3	TAURON Dystrybucja S.A.	Kraków	Distribution	99.71%	99.71%
4	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
5	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
6	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
7	TAURON Ciepło S.A.[2]	Katowice	Heat	96.57%	99.10%
8	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Customer service	100.00%	100.00%
9	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	Mysłowice	Other	100.00%	100.00%
10	TAURON Wydobycie S.A.[3]	Jaworzno	Mining	47.52%	31.99%

[1] On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. was registered.

[2] On 30 April 2014, a business combination of Enpower Service Sp. z o.o. and TAURON Ciepło S.A. was registered, as discussed in detail in Note 36 hereto. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

[3] TAURON Polska Energia S.A. also holds indirect interest in TAURON Wydobycie S.A. through a subsidiary TAURON Wytwarzanie S.A. Under the agreements for the use of shares, TAURON Polska Energia S.A. also holds 52.48% interest in the issued capital, giving it 68.01% of votes at the General Shareholders' Meeting of TAURON Wydobycie S.A. Consequently, the Company holds 100% of shares in TAURON Wydobycie S.A., which gives 100% of votes at the General Shareholders' Meeting.

As at 31 March 2014, TAURON Polska Energia S.A. held indirect shares in the following key subsidiaries:

Item	Company name	Registered office	Segment	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body
1	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	Krzeszowice	Other	99.79%	99.79%
2	TAURON Dystrybucja Serwis S.A.[2]	Wrocław	Distribution	99.71%	99.71%
3	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów	Distribution	99.71%	99.71%

[1] TAURON Polska Energia S.A. uses the shares held by TAURON Wytwarzanie S.A.

[2] TAURON Polska Energia S.A. uses the shares held by TAURON Dystrybucja S.A.

Additionally, as at 31 March 2014, TAURON Polska Energia S.A. held indirect shares in the following jointly-controlled entities:

Item	Company name	Registered office	Segment	Indirect share of TAURON in the entity's capital	Indirect share of TAURON in the entity's governing body
1	Elektrociepłownia Stalowa Wola S.A.	Stalowa Wola	Heat	49.90%	49.90%
2	Elektrownia Blachownia Nowa Sp. z o.o.	Kędzierzyn Koźle	Generation	49.90%	49.90%

3. Basis for preparation of the condensed interim consolidated financial statements

These condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as endorsed by the European Union ("IFRS"), in particular in line with International Accounting Standard 34 ("IAS 34").

IFRS consist of standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

These condensed interim consolidated financial statements have been presented in the Polish zlotys ("PLN") and all figures are in PLN thousand, unless stated otherwise.

These condensed interim consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future. As at the date of approving these condensed interim consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

The condensed interim consolidated financial statements do not contain all information and disclosures required for annual consolidated financial statements and they should be read jointly with the Group's consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2013.

These condensed interim consolidated financial statements for the 3-month period ended 31 March 2014 were approved for publication on 13 May 2014.

4. Significant accounting principles (policy)

The accounting principles (policy) adopted for the preparation of the condensed interim consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2013, except for the following amendments to standards and new interpretations applicable to annual periods beginning on 1 January 2014:

- IFRS 10 *Consolidated Financial Statements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IFRS 11 *Joint Arrangements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- Revised IFRS 10, IFRS 11 and IFRS 12 *Transition Disclosures* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IAS 27 *Separate Financial Statements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- IAS 28 *Investments in Associates and Joint Arrangements* – applicable in the EU to annual periods beginning on or after 1 January 2014;
- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IFRS 10, IFRS 12 and IAS 27 *Investment Vehicles* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 36 *Impairment of Assets: Disclosure of Recoverable Amount of Non-financial Assets* – applicable to annual periods beginning on or after 1 January 2014;
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting* – applicable to annual periods beginning on or after 1 January 2014.

The Company analyzed the impact of the aforementioned standards and interpretations on the accounting policies applied by the Group.

The Company finds new IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* particularly important for the Group. Consequently, the Company has carried out analysis of these standards' impact on measurement and presentation principles applied to shares in jointly controlled entities disclosed in the consolidated financial statements. The following conclusions have been drawn from the analysis:

- no factors indicating that TAURON independently controls Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. have been identified. As independent power of the investee is a *sine qua non* condition for control, as defined in the IFRS 10, the Company has decided that TAURON does not control these entities and these companies should not be consolidated using the full method;
- According to the Company, its investments in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. constitute joint arrangements in line with IFRS 11, which should be classified as joint ventures and disclosed in the consolidated financial statements using the equity method. Therefore, the measurement and presentation of these investees is not changed.

According to the Management Board the application of the remaining standards and interpretations in question has not materially impacted the existing accounting policy.

5. New standards or interpretations which have been published, but have not entered into force yet.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, have not been endorsed by the European Union and are not yet effective:

- IFRS 9 *Financial Instruments* (the effective date has not been determined yet) was published by the IASB on 12 November 2009. On 28 October 2010 IASB issued revised IFRS 9, introducing new requirements concerning accounting for financial liabilities and transferring the requirements concerning derecognition of financial assets and liabilities from IAS 39. On 19 November 2013 IASB issued a number of amendments to financial instruments accounting. The standard develops a uniform approach to determine whether financial assets are measured at amortized cost or fair value and replaces numerous principles specified in IAS 39. Amendments of November 2013 introduce significant changes to hedge accounting and allow for recognizing own credit risk without changing other principles of accounting for financial instruments. They also annulled the effective date of IFRS 9 (set at 1 January 2015);
- IFRS 14 *Regulatory Deferral Accounts* – applicable to annual periods beginning on or after 1 January 2016. IFRS 14 has been introduced as a transitional standard for first-time adopters;
- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* - applicable to annual periods beginning on or after 1 July 2014;
- *Annual Improvements to IFRS* (Cycle 2010-2012) - applicable to annual periods beginning on or after 1 July 2014;
- *Annual Improvements to IFRS* (Cycle 2011-2013) - applicable to annual periods beginning on or after 1 July 2014;
- IFRIC 21 *Levies* (published on 20 May 2013). IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – applicable to annual periods beginning on or after 1 January 2014.

The Company analyzed the impact of the aforementioned standards and interpretations on the accounting policies applied by the Group except for the impact of IFRS *9 Financial Instruments*, which will be analyzed after publishing all phases. According to the Management Board, the introduction of other abovementioned standards and interpretations will not materially affect the accounting principles (policy) adopted by the Group.

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

6. Change in comparable data

The comparable data for the 3-month period ended 31 March 2013 and as at 31 March 2013, as contained herein, have been restated (comparing to the approved data) due to changes introduced to the consolidated financial statements of the TAURON Group for the year ended 31 December 2013:

- change of the accounting policy concerning recognition of the right of perpetual usufruct of land;

(in PLN '000)

- change of the accounting policy concerning recognition of revenue due to power and heat collisions.

The aforementioned changes in the accounting policies and their impact on the consolidated statement of financial position and the consolidated statement of comprehensive income have been discussed in detail in the consolidated financial statements of the TAURON Group for the year ended 31 December 2013.

The impact of the aforementioned changes on the comparable data for the 3-month period ended 31 March 2013 and the data as at 31 March 2013 included in these condensed interim consolidated financial statements has been presented below.

	3-month period ended 31 March 2013 ***(unaudited authorized figures)***	Change in the accounting policy regarding recognition of revenue from heat and power collisions	**3-month period ended 31 March 2013** ***(unaudited restated figures)***
Continuing operations			
Sales revenue	5 163 034	1 068	5 164 102
Cost of sales	(4 078 650)	-	(4 078 650)
Gross profit	**1 084 384**	**1 068**	**1 085 452**
Operating profit	**788 332**	**1 068**	**789 400**
Profit before tax	**736 059**	**1 068**	**737 127**
Income tax expense	(156 126)	(203)	(156 329)
Net profit from continuing operations	**579 933**	**865**	**580 798**
Net profit for the period	**579 933**	**865**	**580 798**
Other comprehensive income for the year, net of tax	**8 619**	**-**	**8 619**
Total comprehensive income for the period	**588 552**	**865**	**589 417**
Net profit:			
Attributable to equity holders of the parent	558 296	862	559 158
Attributable to non-controlling interests	21 637	3	21 640
Total comprehensive income:			
Attributable to equity holders of the parent	566 246	862	567 108
Attributable to non-controlling interests	22 306	3	22 309
Earnings per share (in PLN):			
- basic and diluted, for profit for the period attributable to equity holders of the parent	0.32	0.00	0.32
- basic and diluted, for profit for the period from continuing operations attributable to equity holders of the parent	0.32	0.00	0.32

	As at 31 March 2013 ***(unaudited authorized figures)***	Change in the accounting policy with respect to recognition of		**As at 31 March 2013** ***(unaudited restated figures)***
		the perpetual usefruct of land	revenue from power and heat collisions	
Non-current assets	**25 650 887**	**-**	**-**	**25 650 887**
Property, plant and equipment	24 223 173	(811 520)	-	**23 411 653**
Intangible assets	366 998	811 520	-	**1 178 518**
TOTAL ASSETS	**30 749 673**	**-**	**-**	**30 749 673**
Equity attributable to equity holders of the parent	**16 800 448**	**-**	**72 433**	**16 872 881**
Retained earnings/ Accumulated losses	236 127	-	72 433	**308 560**
Non-controlling interests	**515 613**	**-**	**219**	**515 832**
Total equity	**17 316 061**	**-**	**72 652**	**17 388 713**
Non-current liabilities	**9 668 430**	**-**	**(67 668)**	**9 600 762**
Accruals, deferred income and government grants	715 776	-	(84 710)	**631 066**
Deferred tax liability	1 470 076	-	17 042	**1 487 118**
Current liabilities	**3 765 182**	**-**	**(4 984)**	**3 760 198**
Accruals, deferred income and government grants	241 018	-	(4 984)	**236 034**
Total liabilities	**13 433 612**	**-**	**(72 652)**	**13 360 960**
TOTAL EQUITY AND LIABILITIES	**30 749 673**	**-**	**-**	**30 749 673**

7. Change in estimates

In the 3-month period ended 31 March 2014 there were no significant changes in estimates and estimation methods applied, which would affect the current or future periods, other than those presented below or discussed further in these condensed interim consolidated financial statements.

Provision for gas emission liabilities

According to the accounting policy adopted the provision for liabilities arising from emission of gas included in the allowance distribution plan is charged to operating expenses if the actual emission level exceeds the volume of emission allowances received free of charge and held by the TAURON Group as at the end of the reporting period. The provision for costs of covering the deficit is established in the amount of allowances acquired or contracted to cover the allowance deficit and in relation to unsecured allowance deficit (if any) the provision is determined based on market prices as at the end of the reporting period.

In accordance with Article 10a and Article 10c of the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community ("derogation allowances") the TAURON Group was entitled to receive free emission allowances 31 December 2013. The TAURON Group applied for free allowances pursuant to Article 10a and for derogation allowances, still such allowances were not included in the calculation of the provision for carbon dioxide emission as they had not been awarded by 31 December 2013. As at 31 December 2013 the provision was estimated at PLN 461 123 thousand and equals the amount of allowances intended for surrendering due to emission in 2013 disclosed in current intangible assets. In the first quarter of 2014, the Group adjusted the estimated provision for gas emission liabilities for 2013, hence PLN 5 496 thousand was charged to profit. In the second quarter of 2014 the provision recognized will be utilized due to surrendering allowances, with no effect on the profit.

In April 2014 the Group was awarded 1 275 401 requested allowances due to generation of heat and 11 925 960 allowances due to electricity generation. In the calculation of provisions for gas emission liabilities for the year 2014 the Group has accounted for the entire amount of received allowances first. Then, 964 995 heat allowances for 2014 received free of charge and recorded on the accounts of the National Emission Allowance Register have been accounted for in the entire amount. Pursuant to the Ordinance of the Council of Ministers of 10 April 2014 *on the list of electricity generating facilities covered by the system of trading in greenhouse gas emission allowances in the settlement period beginning on 1 January 2013, indicating the number of allowances awarded*, electricity allowances granted for 2014 with relation to the facilities of the TAURON Group are allocated to appropriate quarters of 2014, in line with the straight-line method. As the allowances in question exceed the actual emission of the first quarter, the Group has not recognized a provision for gas emission liabilities for the first quarter of 2014.

Impairment tests

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the general situation in the power sector, the Group tested its intangible assets, including goodwill and fixed assets for impairment as at 31 December 2013.

The tests required estimating the value in use of cash generating units and operating segments based on their future generated cash flows discounted to the current value with the discount rate. Following the tests, as at 31 December 2013 the Group recognized an impairment loss of PLN 262 187 thousand for property, plant and equipment of the Generation segment and an impairment loss of PLN 13 436 thousand for intangible assets in this segment. The assumptions and significant information concerning impairment tests have been presented in Notes 14, 15 and 16 to the consolidated financial statements for the year ended 31 December 2013.

The computations were carried out for cash flows in the period from 2014 to 2023 and the estimated residual value. The basis for cash flow calculations is the planned EBIT for 2014-2023 and amortization for this period. The discount rate used for the calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the current yield on 10-year treasury bonds (4.2%) and the risk premium for operations appropriate for the power industry (5.0%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

An analysis of the indications as at 31 March 2014 revealed that the market value of the Company's net assets had not changed considerably in the first quarter of 2014. Therefore, it was assumed that the results of the tests as at 31 December 2013 were still true and no impairment tests needed to be carried out as at the end of the reporting period. Full tests will be performed as at 30 June 2014.

(in PLN '000)

Deferred tax

Based on the forecasts prepared for the Tax Capital Group (TCG), according to which taxable income will be earned in 2014 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these condensed interim consolidated financial statements will not be realized.

Measurement of provisions for employee benefits

Provisions for employee benefits have been estimated using actuarial methods. Moreover, the Group recognized provisions for benefits resulting from Voluntary Redundancy Programs. A detailed description of the provisions has been provided in Note 24.2.

The provisions for employee benefits have been measured as at 31 March 2014, based on actuarial projections. Actuarial assumptions made in preparing the projections for 2014 were the same as those used for measuring provisions as at 31 December 2013.

Key actuarial assumptions made as at 31 December 2013 for the purpose of calculation of the liability:

	31 December 2013
Discount rate (%)	4.00%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	1.03% - 11.94%
Estimated salary increase rate (%)	2.00% - 2.90%
Estimated electricity price increase rate (%)	3.50%
Estimated increase rate for contribution to the Social Fund (%)	4.50%
Remaining average employment period	7.44 – 15.30

Measurement of derivatives

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions.

Fair value of interest rate swaps is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on a zero coupon yield curve.

The fair value of forwards for acquisition and sale of emission allowances and energy is based on prices quoted in an active market.

The fair value of hedging derivatives subject to hedge accounting and derivatives measured at fair value through profit or loss as described above has been presented in Note 32.

8. Seasonality of operations

The Group's operations are seasonal in nature, particularly in the area of generation, distribution and sale of heat, distribution and sale of electricity to individual customers and sale of coal to individual customers for heating purposes.

Sales of heat depend on atmospheric conditions, in particular air temperature, and are higher in autumn and wintertime.

The level of sales of electricity to individual customers depends on the length of day, as a result of which sales of electricity in this group of customers are usually lower in spring and summertime and higher in autumn and wintertime. Sales of coal to individual customers are higher in autumn and winter. The seasonality of other areas of Group operations is insignificant.

9. Information on operating segments

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

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

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

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

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

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

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for trade payables, liabilities due to acquisition of fixed assets and intangible assets and payroll liabilities, which do represent segment liabilities.

The Group's reporting format for the period from 1 January 2014 to 31 March 2014 and for the comparative period was based on the following operating segments:

Operating segments	Core business	Subsidiaries	Recognized with the equity method
Mining	Hard coal mining	TAURON Wydobycie S.A.	
Generation	Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels used by the Generation Segment include hard coal, biomass, coal gas and coke-oven gas.	TAURON Wytwarzanie S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Renewable sources of energy	Generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment.	TAURON Ekoenergia Sp. z o.o.	
Distribution	Distribution of electricity	TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiary Sp. z o.o.	
Sales	Wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity.	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o.	
Heat	Generation, distribution and sales of heat.	TAURON Ciepło S.A.	Elektrociepłownia Stalowa Wola S.A.
Customer service	Services to internal customers (i.e. entities from the TAURON Capital Group) in respect of sales process support, financial, accounting and IT services to selected Group companies.	TAURON Obsługa Klienta Sp. z o.o.	

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

On 2 January 2014, the division of TAURON Wytwarzanie S.A. (Generation segment) through separation of Zespół Elektrociepłowni Bielsko-Biała and its transfer to TAURON Ciepło S.A., classified to the Heat segment, was registered. Comparable data were appropriately restated.

A business combination of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o., companies from the Renewable sources of energy segment, was registered on the same day. Consequently, only one company - TAURON Ekoenergia Sp. z o.o. – operates in the segment now.

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

The Management Board separately monitors operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is the profit/loss on continuing operations before tax, financial income and expense, increased by amortization/depreciation. The Group's financing (including financial expense and revenue) and income tax are monitored at the Group level and they are not allocated to segments.

(in PLN '000)

3-month period ended 31 March 2014 or as at 31 March 2014 *(unaudited)*	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	107 414	409 885	46 430	660 065	3 274 782	369 488	4 184	15 016	-	**4 887 264**	-	**4 887 264**
Inter-segment sales	140 751	345 854	33 686	898 272	821 219	57 312	158 344	52 280	-	**2 507 718**	(2 507 718)	**-**
Segment revenue	**248 165**	**755 739**	**80 116**	**1 558 337**	**4 096 001**	**426 800**	**162 528**	**67 296**	**-**	**7 394 982**	**(2 507 718)**	**4 887 264**
Profit/(loss) of the segment	**(6 959)**	**(52 136)**	**35 942**	**324 005**	**228 965**	**92 805**	**30 981**	**3 335**	**(2 016)**	**654 922**	**-**	**654 922**
Unallocated expenses	-	-	-	-	-	-	-	-	(22 488)	**(22 488)**	-	**(22 488)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**(6 959)**	**(52 136)**	**35 942**	**324 005**	**228 965**	**92 805**	**30 981**	**3 335**	**(24 504)**	**632 434**	**-**	**632 434**
Share in profit/(loss) of joint venture	-	19	-	-	-	(425)	-	-	-	**(406)**	-	**(406)**
Net finance income (costs)	-	**-**	-	-	-	-	-	-	(74 438)	**(74 438)**	-	**(74 438)**
Profit/(loss) before income tax	**(6 959)**	**(52 117)**	**35 942**	**324 005**	**228 965**	**92 380**	**30 981**	**3 335**	**(98 942)**	**557 590**	**-**	**557 590**
Income tax expense	-	-	-	-	-	-	-	**-**	(158 904)	**(158 904)**	-	**(158 904)**
Net profit/(loss) for the period	**(6 959)**	**(52 117)**	**35 942**	**324 005**	**228 965**	**92 380**	**30 981**	**3 335**	**(257 846)**	**398 686**	**-**	**398 686**
EBITDA	**19 703**	**67 484**	**55 986**	**557 688**	**238 344**	**128 969**	**39 530**	**5 008**	**(24 504)**	**1 088 208**	**-**	**1 088 208**
Assets and liabilities												
Segment assets	1 584 546	7 740 464	1 967 827	14 181 791	2 291 085	3 029 230	188 757	165 879	-	**31 149 579**	-	**31 149 579**
Investments in joint ventures	-	32 083	-	-	-	10 754	-	-	-	**42 837**	-	**42 837**
Unallocated assets	-	-	-	-	-	-	-	-	477 661	**477 661**	-	**477 661**
Total assets	**1 584 546**	**7 772 547**	**1 967 827**	**14 181 791**	**2 291 085**	**3 039 984**	**188 757**	**165 879**	**477 661**	**31 670 077**	**-**	**31 670 077**
Segment liabilities	563 930	1 275 298	98 527	2 078 559	841 044	393 609	187 761	45 197	-	**5 483 925**	-	**5 483 925**
Unallocated liabilities	-	-	-	-	-	-	-	-	8 317 012	**8 317 012**	-	**8 317 012**
Total liabilities	**563 930**	**1 275 298**	**98 527**	**2 078 559**	**841 044**	**393 609**	**187 761**	**45 197**	**8 317 012**	**13 800 937**	**-**	**13 800 937**
Other segment information												
Capital expenditure *	44 189	45 261	42 838	379 842	112	39 066	12 865	1 137	-	**565 310**	-	**565 310**
Depreciation/amortization	(26 662)	(119 620)	(20 044)	(233 683)	(9 379)	(36 164)	(8 549)	(1 673)	-	**(455 774)**	-	**(455 774)**

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

(in PLN '000)

3-month period ended 31 March 2013 *(unaudited restated figures)* or as at 31 December 2013	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	144 304	225 355	4 575	555 759	3 804 043	383 628	3 259	43 179	-	**5 164 102**	-	**5 164 102**
Inter-segment sales	228 425	981 716	36 961	985 932	986 816	71 075	100 835	60 328	-	**3 452 088**	(3 452 088)	**-**
Segment revenue	**372 729**	**1 207 071**	**41 536**	**1 541 691**	**4 790 859**	**454 703**	**104 094**	**103 507**	**-**	**8 616 190**	**(3 452 088)**	**5 164 102**
Profit/(loss) of the segment	**45 966**	**28 082**	**17 978**	**301 948**	**339 111**	**76 656**	**8 986**	**101**	**(4 892)**	**813 936**	**-**	**813 936**
Unallocated expenses	-	-	-	-	-	-	-	-	(24 536)	**(24 536)**	-	**(24 536)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**45 966**	**28 082**	**17 978**	**301 948**	**339 111**	**76 656**	**8 986**	**101**	**(29 428)**	**789 400**	**-**	**789 400**
Share in profit/(loss) of joint venture	-	(32)	-	-	-	(837)	-	-	-	**(869)**	-	**(869)**
Net finance income (costs)	-	**-**	-	-	-	-	-	-	(51 404)	**(51 404)**	-	**(51 404)**
Profit/(loss) before income tax	**45 966**	**28 050**	**17 978**	**301 948**	**339 111**	**75 819**	**8 986**	**101**	**(80 832)**	**737 127**	**-**	**737 127**
Income tax expense	-	-	-	-	-	-	-	**-**	(156 329)	**(156 329)**	-	**(156 329)**
Net profit/(loss) for the period	**45 966**	**28 050**	**17 978**	**301 948**	**339 111**	**75 819**	**8 986**	**101**	**(237 161)**	**580 798**	**-**	**580 798**
EBITDA	**72 921**	**157 604**	**27 182**	**526 129**	**347 875**	**105 440**	**12 103**	**2 330**	**(29 428)**	**1 222 156**	**-**	**1 222 156**
Assets and liabilities												
Segment assets	1 465 831	8 614 769	1 944 940	14 002 290	3 111 539	2 157 282	183 519	170 774	-	**31 650 944**	-	**31 650 944**
Investments in joint ventures	-	32 064	-	-	-	12 334	-	-	-	**44 398**	-	**44 398**
Unallocated assets	-	-	-	-	-	-	-	-	660 228	**660 228**	-	**660 228**
Total assets	**1 465 831**	**8 646 833**	**1 944 940**	**14 002 290**	**3 111 539**	**2 169 616**	**183 519**	**170 774**	**660 228**	**32 355 570**	**-**	**32 355 570**
Segment liabilities	612 791	1 481 329	112 000	2 380 849	1 786 932	345 216	214 010	42 372	-	**6 975 499**	-	**6 975 499**
Unallocated liabilities	-	-	-	-	-	-	-	-	7 586 572	**7 586 572**	-	**7 586 572**
Total liabilities	**612 791**	**1 481 329**	**112 000**	**2 380 849**	**1 786 932**	**345 216**	**214 010**	**42 372**	**7 586 572**	**14 562 071**	**-**	**14 562 071**
Other segment information												
Capital expenditure *	30 284	111 241	122 516	245 984	5 336	15 919	6 709	2 866	-	**540 855**	-	**540 855**
Depreciation/amortization	(26 955)	(129 522)	(9 204)	(224 181)	(8 764)	(28 784)	(3 117)	(2 229)	-	**(432 756)**	-	**(432 756)**

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

(in PLN '000)

10. Sales revenue

	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**3 385 975**	**3 713 623**
Excise	(115 983)	(114 191)
Sale of goods for resale, finished goods and materials, *of which*:	**3 269 992**	**3 599 432**
Electricity	2 772 725	3 036 834
Heat energy	230 746	297 175
Energy certificates	77 132	33 212
Greenhouse gas emission allowances	3 546	18 728
Coal	99 352	137 188
Furnace blast	41 938	40 145
Compressed air	18 099	17 594
Milling products	7 165	5 433
Other goods for resale, finished goods and materials	19 289	13 123
Rendering of services, *of which*:	**1 604 476**	**1 551 970**
Distribution and trade services	1 520 391	1 470 956
Connection fees	29 735	29 924
Maintenance of road lighting	27 237	25 875
Charges for illegal electricity consumption	2 049	2 109
Revenue due to power and heat collisions	2 372	1 068
Other services	22 692	22 038
Other revenue	**12 796**	**12 700**
Total sales revenue	**4 887 264**	**5 164 102**

11. Expenses by type

	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(455 774)	(432 756)
Impairment of property, plant and equipment and intangible assets	29	(105)
Materials and energy	(542 678)	(651 121)
Maitenance and repair services	(73 204)	(61 618)
Distribution services	(389 341)	(324 570)
Other external services	(174 282)	(186 849)
Taxes and charges	(152 601)	(231 504)
Employee benefits expense	(631 604)	(640 857)
Inventory write-downs	(150)	43 870
Allowance for doubtful debts	(11 510)	(16 276)
Other	(23 646)	(25 125)
Total costs by type	**(2 454 761)**	**(2 526 911)**
Change in inventories, prepayments, accruals and deferred income	80 370	(29 769)
Cost of goods produced for internal purposes	96 756	81 306
Selling and distribution expenses	123 000	135 865
Administrative expenses	167 391	169 590
Cost of goods for resale and materials sold	(1 984 897)	(1 908 731)
Cost of sales	**(3 972 141)**	**(4 078 650)**

(in PLN '000)

12. Income tax

12.1. Tax expense in the statement of comprehensive income

Key items of the tax expense disclosed in the statement of comprehensive income:

	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited restated figures)*
Current income tax	**(4 011)**	**(46 657)**
Current income tax expense	(12 221)	(46 664)
Adjustments to current income tax from previous years	8 210	7
Deferred tax	**(154 893)**	**(109 672)**
Income tax in profit or loss	**(158 904)**	**(156 329)**
Income tax relating to other comprehensive income	**(3 261)**	**(2 039)**

12.2. Deferred income tax

Deferred income tax results from:

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
- difference between tax base and carrying amount of fixed and intangible assets	2 057 920	2 030 622
- difference between tax base and carrying amount of financial assets	27 586	22 051
- different timing of recognition of sales revenue for tax purposes	38 703	36 847
- recognition of estimated revenue from sale of power distribution services	36 429	40 294
- difference between tax base and carrying amount of property rights arising from energy certificates	33 234	29 688
- other	15 318	16 469
Deferred tax liability	**2 209 190**	**2 175 971**
- difference between tax base and carrying amount of fixed and intangible assets	11 009	7 317
- difference between tax base and carrying amount of inventories	2 342	2 748
- power infrastructure received free of charge and received connection fees	66 086	67 401
- provisions	535 055	672 754
- difference between tax base and carrying amount of financial assets	30 442	29 594
- difference between tax base and carrying amount of financial liabilities	19 727	6 739
- valuation of hedging instruments	32 401	30 354
- different timing of recognition of cost of sales for tax purposes	25 407	35 149
- other accrued expenses	11 933	17 647
- tax losses	10 981	-
- other	13 657	13 250
Deferred tax assets	**759 040**	**882 953**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**33 505**	**46 039**
Deferred tax liability	**(1 483 655)**	**(1 339 057)**

As at 31 March 2014 and 31 December 2013 deferred tax assets were set off against deferred tax liabilities of companies from the Tax Capital Group due to the fact that as of 1 January 2012 the companies have filed combined tax returns.

12.3. Tax Capital Group

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

As at 31 March 2014, the Tax Capital Group had income tax overpayment for 2013 of PLN 33 361 thousand and it made tax prepayments for 2014 of PLN 39 626 thousand, which has been recognized in aggregate in the condensed interim consolidated financial statements under "Income tax receivables.

13. Dividends paid and proposed

On 15 April 2014, the Management Board decided to recommend to the Ordinary General Shareholders' Meeting the amount of dividend payment to the shareholders of the Company of PLN 262 882 thousand from the net profit of the Company generated in the financial year 2013, i.e. PLN 0.15 per share. At the same time, the Management Board decided to provide recommendation to the Ordinary General Shareholders' Meeting determining the record date at 14 August 2014 and the payment date at 4 September 2014.

On 18 April 2014 the Supervisory Board approved the recommendation concerning profit distribution and determining the record and payment dates presented to the Ordinary General Shareholders' Meeting by the Management Board.

The Ordinary General Shareholders' Meeting, analyzing the request of the Management Board with respect to distribution of profit for 2013 and determining the record and payment dates, has been planned for 15 May 2014.

On 16 May 2013, the General Shareholders' Meeting adopted a resolution to allocate PLN 350 510 thousand to dividend payment to the Company's shareholders (PLN 0.20 per share). The dividend was paid out from the net profit generated by the Company in 2012, which amounted to PLN 1 435 188 thousand. The record date was set at 3 June 2013 and the payment date at 18 June 2013.

14. Property, plant and equipment

(in PLN '000)

3-month period ended 31 March 2014 *(unaudited)*

	Land	Buildings, premises and civil engineering	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST								
Opening balance	**114 112**	**17 385 870**	**14 909 785**	**452 908**	**285 542**	**33 148 217**	**1 213 948**	**34 362 165**
Direct purchase	-	-	199	33	151	**383**	531 661	**532 044**
Transfer of assets under construction	463	246 256	178 330	7 152	4 620	**436 821**	(436 821)	**-**
Sale, disposal	(3)	(1 642)	(1 500)	(1 835)	(297)	**(5 277)**	-	**(5 277)**
Liquidation	-	(7 088)	(63 323)	(484)	(841)	**(71 736)**	-	**(71 736)**
Received free of charge	-	4 423	40	-	-	**4 463**	-	**4 463**
Spare parts allocated to fixed assets	-	-	2 320	-	-	**2 320**	-	**2 320**
Overhaul expenses	-	-	630	-	-	**630**	4 965	**5 595**
Items generated internally	-	-	-	-	-	**-**	9 471	**9 471**
Transfers to/from assets held for sale	(74)	(530)	(6)	-	(2)	**(612)**	-	**(612)**
Other movements	(791)	(102)	9	74	(152)	**(962)**	(420)	**(1 382)**
Foreign exchange differences from translation of foreign entities	-	-	1	2	-	**3**	-	**3**
Closing balance	**113 707**	**17 627 187**	**15 026 485**	**457 850**	**289 021**	**33 514 250**	**1 322 804**	**34 837 054**
ACCUMULATED DEPRECIATION								
Opening balance	**(645)**	**(4 360 059)**	**(4 490 207)**	**(205 845)**	**(172 010)**	**(9 228 766)**	**(5 760)**	**(9 234 526)**
Depreciation for the period	-	(199 152)	(217 645)	(12 072)	(8 257)	**(437 126)**	-	**(437 126)**
Increase of impairment	-	-	(1)	-	-	**(1)**	(41)	**(42)**
Decrease of impairrment	-	-	-	1	12	**13**	67	**80**
Sale, disposal	-	1 198	1 202	1 427	285	**4 112**	-	**4 112**
Liquidation	-	4 963	62 286	379	716	**68 344**	-	**68 344**
Transfers to/from assets held for sale	-	61	4	-	2	**67**	-	**67**
Other movements	-	(21)	(84)	(119)	49	**(175)**	-	**(175)**
Foreign exchange differences from translation of foreign entities	-	-	(1)	-	-	**(1)**	-	**(1)**
Closing balance	**(645)**	**(4 553 010)**	**(4 644 446)**	**(216 229)**	**(179 203)**	**(9 593 533)**	**(5 734)**	**(9 599 267)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**113 467**	**13 025 811**	**10 419 578**	**247 063**	**113 532**	**23 919 451**	**1 208 188**	**25 127 639**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**113 062**	**13 074 177**	**10 382 039**	**241 621**	**109 818**	**23 920 717**	**1 317 070**	**25 237 787**

(in PLN '000)

3-month period ended 31 March 2013 *(unaudited restated figures)*

	Land	Perpetual usufruct	Buildings, premises and civil engineering	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**72 024**	**812 667**	**15 389 230**	**12 633 180**	**382 210**	**259 030**	**29 548 341**	**2 034 339**	**31 582 680**
Adjustments	-	(812 667)	-	-	-	-	**(812 667)**	-	**(812 667)**
Opening balance after adjustments	**72 024**	**-**	**15 389 230**	**12 633 180**	**382 210**	**259 030**	**28 735 674**	**2 034 339**	**30 770 013**
Direct purchase	-	-	-	-	-	-	**-**	515 980	**515 980**
Transfer of assets under construction	19 786	-	239 910	268 313	5 981	3 610	**537 600**	(537 600)	**-**
Sale, disposal	(5)	-	(124)	(6 578)	(1 143)	(380)	**(8 230)**	(3)	**(8 233)**
Liquidation	-	-	(8 197)	(5 852)	(534)	(1 030)	**(15 613)**	-	**(15 613)**
Received free of charge	-	-	2 398	201	-	-	**2 599**	-	**2 599**
Spare parts allocated to fixed assets	-	-	-	1 449	-	-	**1 449**	-	**1 449**
Overhaul expenses	-	-	-	472	-	-	**472**	2 802	**3 274**
Items generated internally	-	-	-	-	-	-	**-**	6 662	**6 662**
Transfers to/from assets held for sale	-	-	1 185	-	-	14	**1 199**	197	**1 396**
Other movements	-	-	171	(91)	(100)	(279)	**(299)**	222	**(77)**
Foreign exchange differences from translation of foreign entities	-	-	-	(1)	-	-	**(1)**	-	**(1)**
Closing balance	**91 805**	**-**	**15 624 573**	**12 891 093**	**386 414**	**260 965**	**29 254 850**	**2 022 599**	**31 277 449**
ACCUMULATED DEPRECIATION									
Opening balance	**(645)**	**(573)**	**(3 596 281)**	**(3 558 914)**	**(165 856)**	**(141 119)**	**(7 463 388)**	**(6 555)**	**(7 469 943)**
Adjustments	-	573	-	-	-	-	**573**	-	**573**
Opening balance after adjustments	**(645)**	**-**	**(3 596 281)**	**(3 558 914)**	**(165 856)**	**(141 119)**	**(7 462 815)**	**(6 555)**	**(7 469 370)**
Depreciation for the period	-	-	(190 680)	(205 143)	(11 513)	(8 177)	**(415 513)**	-	**(415 513)**
Increase of impairment	-	-	(349)	-	-	(1)	**(350)**	-	**(350)**
Decrease of impairrment	-	-	-	11	1	14	**26**	243	**269**
Sale, disposal	-	-	75	6 207	948	358	**7 588**	-	**7 588**
Liquidation	-	-	5 489	4 539	420	859	**11 307**	-	**11 307**
Transfers to/from assets held for sale	-	-	(56)	-	-	(14)	**(70)**	-	**(70)**
Other movements	-	-	16	263	64	(1)	**342**	-	**342**
Foreign exchange differences from translation of foreign entities	-	-	-	1	-	-	**1**	-	**1**
Closing balance	**(645)**	**-**	**(3 781 786)**	**(3 753 036)**	**(175 936)**	**(148 081)**	**(7 859 484)**	**(6 312)**	**(7 865 796)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**71 379**	**-**	**11 792 949**	**9 074 266**	**216 354**	**117 911**	**21 272 859**	**2 027 784**	**23 300 643**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**91 160**	**-**	**11 842 787**	**9 138 057**	**210 478**	**112 884**	**21 395 366**	**2 016 287**	**23 411 653**

(in PLN '000)

In the 3-month period ended 31 March 2014, the Group acquired property, plant and equipment for PLN 532 044 thousand. Major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited)*
Distribution	371 180	237 804
Renewable sources of energy	42 840	122 516
Generation	37 871	105 582
Mining	44 179	30 252
Heat	30 841	10 458

15. Goodwill

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit that derives benefits from synergy effects. Operating segment, as defined in IFRS 8 *Operating Segments*, is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group.

Goodwill in segment	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Mining	13 973	13 973
Renewable sources of energy	51 902	51 902
Distribution	25 602	25 602
Heat	155 580	155 580
Total	**247 057**	**247 057**

16. Non-current intangible assets

(in PLN '000)

3-month period ended 31 March 2014 *(unaudited)*

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST								
Opening balance	**4 030**	**810 712**	**379 236**	**20 250**	**34 528**	**109 979**	**84 633**	**1 443 368**
Direct purchase	-	-	17	1 325	57 021	-	18 183	**76 546**
Transfer of intangible assets not made available for use	-	574	13 353	-	-	16 281	(30 208)	**-**
Sale, disposal	-	(227)	-	-	-	-	-	**(227)**
Liquidation	-	(16)	(801)	-	-	-	-	**(817)**
Received free of charge	-	33	-	-	-	192	-	**225**
Transfers from assets under construction	-	-	124	-	-	(1)	264	**387**
Reclassification	-	-	-	(16 183)	-	-	-	**(16 183)**
Other movements	-	-	1 137	-	-	-	118	**1 255**
Foreign exchange differences from translation of foreign entities	-	-	3	-	-	-	1	**4**
Closing balance	**4 030**	**811 076**	**393 069**	**5 392**	**91 549**	**126 451**	**72 991**	**1 504 558**
ACCUMULATED AMORTIZATION								
Opening balance	**(3 442)**	**(14 449)**	**(242 012)**	**-**	**-**	**(23 460)**	**-**	**(283 363)**
Amortization for the period	(24)	-	(15 264)	-	-	(3 360)	-	**(18 648)**
Liquidation	-	-	786	-	-	-	-	**786**
Other movements	-	-	(1 140)	-	-	-	-	**(1 140)**
Foreign exchange differences from translation of foreign entities	-	-	(1)	-	-	-	-	**(1)**
Closing balance	**(3 466)**	**(14 449)**	**(257 631)**	**-**	**-**	**(26 820)**	**-**	**(302 366)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**588**	**796 263**	**137 224**	**20 250**	**34 528**	**86 519**	**84 633**	**1 160 005**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**564**	**796 627**	**135 438**	**5 392**	**91 549**	**99 631**	**72 991**	**1 202 192**

(in PLN '000)

3-month period ended 31 March 2013 *(unaudited restated figures)*

	Development expenses	Perpetual usufruct	Software, concessions, patents, licences and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	**3 898**	**-**	**345 194**	**95 874**	**91 351**	**39 048**	**575 365**
Adjustments	-	812 667	-	-	-	-	**812 667**
Opening balance after adjustments	**3 898**	**812 667**	**345 194**	**95 874**	**91 351**	**39 048**	**1 388 032**
Direct purchase	-	-	-	-	-	14 939	**14 939**
Transfer of intangible assets not made available for use	-	145	8 764	-	2 750	(11 659)	**-**
Sale, disposal	-	(1 273)	-	-	-	-	**(1 273)**
Reclassification	75	-	(69)	-	(6)	-	**-**
Liquidation	-	(2)	(93)	-	-	-	**(95)**
Received free of charge	-	15	-	-	252	-	**267**
Transfers from assets under construction	-	-	14	-	-	-	**14**
Transfers to/from assets held for sale	-	537	-	-	-	-	**537**
Other movements	56	4	(75)	(283)	(8)	(550)	**(856)**
Foreign exchange differences from translation of foreign entities	-	-	(4)	-	-	-	**(4)**
Closing balance	**4 029**	**812 093**	**353 731**	**95 591**	**94 339**	**41 778**	**1 401 561**
ACCUMULATED AMORTIZATION							
Opening balance	**(3 263)**	**-**	**(189 764)**	**-**	**(12 176)**	**-**	**(205 203)**
Adjustments	-	(573)	-	-	-	-	**(573)**
Opening balance after adjustments	**(3 263)**	**(573)**	**(189 764)**	**-**	**(12 176)**	**-**	**(205 776)**
Amortization for the period	(46)	-	(14 525)	-	(2 672)	-	**(17 243)**
Reclassification	-	-	20	-	(20)	-	**-**
Liquidation	-	-	75	-	-	-	**75**
Other movements	-	-	(117)	-	18	-	**(99)**
Closing balance	**(3 309)**	**(573)**	**(204 311)**	**-**	**(14 850)**	**-**	**(223 043)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**635**	**812 094**	**155 430**	**95 874**	**79 175**	**39 048**	**1 182 256**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**720**	**811 520**	**149 420**	**95 591**	**79 489**	**41 778**	**1 178 518**

17. Shares in joint ventures

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A.

As a joint venture it is accounted for using the equity method in the condensed interim consolidated financial statements. TAURON Polska Energia S.A. holds an indirect interest amounting to 49.90% in the share capital of this company and 49.90% in its governing body through TAURON Wytwarzanie S.A.

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank.

In the 3-month period ended 31 March 2014, the amount disbursed under the subordinated loan agreement had not changed since the end of the reporting period and stood at PLN 177 000 thousand, i.e. the maximum contractual amount. Interest accrued on the loan amounts to PLN 14 583 thousand. The loan with interest due is to be finally repaid no later than by the end of 2032.

In the period of 3 months ended 31 March 2014 the Company transferred funds due to a VAT loan of PLN 5 850 thousand to Elektrociepłownia Stalowa Wola S.A. Financial income due to interest on the loan amounted to PLN 24 thousand.

The Group presented interest income due to originated loans of Elektrociepłownia Stalowa Wola S.A. in the portion corresponding to unrelated investors' interests in the joint venture in the condensed interim consolidated financial statements.

Elektrownia Blachownia Nowa Sp. z o.o.

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

As a joint venture Elektrownia Blachownia Nowa Sp. z o.o. is accounted for in the condensed interim consolidated financial statements using the equity method. TAURON Polska Energia S.A. holds an indirect interest amounting to 49.90% in the share capital of this company and 49.90% in its governing body through TAURON Wytwarzanie S.A.

Pursuant to the agreement concluded by TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. on 30 December 2013 the project of construction of gas and steam power unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended due to the general situation in the electricity and gas markets entailing an increased investment risk and a necessity to review and optimize the project. In the 3-month period ended 31 March 2014 no further developments in the project implementation occurred.

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

Investments in joint-ventures measured using the equity method as at 31 March 2014 and for the 3-month period ended 31 March 2014 have been presented below:

(in PLN '000)

	As at 31 March 2014 or for the 3-month period ended 31 March 2014 *(unaudited)*	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Non-current assets	**812 960**	785 250	27 710
Current assets	**76 429**	39 788	36 641
Non-current liabilities (-)	**(774 025)**	(774 025)	-
Current liabilities (-)	**(14 274)**	(14 218)	(56)
Total net assets	**101 090**	36 795	64 295
Share in net assets	**50 444**	18 361	32 083
Elimination of transactions with Group companies	**(7 607)**	(7 607)	-
Invetment in joint venture	**42 837**	**10 754**	**32 083**
Share in sales revenue of joint venture	**135**	39	96
Share in profit/(loss) of joint venture	**(406)**	**(425)**	**19**

Investments in joint-ventures measured using the equity method as at 31 December 2013 and for the 3-month period ended 31 March 2013 have been presented below:

	As at 31 December 2013 or for the 3-month period ended 31 March 2013 *(unaudited)*	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.
Non-current assets	**756 165**	728 455	27 710
Current assets	**46 212**	9 588	36 624
Non-current liabilities (-)	**(697 185)**	(697 185)	-
Current liabilities (-)	**(3 267)**	(3 203)	(64)
Total net assets	**101 925**	37 655	64 270
Share in net assets	**50 850**	18 786	32 064
Elimination of transactions with Group companies	**(6 452)**	(6 452)	-
Invetment in joint venture	**44 398**	**12 334**	**32 064**
Share in sales revenue of joint venture	**167**	27	140
Share in profit/(loss) of joint venture	**(869)**	**(837)**	**(32)**

(in PLN '000)

18. Current intangible assets

3-month period ended 31 March 2014 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**695 427**	**461 123**	**1 156 550**
Direct purchase	273 566	5 496	**279 062**
Generated internally	95 979	-	**95 979**
Cancellation	(828 247)	-	**(828 247)**
Reclassification	43 431	-	**43 431**
Closing balance	**280 156**	**466 619**	**746 775**
IMPAIRMENT			
Opening balance	**-**	**-**	**-**
Closing balance	**-**	**-**	**-**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**695 427**	**461 123**	**1 156 550**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**280 156**	**466 619**	**746 775**

3-month period ended 31 March 2013 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**649 473**	**61 626**	**711 099**
Direct purchase	349 419	13 694	**363 113**
Generated internally	34 030	-	**34 030**
Cancellation	(889 334)	-	**(889 334)**
Reclassification	73 769	(358)	**73 411**
Closing balance	**217 357**	**74 962**	**292 319**
IMPAIRMENT			
Opening balance	**-**	**-**	**-**
Closing balance	**-**	**-**	**-**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**649 473**	**61 626**	**711 099**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**217 357**	**74 962**	**292 319**

19. Inventories

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Historical cost		
Raw materials	306 544	337 940
Semi-finished goods and work-in-progress	125 035	117 257
Finished goods	68 392	18 509
Goods for resale	1 298	1 479
Energy certificates	53 887	84 800
Total	**555 156**	**559 985**
Write-downs to net realizable value		
Raw materials	(4 926)	(4 829)
Finished goods	(305)	(169)
Goods for resale	(10)	-
Energy certificates	(45 763)	(45 763)
Total	**(51 004)**	**(50 761)**
Net realizable value		
Raw materials	301 618	333 111
Semi-finished goods and work-in-progress	125 035	117 257
Finished goods	68 087	18 340
Goods for resale	1 288	1 479
Energy certificates	8 124	39 037
Total	**504 152**	**509 224**

(in PLN '000)

20. Trade and other receivables

Current trade and other receivables as at 31 March 2014 and 31 December 2013 have been presented in the table below.

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Trade receivables	1 845 610	1 862 717
Loans granted	5 863	-
Other financial receivables, of which:	296 722	271 924
Receivables from sales of fixed and intangible assets	280	8 355
Receivables claimed at court	20 475	20 342
Other receivables	275 967	243 227
Total	**2 148 195**	**2 134 641**

As at 31 March 2014 non-current trade and other receivables disclosed as other financial assets under non-current assets in the statement of financial position amounted to: PLN 434 thousand (non-current trade receivables) and PLN 19 698 thousand (other non-current receivables).

As at 31 December 2013 non-current trade receivables amounted to PLN 434 thousand, while other receivables to PLN 20 313 thousand.

Current trade and other receivables with related allowance as at 31 March 2014 and 31 December 2013 have been presented in the tables below.

Trade and other receivables as at 31 March 2014 *(unaudited)*

	Trade receivables	Loans granted	Other financial receivables	Total
Accounts receivable (without allowance for doubtful debt)	1 926 125	5 863	495 933	**2 427 921**
Alowance for doubtful debt	(80 515)	-	(199 211)	**(279 726)**
Net value		**5 863**	**296 722**	**2 148 195**

Trade and other receivables as at 31 December 2013

	Trade receivables	Loans granted	Other financial receivables	Total
Accounts receivable (without allowance for doubtful debt)	1 966 860	-	441 280	**2 408 140**
Alowance for doubtful debt	(104 143)	-	(169 356)	**(273 499)**
Net value	**1 862 717**	**-**	**271 924**	**2 134 641**

Trade receivables bear no interest and in case of cooperation with institutional contractors they usually have a 30-day maturity period. Payments to individual clients are made on a monthly or bi-monthly basis.

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

(in PLN '000)

21. Cash and cash equivalents

Cash in bank bears a floating interest rate determined based on interest on overnight deposits. Short-term deposits are made for various periods, from one day to one month, depending on the Group's current demand for cash and bear interest that is calculated according to applicable interest rates.

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Cash at bank and in hand	159 755	153 103
Short-term deposits (up to 3 months)	186 316	482 206
Other	1 628	1 600
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**347 699**	**636 909**
- restricted cash	111 047	121 129
Bank overdraft	(137 497)	(93 645)
Foreign exchange and other differences	(1 894)	(2 116)
Total cash and cash equivalents presented in the statement of cash flows	**208 308**	**541 148**

The difference between the balance of cash recognized in the statement of financial position and that disclosed in the statement of cash flows results from overdrafts and exchange gains and losses on measurement of cash on currency accounts.

Balance of restricted cash includes mainly cash on the account used for settling electricity trading on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 85 910 thousand, held by the Parent.

22. Equity

22.1. Issued capital

Issued capital as at 31 March 2014 *(unaudited)*

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 March 2014, the value of the issued capital, the number of shares and the par value of shares did not change compared to 31 December 2013.

Shareholding structure as at 31 March 2014 *(unaudited, to the best of the Company's knowledge*)

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

Shareholding structure, to the best of the Company's knowledge, as at 31 March 2014 has not changed since 31 December 2013.

22.2. Reserve capital, retained earnings and restrictions on dividend payment

In the current period, there have been no changes in the reserve capital, while changes in retained earnings included:

- net profit for the period attributable to the shareholders of the Parent of PLN 395 930 thousand;

(in PLN '000)

- actuarial gains/losses on provisions for post-employment benefits charged to other comprehensive income of PLN 7 731 thousand;
- acquisition of non-controlling interest of PLN 72 545 thousand;
- mandatory squeeze-out of PLN 5 532 thousand;
- movement in non-controlling interest as a result of a separation of a subsidiary of PLN (811) thousand.

The distributable amount of PLN 1 691 667 thousand recognized under retained earnings includes mainly the prior year profit of the Parent.

22.3. Revaluation reserve from valuation of hedging instruments

	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited)*
Opening balance	**(126 651)**	**(153 703)**
Remeasurement of hedging instruments	(10 772)	(1 838)
Remeasurement of hedging instruments charged to profit or loss for the period	18 379	5 169
Deferred income tax	(1 445)	(633)
Closing balance	**(120 489)**	**(151 005)**

The revaluation reserve from measurement of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued. As at 31 March 2014, the Group was a party to hedging transactions covered by the policy for specific risk management in the area of finance. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Parent hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

As at 31 March 2014, the Company recognized PLN (120 489) thousand in revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling PLN 170 533 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit for the period was charged with PLN 18 379 thousand constituting the change in measurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of IRS hedging transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

23. Interest-bearing loans and borrowings

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Loans and borrowings	1 504 642	1 484 643
Bonds issued	4 936 608	4 300 522
Total	**6 441 250**	**5 785 165**
Current	613 883	284 633
Non-current	5 827 367	5 500 532

(in PLN '000)

23.1. Loans and borrowings

The balance of loans and borrowings taken out as at 31 March 2014 and 31 December 2013 has been presented in the tables below.

Loans and borrowings taken out as at 31 March 2014 *(unaudited)*

Currency	Interest rate	Value of loans as at the balance sheet date *(unaudited)*		of which principal amount maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	201 160	201 160	124 794	23 493	7 763	7 434	13 807	23 869
	fixed	1 266 237	1 266 237	20 442	112 403	132 727	132 727	265 455	602 483
Total PLN		**1 467 397**	**1 467 397**	**145 236**	**135 896**	**140 490**	**140 161**	**279 262**	**626 352**
EUR	floating	5 645	23 545	22 262	1 283	-	-	-	-
	fixed	-	-	-	-	-	-	-	-
Total EUR		**5 645**	**23 545**	**22 262**	**1 283**	**-**	**-**	**-**	**-**
Total			**1 490 942**	**167 498**	**137 179**	**140 490**	**140 161**	**279 262**	**626 352**
Interest increasing carrying amount			13 700						
Total loans and borrowings			**1 504 642**						

Loans and borrowings taken out as at 31 December 2013

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	183 124	183 124	103 249	24 622	7 763	7 532	14 642	25 316
	fixed	1 286 650	1 286 650	-	132 831	132 724	132 724	265 448	622 923
Total PLN		**1 469 774**	**1 469 774**	**103 249**	**157 453**	**140 487**	**140 256**	**280 090**	**648 239**
EUR	floating	636	2 639	725	1 914	-	-	-	-
	fixed	1 216	5 043	5 043	-	-	-	-	-
Total EUR		**1 852**	**7 682**	**5 768**	**1 914**	**-**	**-**	**-**	**-**
Total			**1 477 456**	**109 017**	**159 367**	**140 487**	**140 256**	**280 090**	**648 239**
Interest increasing carrying amount			7 187						
Total loans and borrowings			**1 484 643**						

Change in the balance of loans and borrowings excluding interest accrued in the 3-month period ended 31 March 2014 and in the comparable period has been presented below.

	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited)*
Opening balance	**1 477 456**	**1 205 637**
Movement in bank overdrafts	**43 852**	**58 999**
Movement in loans and borrowings (excluding bank overdrafts):	**(30 366)**	**438 161**
Taken out	-	451 180
Repaid	(30 340)	(7 900)
Change in valuation	(26)	(5 119)
Closing balance	**1 490 942**	**1 702 797**

As at 31 March 2014 the Group's liabilities arising from received loans and borrowings amounted to PLN 1 504 642 thousand and resulted from:

- loans of PLN 1 279 823 thousand obtained from the European Investment Bank, including interest accrued of PLN 13 585 thousand (PLN 1 293 749 thousand as at 31 December 2013);
- overdraft of PLN 137 497 thousand, including mainly financing under cash pool agreement of PLN 115 877 thousand (PLN 93 645 thousand as at 31 December 2013);
- loans and borrowings taken by the Group companies for investment or refunding purposes, including:

(in PLN '000)

- loan taken out by TAURON Dystrybucja S.A. to refinance capital expenditure incurred from 2008 to 2009, the outstanding amount of which was PLN 17 839 thousand as at the end of the reporting period (PLN 24 524 thousand as at 31 December 2013);

- loan from the Regional Fund for Environmental Protection and Water Management taken out by TAURON Wytwarzanie S.A. to fund investment projects related to energy generation from renewable sources in the Jaworzno III power plant. As at the balance sheet date the outstanding amount was PLN 35 000 thousand (PLN 36 000 thousand as at 31 December 2013);

- loan from the Regional Fund for Environmental Protection and Water Management granted to TAURON Ciepło S.A. to fund green investment projects. As at the balance sheet date the outstanding amount was PLN 23 663 thousand (PLN 24 290 thousand as at 31 December 2013).

23.2. Bonds issued

The tables below present the balances of the Group's liabilities arising from bonds issued, together with accrued interest, as at 31 March 2014 and 31 December 2013.

Bonds issued as at 31 March 2014 *(unaudited)*

Tranche	Redemption date	Interest rate	Currrency	As at balance sheet date *(unaudited)*		of which maturing within (after the balance sheet date)					
				Interest accrued	Principal at amortised cost	less than 3 months	3 - 12 months	1 - 2 years	2-3 years	3-5 years	Over 5 years
A	29 December 2015	floating	PLN	7 823	847 198	-	-	847 198	-	-	-
B	12 December 2015	floating	PLN	3 255	299 497	-	-	299 497	-	-	-
B	30 January 2015	floating	PLN	907	150 000	-	150 000	-	-	-	-
C	12 December 2016	floating	PLN	32 548	2 995 595	-	-	-	2 995 595	-	-
E	28 April 2014	floating	PLN	44	100 000	100 000	-	-	-	-	-
BGK*	20 December 2019	floating	PLN	413	99 765	-	-	-	-	-	99 765
BGK*	20 December 2020	floating	PLN	413	99 764	-	-	-	-	-	99 764
BGK*	20 December 2021	floating	PLN	46	99 761	-	-	-	-	-	99 761
BGK*	20 December 2022	floating	PLN	46	99 761	-	-	-	-	-	99 761
BGK*	20 December 2023	floating	PLN	11	99 761	-	-	-	-	-	99 761
Total bonds				**45 506**	**4 891 102**	**100 000**	**150 000**	**1 146 695**	**2 995 595**	**-**	**498 812**

* Bank Gospodarstwa Krajowego

Bonds issued as at 31 December 2013

Tranche	Redemption date	Interest rate	Currrency	As at balance sheet date		of which maturing within (after the balance sheet date)					
				Interest accrued	Principal at amortised cost	less than 3 months	3 - 12 months	1 - 2 years	2-3 years	3-5 years	Over 5 years
A	29 December 2015	floating	PLN	252	847 060	-	-	847 060	-	-	-
B	12 December 2015	floating	PLN	592	299 426	-	-	299 426	-	-	-
B	30 January 2015	floating	PLN	2 300	150 000	-	-	150 000	-	-	-
C	12 December 2016	floating	PLN	5 918	2 994 974	-	-	-	2 994 974	-	-
Total bonds				**9 062**	**4 291 460**	**-**	**-**	**1 296 486**	**2 994 974**	**-**	**-**

The bonds presented above were issued by the Parent. Bonds were issued in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. The interest rate is based on WIBOR 6M, except for Tranche E bonds, and interest on bonds is paid in 6-month periods. Interest on Tranche E bonds maturing within one month is based on WIBOR 1M and is paid at redemption.

Change in the balance of bonds excluding interest accrued in the 3-month period ended 31 March 2014 and in the comparable period has been presented below.

	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited)*
Opening balance	**4 291 460**	**4 288 247**
Issue	800 000	-
Redemption	(200 000)	-
Change in valuation	(358)	758
Closing balance	**4 891 102**	**4 289 005**

(in PLN '000)

In the 3-month period ended 31 March 2014, pursuant to the agreement concluded in 2013 with Bank Gospodarstwa Krajowego, the Company issued bonds with the total par value of PLN 500 000 thousand, with redemption dates falling annually, from 20 December 2019 to 20 December 2023 in equal portions of PLN 100 000 thousand.

Additionally, on 24 January 2014, Tranche E short-term bonds with the par value of PLN 200 000 thousand and maturing on 24 February 2014 were issued by the Company. Another issue of E Tranche bonds with the redemption date of 28 April 2014 and the value of PLN 100 000 thousand took place on 28 March 2014.

The Company hedges a portion of interest cash flows related to issued bonds - Tranche C and a portion of Tranche A, by entering into interest rate swap (IRS) contracts, as presented in detail in Note 22.3 to these condensed interim consolidated financial statements.

The agreements signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 31 March 2014, none of these covenants were breached and the contractual provisions were complied with.

24. Provisions for employee benefits

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Provision for post-employment benefits and jubilee bonuses	1 599 196	1 605 629
Provision for employment termination benefits	49 446	54 553
Total	**1 648 642**	**1 660 182**
Current	156 783	162 368
Non-current	1 491 859	1 497 814

24.1. Provisions for post-employment benefits and jubilee bonuses

The Group determines provisions for future post-employment benefits and jubilee bonuses at an amount estimated using actuarial methods, taking into account the discount rate defined based on market rates of return from treasury bonds.

3-month period ended 31 March 2014 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**282 621**	**569 140**	**121 571**	**49 457**	**582 840**	**1 605 629**
Current service costs	3 395	2 475	812	235	9 875	**16 792**
Actuarial gains and losses	(3 021)	(6 269)	(172)	(106)	(7 505)	**(17 073)**
Benefits paid	(4 376)	(36)	(899)	(396)	(7 517)	**(13 224)**
Past service costs	(1 319)	(3 166)	(378)	-	(3 836)	**(8 699)**
Interest expense	2 738	5 619	1 220	489	5 705	**15 771**
Closing balance	**280 038**	**567 763**	**122 154**	**49 679**	**579 562**	**1 599 196**
Current	**27 575**	**25 143**	**4 309**	**2 053**	**60 372**	**119 452**
Non-current	**252 463**	**542 620**	**117 845**	**47 626**	**519 190**	**1 479 744**

Past service costs of PLN 8 699 thousand result from a decrease in post-employment benefits due to employees transferred from TAURON Wytwarzanie S.A. to TAURON Ciepło S.A. as a result of the separation of Zespół Elektrociepłowni Bielsko-Biała, as presented in detail in note 27 to these condensed interim consolidated financial statements. The conditions of schemes applicable to the employees in question have changed. Until 30 June 2016 the Company Collective Labour Agreement of TAURON Wytwarzanie S.A. will apply to the employees transferred. From 1 July 2016 the employees will be covered by the Company Collective Labour Agreement in force in TAURON Ciepło S.A.

Benefits paid out in the 3-month period ended 31 March 2014 included PLN 1 294 thousand of benefits paid to employees covered by voluntary redundancy schemes (in the 3-month period ended 31 March 2013 it was PLN 1 860 thousand).

(in PLN '000)

3-month period ended 31 March 2013 *(unaudited restated figures)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**260 356**	**595 579**	**135 766**	**56 735**	**579 547**	**1 627 983**
Adjustments	10 366	2 147	458	-	14 813	**27 784**
Opening balance after adjustments	**270 722**	**597 726**	**136 224**	**56 735**	**594 360**	**1 655 767**
Current service costs	2 623	1 473	622	292	8 443	**13 453**
Actuarial gains and losses	(1 112)	(5 912)	(263)	(112)	(6 028)	**(13 427)**
Benefits paid	(4 078)	(256)	(870)	(296)	(7 298)	**(12 798)**
Interest expense	2 502	5 945	1 351	565	5 573	**15 936**
Closing balance	**270 657**	**598 976**	**137 064**	**57 184**	**595 050**	**1 658 931**
Current	**29 332**	**27 351**	**5 230**	**1 885**	**62 565**	**126 363**
Non-current	**241 325**	**571 625**	**131 834**	**55 299**	**532 485**	**1 532 568**

The opening balance adjustment results from the change in the presentation of a portion of actuarial provision related to employees covered with voluntary redundancy schemes, which used to be presented in provisions for employment termination benefits, while at present it is presented in provisions for post-employment benefits and jubilee bonuses.

24.2. Provisions for employment termination benefits

3-month period ended 31 March 2014 *(unaudited)*

	Voluntary redundancy schemes in operating segments				
	Generation	Distribution	Heat	Customer service	Total
Opening balance	**28 109**	**17 584**	**678**	**8 182**	**54 553**
Recognition	281	-	1 733	-	**2 014**
Reversal	-	-	-	-	**-**
Utilisation	(4 001)	(725)	(565)	(1 830)	**(7 121)**
Closing balance	**24 389**	**16 859**	**1 846**	**6 352**	**49 446**
Current	**12 274**	**16 859**	**1 846**	**6 352**	**37 331**
Non-current	**12 115**	**-**	**-**	**-**	**12 115**

3-month period ended 31 March 2013 *(unaudited restated figures)*

	Voluntary redundancy schemes in operating segments			
	Generation	Distribution	Customer service	Total
Opening balance	**75 180**	**23 211**	**9 549**	**107 940**
Adjustments	(27 784)	-	-	**(27 784)**
Opening balance after adjustments	**47 396**	**23 211**	**9 549**	**80 156**
Recognition	2 487	-	-	**2 487**
Reversal	(6 115)	-	-	**(6 115)**
Utilisation	(3 603)	(1 895)	(400)	**(5 898)**
Other movements	4	-	-	**4**
Closing balance	**40 169**	**21 316**	**9 149**	**70 634**
Current	**20 228**	**21 316**	**5 953**	**47 497**
Non-current	**19 941**	**-**	**3 196**	**23 137**

In the 3-month period ended 31 March 2014 the Group followed the voluntary redundancy schemes ("VRS") launched in the preceding periods and discussed in detail in the consolidated financial statements of the Group for the year ended 31 December 2013.

In the 3-month period ended 31 March 2014 the Companies utilized the provisions and paid out benefits from provisions recognized as at 31 December 2013. Additionally, VRS benefits of PLN 1 657 thousand were paid out in the Generation segment and charged directly to the profit of the Group.

As a new group of employees has been covered by the scheme introduced in 2013, the cost of recognition of provisions for VRS benefits grew by PLN 1 733 thousand in the Heat segment.

(in PLN '000)

25. Other provisions

25.1. Changes in provisions

3-month period ended 31 March 2014 *(unaudited)*

	Provision for use of real estate without contract	Provision for mine decommissio-ning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**104 827**	**44 620**	**96 280**	**461 123**	**905 561**	**92 016**	**1 704 427**
Discount rate adjustment	-	386	-	-	-	-	**386**
Recognition	7 139	163	988	5 496	214 614	7 666	**236 066**
Reversal	(2 384)	-	-	-	(2 883)	(1 302)	**(6 569)**
Utilisation	(490)	-	-	-	(895 605)	(1 369)	**(897 464)**
Foreign exchange differences from translation of foreign entities	-	-	-	-	-	7	**7**
Closing balance	**109 092**	**45 169**	**97 268**	**466 619**	**221 687**	**97 018**	**1 036 853**
Current	**109 092**	**-**	**108**	**466 619**	**221 687**	**96 416**	**893 922**
Non-current	**-**	**45 169**	**97 160**	**-**	**-**	**602**	**142 931**

3-month period ended 31 March 2013 *(unaudited)*

	Provision for use of real estate without contract	Provision for mine decommissio-ning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**74 899**	**26 070**	**68 070**	**62 921**	**873 976**	**79 623**	**1 185 559**
Discount rate adjustment	-	282	-	-	-	-	**282**
Recognition	2 386	147	714	86 320	297 996	1 203	**388 766**
Reversal	(961)	-	-	-	(65 995)	(326)	**(67 282)**
Utilisation	(335)	-	-	-	(838 255)	(1 556)	**(840 146)**
Other movements	60	-	-	-	(677)	(9)	**(626)**
Closing balance	**76 049**	**26 499**	**68 784**	**149 241**	**267 045**	**78 935**	**666 553**
Current	**75 666**	**-**	**12 566**	**149 241**	**267 045**	**78 501**	**583 019**
Non-current	**383**	**26 499**	**56 218**	**-**	**-**	**434**	**83 534**

25.2. Description of significant provision items

In the 3-month period ended 31 March 2014 there were no significant changes in provision items, except for those presented below and in Note 7 - concerning the estimation of provisions for gas emission liabilities.

25.2.1 Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. The Group does not establish provision for possible unlodged claims of owners of land with unregulated status. As at 31 March 2014, the relevant provision amounted to PLN 109 092 thousand (as at 31 December 2013 it was PLN 104 827 thousand).

In 2012 a third party lodged a claim against TAURON Ciepło S.A. related to the regulation of legal status of the network located in its property. The Company has questioned both the claim amount and the claimant's title to offset it with its current liabilities regarding heat supply. Such a position of the Company has been confirmed with a non-official decision of Court for Competition and Consumer Protection against the party regarding the heat supply cutoff upon payment default. Consequently, the Company commenced collection litigation against the debtor. The final amount of the defendant's claim regarding the use of its property shall be determined in the course of the litigation. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, and in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.

25.2.2 Provision for the obligation to surrender energy certificates

Due to the sales of electricity to end users, the Group is required to cancel a specified amount of certificates of electricity generated using renewable sources, cogeneration and energy efficiency certificates.

(in PLN '000)

In the 3-month period ended 31 March 2014, the Group fulfilled its obligation to surrender energy certificates for 2013, and PLN 895 605 thousand of the provision recognized as at 31 December 2013 was utilized. As at 31 March 2014, the provision recognized for the obligation to surrender energy certificates amounted to PLN 221 687 thousand and was related to the obligation for 2014.

26. Accruals

26.1. Deferred income and government grants

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Deferred income, *of which:*	**384 731**	**392 861**
Donations, fixed assets received free-of-charge	101 805	104 771
Non-government subsidies	28	250
Subsidies received for the purchase of fixed assets	1 771	1 840
Connection fees	279 702	285 327
Other	1 425	673
Government grants, *of which:*	**349 400**	**330 824**
Subsidies obtained from EU funds	239 984	219 452
Forgiven loans from environmental funds	9 259	9 400
Other	100 157	101 972
Total, *of which*:	**734 131**	**723 685**
Non-current	677 044	668 487
Current	57 087	55 198

Other settlement of government grants include mostly subsidies to initial investments in hard coal mines of PLN 26 142 thousand received by TAURON Wydobycie S.A. and measurement to the market value of preferential loans of PLN 38 761 thousand, received by TAURON Wytwarzanie S.A. and of PLN 3 749 thousand received by TAURON Ciepło S.A.

26.2. Accrued expenses

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Unused holidays	59 827	41 451
Bonuses	100 861	133 125
Environmental protection charges	9 169	2 245
Other	4 022	7 620
Total	**173 879**	**184 441**

27. Acquisition of non-controlling interest and organizational changes

Purchase of shares in TAURON Wydobycie S.A.

On 10 December 2013, an agreement concerning acquisition of 16 730 525 registered shares in TAURON Wydobycie S.A. by TAURON Polska Energia S.A. from Kompania Węglowa S.A. was signed. The shares in question represent 47.52% of the entity's issued capital and give 31.99% of the total voting rights at the General Shareholders' Meeting.

The total acquisition price was PLN 310 000 thousand. The amount of PLN 232 500 thousand was paid at the agreement date and the parties agreed that the remaining PLN 77 500 thousand would be paid following the transfer of the title to the shares onto the Company, i.e. after Kompania Węglowa S.A. has been authorized by its General Shareholders' Meeting to sell the shares and the seller has been authorized by TAURON Wydobycie S.A. to dispose of the shares. The Management Board of TAURON Wydobycie S.A. approved the sale of the shares on 19 December 2013. On 15 January 2014, the General Shareholders' Meeting of Kompania Węglowa S.A. authorized the disposal of shares in TAURON Wydobycie S.A. Hence, the conditions precedent for the transfer of the title to TAURON Wydobycie S.A.'s shares were satisfied. Following the payment of the remaining amount, i.e. PLN 77 500 thousand, to Kompania Węglowa S.A. the title to shares in TAURON Wydobycie S.A. held by Kompania Węglowa S.A. was transferred onto the Company on 22 January 2014.

Under the agreement TAURON Polska Energia S.A. holds 100% of shares in TAURON Wydobycie S.A., which give 100% of votes at the entity's General Shareholders' Meeting, where 47.52% of shares representing 31.99% of votes are held by TAURON Polska Energia S.A. directly and the remaining 52.48% of shares representing 68.01% of votes at the General Shareholders' Meeting of TAURON Wydobycie S.A. are at the Company's disposal under the agreement on the use of shares in TAURON Wydobycie S.A., held by TAURON Wytwarzanie S.A.

As a result of the transaction, non-controlling interest decreased by PLN 382 545 thousand, while retained earnings grew by PLN 72 545 thousand.

Business combination of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o.

On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o. (the acquirer), MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. (the acquirees) was registered.

The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquirees' all assets onto the acquirer.

The business combination has not affected the condensed interim consolidated financial statements.

Separation of TAURON Wytwarzanie S.A.

On 2 January 2014, the division of TAURON Wytwarzanie S.A. through separation pursuant to Article 529.1.4 of the Code of Commercial Companies, involving a transfer of the separated assets, i.e. an organized part of the enterprise in the form of Zespół Elektrociepłowni Bielsko – Biała, to TAURON Ciepło S.A. was recorded.

As a result, the issued capital of TAURON Wytwarzanie S.A. was decreased from PLN 1 553 036 thousand to PLN 1 494 863 thousand, while the issued capital of TAURON Ciepło S.A. was increased from PLN 1 238 077 thousand to PLN 1 409 747 thousand.

As a result of the separation the interests in TAURON Wytwarzanie S.A. held by TAURON Polska Energia S.A. decreased to 99.76% (in the issued capital) and 99.79% (in the total number of votes at the General Shareholders' Meeting), while the interests in TAURON Ciepło S.A. held by TAURON Polska Energia S.A. increased to 96.57% (in the issued capital) and 97.14% (in the total number of votes at the General Shareholders' Meeting).

Consequently, the non-controlling interest increased by PLN 811 thousand and retained earnings dropped by the same amount.

Mandatory squeeze-out

As a result of the squeeze-outs of treasury shares for redemption purposes continued in the TAURON Group, the value of non-controlling interest in TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. and TAURON Ciepło S.A. decreased by PLN 32 569 thousand, while retained earnings increased by PLN 5 532 thousand.

28. Contingent liabilities

Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)

The President of the Energy Regulatory Office instigated administrative proceedings with respect to imposing a financial penalty on Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.) under Article 56.1.5 of the Energy Law, based on the allegation that, in 2008 – 2011, the company used prices and tariffs which had not been submitted for the required approval. The company is of the opinion that it did not breach any law in this respect. In order to avoid being charged with a direct allegation of failing to fulfill the request of the President of Energy Regulatory Office and thus falling under the provisions of the Energy Law, the company, at the request of the President of ERO, submitted electricity tariffs for the years 2008 – 2011 for approval, although it was in fact exempt from the requirement to submit electricity tariffs (exemption based on the decision of the President of ERO dated 28 June 2001). However, the applications for the years 2008, 2009 and 2011 were not approved, and the proceedings for the approval of the electricity tariff for 2010 were cancelled based on the Decision of the President of ERO.

On 19 March 2010 the President of ERO issued a decision cancelling the waiver of the obligation to file electricity tariffs for approval, which had been granted to Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.) by the President of ERO on 28 June 2001. The company appealed against the decision to the Regional Court of Competition and Consumer Protection in Warsaw. On 9 December 2011 the Court of Competition and Consumer Protection cancelled the decision of the President of ERO. On 20 September 2012, the Court of Appeals in Warsaw passed a judgment concerning the appeal of the Energy Regulatory Office with respect to the judgment of the Court of Competition and Consumer Protection cancelling the waiver from the obligation to submit electricity tariffs for the G tariff group granted to TAURON Sprzedaż GZE Sp. z o.o. The Court dismissed the appeal of ERO. On 1 March 2013 the President of ERO filed a cassation appeal to the Supreme Court. On 5 December 2013 the Supreme Court issued a decision refusing the cassation appeal of the President of ERO, which means the final closing of the proceedings.

Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection

On 12 December 2012 the President of the Office for Competition and Consumer Protection ("UOKiK"), Branch in Wrocław, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and leaving the oldest liabilities unpaid.

In response, the Company applied for issuing a decision requesting the company to fulfill an obligation to discontinue activities violating the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended) and to take steps preventing continued existence of the alleged violations. The Office for Competition and Consumer Protection accepted the application, hence TAURON Sprzedaż Sp. z o.o. presented suggested solution with deadlines and an action plan aimed at preventing continued existence of the alleged violations. On 16 April 2013 the President of the Office for Competition and Consumer Protection, Branch in Wrocław, issued a decision requesting the company to discontinue the activities. The company has followed the provisions of the Decision. As at the date of preparing these financial statements, the risk of imposing a fine was very limited, therefore the company did not recognize any provision.

On 17 September 2013 the President of the Office for Competition and Consumer Protection (UOKiK), Branch in Warsaw, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 (Journal of Laws No. 171 item 1206) and therefore constitutes a breach of the Act on competition and consumer protection. The Company submitted requested documents, accepted the whole argumentation of the President of UOKiK and committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. At present, no provision has been recognized for the event.

UOKiK has commenced the following explanatory procedures regarding the Sales segment companies:

- In its letter dated 23 April 2013 UOKiK instigated proceedings against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o., the objective of which was to determine whether the Act on competition and consumer protection was breached in reservation agreements for the sale of electricity, including restricted financial covenants. The companies provided requested documents and responded to statements included in the letter of UOKiK. In January and February 2014 they received subsequent letters requesting further explanations with this regard.
- In its letter dated 7 May 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination if the ability to terminate an agreement for sale of electricity in the "Good Decision 2014" product offer was limited for contractors of TAURON Sprzedaż Sp. z o.o., which, in turn, would be in breach of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331 as amended). Explanatory proceedings were aimed at preliminary determination if the Act in question has been breached, which would justify initiating antimonopoly proceedings. In particular, the proceedings were to decide whether the case is of antimonopoly nature and if the breach has occurred which would justify instigation of proceedings to prohibit applying practices violating collective consumers' interests. The company provided all documents requested and commented on statements included in the letter from UOKiK.
- In its letter dated 10 July 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to concluding agreements for sale of electricity under the "Fixed Price Guaranteed" product offer through the call center were in breach of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331, as amended). The company provided all documents requested and commented on statements included in the letter from UOKiK. On 16 December 2013 the company received a request regarding further information with this respect. In response to the letter, on 30 December 2013 it provided further information as requested. In April 2014 the company received another letter from UOKiK requesting further information.
- In its letter dated 28 October 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to obtaining consumers' consents to process their personal data regarding products called "Bezpieczny", "Eko" and "EkoOszczędny"

with an option of electricity price reduction were in breach of collective interests of the consumers and therefore of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331 as amended). The company provided all documents requested and commented on statements included in the letter.

- In its letter dated 26 September 2013, UOKiK notified TAURON Sprzedaż GZE Sp. z o.o. of the instigation of explanatory proceedings aimed at preliminary determination whether the actions of the company related to imposition of fines for early termination of agreements for sale of electricity were in breach of the Act on competition and consumer protection. In response, the company provided information requested by the President of UOKiK in the proceedings.

The Company's Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low, hence no provision has been recognized for these events.

Claims filed by Huta Łaziska

Following the Company's business combination 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. ("Huta").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001.

Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta on such terms as set out in the agreement of 30 July 2001, at the price of PLN 67/MWh until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw passed a final judgment ending the dispute over the decision of the President of ERO dated 14 November 2001. Huta filed a cassation appeal against the judgment of the Court of Appeals, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for reexamination by the latter. The first hearing before the first instance court was held on 27 November 2012. The most recent hearing was held on 12 May 2014.

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 the claims are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

The status of the remaining contingent liabilities has not changed considerably comparing to that presented in the consolidated financial statements for the year ended 31 December 2013.

(in PLN '000)

29. Collateral against liabilities

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

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

Carrying amount of assets pledged as collateral against liabilities

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Real estate	101 339	232 851
Plant and equipment	45 388	46 291
Motor vehicles	325	450
Cash	5 114	5 121
Total assets pledged as security for liabilities	**152 166**	**284 713**

The entire loan collateralized with a mortgage on real estate was repaid on 31 December 2013, therefore the collateral in the form of a mortgage on real estate of PLN 130 000 thousand was released in the 3-month period ended 31 March 2014.

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 31 March 2014 regard the following contracts concluded by the Parent:

Bond issue schemes

Under the bond issue scheme dated 16 December 2010 with subsequent annexes, the Company filed declarations of submission to enforcement:

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, D and E.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme of PLN 1 000 000 thousand, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand, valid until 20 December 2029.

Master bank guarantee agreement with PKO Bank Polski S.A.

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 31 March 2014, the maximum amount of the agreed guarantee limit was PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement, at the request of the Company, on 31 March 2014 PKO Bank Polski S.A. extended bank guarantees in order to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totalling PLN 3 414 thousand and to collateralize transactions entered into by the Company:

- up to EUR 100 thousand (PLN 417 thousand) – a guarantee for GASPOOL Balancing Services GmbH, valid until 30 September 2014;
- up to EUR 1 000 thousand (PLN 4 171 thousand) – a guarantee for CAO Central Allocation Office GmbH, valid until 3 February 2015.

Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.

In May 2013, the Company signed an agreement on a bank guarantee limit of PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 187 500 thousand valid until 6 May 2016.

Under the agreement in question, the bank has extended bank guarantees with the value of PLN 125 000 thousand as at 31 March 2014 valid until 30 April 2014, at the request of the Company. After expiration of the guarantees, the bank extended guarantees for the total amount of PLN 75 000 thousand, valid until 30 June 2014.

Overdraft facility agreements

As at 31 March 2014, overdraft facility agreements were collateralized by TAURON Polska Energia S.A. with authorizations to debit bank accounts:

- up to PLN 300 000 thousand – facility provided by Polska Kasa Opieki S.A. (cash pool financing);
- up to EUR 25 000 thousand (PLN 104 283 thousand) – facility provided by NORDEA Bank Polska S.A.

The Company has provided declarations of submission to enforcement as collateral for the following overdraft facilities:

- for overdraft facility granted by Polska Kasa Opieki S.A. - up to PLN 360 000 thousand maturing on 31 December 2017;
- for overdraft facility granted by NORDEA Bank Polska S.A. - up to EUR 31 250 thousand (PLN 130 353 thousand) maturing on 31 December 2018.

Other forms of collateral regarding Group's liabilities

As at 31 March 2014, other material forms of collateral regarding liabilities of the TAURON Capital Group included:

- Blank promissory notes issued by TAURON Polska Energia S.A. to the benefit of TAURON Wytwarzanie S.A. and TAURON Ciepło S.A. with a view to collateralizing loans granted to them by the Regional Fund for Environmental Protection and Water Management in Katowice (totaling to PLN 71 180 thousand as at 31 March 2014). The companies have provided declarations of submission to enforcement as collateral for the loans in question;
- Loans taken out by TAURON Dystrybucja S.A. were secured by granting authorizations to debit the borrowers' bank accounts up to the outstanding amount of the principal, interest and other amounts due to the bank – a total of PLN 17 839 thousand as at 31 March 2014;
- In order to secure proper performance of the contract and of the agreements signed by the company, including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for the total amount of PLN 137 327 thousand as at 31 March 2014);
- Blank promissory notes issued by TAURON Ciepło S.A. in the total amount of PLN 61 896 thousand collateralizing due performance of liabilities arising from funding agreements concluded with the Regional Fund for Environmental Protection and Water Management in Warsaw;
- TAURON Ciepło S.A. issued a blank promissory note for an amount of PLN 92 383 thousand to secure the sale and leaseback agreement concluded in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
- TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real estate in Katowice with the carrying amount of PLN 35 265 thousand as at 31 March 2014. The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account. As at 31 March 2014, the lease liability amounted to PLN 35 267 thousand.
- In order to collateralize the Company's transactions on the Polish Power Exchange, a subsidiary, TAURON Wytwarzanie S.A., has given a surety to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT) for the liabilities of TAURON Polska Energia S.A. on the Polish Power Exchange up to PLN 45 000 thousand and collateral in the form of a freeze on EUA emission allowances in the KRUE Register, held by TAURON Wytwarzanie S.A. (8 739 thousand tons) has been provided. The surety expired on 31 March 2014.

Mining entities from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future liquidation costs.

(in PLN '000)

30. Capital commitments

As at 31 March 2014 and 31 December 2013 the Group committed to incur expenditure on property, plant and equipment of PLN 2 241 051 thousand and PLN 2 326 470 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Heat	Constructing new cogeneration capacity in Tychy Heat and Power Plant	486 703	503 625
	Construction of 50 MWE turbo generator	98 150	98 150
Generation	Adjusting a boiler in Jaworzno III Power Plant to reduce the greenhouse gas emissions	86 158	100 759
Mining	Construction of a shaft inlet and developing infrastructure in Janina shaft	82 406	89 491

31. Related party disclosures

31.1. Transactions with jointly-controlled entities

The Group has two jointly-controlled entities: Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o., which have been presented in detail in Note 17 hereto.

31.2. Transactions with State Treasury companies

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

The total value of transactions with the aforementioned entities and the balances of receivables and payables have been presented in the tables below.

Revenue and expense

	3-month period ended 31 March 2014 *(unaudited)*	3-month period ended 31 March 2013 *(unaudited)*
Revenue	655 081	510 970
Costs*	(805 387)	(630 178)

* *includes costs recognized in the statement of comprehensive income*

Receivables and liabilities

	As at 31 March 2014 *(unaudited)*	As at 31 December 2013
Receivables	301 049	227 363
Payables	232 241	365 673

Among the State Treasury companies, in the 3-month period ended 31 March 2014, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A. and Kompania Węglowa S.A. were the major clients of the TAURON Polska Energia S.A. Capital Group. Total sales to these counterparties accounted for 81% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for 89% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2014.

Among the State Treasury companies, in the 3-month period ended 31 March 2013, KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A. and Kompania Węglowa S.A. were the major clients of the TAURON Polska Energia S.A. Capital Group. Total sales to these counterparties accounted for 71% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with Kompania Węglowa S.A., PSE S.A. and Polska Grupa Energetyczna S.A. Purchases from these counterparties accounted for 77% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2013.

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

(in PLN '000)

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

31.3. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Boards and other key executives of the Parent and subsidiaries in the 3-month period ended 31 March 2014 and in the comparative period has been presented in the table below.

	3-month period ended 31 March 2014 *(unaudited)*		3-month period ended 31 March 2013 *(unaudited)*	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**1 532**	**4 920**	**1 372**	**5 335**
Short-term employee benefits (salaries and surcharges)	1 274	4 630	1 119	4 859
Post-employment benefits	-	-	-	230
Employment termination benefits	-	45	-	84
Other	258	245	253	162
Supervisory Board	**236**	**279**	**234**	**294**
Short-term employee benefits (salaries and surcharges)	236	250	234	259
Other	-	29	-	35
Other key management personnel	**2 504**	**11 701**	**2 207**	**11 438**
Short-term employee benefits (salaries and surcharges)	2 281	11 514	2 007	11 259
Jubilee bonuses	-	126	-	35
Post-employment benefits	-	-	-	85
Other	223	61	200	59
Total	**4 272**	**16 900**	**3 813**	**17 067**

(in PLN '000)

32. Financial instruments

32.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	As at 31 March 2014 *(unaudited)*		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss	**343**	**343**	**34**	**34**
Derivative instruments	343	343	34	34
2 Financial assets available for sale	**128 368**	**4 312**	**129 622**	**4 319**
Shares (non-current)	108 296	-	109 459	-
Shares (current)	15 760	-	15 844	-
Investment fund units	2 422	2 422	2 429	2 429
Bonds, T-bills and other debt securities	1 890	1 890	1 890	1 890
3 Loans and receivables	**2 394 892**	**-**	**2 375 529**	**-**
Trade receivables	1 846 044	-	1 863 151	-
Deposits	34 982	-	30 831	-
Loans granted	197 446	-	189 310	-
Other	316 420	-	292 237	-
4 Financial assets excluded from the scope of IAS 39	**42 837**	**-**	**276 898**	**-**
Investments in joint ventures	42 837	-	44 398	-
Advance payment for acquisition of shares		-	232 500	-
5 Cash and cash equivalents	**347 699**	**-**	**636 909**	**-**
Total financial assets, including in the statement of financial position:	**2 914 139**		**3 418 992**	
Non-current assets	**402 142**		**631 564**	
Investments in joint ventures	42 837		44 398	
Other financial assets	359 305		587 166	
Current assets	**2 511 997**		**2 787 428**	
Trade and other receivables	2 148 195		2 134 641	
Other financial assets	16 103		15 878	
Cash and cash equivalents	347 699		636 909	

(in PLN '000)

Categories and classes of financial liabilities	As at 31 March 2014 *(unaudited)*		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss	**1 215**	**1 215**	**1 169**	**1 169**
Derivative instruments	1 215	1 215	1 169	1 169
2 Financial liabilities measured at amortized cost	**7 682 816**	**-**	**7 816 529**	**-**
Preferential loans	61 754	-	63 986	-
Arm's length loans	1 305 391	-	1 327 012	-
Bank overdrafts	137 497	-	93 645	-
Bonds issued	4 936 608	-	4 300 522	-
Trade payables	776 422	-	1 037 304	-
Other financial liabilities	139 784	-	143 413	-
Liabilities due to purchases of fixed and intangible assets	214 865	-	665 768	-
Salaries and wages	100 408	-	170 706	-
Insurance contracts	10 087	-	14 173	-
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**73 560**	**-**	**78 970**	**-**
Liabilities under finance leases	73 560	-	78 970	-
4 Derivative hedging instruments (liabilities)	**170 533**	**170 533**	**159 762**	**159 762**
Total financial liabilities, including in the statement of financial position:	**7 928 124**		**8 056 430**	
Long-term liabilities	**5 986 830**		**5 657 575**	
Interests bearing loans and borrowings	5 827 367		5 500 532	
Liabilities under finance leases	56 025		61 643	
Trade and other payables	7 299		7 827	
Derivative instruments	96 139		87 573	
Short-term liabilities	**1 941 294**		**2 398 855**	
Current portion of interest-bearing loans and borrowings	613 883		284 633	
Current portion of liabilities under finance leases	17 535		17 327	
Trade and other payables	1 234 267		2 023 537	
Derivative instruments	75 609		73 358	

For financial instruments that are not measured at fair value as at the end of the reporting period, the Group did not disclose the fair value due to the fact that the fair value of these financial instruments as at 31 March 2014 and 31 December 2013 did not differ considerably from the values presented in the financial statements for individual periods, for the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments are related to arm's length transactions.

The Group does not disclose the fair value of shares in companies not listed on active markets, classified as financial assets available for sale and those excluded from the scope of IAS 39. The Group is unable to reliably determine the fair value of shares held in companies not quoted on active markets. As at the end of the reporting period, shares classified as financial assets available for sale were measured at cost reduced by impairment, and shares in joint ventures are accounted for using the equity method less impairment in accordance with the accounting policy.

32.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 31 March 2014 and 31 December 2013:

(in PLN '000)

Classes of financial instruments	As at 31 March 2014 *(unaudited)*		As at 31 December 2013	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity-related derivatives	343	-	34	-
Investment fund units	2 422	-	2 429	-
Bonds, T-bills and other debt securities	1 890	-	1 890	-
Liabilities				
Commodity-related derivatives	74	-	40	-
Currency derivatives	-	1 141	-	1 129
IRS derivatives	-	170 533	-	159 762

The method of fair value measurement of financial instruments has been described in Note 7 to these condensed interim consolidated financial statements and has not changed since 31 December 2013.

32.3. Description of significant items included in individual categories of financial instruments

Available-for-sale financial assets

As at 31 March 2014, available-for-sale financial assets included mainly shares in the following companies:

- shares in Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o. with the value of PLN 35 694 thousand;
- shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Tychy with the value of PLN 32 690 thousand;
- shares in Energetyka Cieszyńska Sp. z o.o. with the value of PLN 15 028 thousand.

Loans and receivables

Trade and other receivables have been presented in detail in Note 20 hereto.

Originated loans include loans granted to Elektrociepłownia Stalowa Wola S.A., including: a subordinated loan of PLN 177 000 thousand plus interest accrued of PLN 14 583 thousand and a VAT loan with the total amount of PLN 5 863 thousand, as described in detail in Note 17 to these condensed interim consolidated financial statements.

Financial assets excluded from the scope of IAS 39

As at 31 March 2014 the Group had the following joint ventures accounted for using the equity method:

- Elektrownia Blachownia Nowa Sp. z o.o. special purpose vehicle – PLN 32 083 thousand. TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. have 50% of shares each in its equity and in the governing body;
- Elektrociepłownia Stalowa Wola S.A. special purpose vehicle – PLN 10 754 thousand. TAURON Wytwarzanie S.A. and PGNiG Energia S.A. have 50% of shares each in its equity and in the governing body.

The above investments have been described in detail in Note 17 hereto.

Financial liabilities measured at amortized cost

Liabilities due to loans and borrowings, and arising from issued bonds have been presented in detail in Note 23 hereto.

Hedging derivative instruments (relating to liabilities)

Derivative instruments hedging interest cash flows from bonds issued have been presented in detail in Note 22.3 hereto.

33. Objectives and principles of financial risk management

The objectives and principles of financial risk management have not changed since 31 December 2013.

As at 31 March 2014, the Parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance, entered into with a view to hedging interest cash flows from issued bonds. The Parent applies hedge accounting to the aforementioned transactions. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 22.3 hereto.

34. Financial management

During the period covered by these condensed interim consolidated financial statements there have been no significant changes in finance management objectives, principles and procedures.

35. Significant items of the consolidated statement of cash flows

35.1. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

Expenditure on acquisition of property, plant and equipment and intangible assets of PLN 919 039 thousand were mainly related to the acquisition of property, plant and equipment of PLN 532 044 thousand in the 3-month period ended 31 March 2014, which has been presented in detail in Note 14 hereto. The amount was adjusted by change in capital commitments, excluding VAT in the amount of PLN 370 362 thousand.

35.2. Cash flows from financing activities

Loans and borrowings repaid

Expenditure on repayment of loans and borrowings of PLN 30 340 thousand disclosed in this condensed interim consolidated statement of cash flows result mainly from repayment of PLN 20 455 thousand of the loan granted by the European Investment Bank by the Parent.

Issuance of debt securities

Proceeds from issue of debt securities result from short-term E tranche bonds in the amount of PLN 300 000 thousand and long-term bonds issued under the Parent's agreement with Bank Gospodarstwa Krajowego in the amount of PLN 500 000 thousand in the 3-month period ended 31 March 2014, as discussed in detail in note 23.2 to these condensed interim consolidated financial statements.

Redemption of debt securities

Expenditure for redemption of interest-bearing securities result from redemption of E tranche short-term bonds in the amount of PLN 200 000 thousand by the Parent in the 3-month period ended 31 March 2014, as presented in detail in Note 23.2 to these condensed interim consolidated financial statements.

Acquisition of non-controlling interest

Expenditure for acquisition of non-controlling interest of PLN 104 504 thousand resulted primarily from the Parent's payment of a portion of the price, i.e. PLN 77 500 thousand, for the acquisition of shares in a subsidiary TAURON Wydobycie S.A. from Kompania Węglowa S.A., as discussed in detail in Note 27 to these condensed interim consolidated financial statements.

36. Events after the end of the reporting period

Management Board's recommendations concerning dividend payment

On 15 April 2014 the Management Board issued a decision, which was subsequently approved by the Supervisory Board, concerning amount of dividend payment and record and payment dates recommended to the Ordinary General Shareholders' Meeting, as discussed in detail in note 13 to these condensed interim consolidated financial statements.

Business combination of Enpower Service Sp. z o.o. and TAURON Ciepło S.A.

On 30 April 2014, a business combination of Enpower Service Sp. z o.o. (the acquirer) and TAURON Ciepło S.A. (the acquiree) was registered. The business combination was carried out under Article 492.1.1 of the Code of

Commercial Companies through the transfer of all assets of TAURON Ciepło S.A. to Enpower Service Sp. o.o. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

Cogeneration Act

On 7 April 2014, the President of the Republic of Poland approved the amended Energy Law (Act of 14 March 2014 amending Energy Law and other selected legal acts), i.e. the Cogeneration Act, reintroducing the system supporting generation of electricity in high-efficiency cogeneration until the end of 2018. Pursuant to the Act, energy traders are obliged to acquire energy certificates (yellow certificates for gas cogeneration and red certificates for coal cogeneration) or pay a substitution fee.

In accordance with Article 4 of the Cogeneration Act, in 2014 the obligation to obtain and surrender energy certificates or pay a substitution fee is 3.9 % for yellow certificates. The obligation for coal cogeneration reaches 23.2% in the period from 2014 to 2018.

These condensed interim consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the 3-month period ended 31 March 2014 in accordance with International Accounting Standard 34 have been presented on 52 consecutive pages.

Katowice, 13 May 2014

Dariusz Lubera – President of the Management Board …………………………………

Krzysztof Zawadzki - Vice-President of the Management Board …………………………………..