The TAURON Polska Energia S.A. Capital Group

Interim condensed consolidated financial statements
prepared according to the International Financial Reporting Standards
for the 3-month period ended 31 March 2012

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2012

	Note	3-month period ended 31 March 2012 *(unaudited)*	3-month period ended 31 March 2011 *(unaudited)*
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		4 974 130	4 079 450
Excise		(145 211)	(106 307)
Sale of goods for resale, finished goods and materials		4 828 919	3 973 143
Rendering of services		1 614 099	1 315 110
Other income		11 835	10 822
Sales revenue	**9**	**6 454 853**	**5 299 075**
Cost of sales	**9**	(5 601 218)	(4 560 882)
Gross profit		**853 635**	**738 193**
Other operating income		27 423	19 346
Selling and distribution expenses		(116 780)	(72 231)
Administrative expenses		(176 615)	(146 521)
Other operating expenses		(22 386)	(27 792)
Operating profit		**565 277**	**510 995**
Finance income		31 877	22 479
Finance costs	**30**	(91 205)	(46 437)
Share in profit/(loss) of associate and joint venture recognised using the equity method	**2**	(354)	(297)
Profit before tax		**505 595**	**486 740**
Income tax expense	**10**	(105 441)	(98 769)
Net profit from continuing operations		**400 154**	**387 971**
Net profit for the period		**400 154**	**387 971**
Other comprehensive income:			
Change in the value of hedging instruments		(11 835)	-
Foreign exchange differences from translation of foreign entities		(147)	121
Income tax relating to other comprehensive income items		2 249	-
Other comprehensive income for the period, net of tax	**23**	**(9 733)**	**121**
Total comprehensive income for the period		**390 421**	**388 092**
Net profit for the period:			
Attributable to equity holders of the parent		386 857	382 471
Attributable to non-controlling interests		13 297	5 500
Total comprehensive income:			
Attributable to equity holders of the parent		377 124	382 592
Attributable to non-controlling interests		13 297	5 500
Earnings per share (in PLN):			
- basic, for profit for the period attributable to equity holders of the parent		0.22	0.22
- basic, for profit for the period from continuing operations attributable to equity holders of the parent		0.22	0.22
- diluted, for profit for the period attributable to equity holders of the parent		0.22	0.22
- diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.22	0.22

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012

	Note	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	**14**	22 013 708	21 911 047
Intangible assets	**13**	986 863	988 950
Investments in associates and joint ventures recognised using the equity method	**2**	22 364	22 717
Other long-term financial assets	**22**	197 296	197 470
Other long-term non-financial assets	**30**	217 563	96 349
Deferred tax asset	**10**	8 487	31 965
		23 446 281	**23 248 498**
Current assets			
Current intangible assets	**13**	743 420	870 954
Inventories	**15**	538 761	574 790
Corporate income tax receivable	**10**	122 844	64 266
Trade and other receivables	**16, 22**	3 115 010	2 743 344
Other current financial assets	**22**	4 762	108 024
Other current non-financial assets		324 360	289 034
Cash and cash equivalents	**11, 22**	546 203	505 670
		5 395 360	**5 156 082**
Non-current assets classified as held for sale		**10 846**	**8 951**
TOTAL ASSETS		**28 852 487**	**28 413 531**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012 - CONTINUED

	Note	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	**17**	8 762 747	8 762 747
Reserve capital		7 412 882	7 412 882
Revaluation reserve from valuation of hedging instruments	**23**	(9 586)	-
Foreign exchange differences from translation of foreign entities		(60)	87
Retained earnings/Accumulated losses	**17**	(111 128)	(497 995)
		16 054 855	**15 677 721**
Non-controlling interests		**474 598**	**461 347**
Total equity		**16 529 453**	**16 139 068**
Non-current liabilities			
Interest-bearing loans and borrowings	**22**	4 867 857	4 251 944
Finance lease and hire purchase commitments		51 418	56 232
Long-term provisions and employee benefits	**18, 19**	1 215 105	1 202 840
Long-term accruals and government grants	**20**	636 800	642 549
Trade payables and other financial long-term liabilities	**22**	6 533	7 968
Deferred tax liability	**10**	1 309 864	1 270 390
		8 087 577	**7 431 923**
Current liabilities			
Trade and other payables	**22**	1 663 080	2 349 201
Current portion of interest-bearing loans and borrowings	**22**	330 178	214 169
Current portion of finance lease and hire purchase commitments		14 668	14 761
Other current non-financial liabilities		824 980	644 910
Accruals and government grants	**20**	255 149	279 058
Income tax payable		174 357	163 437
Short-term provisions and employee benefits	**18, 19**	973 045	1 177 004
		4 235 457	**4 842 540**
Total liabilities		**12 323 034**	**12 274 463**
TOTAL EQUITY AND LIABILITIES		**28 852 487**	**28 413 531**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2012

	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 2012		**8 762 747**	**7 412 882**	**-**	**87**	**(497 995)**	**15 677 721**	**461 347**	**16 139 068**
Profit for the period		-	-	-	-	386 857	**386 857**	13 297	**400 154**
Other comprehensive income	**23**	-	-	(9 586)	(147)	-	**(9 733)**	-	**(9 733)**
Total comprehensive income for the period		**-**	**-**	**(9 586)**	**(147)**	**386 857**	**377 124**	**13 297**	**390 421**
Acquisition of non-controlling interests		**-**	**-**	**-**	**-**	10	**10**	(46)	**(36)**
As at 31 March 2012 *(unaudited)*		**8 762 747**	**7 412 882**	**(9 586)**	**(60)**	**(111 128)**	**16 054 855**	**474 598**	**16 529 453**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2011

	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2011	**15 772 945**	**475 088**	**-**	**(271)**	**(1 542 937)**	**14 704 825**	**507 246**	**15 212 071**
Profit for the period	-	-	-	-	382 471	**382 471**	5 500	**387 971**
Other comprehensive income	-	-	-	121	-	**121**	-	**121**
Total comprehensive income for the period	**-**	**-**	**-**	**121**	**382 471**	**382 592**	**5 500**	**388 092**
Reduction of issued capital through reduced nominal value of shares	(7 010 198)	7 010 198	-	-	-	**-**	**-**	**-**
Mandatory squeeze-out	-	-	-	-	4 345	**4 345**	(27 519)	**(23 174)**
As at 31 March 2011 *(unaudited)*	**8 762 747**	**7 485 286**	**-**	**(150)**	**(1 156 121)**	**15 091 762**	**485 227**	**15 576 989**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2012

	Note	3-month period ended 31 March 2012 *(unaudited)*	3-month period ended 31 March 2011 *(unaudited)*
Cash flows from operating activities			
Profit/(loss) before taxation		505 595	486 740
Adjustments for:			
Share in profit/(loss) of associate and joint venture recognised using the equity method	**2**	354	297
Depreciation and amortization		409 916	349 588
(Gain)/loss on foreign exchange differences		(1 011)	(308)
Interest and dividens, net		56 209	20 372
(Gain)/loss on investing activities		3 889	1 035
(Increase)/decrease in receivables		(372 618)	(214 271)
(Increase)/decrease in inventories		35 235	55 183
Increase/(decrease) in payables excluding loans and borrowings		(156 809)	(217 821)
Change in other non-current and current assets		143 799	111 446
Change in deferred income, government grants and accruals		(36 835)	7 825
Change in provisions		(245 144)	(471 640)
Income tax paid		(88 134)	(90 710)
Other		37	4
Net cash from operating activities		**254 483**	**37 740**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		2 909	10 399
Purchase of property, plant and equipment and intangible assets		(968 722)	(509 788)
Proceeds from sale of other financial assets		106 426	9 125
Purchase of other financial assets		(2 722)	(14 529)
Acquisition of shares in associates and joint ventures recognised using the equity method		-	(13 000)
Acquisition of a subsidiary, after deducting cash acquired		(5 500)	-
Loans granted		-	15
Other		-	(1)
Net cash used in investing activities		**(867 609)**	**(517 779)**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2012 - CONTINUED

	Note	3-month period ended 31 March 2012 *(unaudited)*	3-month period ended 31 March 2011 *(unaudited)*
Cash flows from financing activities			
Acquisition of non-controlling interests		(36)	(24 185)
Payment of finance lease liabilities		(4 952)	(9 894)
Proceeds from loans	**22**	542 000	60 594
Repayment of loans		(31 103)	(152 215)
Issue of debt securities	**22**	150 000	-
Dividends paid to non-controlling interests		(6)	(2)
Interest paid		(4 839)	(8 468)
Other		(1 706)	(7 624)
Net cash used in financing activities		**649 358**	**(141 794)**
Net increase/(decrease) in cash and cash equivalents		**36 232**	**(621 833)**
Net foreign exchange difference		(303)	338
Cash and cash equivalents at the beginning of the period		**505 816**	**1 471 660**
Cash and cash equivalents at the end of the period, *of which*:	**11**	**542 048**	**849 827**
restricted cash		252 481	87 164

EXPLANATORY NOTES

1. Corporate 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 interim condensed consolidated financial statements of the Group cover the 3-month period ended 31 March 2012 and include comparative figures for the 3-month period ended 31 March 2011 and as at 31 December 2011. The data for the 3-month period ended 31 March 2012 included in these interim condensed consolidated financial statements and the comparative figures for the 3-month period ended 31 March 2011 were neither audited nor reviewed by an independent auditor. Comparative figures as at 31 December 2011 were audited by an independent auditor.

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

The parent was granted a statistical number REGON 240524697.

The parent and other Group entities have unlimited periods of operation.

The Group's principal business activities include:

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

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

(in PLN thousand)

2. Composition of the Group

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

No.	Name of the entity	Address	Principal business activities	Direct interest of TAURON in the entity's share capital	Direct interest of TAURON in the entity's governing body
1	TAURON Wytwarzanie S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	99.72%
2	TAURON Dystrybucja S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.38%	99.51%
3	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100.00%	100.00%
4	TAURON Obsługa Klienta Sp. z o.o.	53-314 Wrocław; ul. Sudecka 95-97	Services	100.00%	100.00%
5	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	100.00%
6	Elektrociepłownia Tychy S.A.	43-100 Tychy; ul. Przemysłowa 47	Generation of electricity, production and distribution of heat	95.47%	99.05%
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	100.00%	100.00%
8	TAURON Ciepło S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	90.06%	91.76%
9	Elektrociepłownia EC Nowa Sp. z o.o.	41-308 Dąbrowa Górnicza; al. J. Piłsudskiego 92	Generation of electricity, production of heat and technical gases	84.00%	84.00%
10	TAURON Czech Energy s.r.o.	720 00 Ostrava, Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	100.00%
11	Górnośląski Zakład Elektroenergetyczny S.A..	44-100 Gliwice; ul. Barlickiego 2	Activities of holdings	99.98%	99.98%

(in PLN thousand)

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

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 March 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 March 2012
1	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. – 100.00%	99.72%	TAURON Wytwarzanie S.A. – 100.00%
2	Południowy Koncern Węglowy S.A.[1]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.82%	TAURON Wytwarzanie S.A. – 68.01%
3	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
4	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
5	Lipniki Sp. z o.o.	52-420 Wrocław; ul. Tadeusza Mikulskiego 5	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
6	TAURON Dystrybucja GZE S.A.	44-100 Gliwice; ul. Portowa 14a	Distribution of electricity	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100.00%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100.00%
7	Vattenfall Sales Poland Sp. z o.o.[2]	44-100 Gliwice; ul. Barlickiego 2a	Trading in electricity	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.998%, TAURON Serwis GZE Sp. z o.o – 0.002%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.998%, TAURON Serwis GZE Sp. z o.o – 0.002%
8	TAURON Serwis GZE Sp. z o.o.	44-100 Gliwice; ul. Myśliwska 6	Repair and maintenance of electrical machinery and equipment, electrical installations, construction of power lines	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.8%, Vattenfall Sales Poland Sp. z o.o. – 0.2%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 99.8%, Vattenfall Sales Poland Sp. z o.o. – 0.2%

(in PLN thousand)

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 31 March 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 31 March 2012
9	TAURON Ekoenergia GZE Sp. z o.o.	44-100 Gliwice; ul. Barlickiego 2	Generation of electricity	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100.00%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100.00%
10	Vattenfall Business Services Poland Sp. z o.o. [3]	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Services	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100.00%	99.98%	Górnośląski Zakład Elektroenergetyczny S.A. – 100.00%

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

[2] On 2 April 2012, the District Court entered the change of the company's name from Vattenfall Sales Poland Sp. z o.o. to TAURON Sprzedaż GZE Sp. z o.o.

[3] On 2 April 2012, the District Court entered the change of the company's name from Vattenfall Business Services Poland Sp. z o.o. to TAURON Obsługa Klienta GZE Sp. z o.o.

Joint venture

Elektrociepłownia Stalowa Wola S.A. is a special purpose entity set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A., which is intended to carry out an investment project involving construction of a gas and steam unit in Stalowa Wola, fired with natural gas and with a gross electric power of 400 MWe and net thermal power of 240 MWt. The project is to be completed in 2015. The partners intend to carry out the project sharing the rights and obligations on an equal basis.

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

The equity-accounted investment in the joint venture as at 31 March 2012 and 31 December 2011 is presented in the table below:

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Non-current assets	41 000	40 423
Current assets	4 878	7 796
Non-current liabilities (-)	(247)	(255)
Current liabilities (-)	(778)	(2 403)
Total net assets	**44 853**	**45 561**
Share in net assets	**22 364**	**22 717**
Goodw ill	-	-
Invetment in joint venture	**22 364**	**22 717**
Share in revenue of joint venture	26	146
Share in profit/(loss) of joint venture	**(354)**	**(1 046)**

3. Basis of preparation of interim condensed consolidated financial statements

These interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards endorsed by the EU (“IFRS”), in particular in accordance with International Accounting Standard 34 (“IFRS 34”). At the date of authorization of these consolidated financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the Group’s activities, within the scope of the accounting policies applied by the Group there is no difference between the IFRSs that came into effect and the IFRSs endorsed by the EU.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee.

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

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

The interim condensed consolidated financial statements do not include all information and disclosures that are required in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2011.

These interim condensed consolidated financial statements for the 3-month period ended 31 March 2012 were authorized for issue on 8 May 2012.

4. Summary of significant accounting policies

The accounting policies applied to the interim condensed consolidated financial statements are consistent with those applied to the annual consolidated financial statements of the Group for the year ended 31 December 2011, except for the application of the following amendments to standards and new interpretations effective for annual periods beginning on 1 January 2012:

- Amendment to IAS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets - applicable to annual periods beginning on or after 1 July 2011.*

5. New standards and interpretations that have been issued but are not yet effective

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

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the European Union (EU) as at the date of authorization of these consolidated financial statements. In the next phases, International Accounting Standards Board will deal with hedge accounting and impairment methodology. The application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. The Group will assess this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent view.
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 - not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements. The most important amendment to IAS 19 from the Company's perspective is the liquidation of the "corridor approach" and the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income.
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012 – not endorsed by the EU as at the date of authorization of these financial statements.
- IFRIC 20 *Stripping Cost of the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.

- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.

Apart from the impact of the amendment to IAS 19 involving the liquidation of the corridor approach, as at the date of authorization of these interim condensed consolidated financial statements, the Company's Board of Directors has not determined whether or not and to what extent the introduction of the aforementioned standards and interpretations may affect the Group's accounting policies.

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

6. Changes in estimates

In the period ended 31 March 2012, there were no significant changes to the values or methodology of making estimates that would affect the current or future periods, other than those presented in the following sections of these interim condensed consolidated financial statements.

7. Seasonality of operations

The Group's operations are seasonal in nature, particularly in the area of production, distribution and sales of heat, distribution and sales of electricity to individual customers and sales 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 wintertime. The seasonality of other areas of Group operations is insignificant.

8. Segment information

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

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

As of 1 January 2012, changes were made to presentation of segments which involved separating two new operating segments: the Heat Segment and the Customer Service Segment and amending the allocation of companies to the individual operating segments. These changes resulted mainly from merger processes carried out in 2011, changes to the business names of the companies and acquisition of companies from the GZE Group. Separation of new segments is the consequence of the Group's reorganization and the Board's monitoring of results separately at the level of the Heat and Customer Service segments. Comparative figures for the period from 1 January 2011 to 31 March 2011 have been restated accordingly.

The Group's reporting format for the period from 1 January 2012 to 31 March 2012 and for the comparative period was based on the following operating segments:

- Mining Segment, comprising hard coal mining, which includes operations of Południowy Koncern Węglowy S.A.
- Generation Segment, which includes generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. The main types of fuel used by the Generation Segment are hard coal, biomass and coke-oven gas. The Generation Segment of the TAURON Group includes operations of TAURON Wytwarzanie S.A.
- Renewable Sources of Energy Segment, which includes generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment. Entities which operate in the Renewable Sources of Energy Segment of the TAURON Group are TAURON Ekoenergia Sp. z o.o., BELS INVESTMENT Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o., Lipniki Sp. z o.o. and TAURON Ekoenergia GZE Sp. z o.o.
- Sales Segment, which includes wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity. Entities which operate in that segment of the TAURON Group are TAURON Polska Energia S.A., TAURON Sprzedaż Sp. z o.o., TAURON Czech Energy s.r.o. and TAURON Sprzedaż GZE Sp. z o.o.
- Distribution Segment, including operations of TAURON Dystrybucja S.A., Górnośląski Zakład Elektroenergetyczny S.A., TAURON Dystrybucja GZE S.A. and TAURON Serwis GZE Sp. z o.o.
- Heat Segment, which includes distribution and sales of heat. Entities which operate in that segment are TAURON Ciepło S.A., Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o. Until the end of 2011, Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o. were part of the Generation Segment, whereas the operations of TAURON Ciepło S.A. were part of other activities of the Group.
- Customer Service Segment, which mainly includes services to internal customers (TAURON Capital Group companies) in respect of sales process services as well as in respect of financial and accounting services to selected Group companies. Entities which operate in that segment are TAURON Obsługa Klienta Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o. Until the end of 2011, TAURON Obsługa Klienta Sp. z o.o. was allocated to the Sales Segment, while the operations of TAURON Obsługa Klienta GZE Sp. z o.o. were part of other activities of the Group.

In addition to the main business segments listed above, the TAURON Group also conducts operations in quarrying of stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulfurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., which was allocated to the Sales Segment until the end of 2011, are also treated as other activities of the Group.

As a result of separation of the Heat Segment, the investment in Elektrociepłownia Stalowa Wola S.A., which has been consolidated using the equity method, as discussed in further detail in Note 2, has been presented in the Heat Segment. Until 31 December 2011, this investment was presented in the Generation Segment. The respective comparative figures have been restated.

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 on consolidation.

Administrative expenses of the parent, after elimination of costs arising from intercompany transactions, are presented under unallocated expenses. Administrative expenses are incurred by the parent for the benefit of the whole Group and cannot be directly allocated to a single operating segment.

Segment assets do not include deferred tax, income tax receivable or financial assets, except for trade and other 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, commitments to purchase fixed and intangible assets and payroll creditors, which do represent segment liabilities.

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

The Board of Directors 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. The Group’s financing (including finance costs and income) and income tax are monitored at the level of the Group and they are not allocated to segments.

(in PLN thousand)

3-month period ended 31 March 2012 or as at 31 March 2012 *(unaudited)*	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	124 035	1 260 724	19 520	512 641	4 145 876	334 392	6 434	51 231	-	**6 454 853**	-	**6 454 853**
Inter-segment sales	182 946	208 686	47 123	1 049 759	358 707	7 544	77 412	60 452	-	**1 992 629**	(1 992 629)	**-**
Segment revenue	**306 981**	**1 469 410**	**66 643**	**1 562 400**	**4 504 583**	**341 936**	**83 846**	**111 683**	**-**	**8 447 482**	**(1 992 629)**	**6 454 853**
Profit/(loss) of the segment	**22 747**	**121 439**	**43 239**	**231 036**	**96 379**	**59 850**	**10 076**	**8 834**	**(3 668)**	**589 932**	**-**	**589 932**
Unallocated expenses	-	-	-	-	-	-	-	-	(24 655)	**(24 655)**	-	**(24 655)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**22 747**	**121 439**	**43 239**	**231 036**	**96 379**	**59 850**	**10 076**	**8 834**	**(28 323)**	**565 277**	**-**	**565 277**
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	-	-	-	-	(354)	-	-	-	**(354)**	-	**(354)**
Net finance income (costs)	-	**-**	-	-	-	-	-	-	(59 328)	**(59 328)**	-	**(59 328)**
Profit/(loss) before income tax	**22 747**	**121 439**	**43 239**	**231 036**	**96 379**	**59 496**	**10 076**	**8 834**	**(87 651)**	**505 595**	**-**	**505 595**
Income tax expense	-	-	-	-	-	-	-	**-**	(105 441)	**(105 441)**	-	**(105 441)**
Net profit/(loss) for the period	**22 747**	**121 439**	**43 239**	**231 036**	**96 379**	**59 496**	**10 076**	**8 834**	**(193 092)**	**400 154**	**-**	**400 154**
EBITDA	**48 402**	**254 087**	**53 612**	**445 100**	**101 262**	**76 659**	**13 546**	**10 907**	**(28 323)**	**975 252**	**-**	**975 252**
Assets and liabilities												
Segment assets	1 179 043	9 825 323	1 165 050	11 812 466	2 887 280	1 418 397	55 634	164 257	-	**28 507 450**	-	**28 507 450**
Investments in associates and joint ventures recognised using the equity method	-	-	-	-	-	22 364	-	-	-	**22 364**	-	**22 364**
Unallocated assets	-	-	-	-	-	-	-	-	322 673	**322 673**	-	**322 673**
Total assets	**1 179 043**	**9 825 323**	**1 165 050**	**11 812 466**	**2 887 280**	**1 440 761**	**55 634**	**164 257**	**322 673**	**28 852 487**	**-**	**28 852 487**
Segment liabilities	454 724	1 253 819	50 073	1 984 276	1 373 316	273 967	74 462	34 586	-	**5 499 223**	-	**5 499 223**
Unallocated liabilities	-	-	-	-	-	-	-	-	6 823 811	**6 823 811**	-	**6 823 811**
Total liabilities	**454 724**	**1 253 819**	**50 073**	**1 984 276**	**1 373 316**	**273 967**	**74 462**	**34 586**	**6 823 811**	**12 323 034**	**-**	**12 323 034**
Other segment information												
Capital expenditure *	25 097	188 183	4 945	223 276	5 981	59 627	1 936	960	-	**510 005**	-	**510 005**
Depreciation/amortization	(25 655)	(132 648)	(10 373)	(214 064)	(4 883)	(16 809)	(3 470)	(2 073)	-	**(409 975)**	-	**(409 975)**

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

(in PLN thousand)

3-month period ended 31 March 2011 *(unaudited)* or as at 31 December 2011	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	131 504	1 358 459	151	330 924	3 088 402	303 415	31 511	54 709	-	**5 299 075**	-	**5 299 075**
Inter-segment sales	152 562	179 678	51 492	858 593	299 561	15 214	46 967	56 532	-	**1 587 928**	(1 587 928)	**-**
Segment revenue	**284 066**	**1 538 137**	**51 643**	**1 189 517**	**3 387 963**	**318 629**	**78 478**	**111 241**	**-**	**6 887 003**	**(1 587 928)**	**5 299 075**
Result												
Profit/(loss) of the segment	**(4 414)**	**173 774**	**34 120**	**167 402**	**84 611**	**58 350**	**5 975**	**6 204**	**2 177**	**528 199**	**-**	**528 199**
Unallocated expenses	-	-	-	-	-	-	-	-	(17 204)	**(17 204)**	-	**(17 204)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**(4 414)**	**173 774**	**34 120**	**167 402**	**84 611**	**58 350**	**5 975**	**6 204**	**(15 027)**	**510 995**	**-**	**510 995**
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	-	-	-	-	(297)	-	-	-	**(297)**	-	**(297)**
Net finance income (costs)	-	-	-	-	-	-	-	-	(23 958)	**(23 958)**	-	**(23 958)**
Profit/(loss) before income tax	**(4 414)**	**173 774**	**34 120**	**167 402**	**84 611**	**58 053**	**5 975**	**6 204**	**(38 985)**	**486 740**	**-**	**486 740**
Income tax expense	-	-	-	-	-	-	-	-	(98 769)	**(98 769)**	-	**(98 769)**
Net profit/(loss) for the period	**(4 414)**	**173 774**	**34 120**	**167 402**	**84 611**	**58 053**	**5 975**	**6 204**	**(137 754)**	**387 971**	**-**	**387 971**
EBITDA	**21 622**	**307 701**	**40 130**	**329 056**	**86 228**	**76 314**	**6 484**	**8 162**	**(15 027)**	**860 670**	**-**	**860 670**
Assets and liabilities												
Segment assets	1 143 534	9 692 185	977 464	11 922 893	2 672 154	1 351 415	67 078	172 161	-	**27 998 884**	-	**27 998 884**
Investments in associates and joint ventures recognised using the equity method	-	-	-	-	-	22 717	-	-	-	**22 717**	-	**22 717**
Unallocated assets	-	-	-	-	-	-	-	-	391 930	**391 930**	-	**391 930**
Total assets	**1 143 534**	**9 692 185**	**977 464**	**11 922 893**	**2 672 154**	**1 374 132**	**67 078**	**172 161**	**391 930**	**28 413 531**	**-**	**28 413 531**
Segment liabilities	484 548	1 506 481	46 701	2 204 346	1 626 603	251 479	78 449	31 276	-	**6 229 883**	-	**6 229 883**
Unallocated liabilities	-	-	-	-	-	-	-	-	6 044 580	**6 044 580**	-	**6 044 580**
Total liabilities	**484 548**	**1 506 481**	**46 701**	**2 204 346**	**1 626 603**	**251 479**	**78 449**	**31 276**	**6 044 580**	**12 274 463**	-	**12 274 463**
Other segment information												
Capital expenditure *	26 015	61 545	7 302	119 988	610	9 081	3 637	2 948	-	**231 126**	-	**231 126**
Depreciation/amortization	(26 036)	(133 927)	(6 010)	(161 654)	(1 617)	(17 964)	(509)	(1 958)	-	**(349 675)**	-	**(349 675)**

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

(in PLN thousand)

9. Revenues and costs

The figures for the 3-month period ended 31 March 2012 include also revenues and costs of the companies acquired as a result of the purchase of the GZE S.A. Group. The companies' results are consolidated as of the date of acquisition i.e. 13 December 2011.

9.1. Sales revenue

	For the 3-month period ended 31 March 2012 *(unaudited)*	For the 3-month period ended 31 March 2011 *(unaudited)*
Revenue from sale of goods for resale, finished goods and materials, *of which*:	**4 828 919**	**3 973 143**
Electricity	4 110 334	3 420 635
Heat energy	251 421	230 661
Property rights arising from energy certificates	72 597	34 221
Greenhouse gas emission allowances	72 587	11 971
Compensation for termination of PPAs	121 122	73 495
Coal	117 116	123 360
Furnace blast	41 231	39 834
Compressed air	19 059	16 903
Milling products	9 286	6 301
Other goods for resale, finished goods and materials	14 166	15 762
Rendering of services, *of which*:	**1 614 099**	**1 315 110**
Distribution and trade services	1 527 498	1 259 921
Connection fees	27 115	18 453
Maintenance of road lighting	24 662	17 803
Charges for illegal electricity consumption	4 904	2 888
Other services	29 920	16 045
Other revenue, *of which:*	**11 835**	**10 822**
Rental income	11 835	10 822
Total sales revenue	**6 454 853**	**5 299 075**

(in PLN thousand)

9.2. Costs by type

	For the 3-month period ended 31 March 2012 *(unaudited)*	For the 3-month period ended 31 March 2011 *(unaudited)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(409 975)	(349 675)
Impairment of property, plant and equipment and intangible assets	84 763	(483)
Materials and energy	(711 001)	(780 472)
Maitenance and repair services	(43 572)	(34 904)
Distribution services	(379 221)	(315 391)
Other external services	(212 083)	(173 059)
Taxes and charges	(157 266)	(206 279)
Employee benefits expense	(752 349)	(607 971)
Inventory write-downs	(2 782)	(211)
Allowance for doubtful debts	(7 476)	(2 065)
Other	(21 531)	(15 141)
Total costs by type	**(2 612 493)**	**(2 485 651)**
Change in inventories, prepayments, accruals and deferred income	(2 118)	24 773
Cost of goods produced for internal purposes	86 190	66 267
Selling and distribution expenses	116 780	72 231
Administrative expenses	176 615	146 521
Cost of goods for resale and materials sold	(3 366 192)	(2 385 023)
Cost of sales	**(5 601 218)**	**(4 560 882)**

10. Income tax

10.1. Tax expense in the statement of comprehensive income

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

	For the 3-month period ended 31 March 2012 *(unaudited)*	For the 3-month period ended 31 March 2011 *(unaudited)*
Current income tax	**(40 238)**	**(57 655)**
Current income tax expense	(38 939)	(52 439)
Adjustments to current income tax from previous years	(1 299)	(5 216)
Deferred tax	**(65 203)**	**(41 114)**
Income tax in profit or loss	**(105 441)**	**(98 769)**
Income tax relating to other comprehensive income	**2 249**	**-**

This is a translation of the interim condensed consolidated financial statements originally issued in Polish.

(in PLN thousand)

10.2. Deferred income tax

Deferred income tax arises from the following items:

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Deferred tax liability		
- investment tax credits	87	89
- difference between tax base and carrying amount of fixed and intangible assets	1 752 974	1 730 720
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	1 154	1 147
- difference between tax base and carrying amount of financial assets available for sale	8 023	8 025
- difference between tax base and carrying amount of financial assets held to maturity	142	120
- difference between tax base and carrying amount of loans and receivables	6 822	4 222
- difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	98	98
- different timing of recognition of sales revenue for tax purposes	73 768	108 010
- recognition of estimated revenue from sale of power distribution services	4 858	4 912
- difference between tax base and carrying amount of property rights arising from energy certificates	64 540	63 750
- compensation for termination of long-term contracts	108 989	93 859
- other	21 061	29 693
Deferred tax liability	**2 042 516**	**2 044 645**
Deferred tax assets		
- difference between tax base and carrying amount of fixed and intangible assets	2 257	1 770
- difference between tax base and carrying amount of inventories	4 942	4 568
- difference between tax base and carrying amount of other non-financial assets	274	364
- power infrastructure received free of charge and received connection fees	88 880	86 115
- provisions	458 577	504 018
- difference between tax base and carrying amount of assets measued at fair value through profit or loss	1 536	1 620
- difference between tax base and carrying amount of financial assets available for sale	867	900
- difference between tax base and carrying amount of loans and receivables	27 768	25 569
- difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	1 866	2 097
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	210	114
- difference between tax base and carrying amount of financial liabilities measured at amortized cost	16 680	3 552
- different timing of recognition of cost of sales for tax purposes	29 504	70 806
- other accrued expenses	12 639	19 460
- tax losses	78 515	6 272
- different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	-	61 182
- other	16 624	17 813
Deferred tax assets	**741 139**	**806 220**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**8 487**	**31 965**
Deferred tax liability	**(1 309 864)**	**(1 270 390)**

(in PLN thousand)

10.3. Tax Capital Group

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

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

As at 31 March 2012, the Tax Capital Group had an overpayment in respect of the corporate income tax for the 1st quarter of the year amounting to PLN 75,210 thousand, which has been presented as income tax receivable in the consolidated financial statements.

11. Cash and cash equivalents

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

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

	As at 31 March 2012 *(unaudited)*	**As at 31 December 2011**
Cash at bank and in hand	338 813	264 082
Short-term deposits (up to 3 months)	207 209	200 456
Other	181	41 132
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**546 203**	**505 670**
- restricted cash	252 481	176 241
Bank overdraft	(4 602)	-
Foreign exchange and other differences	448	146
Total cash and cash equivalents presented in the statement of cash flows	**542 049**	**505 816**

Restricted cash consists mainly of cash held in the parent's settlement account used for trading in electricity at Towarowa Giełda Energii S.A. (Polish Power Exchange), amounting to PLN 222,124 thousand.

12. Dividends paid and proposed

On 24 April 2012, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 543,290 thousand for dividends to the Company's shareholders, which gives PLN 0.31 per share, The dividend will be paid from the Company's net profit for 2011 amounting to PLN 1,083,429 thousand. The dividend date has been set at 2 July 2012 and the dividend payment date at 20 July 2012.

(in PLN thousand)

13. Intangible assets

Non-current intangible assets for the period from 1 January to 31 March 2012 *(unaudited)*

	Development expenses	Goodwill	Software	Other acquired 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	**4 389**	**726 369**	**270 932**	**4 920**	**97 495**	**34 769**	**13 831**	**1 152 705**
Direct purchase	-	-	2	-	-	-	7 350	**7 352**
Transfer of intangible assets not made available for use	-	-	2 780	149	-	1 058	(3 987)	**-**
Reclassification	-	-	130	14	-	(144)	-	**-**
Liquidation	(565)	-	(1 219)	-	-	(3)	-	**(1 787)**
Received free of charge	-	-	-	-	-	118	-	**118**
Transfers from assets under construction	-	-	3 422	89	-	-	265	**3 776**
Other movements	-	-	-	-	64	-	(5)	**59**
Foreign exchange differences from translation of foreign entities	-	-	-	-	-	-	(13)	**(13)**
Closing balance	**3 824**	**726 369**	**276 047**	**5 172**	**97 559**	**35 798**	**17 441**	**1 162 210**
ACCUMULATED AMORTIZATION								
Opening balance	**(3 482)**	**-**	**(141 246)**	**(1 498)**	**(15 166)**	**(2 363)**	**-**	**(163 755)**
Amortization for the period	(114)	-	(11 364)	(324)	-	(396)	-	**(12 198)**
Increase of impairment	-	-	-	-	(3 025)	-	-	**(3 025)**
Decrease of impairment	-	-	-	-	1 903	-	-	**1 903**
Reclassification	-	-	(90)	(9)	-	99	-	**-**
Liquidation	565	-	1 163	-	-	-	-	**1 728**
Closing balance	**(3 031)**	**-**	**(151 537)**	**(1 831)**	**(16 288)**	**(2 660)**	**-**	**(175 347)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**907**	**726 369**	**129 686**	**3 422**	**82 329**	**32 406**	**13 831**	**988 950**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**793**	**726 369**	**124 510**	**3 341**	**81 271**	**33 138**	**17 441**	**986 863**

(in PLN thousand)

Non-current intangible assets for the period from 1 January to 31 March 2011 *(unaudited)*

	Development expenses	Goodwill	Software	Other acquired 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	**4 389**	**169 553**	**210 046**	**3 371**	**59 977**	**4 430**	**10 362**	**462 128**
Direct purchase	-	-	16	40	4 974	-	4 041	**9 071**
Transfer of intangible assets not made available for use	-	-	2 201	-	-	731	(2 932)	**-**
Reclassification	-	-	(6)	6	-	-	-	**-**
Liquidation	-	-	(319)	(6)	-	(9)	-	**(334)**
Received free of charge	-	-	26	-	-	-	-	**26**
Transfers from assets under construction	-	-	36	-	-	90	-	**126**
Other movements	-	-	-	-	-	-	701	**701**
Closing balance	**4 389**	**169 553**	**212 000**	**3 411**	**64 951**	**5 242**	**12 172**	**471 718**
ACCUMULATED AMORTIZATION								
Opening balance	**(2 913)**	**-**	**(109 559)**	**(1 247)**	**(22)**	**(1 596)**	**(450)**	**(115 787)**
Amortization for the period	(142)	-	(7 946)	(129)	-	(143)	-	**(8 360)**
Decrease of impairment	-	-	-	-	22	-	-	**22**
Reclassification	-	-	2	(2)	-	-	-	**-**
Liquidation	-	-	84	1	-	7	-	**92**
Closing balance	**(3 055)**	**-**	**(117 419)**	**(1 377)**	**-**	**(1 732)**	**(450)**	**(124 033)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 476**	**169 553**	**100 487**	**2 124**	**59 955**	**2 834**	**9 912**	**346 341**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 334**	**169 553**	**94 581**	**2 034**	**64 951**	**3 510**	**11 722**	**347 685**

(in PLN thousand)

Current intangible assets for the period from 1 January to 31 March 2012 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**774 942**	**187 126**	**962 068**
Direct purchase	225 152	53 753	**278 905**
Energy certificates generated internally	88 217	-	**88 217**
Cancellation of energy certificates	(579 762)	-	**(579 762)**
Other movements	(699)	(66)	**(765)**
Closing balance	**507 850**	**240 813**	**748 663**
ACCUMULATED AMORTIZATION			
Opening balance	**(91 114)**	-	**(91 114)**
Increase of impairment	(1 398)	-	**(1 398)**
Decrease of impairment	87 269	-	**87 269**
Closing balance	**(5 243)**	**-**	**(5 243)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**683 828**	**187 126**	**870 954**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**502 607**	**240 813**	**743 420**

Current intangible assets for the period from 1 January to 31 March 2011 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**523 017**	**101 173**	**624 190**
Direct purchase	98 109	27 422	**125 531**
Energy certificates generated internally	56 116	-	**56 116**
Cancellation of energy certificates	(368 271)	-	**(368 271)**
Other movements	(50)	-	**(50)**
Closing balance	**308 921**	**128 595**	**437 516**
ACCUMULATED AMORTIZATION			
Opening balance	**-**	**-**	**-**
Increase of impairment	**-**	**-**	**-**
Decrease of impairment	**-**	**-**	**-**
Closing balance	**-**	**-**	**-**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**523 017**	**101 173**	**624 190**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**308 921**	**128 595**	**437 516**

(in PLN thousand)

14. Property, plant and equipment

Property, plant and equipment for the period from 1 January to 31 March 2012 (*unaudited*)

	Land	Perpetual usufruct	Buildings, premises and constructions	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**64 425**	**835 641**	**13 779 889**	**11 171 774**	**335 761**	**237 107**	**26 424 597**	**1 628 070**	**28 052 667**
Direct purchase	-	-	-	-	-	2	**2**	481 276	**481 278**
Transfer of assets under construction	1 246	191	118 592	137 468	3 884	7 543	**268 924**	(268 924)	**-**
Sale, disposal	-	(144)	(264)	(1 152)	(1 799)	(50)	**(3 409)**	(12)	**(3 421)**
Reclassification	-	-	(94)	94	-	-	**-**	-	**-**
Donations and free-of-charge transfers	-	-	(22)	-	-	-	**(22)**	-	**(22)**
Liquidation	(7)	-	(6 428)	(10 867)	(383)	(945)	**(18 630)**	-	**(18 630)**
Received free of charge	-	3	6 806	342	-	-	**7 151**	-	**7 151**
Received for use under rental, lease or similar agreements	-	-	-	-	913	-	**913**	-	**913**
Spare parts allocated to fixed assets	-	-	-	599	-	-	**599**	-	**599**
Overhaul expenses	-	-	-	11 356	-	-	**11 356**	292	**11 648**
Write-off of discontinued investments	-	-	-	-	-	-	**-**	(127)	**(127)**
Transfers to intangible assets	-	-	-	-	-	-	**-**	(3 776)	**(3 776)**
Items discovered	-	9	22	47	-	-	**78**	-	**78**
Items generated internally	-	-	-	-	-	-	**-**	8 814	**8 814**
Transfers to assets held for sale	-	(537)	(1 185)	-	-	(14)	**(1 736)**	(201)	**(1 937)**
Other movements	-	-	(136)	(1 304)	-	-	**(1 440)**	740	**(700)**
Foreign exchange differences from translation of foreign entities	-	-	-	(4)	-	-	**(4)**	-	**(4)**
Closing balance	**65 664**	**835 163**	**13 897 180**	**11 308 353**	**338 376**	**243 643**	**26 688 379**	**1 846 152**	**28 534 531**
ACCUMULATED DEPRECIATION									
Opening balance	**(645)**	**(771)**	**(2 905 171)**	**(2 987 379)**	**(126 895)**	**(115 663)**	**(6 136 524)**	**(5 096)**	**(6 141 620)**
Depreciation for the period	-	-	(185 080)	(191 922)	(11 878)	(8 897)	**(397 777)**	-	**(397 777)**
Increase of impairment	-	-	-	-	-	-	**-**	-	**-**
Decrease of impairrment	-	-	-	13	1	-	**14**	-	**14**
Sale, disposal	-	-	82	551	1 409	45	**2 087**	-	**2 087**
Reclassification	-	-	14	1 378	(27)	(1 363)	**2**	(2)	**-**
Donations and free-of-charge transfers	-	-	7	-	-	-	**7**	-	**7**
Liquidation	-	-	4 193	9 996	382	863	**15 434**	-	**15 434**
Transfers to assets held for sale	-	-	56	-	-	(14)	42	-	**42**
Other movements	-	-	(6)	1 389	-	3	**1 386**	(398)	**988**
Foreign exchange differences from translation of foreign entities	-	-	-	2	-	-	**2**	-	**2**
Closing balance	**(645)**	**(771)**	**(3 085 905)**	**(3 165 972)**	**(137 008)**	**(125 026)**	**(6 515 327)**	**(5 496)**	**(6 520 823)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**63 780**	**834 870**	**10 874 718**	**8 184 395**	**208 866**	**121 444**	**20 288 073**	**1 622 974**	**21 911 047**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**65 019**	**834 392**	**10 811 275**	**8 142 381**	**201 368**	**118 617**	**20 173 052**	**1 840 656**	**22 013 708**

(in PLN thousand)

Property, plant and equipment for the period from 1 January to 31 March 2011 (*unaudited*)

	Land	Perpetual usufruct	Buildings, premises and constructions	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**61 995**	**789 048**	**10 656 165**	**9 753 514**	**255 375**	**257 369**	**21 773 466**	**723 919**	**22 497 385**
Adjustments	(3 425)	3 425	-	-	-	-	**-**	-	**-**
Opening balance after adjustments	**58 570**	**792 473**	**10 656 165**	**9 753 514**	**255 375**	**257 369**	**21 773 466**	**723 919**	**22 497 385**
Direct purchase	-	-	-	7	-	13	**20**	215 106	**215 126**
Transfer of assets under construction	466	150	87 582	47 290	3 772	7 493	**146 753**	(146 753)	**-**
Sale, disposal	(32)	(810)	(375)	(619)	(203)	(45)	**(2 084)**	(28)	**(2 112)**
Reclassification	-	-	2	-	-	(2)	**-**	-	**-**
Donations and free-of-charge transfers	-	-	-	(8)	-	(6)	**(14)**	-	**(14)**
Liquidation	-	-	(3 134)	(64 677)	(322)	(902)	**(69 035)**	(399)	**(69 434)**
Received free of charge	-	14	5 354	91	-	-	**5 459**	-	**5 459**
Received for use under rental, lease or similar agreements	-	-	-	4 542	3	-	**4 545**	(4 542)	**3**
Spare parts allocated to fixed assets	-	-	-	(7 936)	-	-	**(7 936)**	-	**(7 936)**
Overhaul expenses	-	-	-	762	-	-	**762**	4 963	**5 725**
Write-off of discontinued investments	-	-	-	-	-	-	**-**	(228)	**(228)**
Transfers to intangible assets	-	-	-	-	-	-	**-**	(126)	**(126)**
Items discovered	-	-	264	-	-	1	**265**	-	**265**
Items generated internally	-	-	-	-	-	-	**-**	5 911	**5 911**
Other movements	-	-	(3)	7	-	237	**241**	(461)	**(220)**
Closing balance	**59 004**	**791 827**	**10 745 855**	**9 732 973**	**258 625**	**264 158**	**21 852 442**	**797 362**	**22 649 804**
ACCUMULATED DEPRECIATION									
Opening balance	**(374)**	**(1 341)**	**(2 353 470)**	**(2 391 976)**	**(93 111)**	**(126 277)**	**(4 966 549)**	**(5 900)**	**(4 972 449)**
Depreciation for the period	-	-	(152 319)	(172 666)	(8 950)	(7 380)	**(341 315)**	-	**(341 315)**
Increase of impairment	(322)	(46)	(10)	(266)	-	(21)	**(665)**	-	**(665)**
Decrease of impairment	-	-	1	1 081	91	1	**1 174**	61	**1 235**
Sale, disposal	-	-	9	372	128	43	**552**	-	**552**
Reclassification	-	-	-	-	-	-	**-**	-	**-**
Donations and free-of-charge transfers	-	-	-	5	-	2	**7**	-	**7**
Liquidation	-	-	1 137	63 108	223	651	**65 119**	399	**65 518**
Received free of charge	-	-	-	-	-	-	**-**	-	**-**
Transfers to intangible assets	-	-	-	-	-	-	**-**	-	**-**
Other movements	-	-	-	(7)	-	(234)	**(241)**	-	**(241)**
Closing balance	**(696)**	**(1 387)**	**(2 504 652)**	**(2 500 349)**	**(101 619)**	**(133 215)**	**(5 241 918)**	**(5 440)**	**(5 247 358)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**61 621**	**787 707**	**8 302 695**	**7 361 538**	**162 264**	**131 092**	**16 806 917**	**718 019**	**17 524 936**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**58 308**	**790 440**	**8 241 203**	**7 232 624**	**157 006**	**130 943**	**16 610 524**	**791 922**	**17 402 446**

(in PLN thousand)

15. Inventories

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Historical cost		
Raw materials	399 484	443 660
Semi-finished goods and work-in-progress	87 579	97 213
Finished goods	19 037	8 118
Goods for resale	658	2 329
Property rights arising from energy certificates	34 826	29 099
Emission allowances	5 588	-
Total	**547 172**	**580 419**
Write-downs to net realizable value		
Raw materials	(4 254)	(4 273)
Semi-finished goods and work-in-progress	-	-
Finished goods	-	-
Goods for resale	-	-
Property rights arising from energy certificates	(1 356)	(1 356)
Emission allowances	(2 801)	-
Total	**(8 411)**	**(5 629)**
Net realizable value		
Raw materials	395 230	439 387
Semi-finished goods and work-in-progress	87 579	97 213
Finished goods	19 037	8 118
Goods for resale	658	2 329
Property rights arising from energy certificates	33 470	27 743
Emission allowances	2 787	-
Total	**538 761**	**574 790**

16. Trade and other receivables

The value of trade and other receivables together with doubtful debts allowance as at 31 March 2012 and for the comparative period is presented in the tables below.

Trade and other receivables as at 31 March 2012 (unaudited)

	Trade receivables	Other current receivables	Total
Accounts receivable (without allowance for doubtful debt)	2 333 786	960 424	**3 294 210**
Allowance for doubtful debt	(113 245)	(65 955)	**(179 200)**
Net value	**2 220 541**	**894 469**	**3 115 010**

Trade and other receivables as at 31 December 2011

	Trade receivables	Other current receivables	Total
Accounts receivable (without allowance for doubtful debt)	1 990 816	926 391	**2 917 207**
Allowance for doubtful debt	(109 673)	(64 190)	**(173 863)**
Net value	**1 881 143**	**862 201**	**2 743 344**

(in PLN thousand)

Trade receivables as at 31 March 2012 amounted to PLN 2,221,365 thousand, of which the current portion was PLN 2,220,541 thousand and the non-current portion was PLN 823 thousand. As at 31 December 2011, trade receivables amounted to PLN 1,881,992 thousand, of which the current portion was PLN 1,881,143 thousand and the non-current portion was PLN 849 thousand.

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

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

17. Equity

17.1. Issued capital

Issued capital as at 31 March 2012 *(unaudited)*

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

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

Shareholding structure as at 31 March 2012 *(unaudited, to the best knowledge of the Company)*

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

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

17.2. Reserve capital, retained earnings and restrictions on dividend payments

There were no movements in the reserve capital during the 3-month period ended 31 March 2012, whereas movements in retained earnings included the following:

- Net profit for the period attributable to equity holders of the parent in the amount of PLN 386,857 thousand;
- Acquisition of non-controlling interests of PLN 10 thousand.

(in PLN thousand)

Part of retained earnings amounting to PLN 1,083,461 thousand, which is mainly comprised of the parent's net profit for the previous year amounting to PLN 1,083,429 thousand, is subject to distribution.

18. Provisions for employee benefits

Movement in provisions for employee benefits in the 3-month period ended 31 March 2012 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary Redundancy Scheme (VRS)	Provisions, total
Opening balance	**192 074**	**418 096**	**119 368**	**39 624**	**484 643**	**35 272**	**1 289 077**
Current service costs	2 127	1 259	524	149	6 933	-	**10 992**
Actuarial gains and losses	(701)	(1 471)	(80)	(94)	(2 470)	-	**(4 816)**
Benefits paid	(4 975)	(1 550)	(594)	(373)	(10 034)	(4 497)	**(22 023)**
Past service costs	-	2 045	-	-	-	-	**2 045**
Interest expense	3 196	6 303	1 702	543	6 740	-	**18 484**
Recognition of provision for VRS	-	-	-	-	-	59 767	**59 767**
Reversal of provision for VRS	-	-	-	-	-	-	**-**
Closing balance	**191 721**	**424 682**	**120 920**	**39 849**	**485 812**	**90 542**	**1 353 526**
CURRENT	**29 624**	**23 199**	**5 347**	**1 694**	**57 245**	**90 542**	**207 651**
NON-CURRENT	**162 097**	**401 483**	**115 573**	**38 155**	**428 567**	**-**	**1 145 875**

Movement in provisions for employee benefits in the 3-month period ended 31 March 2011 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary Redundancy Scheme (VRS)	Provisions, total
Opening balance	**183 009**	**351 573**	**105 955**	**33 526**	**468 688**	**50 330**	**1 193 081**
Current service costs	2 176	1 203	544	432	6 256	-	**10 611**
Actuarial gains and losses	(1 578)	(1 704)	(44)	411	(3 918)	-	**(6 833)**
Benefits paid	(5 377)	(152)	(970)	(297)	(6 923)	(17 625)	**(31 344)**
Past service costs	-	1 985	-	-	-	-	**1 985**
Interest expense	3 003	5 768	1 593	579	6 369	-	**17 312**
Recognition of provision for VRS	-	-	-	-	-	2 035	**2 035**
Reversal of provision for VRS	-	-	-	-	-	(231)	**(231)**
Closing balance	**181 233**	**358 673**	**107 078**	**34 651**	**470 472**	**34 509**	**1 186 616**
CURRENT	**32 645**	**20 330**	**4 545**	**1 316**	**50 010**	**34 509**	**143 355**
NON-CURRENT	**148 588**	**338 343**	**102 533**	**33 335**	**420 462**	**-**	**1 043 261**

The Group has been running voluntary redundancy schemes ("VRS").

On 28 March 2012, a new Employment Cost Reduction Agreement was signed in TAURON Wytwarzanie S.A., as a result of which a provision for employment restructuring was recognized as at 31 March 2012 at an amount of PLN 43,633 thousand. As at 31 March 2012, TAURON Wytwarzanie S.A. has a provision of PLN 5,693 thousand for costs arising from the Agreement on the Decommissioning of the Halemba Power Plant. In the 1st quarter of 2012, employment contracts were terminated with four employees, resulting in severance payments of PLN 30 thousand.

In TAURON Dystrybucja S.A., the schemes implemented in 2011 were continued in the 3-month period ended 31 March 2012. During the reporting period the company recognized a provision of PLN 16,134 thousand. Under voluntary redundancy schemes, employment contracts were terminated with 20 employees, with a total of PLN 2,942 thousand being paid in respect of one-off severance payments using the provision recognized in 2011. Furthermore, in 2012 the company continues to make payments to the individuals who left it in 2011 taking advantage of the schemes that were terminated on 30 December 2011 and acquired the rights to such payments after receiving an unemployment allowance for period not exceeding 6 months (Pre-retirement Redundancy Scheme). The amount of benefits paid under that scheme is PLN 1,308 thousand.

(in PLN thousand)

In TAURON Serwis GZE Sp. z o.o., all benefits arising from the provision recognized as at 31 December 2011 (PLN 217 thousand) were paid.

In addition, in the 1st quarter of 2012, TAURON Ciepło S.A. incurred costs of PLN 1,157 thousand under a voluntary redundancy scheme. All the benefits due and payable under the scheme were paid by the company. As at 31 March 2012, the company did not recognize a provision for a voluntary redundancy scheme.

As at 31 March 2012, the following provisions were recognized for amounts payable under voluntary redundancy schemes:

- PLN 41,216 thousand in TAURON Dystrybucja S.A.;
- PLN 49,326 thousand in TAURON Wytwarzanie S.A.

As at 31 March 2011, the provisions were as follows:

- PLN 14,659 thousand in ENION S.A. and PLN 2,905 thousand in EnergiaPro S.A., i.e. the total of PLN 17,564 thousand in the distribution segment;
- PLN 16,945 thousand in Południowy Koncern Energetyczny S.A. (currently TAURON Wytwarzanie S.A.).

Except for the provision for payments made under the voluntary redundancy scheme, the Group determines provisions for future employee benefits at an amount estimated using actuarial methods, taking into account the discount rate defined on the basis of market rates of return from treasury bonds. The forecasted provisions for 2012 were prepared based on the previously calculated provisions as at 31 December 2011. Analysis of provisions into non-current and current is made by the Group based on estimates relating to the distribution of payments over time, prepared using actuarial techniques.

The forecast was prepared based on the assumptions used for calculation of provisions as at 31 December 2011. The main assumptions adopted by the actuary as at 31 December 2011 for the calculation of the amount of liability are as follows:

	31 December 2011
Discount rate (%)	5.75%
Estimated inflation rate (%)	2.52%
Employee rotation rate (%)	0.40% - 5.15%
Estimated salary increase rate (%)	2.52% - 3.03%
Estimated electricity price increase rate (%)	3.48%
Estimated increase rate for contribution to the Social Fund (%)	3.60% - 5.00%
Remaining average employment period	9.41 - 14.50

19. Provisions

19.1. Movements in provisions

(in PLN thousand)

Movement in provisions for the 3-month period ended 31 March 2012 *(unaudited)*

	Provision for counterparty claims, court disputes, onerous contracts, disputes with employees	Provision for restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to surrender energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	43 149	944	69 850	187 132	703 449	86 244	1 090 768
Discount rate adjustment	-	-	267	-	-	-	267
Recognition	789	-	411	54 139	383 552	8 220	447 111
Reversal	(1 188)	(179)	-	-	-	(2 008)	(3 375)
Utilization	(421)	-	-	-	(696 712)	(3 122)	(700 255)
Other movements	-	-	994	-	(865)	(21)	108
Closing balance	42 329	765	71 522	241 271	389 424	89 313	834 624
CURRENT	42 329	765	3 250	241 271	389 424	88 355	765 394
NON-CURRENT	-	-	68 272	-	-	958	69 230

Movement in provisions for the 3-month period ended 31 March 2011 *(unaudited)*

	Provision for counterparty claims, court disputes, onerous contracts, disputes with employees	Provision for restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to surrender energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	34 274	612	34 699	101 173	787 031	66 903	1 024 692
Discount rate adjustment	-	-	254	-	-	-	254
Recognition	2 845	-	191	27 422	306 781	3 615	340 854
Reversal	(231)	(16)	-	-	(9 318)	(77)	(9 642)
Utilization	(61)	(373)	-	-	(766 957)	(1 032)	(768 423)
Other movements	(803)	-	614	-	(1 408)	803	(794)
Closing balance	36 024	223	35 758	128 595	316 129	70 212	586 941
CURRENT	36 024	223	-	128 595	316 129	69 477	550 448
NON-CURRENT	-	-	35 758	-	-	735	36 493

19.2. Details of significant provisions

19.2.1 Provision for counterparty claims, court disputes, onerous contracts

Provision for proceedings before the Competition and Consumers Protection Office

Antimonopoly proceedings are being conducted against TAURON Dystrybucja S.A. by the Competition and Consumers Protection Office in respect of the alleged abuse of dominant position on the electricity distribution market. The company appealed against the decisions of the Competition and Consumers Protection Office. The provision recognized by the company in this respect as at 31 March 2012 amounts to PLN 11,576 thousand and did not change compared with the balance as at 31 December 2011.

Provision for claims of ArcelorMittal Poland S.A.

Provision for the claims of ArcelorMittal Poland S.A. amounts to PLN 7,200 thousand and did not change in comparison to the provision as at 31 December 2011.

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

Provision for the claims of IPW Polin Sp. z o.o. relating to settlements arising from the use of invention projects and the effects of applying new technologies in the operation of turbogenerators amounts to PLN 10,281 thousand and did not change in comparison to the provision as at 31 December 2011.

19.2.2 Provision for restoration of land and costs of dismantling and removal of fixed assets

Based on the requirements of the Geological and Mining Law, Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. recognize provisions for future decommissioning costs of their mining facilities. As at 31 March 2012, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,691 thousand, and the provision recognized by Południowy Koncern Węglowy S.A., including the Mine Decommissioning Fund, amounted to PLN 26,952 thousand.

The provision for restoration of land under waste dumps recognized by TAURON Wytwarzanie S.A. as at 31 March 2012 amounted to PLN 18,000 thousand.

TAURON Ekoenergia GZE Sp. z o.o. and Lipniki Sp. z o.o. recognized a provision for the costs of dismantling wind farms after the completion of their usage at an amount of PLN 8,810 thousand and PLN 4,981 thousand, respectively.

Due to the legal obligation to dismantle and remove fixed assets after the period of their usage, TAURON Wytwarzanie S.A. recognized a provision for the estimated future costs necessary to discharge this obligation, amounting to PLN 9,088 thousand.

19.2.3 Provision for obligation to surrender energy certificates

Due to the sale of electricity to final users, the Group is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 March 2012, the provision recognized in this respect amounted to PLN 389,424 thousand.

19.2.4 Provision for gas emission related obligations

As a result of the purchase of greenhouse gas emission allowances, TAURON Wytwarzanie S.A., Elektrociepłownia EC Nowa Sp. z o.o. and Elektrociepłownia Tychy S.A. recognized a provision for the cost of surrendering those allowances for cancellation, which amounted to PLN 241,271 thousand as at 31 March 2012.

19.2.5 Other provisions

Provision for use of land without a contract

The Group companies recognize provisions for all claims reported by the owners of real estate on which distribution systems and heat installations are located. As at 31 March 2012, the provision amounted to PLN 49,070 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

Provision for real estate tax

Due to pending tax proceedings, and taking into consideration the verdict of the Constitutional Tribunal of 13 September 2011 as well as the current case law, Południowy Koncern Węglowy S.A. recognized a provision for the real estate tax on structures located in underground workings. The provision including interest for late payments amounted to PLN 2,223 thousand as at 31 March 2012.

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

(in PLN thousand)

20. Accruals

20.1. Deferred income and government grants

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Deferred income		
Donations, fixed assets received free-of-charge	207 343	204 535
Non-government subsidies	537	299
Subsidies for the purchase of fixed assets	55 924	57 944
Connection fees	308 857	314 204
Other deferred income	8 461	7 704
Total, *of which:*	**581 122**	**584 686**
Non-current	530 363	536 499
Current	50 759	48 187
Government grants		
Forgiven loans from environmental funds	9 785	8 987
Other deferred government grants	103 660	104 849
Total, *of which:*	**113 445**	**113 836**
Non-current	106 437	106 050
Current	7 008	7 786

Other deferred government grants comprise mainly government grants received by Południowy Koncern Węglowy S.A. for initial investments in coal mines, amounting to PLN 40,123 thousand, and the remeasurement of preferential loans received by TAURON Wytwarzanie S.A. to market value, amounting to PLN 41,591 thousand.

20.2. Accrued expenses

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Unused holidays	46 899	26 025
Bonuses	116 030	180 289
Environmental protection charges	13 889	1 268
Excise tax accrued	13 595	8 162
Other	6 969	7 341
Total, *of which*:	**197 382**	**223 085**
Non-current	-	-
Current	197 382	223 085

21. Business combinations and acquisition of non-controlling interests

No business combinations or acquisition of significant non-controlling interests took place in the 3-month period ended 31 March 2012; however, merger processes were started which have been or will be finalized in the 2nd quarter of 2012.

On 30 April 2012, merger of the following companies: TAURON Ciepło S.A., Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o. was entered in the National Court Register, as discussed in further detail in Note 31.

(in PLN thousand)

On 17 April 2012, the Company's Board of Directors took a decision regarding merger of TAURON Polska Energia S.A. with a subsidiary, Górnośląski Zakład Elektroenergetyczny S.A., as discussed in further detail in Note 31.

22. Financial instruments

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

The fair values of the financial instruments held by the Group as at 31 March 2012 and 31 December 2011 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 31 March 2012 and 31 December 2011 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
1 Assets at fair value through profit or loss	**679**	**100 225**
Shares in unlisted and listed companies (current)	677	716
Investment fund units	2	2
Bonds, T-bills and other debt securities	-	99 507
2 Financial assets available for sale	**165 301**	**170 223**
Shares in unlisted and listed companies (non-current)	156 883	161 286
Shares in unlisted and listed companies (current)	3 744	4 588
Investment fund units	2 274	2 124
Bonds, T-bills and other debt securities	2 400	2 225
3 Financial assets held to maturity	**-**	**-**
4 Loans and receivables	**3 151 088**	**2 778 390**
Trade receivables	2 221 365	1 881 992
Deposits	25 358	25 250
Other financial receivables	904 365	871 148
5 Financial assets excluded from the scope of IAS 39	**22 364**	**22 717**
Investments in associates and joint ventures recognised using the equity method	22 364	22 717
5 Derivative hedging instruments (assets)	**-**	**-**
6 Cash and cash equivalents	**546 203**	**505 670**
Total financial assets, including in the statement of financial position:	**3 885 635**	**3 577 225**
Non-current assets	**219 660**	**220 187**
Investments in associates and joint ventures recognised using the equity method	22 364	22 717
Other long-term financial assets	197 296	197 470
Current assets	**3 665 975**	**3 357 038**
Trade and other receivables	3 115 010	2 743 344
Other current financial assets	4 762	108 024
Cash and cash equivalents	546 203	505 670

(in PLN thousand)

Categories and classes of financial liabilities	Carrying amount	
	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
1 Financial liabilities at fair value through profit or loss	**-**	**80**
Derivative instruments	-	80
2 Financial liabilities measured at amortized cost	**6 856 960**	**6 823 202**
Preferential loans	182 080	176 966
Arm's length loans	655 772	141 973
Issued debentures and other debt securities	4 360 183	4 147 174
Trade payables	1 258 207	1 471 434
Other financial liabilities	64 777	71 744
Commitments resulting from purchases of fixed and intangible assets	209 513	630 295
Salaries and w ages	102 276	148 393
Insurance contracts	24 152	35 223
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**66 086**	**70 993**
Obligations under finance leases and hire purchase contracts	66 086	70 993
4 Derivative hedging instruments (liabilities)	**10 688**	**-**
Total financial liabilities, including in the statement of financial position:	**6 933 734**	**6 894 275**
Long-term liabilities	**4 925 808**	**4 316 144**
Interest-bearing loans and borrow ings	4 867 857	4 251 944
Finance lease and hire purchase commitments	51 418	56 232
Trade payables and other financial long-term liabilities	6 533	7 968
Short-term liabilities	**2 007 926**	**2 578 131**
Trade and other payables	1 663 080	2 349 201
Current portion of interest-bearing loans and borrow ings	330 178	214 169
Current portion of finance lease and hire purchase commitments	14 668	14 761

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

22.2.1 Assets at fair value through profit or loss

The change in the value of assets at fair value through profit or loss is mainly due to the sale in the 1st quarter of 2012, of treasury bonds held by the Group companies as at 31 December 2011.

22.2.2 Loans and borrowings

Loans and borrowings taken out as at 31 March 2012 and 31 December 2011 are presented in the tables below.

(in PLN thousand)

Loans taken out as at 31 March 2012 *(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	305 590	305 590	97 264	99 889	53 866	23 509	8 062	23 000
	fixed	521 069	521 069	495	52 528	52 672	52 304	104 608	258 462
Total PLN		**826 659**	**826 659**	**97 759**	**152 417**	**106 538**	**75 813**	**112 670**	**281 462**
EUR	floating	1 744	7 256	640	1 921	2 561	2 134	-	-
USD	floating	18	56	56	-	-	-	-	-
Total			**833 971**	**98 455**	**154 338**	**109 099**	**77 947**	**112 670**	**281 462**
Interest increasing carrying amount			3 881						
Total loans			**837 852**						

Loans taken out as at 31 December 2011 *(unaudited)*

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

Presented below are movements in loans, excluding interest increasing their carrying amount, in the 3-month periods ended 31 March 2012 and 31 March 2011.

	3-month period ended 31 March 2012 *(unaudited)*	3-month period ended 31 March 2011 *(unaudited)*
Opening balance	**318 354**	**554 797**
Movement in bank overdrafts	**4 602**	**(2 464)**
Movement in loans (excluding bank overdrafts):	**511 015**	**(90 185)**
Taken out	542 000	60 594
Repaid	(31 103)	(152 215)
Change in valuation	118	1 436
Closing balance	**833 971**	**462 148**

During the 3-month period ended 31 March 2012, the Company received funds under two loans from the European Investment Bank with a total value of PLN 510,000 thousand, based on the agreement dated 24 October 2011.

The funds acquired under these loans will be used for the implementation of two investment projects in the area of generation:

- PLN 300,000 thousand to be used for the conversion and transfer for use of a high efficiency cogeneration unit with the accompanying infrastructure in the Bielsko-Biała CHP Plant. Those funds will be used by the TAURON Group to replace the current unit with a unit of a higher efficiency amounting to 50 MWe and 182 MWt. Construction of this unit started in August 2010 and will last until mid 2013;

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

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

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

At the balance sheet date, the balance of the loan from the European Investment Bank amounted to PLN 513,316 thousand, including accrued interest of PLN 3,809 thousand.

22.2.3 Debentures and other securities issued

As at 31 March 2012, the Group's liability under issued debentures amounted to PLN 4,360,183 thousand. This liability arose as a result of the parent's issue of debentures in the following tranches:

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

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

The Company hedged a portion of interest-related cash flows resulting from issued debentures by entering into interest rate swaps (IRS), as discussed in detail in Note 23.

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 31 March 2012, none of these covenants has been breached.

The tables below present the balances of the Group's liability under issued debentures, together with accrued interest, as at 31 March 2012 and 31 December 2011.

(in PLN thousand)

Debentures issued as at 31 March 2012 *(unaudited)*

Tranche	Interest rate	Currrency	As at the balance sheet date		of which principal amount 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
Tranche A	floating	PLN	12 888	846 223	-	-	-	-	846 223	-
Tranche B	floating	PLN	6 879	448 981	-	-	-	-	448 981	-
Tranche C	floating	PLN	53 737	2 991 475	-	-	-	-	2 991 475	-
Total debentures			**73 504**	**4 286 679**	**-**	**-**	**-**	**-**	**4 286 679**	**-**

Debentures issued as at 31 December 2011

Tranche	Interest rate	Currrency	As at the balance sheet date		of which principal amount 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
Tranche A	floating	PLN	412	846 106	-	-	-	-	846 106	-
Tranche B	floating	PLN	968	298 920	-	-	-	-	298 920	-
Tranche C	floating	PLN	9 682	2 991 086	-	-	-	-	2 991 086	-
Total debentures			**11 062**	**4 136 112**	**-**	**-**	**-**	**-**	**4 136 112**	**-**

23. Financial risk management objectives and policies

There is a specific risk management policy in the finance area of the Group, the objectives of which are as follows:

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

From the perspective of financial risk management in the Group, the individual companies are responsible for identifying, measuring and reporting the financial risk associated with their activities to the parent company.

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

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

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

As at 31 March 2012, the parent was a party to hedging transactions covered by the policy for specific risk management in the area of finance. In accordance with the decision of the Financial Risk Management Committee of TAURON Polska Energia S.A. dated 30 January 2012, in March 2012 the parent hedged against the interest rate risk arising from debentures issued under the

(in PLN thousand)

Debentures Issue Program by entering into an interest rate swap (IRS) for a period of 5 years. This transaction was entered into due to variability of the expected future cash flows from interest payments resulting from the issue of debentures in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

The Company applies hedge accounting to the above-mentioned transactions. As a result of valuation of hedging instruments the Company recognized negative revaluation reserve of PLN 9,586 thousand. Part of gains on remeasurement of forward instruments amounting to PLN 1,147 thousand, relating to the hedged interest on issued debentures that was recognized in the Company's profit or loss for the 3-month period ended 31 March 2012, was recognized in the Group's profit or loss for the same period, thus decreasing the Group's finance costs relating to interest.

24. Capital management

In the period covered by these interim condensed consolidated financial statements, there were no significant changes in capital management objectives, principles or procedures. The Group monitors capital levels using the leverage ratio presented in the table below.

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Interest-bearing loans and borrowings	5 198 035	4 466 113
Trade and other payables, finance leases and hire purchase commitments	1 735 699	2 428 162
Less cash and cash equivalents	546 203	505 670
Net debt	**6 387 531**	**6 388 605**
Equity attributable to equity holders of the parent	16 054 855	15 677 721
Total capital	**16 054 855**	**15 677 721**
Capital and net debt	**22 442 386**	**22 066 326**
Leverage ratio	28%	29%

25. Contingent liabilities and contingent assets

Administrative proceedings initiated by the President of the Energy Regulatory Office with respect to the Group companies:

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

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

TAURON Sprzedaż GZE Sp. z o.o.

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

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

Elektrociepłownia EC Nowa Sp. z o.o.

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

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

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

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

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

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

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

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

Claims of Huta Łaziska S.A.

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

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

Due to the withholding of electricity supplies, Huta has raised a number of various claims against GZE, none of which was recognized by the courts as justified. Currently an action is pending under Huta's suit of 13 March 2007 against GZE and the State Treasury for the payment of PLN 182,060 thousand together with interest from the date of filing the suit to the date of payment, for damages to be paid for the alleged losses resulting from the alleged GZE's failure to comply with the decision of the President of URE dated 12 October 2001. In this case, on 26 October 2009 the Regional Court in Warsaw passed a judgment dismissing the claim in whole, and the Court of Appeal dismissed in whole Huta's appeal; however, in the judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeal and remanded the case for reexamination by this Court. The Court of Appeal's hearing regarding reexamination of Huta's appeal has been set at 23 May 2012.

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

Compensation for stranded costs

As a result of the Act of 29 June 2007 on the Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Power Purchase Agreements (Journal of Laws of 2007, No. 130, item 905 – "the PPA Act") coming into effect, TAURON Wytwarzanie S.A. volunteered to join the program of early termination of long-term power purchase agreements ("PPAs") by signing an agreement to terminate such contracts. The signing of such an agreement provides a basis for electricity generators to receive funds to cover their expenses that are not covered by the income derived from the sale of generated electricity, reserve capacity and system-related services on a competitive market after early termination of PPAs, resulting from the expenditures incurred by such companies for assets related to electricity generation up to 1 May 2004. Under the PPA Act, the maximum amount of stranded costs and the amounts used in the calculation of annual adjustments to stranded costs were established for each electricity generator.

(in PLN thousand)

After termination of PPAs, beginning from the 2nd quarter of 2008, TAURON Wytwarzanie S.A. receives quarterly cash advances based on the submitted requests. Annual adjustments will be subsequently made to stranded costs throughout the so-called adjustment period, lasting until the expiry of the longest long-term agreement of a given company. The final adjustment to stranded costs will be made in the year following the year in which the adjustment period of the given company ceases.

In accordance with the adopted accounting policy, TAURON Wytwarzanie S.A. recognized, based on the developed financial model, compensation revenue amounting to PLN 1,528,789 thousand for the period 2008-2011 and PLN 121,122 thousand for the 3-month period ended 31 March 2012.

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

In the judgment of the Regional Court in Warsaw - the Court for Competition and Consumers Protection dated 26 May 2010, the Court modified the challenged decision and acknowledged the company's right to make a positive adjustment to stranded costs of PLN 79,088 thousand. On 8 July 2010, the President of URE lodged an appeal against the judgment of the Regional Court in Warsaw - the Court for Competition and Consumers Protection with the Court of Appeal in Warsaw (The 6th Civil Department).

On 9 February 2012, a hearing was held before the Court of Appeal in Warsaw in the case relating to the President of URE's appeal against the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection dated 26 May 2010. The Court of Appeal did not pass a judgment; instead it adjourned the hearing and obligated the President of URE to submit additional explanations within 14 days. At the next hearing held on 25 April 2012, the Court of Appeal in Warsaw passed a judgment dismissing the President of URE's appeal against the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection dated 26 May 2010. This means that the positive annual adjustment to stranded costs due for the Company for 2008 amounts to PLN 79,088 thousand, which corresponds to the amount claimed by the Company in this case. As, in 2009, the President of URE determined the amount of the annual adjustment to stranded costs for 2008 at PLN (159,508) thousand, and the Regional Court in Warsaw – the Court for Competition and Consumers Protection suspended the execution of this decision with regard to half of this amount, TAURON Wytwarzanie S.A. will receive, as a result of the judgment, a refund of the amount of PLN 159,508 thousand. The judgment is final; however, the parties may file a cassation appeal with the Supreme Court. Due to the fact that the Company has been continuously applying the policy for measurement and recognition of stranded costs adopted in 2008, under which they are recognized as revenue in the financial year for which they are due, at an amount including the expected annual adjustment and the expected effect of the final adjustment, regardless of the date on which compensation is actually received, the judgment will not directly affect the results of the Company or of the TAURON Group.

	3-month period ended 31 March 2012 *(unaudited)*	**3-month period ended 31 March 2011** *(unaudited)*
Revenue from compensations for terminated long-term PPAs	121 122	73 495
Cash inflows generated from compensations concerning terminated long-term PPAs	41 490	43 802

(in PLN thousand)

Other contingent liabilities

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Suretyship for the repayment of loan	400	2 408
Liabilities arising from bank guarantees	2 907	1 898
Liabilities arising from legal actions	2 797	2 797
Other contingent liabilities	2 963	2 863
Total contingent liabilities	**9 067**	**9 966**

The status of other contingent liabilities did not significantly change compared with the information contained in the consolidated financial statements for the year ended 31 December 2011.

26. Assets pledged as security

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

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

Carrying amount of assets pledged as security for liabilities

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Real estate	718 054	730 416
Plant and equipment	56 415	136 201
Motor vehicles	1 887	2 439
Assets under construction	-	75
Cash	37	663
Other financial and non-financial receivables	2 170	5 771
Total assets pledged as security for liabilities	**778 563**	**875 565**

The decrease of the carrying amount of plant and machinery pledged as security for liabilities in the 3-month period ended 31 March 2012 is due to the repayment of a loan by Południowy Koncern Węglowy S.A. at the end of 2011 which was mainly secured by a registered pledge on fixed assets with carrying amount of PLN 42,349 thousand as at 31 December 2011. Due to the repayment of the loan in the 1st quarter of 2012, the company deleted registered pledges on plant and equipment.

In addition to the collaterals listed above, the Group also uses other forms of security to secure payment of liabilities, of which the most significant ones as at 31 March 2012 related to loans taken out by TAURON Wytwarzanie S.A. and included: assignment of receivables amounting to PLN 88,000 thousand, authorizations to bank accounts – PLN 128,000 thousand and blank promissory notes for PLN 168,000 thousand. Loans taken out by TAURON Dystrybucja S.A. were secured by granting authorizations to dispose of the funds in borrowers' bank accounts up to the balance of the outstanding loan plus interest and other amounts due to the bank – a total of PLN 93,309 thousand as at 31 March 2012. Elektrociepłownia Tychy S.A. issued a blank promissory note for an amount of PLN 92,383 thousand to secure the sale and leaseback agreement signed in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate and plant and machinery (in the table above) and authorization to dispose of bank accounts.

The parent, under the debentures issue program, signed a declaration of submission to enforcement:

(in PLN thousand)

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

In order to secure a bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement under Article 97 of the Banking Law up to the amount of PLN 62,000 thousand, valid until 31 December 2015.

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

In order to secure the transactions made by TAURON Polska Energia S.A. in electricity markets through Towarowa Giełda Energii S.A. and its participation in the system securing the liquidity of settlements, TAURON Wytwarzanie S.A. issued a suretyship to Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT S.A.) for the settlement of the Company's future transactions up to the amount of PLN 145,000 thousand. It was agreed that the Company would pay a consideration to TAURON Wytwarzanie S.A. for setting up collateral in the form of a suretyship. In order to secure IRGIT's claims under the suretyship agreement signed between TAURON Wytwarzanie S.A. and IRGIT S.A. in respect of Tauron Polska Energia S.A.'s liabilities, restrictions were placed on the EUAs of TAURON Wytwarzanie S.A. entered in the National Register of Emission Allowances (KRUE) amounting to 10,000 thousand tonnes. This collateral shall be valid until 31 December 2012.

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

27. Capital commitments

As at 31 March 2012, the Group has committed to incur expenditures for property, plant and equipment in the amount of PLN 1,685,048 thousand. As it was the case at the 2011 year-end, the largest items included:

- the capital commitment relating to boiler accommodation in the Jaworzno III Power Plant, being the property of TAURON Wytwarzanie S.A., to reduce emission of greenhouse gases in the amount of PLN 164,445 thousand. The amount of this capital commitment as at 31 December 2011 was PLN 165,914 thousand;
- the capital commitment of PLN 106,895 thousand relating to the restoration of production capacity in the Bielsko-Biała CHP Plant, being part of TAURON Wytwarzanie S.A. The amount of this capital commitment as at 31 December 2011 was PLN 151,795 thousand.

28. Transactions with State Treasury companies

The major shareholder of the Group is the State Treasury of the Republic of Poland; therefore State Treasury companies are treated as related parties. Transactions with related parties are made based on the market prices of the goods supplied or services rendered.

The total value of transactions with State Treasury companies and the balances of receivables and payables are presented in the tables below.

Revenues and costs

	3-month period ended 31 March 2012 *(unaudited)*	3-month period ended 31 March 2011 *(unaudited)*
Revenue	529 000	353 349
Costs*	(915 121)	(749 746)

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

(in PLN thousand)

Receivables and payables

	As at 31 March 2012 *(unaudited)*	As at 31 December 2011
Receivables	267 847	469 020
Payables	342 365	571 740

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the 3-month period ended 31 March 2012: PKP Energetyka S.A., Kompania Węglowa S.A, KGHM Polska Miedź S.A. and PSE Operator S.A. Total sales to these counterparties accounted for almost 74% of revenue from transactions with State Treasury companies.

The largest purchase transactions were made by the Group with PSE Operator S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for over 78% of the value of purchases from State Treasury companies during the 3-month period ended 31 March 2012.

Among the State Treasury companies, the following were the largest trading partners of the TAURON Polska Energia S.A. Group during the year 2011: PSE Operator S.A., KGHM Polska Miedź S.A. and Kompania Węglowa S.A.

The Capital Group enters into significant transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only deals with organization of commodities exchange trading, a decision was taken not to consider purchase and sale transactions made through this entity as related party transactions.

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

29. Compensation of key management personnel

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the parent and of the subsidiaries for the 3-month period ended 31 March 2012 is presented in the table below.

	3-month period ended 31 March 2012 *(unaudited)*		3-month period ended 31 March 2011 *(unaudited)*	
	Parent	**Subsidiaries**	**Parent**	**Subsidiaries**
Board of Directors	**1 507**	**6 581**	**1 546**	**5 007**
Short-term employee benefits (salaries and surcharges)	1 212	6 311	1 190	4 794
Jubilee bonuses	-	2	-	-
Post-employment benefits	-	65	62	-
Employment termination benefits	-	59	-	-
Other	295	144	294	213
Supervisory Board	**234**	**290**	**162**	**932**
Short-term employee benefits (salaries and surcharges)	234	267	162	910
Other	-	23	-	22
Total	**1 741**	**6 871**	**1 708**	**5 939**
Other key management personnel	**2 444**	**11 524**	**2 008**	**9 195**
Short-term employee benefits (salaries and surcharges)	2 224	11 207	1 789	9 023
Jubilee bonuses	-	194	35	126
Post-employment benefits	21	14	-	-
Employment termination benefits	-	46	34	-
Other	199	63	150	46

30. Details of other significant changes in the reporting period

30.1. Finance costs

The PLN 44,768 thousand increase in finance costs in the 3-month period ended 31 March 2012 compared with the comparative period is mainly due to interest expense on debentures issued by the parent in December 2011 and January 2012, as described in Note 22. Interest expense on the debentures issued in the 3-month period ended 31 March 2012 amounted to PLN 61,219 thousand, and for the 3-month period ended 31 March 2011 PLN 10,555 thousand.

30.2. Other long-term non-financial assets

The PLN 121,214 thousand increase in other long-term non-financial assets is mainly due to the prepayment of PLN 126,402 thousand paid by MEGAWAT MARSZEWO Sp. z o.o., the constructor of the Marszewo wind farm with a capacity of 82 MW. The amount of the prepayment accounts for 20% of the value of the contract.

31. Events after the balance sheet date

Judgment relating to PPAs

On 25 April 2012, the Court of Appeal in Warsaw passed a judgment dismissing the President of URE's appeal against the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection dated 26 May 2010 on determining the amount of the annual adjustment to stranded costs due to TAURON Wytwarzanie S.A. for 2008 as a result of early termination of long-term power purchase agreements. This means that the positive annual adjustment to stranded costs due for the Company for 2008 amounts to PLN 79,088 thousand, which corresponds to the amount claimed by the Company in this case. This judgment has been discussed in detail in Note 25.

Merger of companies in the Heat Segment

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

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

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

Planned merger of TAURON Polska Energia S.A. with the subsidiary Górnośląski Zakład Elektroenergetyczny S.A.

On 17 April 2012, the Board of Directors of TAURON Polska Energia S.A. took a decision regarding merger of TAURON Polska Energia S.A. with a subsidiary, Górnośląski Zakład Elektroenergetyczny S.A., and adopted the merger plan. The merger will be effected under Article 492 § 1 Item 1 of the Code of Commercial Companies, i.e. by way of a transfer of all of the assets of Górnośląski Zakład Elektroenergetyczny S.A. as the acquiree to TAURON Polska Energia S.A. – the acquirer. The purpose of the merger is to align the structure of the TAURON Group in accordance with the assumptions of the Corporate Strategy of the TAURON Group for 2011-2015 with an outlook up to 2020, which provides for consolidation of the TAURON Group companies. As a result of the purchase of shares of Górnośląski Zakład Elektroenergetyczny S.A., since 16 April 2012 TAURON Polska Energia S.A. has been a holder of 100% of shares in the share capital of Górnośląski Zakład Elektroenergetyczny S.A. The merger plan was published in Monitor Sądowy i Gospodarczy on 24 April 2012.

Agreement with the contractor selected for construction of a power unit in Elektociepłownia Stalowa Wola S.A.

On 26 April 2012, Elektrociepłownia Stalowa Wola S.A. signed an agreement with a Spanish company, Abener, selected as the general contractor for a gas and steam power unit in Stalowa Wola. This contract, with a net value of PLN 1.57 billion, relates to the construction of Poland's largest gas-fired combined heat and power plant and a long-term service of the gas turbine.

The project relating to the construction and operation of a gas-fired combined heat and power plant with a power capacity of 449.16 MW in Stalowa Wola is carried out by the PGNiG and TAURON Groups, through the special purpose entity Elektrociepłownia Stalowa Wola S.A., in which both partners have 50% stakes. The project is planned to be completed at the turn of 2014/2015. The combined heat and power plant will be made available for commercial use at the end of the 2nd quarter of 2015.

These interim condensed consolidated financial statements of the TAURON Polska Energia S.A. Capital Group prepared for the 3-month period ended 31 March 2012 in accordance with International Accounting Standard 34 consist of 51 pages.

Katowice, 8 May 2012

Dariusz Lubera – President ……………………………………….

Krzysztof Zawadzki – Vice-president ……………………………………..