The TAURON Polska Energia S.A. Capital Group

Interim condensed consolidated financial statements
prepared according to the International Financial Reporting Standards
for the 9-month period ended 30 September 2012

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2012

	Note	3-month period ended 30 September 2012 *(unaudited)*	9-month period ended 30 September 2012 *(unaudited)*	3-month period ended 30 September 2011 *(unaudited)*	9-month period ended 30 September 2011 *(unaudited)*
Continuing operations					
Sale of goods for resale, finished goods and materials without elimination of excise		4 554 901	14 009 766	3 806 417	11 925 866
Excise		(132 176)	(405 030)	(86 613)	(312 140)
Sale of goods for resale, finished goods and materials		4 422 725	13 604 736	3 719 804	11 613 726
Rendering of services		1 467 224	4 577 272	1 105 234	3 522 199
Other income		10 308	32 235	10 659	30 916
Sales revenue	**9**	**5 900 257**	**18 214 243**	**4 835 697**	**15 166 841**
Cost of sales	**9**	(5 027 420)	(15 512 361)	(4 229 239)	(13 158 389)
Gross profit		**872 837**	**2 701 882**	**606 458**	**2 008 452**
Other operating income		28 360	77 160	21 453	65 911
Selling and distribution expenses		(110 857)	(341 831)	(52 175)	(202 965)
Administrative expenses		(169 885)	(505 052)	(174 890)	(483 462)
Other operating expenses		(30 951)	(86 538)	(17 984)	(66 996)
Operating profit		**589 504**	**1 845 621**	**382 862**	**1 320 940**
Finance income		43 543	96 880	28 441	83 262
Finance costs	**31**	(85 526)	(253 644)	(44 508)	(122 003)
Share in profit/(loss) of associate and joint venture recognised using the equity method	**2**	(302)	(973)	(188)	(727)
Profit before tax		**547 219**	**1 687 884**	**366 607**	**1 281 472**
Income tax expense	**10**	(96 002)	(348 652)	(74 198)	(261 116)
Net profit from continuing operations		**451 217**	**1 339 232**	**292 409**	**1 020 356**
Net profit for the period		**451 217**	**1 339 232**	**292 409**	**1 020 356**
Other comprehensive income:					
Revaluation of financial assets available for sale	**17**	(11 393)	-	-	-
Change in the value of hedging instruments	**24, 17**	(49 222)	(89 363)	-	-
Foreign exchange differences from translation of foreign entities		(186)	(437)	618	769
Income tax relating to other comprehensive income items		11 517	16 979	-	-
Other comprehensive income for the period, net of tax		**(49 284)**	**(72 821)**	**618**	**769**
Total comprehensive income for the period		**401 933**	**1 266 411**	**293 027**	**1 021 125**
Net profit for the period:					
Attributable to equity holders of the parent		420 057	1 274 904	290 471	994 504
Attributable to non-controlling interests		31 160	64 328	1 938	25 852
Total comprehensive income:					
Attributable to equity holders of the parent		370 775	1 202 083	291 089	995 273
Attributable to non-controlling interests		31 158	64 328	1 938	25 852
Earnings per share (in PLN):					
- basic, for profit for the period attributable to equity holders of the parent		0.24	0.73	0.17	0.57
- basic, for profit for the period from continuing operations attributable to equity holders of the parent		0.24	0.73	0.17	0.57
- diluted, for profit for the period attributable to equity holders of the parent		0.24	0.73	0.17	0.57
- diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.24	0.73	0.17	0.57

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2012

	Note	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	**14**	22 639 534	21 911 047
Intangible assets	**13**	1 022 305	988 950
Investments in associates and joint ventures recognised using the equity method	**2**	54 320	22 717
Other long-term financial assets	**22**	246 667	197 470
Other long-term non-financial assets	**31**	293 905	96 349
Deferred tax asset	**10**	16 219	31 965
		24 272 950	**23 248 498**
Current assets			
Current intangible assets	**13**	627 786	870 954
Inventories	**15**	504 511	574 790
Corporate income tax receivable	**10**	19 638	64 266
Trade and other receivables	**16, 22**	2 850 291	2 743 344
Other current financial assets	**22**	12 640	108 024
Other current non-financial assets		226 180	289 034
Cash and cash equivalents	**11, 22**	1 149 481	505 670
		5 390 527	**5 156 082**
Non-current assets classified as held for sale		**13 181**	**8 951**
TOTAL ASSETS		**29 676 658**	**28 413 531**

Explanatory notes are an integral part of these interim condensed consolidated financial statements.
This is a translation of the interim condensed consolidated financial statements originally issued in Polish.

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2012 - CONTINUED

	Note	As at 30 September 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	17	7 953 021	7 412 882
Revaluation reserve from valuation of hedging instruments	17, 24	(72 384)	-
Foreign exchange differences from translation of foreign entities		(350)	87
Retained earnings/Accumulated losses	17	(306 383)	(497 995)
		16 336 651	**15 677 721**
Non-controlling interests		**502 763**	**461 347**
Total equity		**16 839 414**	**16 139 068**
Non-current liabilities			
Interest-bearing loans and borrowings	22, 23	5 324 024	4 251 944
Finance lease and hire purchase commitments	22	46 004	56 232
Long-term provisions and employee benefits	18, 19	1 199 581	1 202 840
Long-term accruals and government grants	20	633 024	642 549
Trade payables and other financial long-term liabilities	22	6 390	7 968
Deferred tax liability	10	1 395 654	1 270 390
		8 604 677	**7 431 923**
Current liabilities			
Trade and other payables	22	1 835 196	2 349 201
Current portion of interest-bearing loans and borrowings	22, 23	254 165	214 169
Current portion of finance lease and hire purchase commitments	22	14 514	14 761
Other current non-financial liabilities		756 052	644 910
Accruals and government grants	20	337 005	279 058
Income tax payable		83 127	163 437
Short-term provisions and employee benefits	18, 19	952 508	1 177 004
		4 232 567	**4 842 540**
Total liabilities		**12 837 244**	**12 274 463**
TOTAL EQUITY AND LIABILITIES		**29 676 658**	**28 413 531**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2012

	Note	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from 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		-	-	-	-	1 274 904	**1 274 904**	64 328	**1 339 232**
Other comprehensive income	**24**	-	-	(72 384)	(437)	-	**(72 821)**	-	**(72 821)**
Total comprehensive income for the period		**-**	**-**	**(72 384)**	**(437)**	**1 274 904**	**1 202 083**	**64 328**	**1 266 411**
Appropriation of prior year profits	**17**	-	540 139	-	-	(540 139)	**-**	-	**-**
Acquisition of non-controlling interests	**17, 21**	-	-	-	-	63	**63**	(1 298)	**(1 235)**
Change in non-controlling interests due to mergers	**17, 21**	-	-	-	-	(1 884)	**(1 884)**	1 884	**-**
Dividends	**17**	-	-	-	-	(543 290)	**(543 290)**	(16 870)	**(560 160)**
Mandatory squeeze-out	**17, 21**	-	-	-	-	1 958	**1 958**	(6 628)	**(4 670)**
As at 30 September 2012 *(unaudited)*		**8 762 747**	**7 953 021**	**(72 384)**	**(350)**	**(306 383)**	**16 336 651**	**502 763**	**16 839 414**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2011

	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
	Issued capital	Reserve capital	Revaluation reserve from 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	-	-	-	-	994 504	**994 504**	25 852	**1 020 356**
Other comprehensive income	-	-	-	769	-	**769**	-	**769**
Total comprehensive income for the period	**-**	**-**	**-**	**769**	**994 504**	**995 273**	**25 852**	**1 021 125**
Reduction of issued capital through reduced nominal value of shares	(7 010 198)	7 010 198	-	-	-	**-**	-	**-**
Dividends	-	(72 404)	-	-	(190 478)	**(262 882)**	(14 278)	**(277 160)**
Mandatory squeeze-out	**-**	**-**	**-**	**-**	22 632	**22 632**	(56 194)	**(33 562)**
As at 30 September 2011 *(unaudited)*	**8 762 747**	**7 412 882**	**-**	**498**	**(716 279)**	**15 459 848**	**462 626**	**15 922 474**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2012

	Note	9-month period ended 30 September 2012 *(unaudited)*	9-month period ended 30 September 2011 *(unaudited)*
Cash flows from operating activities			
Profit/(loss) before taxation		1 687 884	1 281 472
Adjustments for:			
Share in profit/(loss) of associate and joint venture recognised using the equity method	**2**	973	727
Depreciation and amortization		1 229 196	1 049 480
(Gain)/loss on foreign exchange differences		(698)	2 937
Interest and dividens, net		162 962	40 657
(Gain)/loss on investing activities		15 924	14 510
(Increase)/decrease in receivables		(104 416)	30 559
(Increase)/decrease in inventories		67 210	(9 206)
Increase/(decrease) in payables excluding loans and borrowings		(259 376)	(442 775)
Change in other non-current and current assets		143 358	(38 125)
Change in deferred income, government grants and accruals		35 221	53 933
Change in provisions		(84 410)	(131 736)
Income tax paid		(226 684)	(72 336)
Other		394	(232)
Net cash from operating activities		**2 667 538**	**1 779 865**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		9 134	35 061
Purchase of property, plant and equipment and intangible assets		(2 434 486)	(1 518 646)
Proceeds from sale of bonds, treasury bills and other debt securities		102 506	-
Proceeds from sale of other financial assets		20 793	25 737
Purchase of other financial assets		(10 085)	(14 559)
Acquisition of shares in associates and joint ventures recognised using the equity method		-	(23 000)
Acquisition of subsidiary, net cash acquired		(5 613)	(71 439)
Dividends received		8 305	8 122
Loans granted	**2**	(75 000)	44
Interest received		136	-
Repayment of loans made	**2**	13 000	110
Other		-	(120 001)
Net cash used in investing activities		**(2 371 310)**	**(1 678 571)**

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2012 - CONTINUED

	Note	9-month period ended 30 September 2012 *(unaudited)*	9-month period ended 30 September 2011 *(unaudited)*
Cash flows from financing activities			
Acquisition of non-controlling interests		(5 910)	(34 582)
Payment of finance lease liabilities		(10 549)	(18 715)
Proceeds from loans	**23**	999 000	87 255
Repayment of loans	**23**	(127 747)	(398 809)
Issue of debt securities	**23**	150 000	-
Dividends paid to equity holders of the parent	**12**	(543 290)	(262 882)
Dividends paid to non-controlling interests		(16 435)	(12 797)
Interest paid	**31**	(95 826)	(40 259)
Other		(10 762)	(7 650)
Net cash from (used in) financing activities		**338 481**	**(688 439)**
Net increase/(decrease) in cash and cash equivalents		**634 709**	**(587 145)**
Net foreign exchange difference		(993)	233
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**	**1 140 525**	**884 515**
restricted cash		212 072	96 679

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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 9-month period ended 30 September 2012 and include comparative figures for the 9-month period ended 30 September 2011 and as at 31 December 2011. The data for the 9-month period ended 30 September 2012 included in these interim condensed consolidated financial statements and the comparative figures for the 9-month period ended 30 September 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 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 and distribution 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 30 September 2012, TAURON Polska Energia S.A. held direct interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Direct interest of TAURON in the entity's share capital	Direct interest of TAURON in the entity's governing body
1	TAURON Wytwarzanie S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	99.79%
2	TAURON Dystrybucja S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.51%	99.53%
3	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Trading in electricity	100.00%	100.00%
4	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer services	100.00%	100.00%
5	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	100.00%
6	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	100.00%	100.00%
7	TAURON Ciepło S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	88.27%	89.12%
8	TAURON Czech Energy s.r.o.	720 00 Ostrava; Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	100.00%
9	TAURON Dystrybucja GZE S.A. [3]	44-100 Gliwice; ul. Portowa 14a	Distribution of electricity	100.00%	100.00%
10	TAURON Sprzedaż GZE Sp. z o.o.	44-100 Gliwice; ul. Barlickiego 2a	Sale of electricity	99.998% [1]	99.998% [1]
11	TAURON Ekoenergia GZE Sp. z o.o. [3]	44-100 Gliwice; ul. Barlickiego 2	Generation of electricity	100.00%	100.00%
12	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	99.80% [2]	99.80% [2]
13	TAURON Obsługa Klienta GZE Sp. z o.o.	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Customer services	100.00%	100.00%

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

[2] TAURON Polska Energia S.A. holds indirectly through TAURON Sprzedaż GZE Sp. z o.o. a 0.20% interest in the share capital and in the governing body of TAURON Serwis GZE Sp. z o.o. As a result the Company holds 100% interests in the share capital and in the governing body of TAURON Serwis GZE Sp. z o.o.

[3] On 1 October 2012, mergers of the following companies were registered: TAURON Dystrybucja S.A. with TAURON Dystrybucja GZE S.A. and TAURON Ekoenergia Sp. z o.o. with TAURON Ekoenergia GZE Sp. z o.o., as discussed in detail in Note 32.

(in PLN thousand)

As at 30 September 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 30 September 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 30 September 2012
1	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. – 100.00%	99.79%	TAURON Wytwarzanie S.A. – 100.00%
2	Południowy Koncern Węglowy S.A.[1]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.87%	TAURON Wytwarzanie S.A. – 68.01%
3	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
4	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%

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

(in PLN thousand)

Joint ventures

Elektrociepłownia Stalowa Wola S.A.

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. TAURON Polska Energia S.A. holds an indirect interest amounting to 49.86% in the share capital of this company and 49.90% in its governing body through TAURON Wytwarzanie S.A.

The equity-accounted investment in the joint venture as at 30 September 2012 and 31 December 2011 is presented in the table below:

	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
Non-current assets	164 754	40 423
Current assets	6 830	7 796
Non-current liabilities (-)	(126 930)	(255)
Current liabilities (-)	(1 043)	(2 403)
Total net assets	**43 611**	**45 561**
Share in net assets	**21 744**	**22 717**
Goodwill	-	-
Invetment in joint venture	**21 744**	**22 717**
Share in revenue of joint venture	126	146
Share in profit/(loss) of joint venture	**(973)**	**(1 046)**

On 20 June 2012, two loan agreements were signed between PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A. in order to meet the conditions necessary for granting funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank:

- A syndicated loan agreement signed in order to provide funding for the implementation of an investment project involving construction and operation of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola together with auxiliary installations. The syndicated loan agreement means that the repayment of loan and interest will be deferred and subordinated to the repayment of the amounts due to the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 152,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 62,000 thousand. The loan is to be fully repaid no later than by the end of 2032;
- The VAT loan agreement, which will provide funds for funding output VAT related to the costs of implementation of the investment project involving construction of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola, incurred at the stage of designing, constructing and making the investment available for use. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 20,000 thousand. The loan is renewable. The timetable of its utilization is consistent with the planned dates for making payments related to the investment project. The balance of utilization of the loan is decreased by the funds obtained from the VAT refund. Final repayment is due 6 months after the date of completion of the investment

project. In the 2nd quarter of 2012, the Company made available funds under the loan amounting to PLN 13,000 thousand. On 17 September 2012, Elektrociepłownia Stalowa Wola S.A. paid the aforementioned amount together with interest. The loan was not being used at the balance sheet date.

Elektrownia Blachownia Nowa Sp. z o.o. in organization

On 5 September 2012, the subsidiary TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. set up a special purpose entity under the name Elektrownia Blachownia Nowa Sp. z o.o. with its registered office in Kędzierzyn Koźle. The company was set up for the purpose of comprehensive implementation of an investment project involving preparation, construction and operation of a gas and steam power unit with a capacity of approx. 850 MWe on the premises of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia [The Blachownia Power Plant Branch]. The estimated total expenditures for the investment project will be approx. PLN 3,500,000 thousand.

The investment project will be carried out using the project finance formula, and at least 50% of its budget will be financed using external sources. The design and construction of the gas and steam power unit will be conducted in the “turn-key” system, together with the infrastructure, installations and auxiliary devices. In accordance with the adopted timetable, the unit will be made operational in the 2nd quarter of 2017.

Each of TAURON Wytwarzanie S.A. and KGHM Polska Miedź S.A. acquired 50% of shares in the share capital of Elektrownia Blachownia Nowa Sp. z o.o., which amounted to PLN 65,152 thousand at the founding date. The shares in the company are equal and indivisible. Payment for the shares amounting to PLN 32,576 thousand was made by TAURON Wytwarzanie S.A. on 9 October 2012. On 30 October 2012 the District Court in Opole, 8th Economic Department of the National Court Register, entered the company in the Register of Entrepreneurs.

Elektrownia Blachownia Nowa Sp. z o.o. as a joint venture has been accounted for using the equity method in the consolidated financial statements. TAURON Polska Energia S.A. has an indirect interest of 49.86% in the company’s share capital and of 49.90% in its governing body, exercised through TAURON Wytwarzanie S.A.

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 (“IAS 34”). At the date of authorization of these consolidated financial statements for issue, 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 9-month period ended 30 September 2012 were authorized for issue on 6 November 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, the 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 financial statements.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU as at the date of authorization of these financial statements.
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013. The most important amendment to IAS 19 from the Group'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.
- 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.
- *Improvements* to IFRSs (issued on May 2012) – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.

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 30 September 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 below or described in the following sections of these interim condensed consolidated financial statements.

Impairment tests

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the projected economic slow-down, the Company conducted a test for the impairment of its intangible assets including goodwill and its property, plant and equipment as at 30 June 2012.

The analysis of impairment indicators performed as at 30 September 2012 revealed that the market value of the Company's net assets did not significantly change in the 3rd quarter; hence it was concluded that the testing results as at 30 June were still valid and there was no need to perform impairment tests as at the balance sheet date. Full tests will be performed as at 31 December 2012.

Disclosures relating to impairment tests are presented in Notes 13.3 and 14.

Deferred tax

Based on the forecasts prepared for the Tax Capital Group (TCG), according to which taxable profits will be earned in 2012 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these interim condensed consolidated financial statements will not be realized.

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. The allocation of companies to particular segments was changed as follows:

- Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o., which merged with TAURON Ciepło S.A. in the 2^{nd} quarter of 2012, were part of the Generation Segment, whereas the activities of TAURON Ciepło S.A. represented other activities of the Group. Currently TAURON Ciepło S.A. is assigned to the Heat Segment;
- TAURON Obsługa Klienta Sp. z o.o. was allocated to the Sales Segment, whereas the activities of TAURON Obsługa Klienta GZE Sp. z o.o. were part of other activities of the Group. Currently these companies comprise the Customer Service Segment;
- Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was allocated to the Sales Segment, while currently it represents other activities of the Group;

Elektrociepłownia Stalowa Wola S.A., accounted for using the equity method in the consolidated financial statements, was presented under the Generation Segment, while currently it is presented under the Heat Segment.

Comparative figures for the period from 1 January 2011 to 30 September 2011 have been restated accordingly.

The Group's reporting format for the period from 1 January 2012 to 30 September 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. In addition, this segment also includes the investment in the newly established Elektrownia Blachownia Nowa Sp. z o.o., which is recognized using the equity method in the consolidated financial statements;
- 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. 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., TAURON Dystrybucja GZE S.A. and TAURON Serwis GZE Sp. z o.o.;
- Heat Segment, which includes distribution and sales of heat. The entity which operates in that segment is TAURON Ciepło S.A. In addition, the investment in Elektrociepłownia Stalowa Wola S.A., which is accounted for using the equity method in the consolidated financial statements, is also presented in this segment;
- Customer Service Segment, which mainly includes services to internal customers 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.

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. are also treated as other activities of the Group.

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)

9-month period ended 30 September 2012 or as at 30 September 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	472 826	3 740 529	14 702	1 586 676	11 532 879	669 557	19 601	177 473	-	**18 214 243**	-	**18 214 243**
Inter-segment sales	619 260	316 956	153 003	2 924 320	1 711 657	8 672	232 648	193 697	-	**6 160 213**	(6 160 213)	**-**
Segment revenue	**1 092 086**	**4 057 485**	**167 705**	**4 510 996**	**13 244 536**	**678 229**	**252 249**	**371 170**	**-**	**24 374 456**	**(6 160 213)**	**18 214 243**
Profit/(loss) of the segment	**165 948**	**325 931**	**94 503**	**898 808**	**336 701**	**59 127**	**27 860**	**30 687**	**(22 533)**	**1 917 032**	**-**	**1 917 032**
Unallocated expenses	-	-	-	-	-	-	-	-	(71 411)	**(71 411)**	-	**(71 411)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**165 948**	**325 931**	**94 503**	**898 808**	**336 701**	**59 127**	**27 860**	**30 687**	**(93 944)**	**1 845 621**	**-**	**1 845 621**
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	-	-	-	-	(973)	-	-	-	**(973)**	-	**(973)**
Net finance income (costs)	-	**-**	-	-	-	-	-	-	(156 764)	**(156 764)**	-	**(156 764)**
Profit/(loss) before income tax	**165 948**	**325 931**	**94 503**	**898 808**	**336 701**	**58 154**	**27 860**	**30 687**	**(250 708)**	**1 687 884**	**-**	**1 687 884**
Income tax expense	-	-	-	-	-	-	-	**-**	(348 652)	**(348 652)**	-	**(348 652)**
Net profit/(loss) for the period	**165 948**	**325 931**	**94 503**	**898 808**	**336 701**	**58 154**	**27 860**	**30 687**	**(599 360)**	**1 339 232**	**-**	**1 339 232**
EBITDA	**251 422**	**716 074**	**125 543**	**1 541 815**	**348 443**	**110 709**	**37 992**	**36 942**	**(93 944)**	**3 074 996**	**-**	**3 074 996**
Assets and liabilities												
Segment assets	1 183 464	9 653 670	1 257 739	12 224 632	3 429 324	1 353 899	59 287	173 116	-	**29 335 131**	-	**29 335 131**
Investments in associates and joint ventures recognised using the equity method	-	32 576	-	-	-	21 744	-	-	-	**54 320**	-	**54 320**
Unallocated assets	-	-	-	-	-	-	-	-	287 207	**287 207**	-	**287 207**
Total assets	**1 183 464**	**9 686 246**	**1 257 739**	**12 224 632**	**3 429 324**	**1 375 643**	**59 287**	**173 116**	**287 207**	**29 676 658**	**-**	**29 676 658**
Segment liabilities	509 059	904 931	53 142	2 014 580	1 713 400	225 026	76 466	33 317	-	**5 529 921**	-	**5 529 921**
Unallocated liabilities	-	-	-	-	-	-	-	-	7 307 323	**7 307 323**	-	**7 307 323**
Total liabilities	**509 059**	**904 931**	**53 142**	**2 014 580**	**1 713 400**	**225 026**	**76 466**	**33 317**	**7 307 323**	**12 837 244**	**-**	**12 837 244**
Other segment information												
Capital expenditure *	86 814	615 266	82 601	1 007 849	33 429	153 297	12 148	8 826	-	**2 000 230**	-	**2 000 230**
Depreciation/amortization	(85 474)	(390 143)	(31 040)	(643 007)	(11 742)	(51 582)	(10 132)	(6 255)	-	**(1 229 375)**	-	**(1 229 375)**

** 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-month period ended 30 September 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	436 729	3 981 198	640	1 044 221	8 884 160	617 923	31 525	170 445	-	**15 166 841**	-	**15 166 841**
Inter-segment sales	524 455	331 070	150 435	2 368 122	901 298	33 113	141 894	176 370	-	**4 626 757**	(4 626 757)	**-**
Segment revenue	**961 184**	**4 312 268**	**151 075**	**3 412 343**	**9 785 458**	**651 036**	**173 419**	**346 815**	**-**	**19 793 598**	**(4 626 757)**	**15 166 841**
Profit/(loss) of the segment	**48 316**	**428 577**	**93 404**	**521 440**	**191 255**	**58 026**	**11 865**	**25 091**	**(3 671)**	**1 374 303**	**-**	**1 374 303**
Unallocated expenses	-	-	-	-	-	-	-	-	(53 363)	**(53 363)**	-	**(53 363)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**48 316**	**428 577**	**93 404**	**521 440**	**191 255**	**58 026**	**11 865**	**25 091**	**(57 034)**	**1 320 940**	**-**	**1 320 940**
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	-	-	-	-	(727)	-	-	-	**(727)**	-	**(727)**
Net finance income (costs)	-	**-**	-	-	-	-	-	-	(38 741)	**(38 741)**	-	**(38 741)**
Profit/(loss) before income tax	**48 316**	**428 577**	**93 404**	**521 440**	**191 255**	**57 299**	**11 865**	**25 091**	**(95 775)**	**1 281 472**	**-**	**1 281 472**
Income tax expense	-	-	-	-	-	-	-	**-**	(261 116)	**(261 116)**	-	**(261 116)**
Net profit/(loss) for the period	**48 316**	**428 577**	**93 404**	**521 440**	**191 255**	**57 299**	**11 865**	**25 091**	**(356 891)**	**1 020 356**	**-**	**1 020 356**
EBITDA	**124 752**	**828 064**	**111 607**	**1 012 132**	**196 644**	**109 983**	**13 537**	**31 071**	**(57 034)**	**2 370 756**	**-**	**2 370 756**
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 *	104 906	502 045	27 027	665 167	10 838	81 669	5 678	3 388	-	**1 400 718**	-	**1 400 718**
Depreciation/amortization	(76 436)	(399 487)	(18 203)	(490 692)	(5 389)	(51 957)	(1 672)	(5 980)	-	**(1 049 816)**	-	**(1 049 816)**

** 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 30 September 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	195 508	1 280 932	3 619	537 937	3 662 444	154 172	5 972	59 673	-	**5 900 257**	-	**5 900 257**
Inter-segment sales	232 382	67 005	33 757	925 522	862 380	95	77 958	56 094	-	**2 255 193**	(2 255 193)	-
Segment revenue	**427 890**	**1 347 937**	**37 376**	**1 463 459**	**4 524 824**	**154 267**	**83 930**	**115 767**	**-**	**8 155 450**	**(2 255 193)**	**5 900 257**
	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) of the segment	**87 740**	**100 190**	**12 277**	**321 942**	**92 230**	**(7 438)**	**8 309**	**10 071**	**(11 955)**	**613 366**	**-**	**613 366**
Unallocated expenses	-	-	-	-	-	-	-	-	(23 862)	**(23 862)**	-	**(23 862)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**87 740**	**100 190**	**12 277**	**321 942**	**92 230**	**(7 438)**	**8 309**	**10 071**	**(35 817)**	**589 504**	**-**	**589 504**
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	-	-	-	-	(302)	-	-	-	**(302)**	-	**(302)**
Net finance income (costs)	-	-	-	-	-	-	-	-	(41 983)	**(41 983)**	-	**(41 983)**
Profit/(loss) before income tax	**87 740**	**100 190**	**12 277**	**321 942**	**92 230**	**(7 740)**	**8 309**	**10 071**	**(77 800)**	**547 219**	**-**	**547 219**
Income tax expense	-	-	-	-	-	-	-	-	(96 002)	**(96 002)**	-	**(96 002)**
Net profit/(loss) for the period	**87 740**	**100 190**	**12 277**	**321 942**	**92 230**	**(7 740)**	**8 309**	**10 071**	**(173 802)**	**451 217**	**-**	**451 217**
EBITDA	**121 610**	**230 318**	**22 537**	**536 709**	**96 117**	**9 929**	**11 403**	**12 160**	**(35 817)**	**1 004 966**	**-**	**1 004 966**
Other segment information												
Capital expenditure *	33 574	190 344	44 456	421 208	5 396	59 295	7 982	7 289	-	**769 544**	-	**769 544**
Depreciation/amortization	(33 870)	(130 128)	(10 260)	(214 767)	(3 887)	(17 367)	(3 094)	(2 089)	-	**(415 462)**	-	**(415 462)**

** 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 30 September 2011 *(unaudited)*	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	137 358	1 314 211	289	362 520	2 814 616	145 875	2	60 826	-	**4 835 697**	-	**4 835 697**
Inter-segment sales	171 450	59 268	57 654	739 547	317 217	9 447	47 276	66 553	-	**1 468 412**	(1 468 412)	**-**
Segment revenue	**308 808**	**1 373 479**	**57 943**	**1 102 067**	**3 131 833**	**155 322**	**47 278**	**127 379**	**-**	**6 304 109**	**(1 468 412)**	**4 835 697**
Profit/(loss) of the segment	**3 549**	**101 438**	**37 493**	**183 883**	**60 967**	**(2 226)**	**4 948**	**9 830**	**918**	**400 800**	**-**	**400 800**
Unallocated expenses	-	-	-	-	-	-	-	-	(17 938)	**(17 938)**	-	**(17 938)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**3 549**	**101 438**	**37 493**	**183 883**	**60 967**	**(2 226)**	**4 948**	**9 830**	**(17 020)**	**382 862**	**-**	**382 862**
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	-	-	-	-	(188)	-	-	-	**(188)**	-	**(188)**
Net finance income (costs)	-	-	-	-	-	-	-	-	(16 067)	**(16 067)**	-	**(16 067)**
Profit/(loss) before income tax	**3 549**	**101 438**	**37 493**	**183 883**	**60 967**	**(2 414)**	**4 948**	**9 830**	**(33 087)**	**366 607**	**-**	**366 607**
Income tax expense	-	-	-	-	-	-	-	-	(74 198)	**(74 198)**	-	**(74 198)**
Net profit/(loss) for the period	**3 549**	**101 438**	**37 493**	**183 883**	**60 967**	**(2 414)**	**4 948**	**9 830**	**(107 285)**	**292 409**	**-**	**292 409**
EBITDA	**27 245**	**238 933**	**43 660**	**347 209**	**62 715**	**14 512**	**5 535**	**11 842**	**(17 020)**	**734 631**	**-**	**734 631**
Other segment information												
Capital expenditure *	54 284	207 701	9 573	295 875	4 767	39 037	580	265	-	**612 082**	-	**612 082**
Depreciation/amortization	(23 696)	(137 495)	(6 167)	(163 326)	(1 748)	(16 738)	(587)	(2 012)	-	**(351 769)**	-	**(351 769)**

** 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 9-month period ended 30 September 2012 also include revenues and costs of the companies acquired as a result of the purchase of the GZE S.A. Group, which are consolidated as of the date of acquisition i.e. 13 December 2011.

9.1. Sales revenue

	For the 9-month period ended 30 September 2012 *(unaudited)*	For the 9-month period ended 30 September 2011 *(unaudited)*
Revenue from sale of goods for resale, finished goods and materials, *of which*:	**13 604 736**	**11 613 726**
Electricity	11 759 868	10 127 016
Heat energy	410 400	403 685
Property rights arising from energy certificates	189 858	130 283
Greenhouse gas emission allowances	94 847	28 306
Compensation for termination of PPAs	431 259	276 529
Coal	444 873	410 031
Furnace blast	115 673	114 006
Compressed air	59 242	53 381
Milling products	29 104	21 160
Other goods for resale, finished goods and materials	69 612	49 329
Rendering of services, *of which*:	**4 577 272**	**3 522 199**
Distribution and trade services	4 281 837	3 311 266
Connection fees	111 999	87 248
Maintenance of road lighting	74 729	55 598
Charges for illegal electricity consumption	11 500	7 742
Other services	97 207	60 345
Other revenue, *of which:*	**32 235**	**30 916**
Rental income	32 235	30 916
Total sales revenue	**18 214 243**	**15 166 841**

(in PLN thousand)

9.2. Costs by type

	For the 9-month period ended 30 September 2012 *(unaudited)*	For the 9-month period ended 30 September 2011 *(unaudited)*
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 229 375)	(1 049 816)
Impairment of property, plant and equipment and intangible assets	91 935	(500)
Materials and energy	(2 154 706)	(2 136 429)
Maitenance and repair services	(182 968)	(152 250)
Distribution services	(1 203 117)	(941 031)
Other external services	(570 769)	(370 443)
Taxes and charges	(459 627)	(470 337)
Employee benefits expense	(2 021 788)	(1 816 532)
Inventory write-downs	1 152	537
Allowance for doubtful debts	(39 268)	(26 557)
Other	(70 351)	(60 035)
Total costs by type	**(7 838 882)**	**(7 023 393)**
Change in inventories, prepayments, accruals and deferred income	(172 548)	(89 287)
Cost of goods produced for internal purposes	326 459	272 609
Selling and distribution expenses	341 831	202 965
Administrative expenses	505 052	483 462
Cost of goods for resale and materials sold	(8 674 273)	(7 004 745)
Cost of sales	**(15 512 361)**	**(13 158 389)**

The reversal of the write-down recognized against property rights included in intangible assets had no effect on the result for 2012, as simultaneously the provision for cancellation of energy certificates was reversed. In accordance with the accounting policy, the portion of the provision covered by the energy certificates held is recognized at the value of the certificates held, which means that recognition of a write-down resulted in the reduction of the cost of recognition of the provision in 2011 and the method of accounting for it in 2012. In the 1st quarter of 2012, energy certificates covered by the impairment write-down were surrendered for cancellation, as a result of which the impairment write-down recognized in 2011 in the amount of PLN 91,114 thousand was utilized.

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 9-month period ended 30 September 2012 *(unaudited)*	For the 9-month period ended 30 September 2011 *(unaudited)*
Current income tax	**(190 764)**	**(166 335)**
Current income tax expense	(189 527)	(164 777)
Adjustments to current income tax from previous years	(1 237)	(1 558)
Deferred tax	**(157 888)**	**(94 781)**
Income tax in profit or loss	**(348 652)**	**(261 116)**
Income tax relating to other comprehensive income	**16 979**	**-**

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

(in PLN thousand)

10.2. Deferred income tax

	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
Deferred tax liability		
- difference between tax base and carrying amount of fixed and intangible assets	1 802 785	1 730 720
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	4 292	1 147
- difference between tax base and carrying amount of financial assets available for sale	8 116	8 123
- difference between tax base and carrying amount of financial assets held to maturity	132	120
- difference between tax base and carrying amount of loans and receivables	3 549	4 222
- different timing of recognition of sales revenue for tax purposes	60 365	108 010
- recognition of estimated revenue from sale of power distribution services	2 851	4 912
- difference between tax base and carrying amount of property rights arising from energy certificates	76 399	63 750
- compensation for termination of long-term contracts	82 976	93 859
- other	31 698	29 782
Deferred tax liability	**2 073 163**	**2 044 645**
Deferred tax liability recognized in profit or loss	**2 073 163**	**2 044 645**
Deferred tax liability recognized in other comprehensive income	**-**	**-**
Deferred tax assets		
- difference between tax base and carrying amount of fixed and intangible assets	2 143	1 770
- difference between tax base and carrying amount of inventories	6 222	4 568
- power infrastructure received free of charge and received connection fees	87 107	86 115
- provisions	464 757	504 018
- difference between tax base and carrying amount of assets measued at fair value through profit or loss	2 177	1 620
- difference between tax base and carrying amount of financial assets available for sale	703	942
- difference between tax base and carrying amount of loans and receivables	29 098	25 569
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	1 568	2 066
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	2 896	114
- difference between tax base and carrying amount of financial liabilities measured at amortized cost	17 387	3 552
- valuation of hedging instruments	16 477	-
- different timing of recognition of cost of sales for tax purposes	23 783	70 806
- other accrued expenses	28 236	19 460
- tax losses	362	6 272
- different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	-	61 182
- other	10 812	18 166
Deferred tax assets	**693 728**	**806 220**
Deferred tax assets recognized in profit or loss	**676 749**	**806 220**
Deferred tax assets recognized in other comprehensive income	**16 979**	**-**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**16 219**	**31 965**
Deferred tax liability	**(1 395 654)**	**(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.

As at 30 September 2012, the Tax Capital Group had an overpayment in respect of the corporate income tax amounting to PLN 13,579 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 30 September 2012 *(unaudited)*	As at 31 December 2011
Cash at bank and in hand	282 979	264 082
Short-term deposits (up to 3 months)	865 845	200 456
Other	657	41 132
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**1 149 481**	**505 670**
- restricted cash	212 072	176 241
Bank overdraft	(10 097)	-
Foreign exchange and other differences	1 141	146
Total cash and cash equivalents presented in the statement of cash flows	**1 140 525**	**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 185,663 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 was paid from the Company's net profit for 2011 amounting to PLN 1,083,429 thousand. The dividend date had been set at 2 July 2012 and the dividend payment date at 20 July 2012. As at the balance sheet date, the above-mentioned dividend liability was fully paid off.

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders, which gave PLN 0.15 per share. This amount was composed of the Company's net profit for 2010 in the amount of PLN

(in PLN thousand)

190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represented part of the Company's net profit for 2009 allocated to the reserve capital.

13. Intangible assets

13.1. Non-current intangible assets

Non-current intangible assets for the period from 1 January to 30 September 2012 *(unaudited)*

	Development expenses	Goodwill	Software, concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	**4 389**	**726 369**	**275 852**	**97 495**	**34 769**	**13 831**	**1 152 705**
Direct purchase	-	-	172	-	66	42 875	**43 113**
Transfer of intangible assets not made available for use	-	-	29 609	-	4 466	(34 075)	**-**
Sale, disposal	-	-	(65)	-	-	-	(65)
Reclassification	-	-	144	-	(144)	-	**-**
Liquidation	(565)	-	(2 961)	-	(3)	-	**(3 529)**
Received free of charge	-	-	-	-	290	-	**290**
Transfers from assets under construction	-	-	12 430	-	-	387	**12 817**
Other movements	-	-	845	64	-	(714)	**195**
Foreign exchange differences from translation of foreign entities	-	-	(16)	-	-	(16)	**(32)**
Closing balance	**3 824**	**726 369**	**316 010**	**97 559**	**39 444**	**22 288**	**1 205 494**
ACCUMULATED AMORTIZATION							
Opening balance	**(3 482)**	**-**	**(142 744)**	**(15 166)**	**(2 363)**	**-**	**(163 755)**
Amortization for the period	(223)	-	(36 390)	-	(1 197)	-	**(37 810)**
Decrease of impairment	-	-	-	15 166	-	-	**15 166**
Sale, disposal	-	-	39	-	-	-	**39**
Reclassification	-	-	(99)	-	99	-	**-**
Liquidation	509	-	2 718	-	-	-	**3 227**
Other movements	-	-	(56)	-	-	-	**(56)**
Closing balance	**(3 196)**	**-**	**(176 532)**	**-**	**(3 461)**	**-**	**(183 189)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**907**	**726 369**	**133 108**	**82 329**	**32 406**	**13 831**	**988 950**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**628**	**726 369**	**139 478**	**97 559**	**35 983**	**22 288**	**1 022 305**

In the 9-month period ended 30 September 2012, the most significant purchases of intangible assets made by the Group were related to SAP and Oracle licenses and a support system for purchases' organization.

(in PLN thousand)

Non-current intangible assets for the period from 1 January to 30 September 2011 *(unaudited)*

	Development expenses	Goodwill	Software, concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	**4 389**	**169 553**	**213 417**	**59 977**	**4 430**	**10 362**	**462 128**
Direct purchase	-	-	382	25 867	-	24 011	**50 260**
Transfer of intangible assets not made available for use	-	-	14 209	-	4 312	(18 521)	**-**
Sale, disposal	-	-	(21)	(6 081)	-	-	**(6 102)**
Donations and free-of-charge transfers	-	-	(55)	-	-	-	**(55)**
Reclassification	-	-	-	-	-	-	**-**
Liquidation	-	-	(2 175)	-	(71)	-	**(2 246)**
Received free of charge	-	-	-	-	136	-	**136**
Transfers from assets under construction	-	-	84	-	121	769	**974**
Acquisition of a subsidiary	-	51 576	-	-	-	-	**51 576**
Other movements	-	-	-	27	-	(243)	**(216)**
Foreign exchange differences from translation of foreign entities	-	-	-	-	-	6	**6**
Closing balance	**4 389**	**221 129**	**225 841**	**79 790**	**8 928**	**16 384**	**556 461**
ACCUMULATED AMORTIZATION							**-**
Opening balance	**(2 913)**	**-**	**(110 806)**	**(22)**	**(1 596)**	**(450)**	**(115 787)**
Amortization for the period	(426)	-	(25 580)	-	(542)	-	**(26 548)**
Increase of impairment	-	-	-	(1 597)	-	-	(1 597)
Decrease of impairment	-	-	-	22	-	-	**22**
Reclassification	-	-	-	-	-	-	**-**
Sale, disposal	-	-	21	-	-	-	**21**
Donations and free-of-charge transfers	-	-	36	-	-	-	**36**
Liquidation	-	-	1 932	-	62	-	**1 994**
Closing balance	**(3 339)**	**-**	**(134 397)**	**(1 597)**	**(2 076)**	**(450)**	**(141 859)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 476**	**169 553**	**102 611**	**59 955**	**2 834**	**9 912**	**346 340**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 050**	**221 129**	**91 444**	**78 193**	**6 852**	**15 934**	**414 602**

(in PLN thousand)

13.2. Current intangible assets

Current intangible assets for the period from 1 January to 30 September 2012 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**774 942**	**187 126**	**962 068**
Direct purchase	638 083	63 021	**701 104**
Energy certificates generated internally	245 140	-	**245 140**
Cancellation	(1 058 226)	(221 235)	**(1 279 461)**
Other movements	(983)	(82)	**(1 065)**
Closing balance	**598 956**	**28 830**	**627 786**
ACCUMULATED AMORTIZATION			
Opening balance	**(91 114)**	**-**	**(91 114)**
Increase of impairment	-	-	**-**
Decrease of impairment	91 114	-	**91 114**
Closing balance	**-**	**-**	**-**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**683 828**	**187 126**	**870 954**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**598 956**	**28 830**	**627 786**

Current intangible assets for the period from 1 January to 30 September 2011 *(unaudited)*

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**523 017**	**101 173**	**624 190**
Direct purchase	442 420	63 448	**505 868**
Energy certificates generated internally	212 113	-	**212 113**
Cancellation	(593 565)	(104 750)	**(698 315)**
Other movements	(36)	-	**(36)**
Closing balance	**583 949**	**59 871**	**643 820**
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	**583 949**	**59 871**	**643 820**

13.3. Impairment tests

Due to the existence of certain circumstances in the Group companies' environment which may result in the decrease of the value in use of the cash-generating units ("CGUs") to which goodwill was allocated compared with their carrying amount, as at 30 June 2012 an impairment test was performed for goodwill in the individual operating segments as well as for other intangible assets.

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

- The adopted development track of wholesale prices of electricity for the years 2012-2021, taking into account, among others, the impact of the balance between the supply and demand of electricity on the market, fuel costs and costs of purchase of CO_2 allowances;
- Emission caps for 2012 for the particular CGUs according to NAP II for the period 2013-2020 in accordance with the derogation notice sent by the Polish government to the European Commission;
- The volumes of green and red energy production arising from production capacities along with the track of prices for particular energy certificates;

- The receipt of compensations for early termination of long-term PPAs by eligible generators according to financial models valid at testing dates;
- Regulated income of distribution companies ensuring coverage of reasonable costs and a reasonable return on capital employed. The level of the return depends on the so-called Regulatory Value of Assets;
- The adopted development track of retail electricity prices based on wholesale black energy prices, taking into account excise cost, cost of the obligation to surrender energy certificates for cancellation and an appropriate level of margin;
- Sales volumes taking into account the rise in GDP as well as growing market competition;
- Tariff income of heat generation companies ensuring coverage of reasonable costs and a reasonable return on capital employed;
- Maintenance of the existing non-current assets' production capacities as a result of restoration investments;
- The level of the weighted average cost of capital (WACC) used in calculations, ranging from 8.08% to 13.24% at nominal value before tax during the projection period.

These assumptions were also used for estimating the value in use of other intangible assets.

The test was performed based on the present value of estimated cash flows from operations. The calculations were made for cash flows for 2012-2021 and the residual value. The basis for cash flow calculations is the planned EBIT for 2012-2021 and amortization for this period. The amount of EBIT results from the approved and adopted operating plan for 2012 and the long-term plan for the Group companies through 2021. The use of projections exceeding 5 years is mainly due to long-term investment processes in the power industry. The macroeconomic and industry-specific assumptions used in projections are updated whenever any premises for their modification are observed on the market. Any legal developments known at the date of the test are also included in the projections.

The discount rate used in the calculation reflects the weighted average cost of capital (WACC) and takes into account a risk-free interest rate equal to the current yield on 10-year State Treasury bonds (5.8%) and a premium for the risk specific to operations conducted in the power industry (5%). The rate of increase used in extrapolation of cash flow projections beyond the specific period included in planning is 2.5% and corresponds to the expected long-term inflation rate.

The sensitivity analyses that have been performed indicate that the most significant factors affecting the estimation of the value in use of cash-generating units are the forecasted wholesale prices of electricity and the adopted discount rates.

Based on test results, there is no need to recognize impairment losses on any of the CGUs or on other intangible assets.

(in PLN thousand)

14. Property, plant and equipment

Property, plant and equipment for the period from 1 January to 30 September 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	-	-	-	88	-	13	**101**	1 837 852	**1 837 953**
Transfer of assets under construction	3 639	1 051	572 386	702 408	15 646	20 506	**1 315 636**	(1 315 636)	**-**
Sale, disposal	(8)	(1 130)	(1 560)	(8 714)	(6 012)	(109)	**(17 533)**	457	**(17 076)**
Reclassification	-	-	(101)	120	-	(19)	**-**	-	**-**
Donations and free-of-charge transfers	-	(509)	(4 547)	(535)	-	(529)	**(6 120)**	-	**(6 120)**
Liquidation	(17)	(545)	(24 561)	(82 235)	(643)	(3 346)	**(111 347)**	(333)	**(111 680)**
Received free of charge	-	14	12 527	586	-	-	**13 127**	-	**13 127**
Received for use under rental, lease or similar agreements	-	-	-	44	913	-	**957**	-	**957**
Spare parts allocated to fixed assets	-	-	-	2 238	-	-	**2 238**	-	**2 238**
Overhaul expenses	-	-	200	23 369	-	-	**23 569**	61 149	**84 718**
Write-off of discontinued investments	-	-	-	-	-	-	**-**	(305)	**(305)**
Transfers to intangible assets	-	-	-	-	-	-	**-**	(12 817)	**(12 817)**
Items discovered	-	9	22	55	-	9	**95**	-	**95**
Items generated internally	-	-	-	-	-	-	**-**	33 489	**33 489**
Transfers to assets held for sale	(69)	(1 293)	(2 955)	(212)	(60)	(362)	**(4 951)**	(201)	**(5 152)**
Other movements	(6)	(10)	(157)	(1 748)	-	(3)	**(1 924)**	971	**(953)**
Foreign exchange differences from translation of foreign entities	-	-	-	(9)	-	-	**(9)**	-	**(9)**
Closing balance	**67 964**	**833 228**	**14 331 143**	**11 807 229**	**345 605**	**253 267**	**27 638 436**	**2 232 696**	**29 871 132**
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	-	-	(552 462)	(577 827)	(35 138)	(26 138)	**(1 191 565)**	-	**(1 191 565)**
Increase of impairment	(812)	(13 010)	(882)	(811)	-	(52)	**(15 567)**	-	**(15 567)**
Decrease of impairrment	-	199	375	140	4	14	**732**	-	**732**
Sale, disposal	-	-	366	5 408	4 683	95	**10 552**	-	**10 552**
Reclassification	-	-	14	(28)	-	14	**-**	-	**-**
Donations and free-of-charge transfers	-	-	4 049	531	-	529	**5 109**	-	**5 109**
Liquidation	-	-	16 531	78 423	651	2 844	**98 449**	333	**98 782**
Transfers to assets held for sale	-	-	427	197	57	291	**972**	-	**972**
Other movements	-	-	(192)	2 974	(29)	(1 352)	**1 401**	(398)	**1 003**
Foreign exchange differences from translation of foreign entities	-	-	-	4	-	-	**4**	-	**4**
Closing balance	**(1 457)**	**(13 582)**	**(3 436 945)**	**(3 478 368)**	**(156 667)**	**(139 418)**	**(7 226 437)**	**(5 161)**	**(7 231 598)**
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	**66 507**	**819 646**	**10 894 198**	**8 328 861**	**188 938**	**113 849**	**20 411 999**	**2 227 535**	**22 639 534**

(in PLN thousand)

Property, plant and equipment for the period from 1 January to 30 September 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	-	100	235	709	37	139	**1 220**	1 271 166	**1 272 386**
Transfer of assets under construction	1 869	447	418 422	346 597	8 887	29 120	**805 342**	(805 342)	**-**
Sale, disposal	(41)	(5 026)	(9 177)	(3 891)	(2 380)	(926)	**(21 441)**	(10 483)	**(31 924)**
Reclassification	1	(1)	40	(45)	-	5	**-**	-	**-**
Donations and free-of-charge transfers	-	-	-	(212)	(3)	(180)	**(395)**	-	**(395)**
Liquidation	(4)	(5)	(20 425)	(119 817)	(1 828)	(2 908)	**(144 987)**	(403)	**(145 390)**
Received free of charge	26	407	13 508	431	-	-	**14 372**	-	**14 372**
Acquisition of a subsidiary	-	-	59 801	118 813	-	-	**178 614**	-	**178 614**
Received for use under rental, lease or similar agreements	-	-	-	4 542	598	-	**5 140**	(4 542)	**598**
Spare parts allocated to fixed assets	-	-	-	(5 541)	-	(284)	**(5 825)**	-	**(5 825)**
Overhaul expenses	-	-	455	1 562	-	-	**2 017**	77 152	**79 169**
Write-off of discontinued investments	-	-	-	-	-	-	**-**	(295)	**(295)**
Transfers to intangible assets	-	-	-	-	-	-	**-**	(974)	**(974)**
Items discovered	-	1	2 906	20	-	1	**2 928**	-	**2 928**
Items generated internally	-	-	-	-	-	-	**-**	24 172	**24 172**
Other movements	(27)	(7)	(53)	(20)	-	237	**130**	8 125	**8 255**
Foreign exchange differences from translation of foreign entities	-	-	-	1	-	-	**1**	-	**1**
Closing balance	**60 394**	**788 389**	**11 121 877**	**10 096 663**	**260 686**	**282 573**	**22 610 582**	**1 282 495**	**23 893 077**
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	-	-	(450 747)	(519 619)	(26 667)	(26 235)	**(1 023 268)**	-	**(1 023 268)**
Increase of impairment	(322)	(46)	(625)	(782)	1	(36)	**(1 810)**	-	**(1 810)**
Decrease of impairrment	-	16	45	2 302	102	276	**2 741**	144	**2 885**
Sale, disposal	-	290	8 243	3 380	1 933	574	**14 420**	-	**14 420**
Reclassification	-	-	-	-	-	-	**-**	-	**-**
Donations and free-of-charge transfers	-	-	-	187	3	127	**317**	-	**317**
Liquidation	-	-	8 547	114 569	1 631	2 191	**126 938**	399	**127 337**
Other movements	-	-	-	(12)	-	(239)	**(251)**	67	**(184)**
Foreign exchange differences from translation of foreign entities	-	-	-	(1)	-	-	**(1)**	-	**(1)**
Closing balance	**(696)**	**(1 081)**	**(2 788 007)**	**(2 791 952)**	**(116 108)**	**(149 619)**	**(5 847 463)**	**(5 290)**	**(5 852 753)**
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	**59 698**	**787 308**	**8 333 870**	**7 304 711**	**144 578**	**132 954**	**16 763 119**	**1 277 205**	**18 040 324**

In the 9-month period ended 30 September 2012, the Group purchased property, plant and equipment amounting to PLN 1,837,953 thousand, which mainly included:

- Purchases made by companies from the Distribution Segment for an amount of PLN 997,028 thousand, related to the construction and restoration of power grid assets,
- Purchases made by TAURON Wytwarzanie S.A. for an amount of PLN 519,733 thousand, related to the construction of new production capacities and modernization of the existing generation units. The largest capital expenditures were incurred for the following investment projects carried out by TAURON Wytwarzanie S.A.:
  - Restoration of production capacities in TAURON Wytwarzanie S.A. – the Bielsko Biała CHP Plant: PLN 193,419 thousand,
  - Construction of RES generation unit in TAURON Wytwarzanie S.A. – the Jaworzno III Power Plant: PLN 99,115 thousand,
  - Modernization of primary equipment of unit No. 4 in TAURON Wytwarzanie S.A. – the Jaworzno III Power Plant: PLN 32,820 thousand.
- Purchases made by TAURON Ciepło S.A. for an amount of PLN 128,596 thousand, of which the largest amount – PLN 57,534 thousand – related to reconstruction of a fluidized bed combustor in the Tychy CHP Plant.
- Purchases made by MEGAWAT MARSZEWO Sp. z o.o. for an amount of PLN 66,657 thousand, related to construction of the Marszewo wind farm.

Impairment tests

Due to the existence of certain circumstances in the Group companies' environment which might result in the decrease of the value in use of property, plant and equipment compared with their carrying amounts, an impairment test was performed for property, plant and equipment as at 30 June 2012.

The impairment test of property, plant and equipment was performed at the level of the individual companies except for:

- TAURON Ekoenergia, where the test was performed separately for operations related to generation of electricity using water-power plants and wind turbines, and
- TAURON Ciepło, where operations relating to generation of heat and electric energy in the professional CHP plant and in the system-based CHP plant as well as operations relating to heat generation, transmission and distribution (the former heat enterprises) were separated.

The assumptions used for estimating the value in use of property, plant and equipment are consistent with those described in Note 13.3.

Based on test results, there is no need to recognize any impairment losses on property, plant and equipment.

On 30 March 2012, the Halemba Power Plant ended its operations. The assets of the decommissioned power plant have been presented in accordance with IAS 16.79(c) as items of property, plant and equipment, due to the fact that the criteria for classifying them as assets held for sale under IFRS 5 had not been met at the balance sheet date. The value of the Halemba Power Plant's property, plant and equipment at the balance sheet date was reduced to PLN 17,792 thousand, representing the estimated residual value of these assets. The impairment loss of PLN 14,603 thousand was charged to operating costs.

On 8 October 2012, the assets of the Halemba Power Plant were put out to tender. The Board of Directors of TAURON Wytwarzanie S.A. decided that all of the criteria for recognizing the power plant's assets as held for sale under IFRS 5 had been met on that date.

(in PLN thousand)

15. Inventories

	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
Historical cost		
Raw materials	329 363	443 660
Semi-finished goods and work-in-progress	117 726	97 213
Finished goods	24 235	8 118
Goods for resale	586	2 329
Property rights arising from energy certificates	34 333	29 099
Emission allowances	2 649	-
Total	**508 892**	**580 419**
Write-downs to net realizable value		
Raw materials	(3 025)	(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	-	-
Total	**(4 381)**	**(5 629)**
Net realizable value		
Raw materials	326 338	439 387
Semi-finished goods and work-in-progress	117 726	97 213
Finished goods	24 235	8 118
Goods for resale	586	2 329
Property rights arising from energy certificates	32 977	27 743
Emission allowances	2 649	-
Total	**504 511**	**574 790**

16. Trade and other receivables

The value of trade and other receivables together with doubtful debts allowance as at 30 September 2012 and for the comparative period is presented in the tables below.

Trade and other receivables as at 30 September 2012 *(unaudited)*

	Trade receivables - the current portion	Other current receivables	Total
Accounts receivable (without allowance for doubtful debts)	2 165 369	892 193	**3 057 562**
Allowance for doubtful debts	(113 541)	(93 730)	**(207 271)**
Net value	**2 051 828**	**798 463**	**2 850 291**

Trade and other receivables as at 31 December 2011

	Trade receivables - the current portion	Other current receivables	Total
Accounts receivable (without allowance for doubtful debts)	1 990 816	926 392	**2 917 208**
Allowance for doubtful debts	(109 673)	(64 191)	**(173 864)**
Net value	**1 881 143**	**862 201**	**2 743 344**

Trade receivables as at 30 September 2012 amounted to PLN 2,052,482 thousand, of which the current portion was PLN 2,051,828 thousand and the non-current portion was PLN 654 thousand.

(in PLN 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.

Other current receivables as at 30 September 2012 amounted to PLN 798,463 thousand, the largest item of which was a receivable from compensation for termination of long-term PPAs of PLN 436,717 thousand. As at 31 December 2011, other current receivables of PLN 862,201 thousand included a receivable from compensation for termination of long-term PPAs amounting to PLN 493,993 thousand.

Trade receivables are non-interest bearing and are usually receivable within 30 days from institutional clients. Amounts due from individual clients are receivable 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 30 September 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 30 September 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 30 September 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 30 September 2012 did not change in comparison to 31 December 2011.

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

During the 9-month period ended 30 September 2012, reserve capital increased by 540,139 thousand as a result of the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 24 April 2012 on the allocation of the said amount of PLN 540,139 thousand from the net profit for 2011 to the reserve capital.

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

- allocation of the amount of PLN 540,139 thousand from TAURON Polska Energia S.A.'s net profit for 2011 to the reserve capital,
- allocation of the amount of PLN 543,290 thousand from TAURON Polska Energia S.A.'s net profit for 2011 for the payment of dividend,
- net profit for the period attributable to the equity holders of the parent of PLN 1,274,904 thousand,
- re-acquisition of non-controlling interests – increase of retained earnings by PLN 1,958 thousand,
- acquisition of non-controlling interests – increase of retained earnings by PLN 63 thousand,
- change in non-controlling interests as a result of mergers – decrease of retained earnings by PLN 1,884 thousand.

Due to the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 24 April 2012 on the allocation of the net profit for 2011 to the reserve capital and for payment of dividend, as discussed in detail above and in Note 12, retained earnings do not currently include any distributable amounts.

17.3. Revaluation reserve from valuation of financial instruments

Revaluation reserve from valuation of hedging instruments

The revaluation reserve from valuation of hedging instruments results from the valuation of Interest Rate Swaps used to hedge the interest rate risk arising from issued debentures, as discussed in detail in Note 24. At the balance sheet date, the Group recognized an amount of PLN 72,384 thousand in the revaluation reserve from valuation of hedging instruments, which represented a liability from the valuation of IRSs at the balance sheet date amounting to PLN 86,718 thousand, adjusted for the portion of valuation relating to accrued interest on debentures at the balance sheet date amounting to PLN 2,645 thousand that was taken to profit or loss, net of the deferred tax.

Revaluation reserve from valuation of available-for-sale financial assets

In the 2nd quarter of 2012, the subsidiary TAURON Sprzedaż GZE Sp. z o.o., as a result of the remeasurement of its shares in Towarowa Giełda Energii S.A. to market value, increased their carrying amount from PLN 1,107 thousand to PLN 12,500 thousand i.e. by PLN 11,393 thousand. Gains on the remeasurement were recognized in the revaluation reserve from the valuation of available-for-sale financial assets net of the deferred tax. In July 2012, TAURON Sprzedaż GZE Sp. z o.o. sold the above-mentioned shares of Towarowa Giełda Energii S.A., as a result of which the gains on remeasurement that had previously been recognized in the revaluation reserve from the valuation of available-for-sale financial assets were taken to profit or loss. As at the balance sheet date, the Group did not report any revaluation reserve from valuation of available-for-sale financial assets.

(in PLN thousand)

18. Provisions for employee benefits

18.1. Provisions for employee benefits and jubilee bonuses

Movement in provisions for employee benefits in the 9-month period ended 30 September 2012 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**192 074**	**418 096**	**119 368**	**39 624**	**484 643**	**1 253 805**
Current service costs	6 380	3 778	1 575	446	23 793	**35 972**
Actuarial gains and losses	(5 022)	6 202	(979)	(167)	3 669	**3 703**
Benefits paid	(12 739)	(16 528)	(1 363)	(1 236)	(47 865)	**(79 731)**
Past service costs	-	6 230	-	-	-	**6 230**
Interest expense	9 588	18 899	5 109	1 628	20 215	**55 439**
Other movements	(10 688)	(2 615)	(968)	-	(30 438)	**(44 709)**
Closing balance	**179 593**	**434 062**	**122 742**	**40 295**	**454 017**	**1 230 709**
CURRENT	**24 540**	**23 527**	**5 417**	**1 831**	**53 512**	**108 827**
NON-CURRENT	**155 053**	**410 535**	**117 325**	**38 464**	**400 505**	**1 121 882**

Due to the voluntary redundancy schemes of the TAURON Group companies (as discussed in detail in Note 18.2), in the 9-month period ended 30 September 2012, actuarial provisions relating to those employees who were covered by the scheme, totaling PLN 44,709 thousand, were transferred to provisions for voluntary redundancy schemes.

Movement in provisions for employee benefits in the 9-month period ended 30 September 2011 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**183 009**	**351 573**	**105 955**	**33 526**	**468 688**	**1 142 751**
Current service costs	6 624	3 611	1 636	1 296	19 871	**33 038**
Actuarial gains and losses	4 281	(3 945)	(1 474)	526	3 423	**2 811**
Benefits paid	(15 613)	(9 952)	(1 561)	(915)	(44 166)	**(72 207)**
Past service costs	-	5 951	-	-	-	**5 951**
Interest expense	9 530	16 854	4 774	1 697	18 733	**51 588**
Closing balance	**187 831**	**364 092**	**109 330**	**36 130**	**466 549**	**1 163 932**
CURRENT	**30 613**	**19 848**	**4 723**	**1 281**	**51 448**	**107 913**
NON-CURRENT	**157 218**	**344 244**	**104 607**	**34 849**	**415 101**	**1 056 019**

Except for the provision for severance 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 based on 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:

(in PLN thousand)

	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

18.2. Provisions for payments due to termination of employment contracts

Movement in provisions for voluntary redundancy schemes in the 9-month period ended 30 September 2012 (*unaudited*)

	Voluntary redundancy schemes			
	TAURON Wytwarzanie S.A.	TAURON Dystrybucja S.A.	TAURON Serwis GZE Sp. z o.o.	Total
Opening balance	**5 719**	**29 336**	**217**	**35 272**
Recognition	53 181	11 031	-	**64 212**
Reversal	(1 166)	-	-	**(1 166)**
Utilization	(8 310)	(15 818)	(217)	**(24 345)**
Other movements	44 709	-	-	**44 709**
Closing balance	**94 133**	**24 549**	**-**	**118 682**
CURRENT	**88 575**	**24 549**	**-**	**113 124**
NON-CURRENT	**5 558**	**-**	**-**	**5 558**

Movement in provisions for voluntary redundancy schemes in the 9-month period ended 30 September 2011 (*unaudited*)

	Voluntary redundancy schemes		
	TAURON Wytwarzanie S.A.	TAURON Dystrybucja S.A.	Total
Opening balance	**18 950**	**31 380**	**50 330**
Recognition	12 836	24 078	**36 914**
Reversal	(442)	-	**(442)**
Utilization	(12 757)	(28 817)	**(41 574)**
Other movements	-	-	**-**
Closing balance	**18 587**	**26 641**	**45 228**
CURRENT	**18 587**	**26 641**	**45 228**
NON-CURRENT	**-**	**-**	**-**

The Group has been running the following voluntary redundancy schemes ("VRS"):

- On 28 March 2012, an Employment Cost Reduction Agreement was signed in TAURON Wytwarzanie S.A. From its effective date up to 30 September 2012, 199 individuals took advantage of this Agreement. A provision was recognized due to the planned redundancy of 846 employees in the period from 1 October 2012 to 30 June 2014. The balance of the provision as at 30 September 2012 was PLN 93,834 thousand. In addition, as at 30 September 2012 TAURON Wytwarzanie S.A. also recognized a provision for costs resulting from the Agreement on liquidation of the Halemba Power Plant, amounting to PLN 299 thousand.

  In the 9-month period ended 30 September 2012:

- a provision of PLN 53,181 thousand was recognized for future benefits to employees under the VRS;

- due to resignation of several employees and the remeasurement of the provision due to benefits paid, a provision of PLN 1,166 thousand was reversed;

- part of the provision for future employee benefits was transferred to the provision for VRS in the portion relating to those employees who were covered by the scheme, at the total amount of PLN 44,709 thousand;

- a provision of, respectively, PLN 4,898 thousand and PLN 3,412 thousand was utilized due to payment of benefits to the employees who took advantage of the Agreement on liquidation of the Halemba Power Plant and due to payment of retirement benefits and jubilee bonuses to employees covered by agreements;

- additionally, some individuals received benefits of PLN 24,157 thousand due to termination of their contracts under the VRS, which were charged directly to the Group's costs.

- In TAURON Dystrybucja S.A., the schemes implemented in 2011 were continued in the 9-month period ended 30 September 2012. During the reporting period, the company recognized a provision of PLN 11,031 thousand. Under voluntary redundancy schemes, the company terminated employment contracts with 208 employees, with a total of PLN 11,861 thousand of one-off severance payments being paid out of the provision recognized in 2011, and terminated contracts with 10 employees, with a total of PLN 560 thousand of one-off severance payments being paid out of the provision recognized in 2012. 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 a period not exceeding 6 months (Pre-retirement Redundancy Scheme). The amount of benefits paid under that scheme is PLN 3,397 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 9-month period ended 30 September 2012, TAURON Ciepło S.A. incurred costs of PLN 3,296 thousand under a voluntary redundancy scheme. All the benefits payable under the scheme were paid by the company. As at 30 September 2012, the company did not recognize a provision for the voluntary redundancy scheme.

(in PLN thousand)

19. Provisions

19.1. Movements in provisions

Movement in provisions for the 9-month period ended 30 September 2012 *(unaudited)*

	Provision for counterparty claims, court disputes, 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	-	-	802	-	-	-	**802**
Recognition	3 602	-	1 247	63 099	1 033 800	28 337	**1 130 085**
Reversal	(2 282)	(179)	-	-	-	(8 689)	**(11 150)**
Utilization	(1 229)	-	-	(221 109)	(1 182 192)	(5 285)	**(1 409 815)**
Other movements	-	(765)	2 678	-	(646)	741	**2 008**
Closing balance	**43 240**	**-**	**74 577**	**29 122**	**554 411**	**101 348**	**802 698**
CURRENT	**43 240**	**-**	**3 250**	**29 122**	**554 411**	**100 534**	**730 557**
NON-CURRENT	**-**	**-**	**71 327**	**-**	**-**	**814**	**72 141**

Movement in provisions for the 9-month period ended 30 September 2011 *(unaudited)*

	Provision for counterparty claims, court disputes, 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	-	-	761	-	-	-	**761**
Recognition	10 168	797	690	63 449	798 623	17 571	**891 298**
Reversal	(3 279)	-	-	-	(9 318)	(9 884)	**(22 481)**
Utilization	(80)	(1 409)	-	(104 728)	(928 635)	(3 630)	**(1 038 482)**
Other movements	(570)	-	1 087	-	(2 153)	570	**(1 066)**
Closing balance	**40 513**	**-**	**37 237**	**59 894**	**645 548**	**71 530**	**854 722**
CURRENT	**40 513**	**-**	**-**	**48 237**	**645 548**	**70 813**	**805 111**
NON-CURRENT	**-**	**-**	**37 237**	**11 657**	**-**	**717**	**49 611**

19.2. Details of significant provisions

19.2.1 Provision for counterparty claims and court disputes

Provision for proceedings before the Competition and Consumers Protection Office

The Competition and Consumers Protection Office conducts antimonopoly proceedings against TAURON Dystrybucja S.A. 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 30 September 2012 amounted 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

Due to legal obligation arising from 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 30 September 2012, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,900 thousand, and the provision recognized by Południowy Koncern Węglowy S.A., including the Mine Decommissioning Fund, amounted to PLN 29,172 thousand. As at 31 December 2011, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,591 thousand, and the provision recognized by Południowy Koncern Węglowy S.A. amounted to PLN 25,691 thousand.

The provision for restoration of land under waste dumps recognized by TAURON Wytwarzanie S.A. as at 30 September 2012 amounted to PLN 18,000 thousand and did not change in comparison to 31 December 2011.

The Renewable Sources of Energy segment entities recognized a provision for the costs of dismantling wind farms after the completion of their usage at an amount of PLN 14,155 thousand. As at 31 December 2011, the provision amounted to PLN 13,610 thousand.

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 9,350 thousand. As at 31 December 2011, the provision amounted to PLN 8,958 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 30 September 2012, the provision recognized in this respect amounted to PLN 554,411 thousand.

19.2.4 Provision for gas emission related obligations

A provision for obligations arising from gas emission is recognized despite the fact that, at the Group level, there is no deficiency of gas emission allowances compared to actual emission. Provision is recognized with respect to Certified Emission Reductions (CERs), which have been acquired as a result of the exchange of EUAs for CERs, and which, in accordance with the adopted accounting policy, are surrendered for cancellation in the first turn.

The exchange of EUAs for CERs results in the recognition of revenue from operating activities. Simultaneously, a provision is recognized in the same amount for the obligation to surrender CERs for cancellation.

As at 30 September 2012, the provision for obligations arising from gas emission amounted to PLN 29,122 thousand.

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 the real estate on which distribution systems and heat installations are located. As at 30 September 2012, the provision amounted to PLN 60,348 thousand, and as at 31 December 2011 it amounted to PLN 42,466 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

(in PLN thousand)

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 2,618 thousand as at 30 September 2012 and PLN 2,036 thousand as at 31 December 2011.

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

20. Accruals

20.1. Deferred income and government grants

	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
Deferred income		
Donations, fixed assets received free-of-charge	204 636	204 535
Non-government subsidies	4 459	299
Subsidies for the purchase of fixed assets	61 862	57 944
Connection fees	298 163	314 204
Other deferred income	16 922	7 704
Total, *of which:*	**586 042**	**584 686**
Non-current	526 836	536 499
Current	59 206	48 187
Government grants		
Forgiven loans from environmental funds	19 954	8 987
Other deferred government grants	96 338	104 849
Total, *of which:*	**116 292**	**113 836**
Non-current	106 188	106 050
Current	10 104	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 34,998 thousand, and the remeasurement of preferential loans received by TAURON Wytwarzanie S.A. to market value, amounting to PLN 40,828 thousand.

20.2. Accrued expenses

	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
Unused holidays	28 567	26 025
Bonuses	200 820	180 289
Environmental protection charges	12 048	1 268
Excise tax accrued	17 518	8 162
Other	8 742	7 341
Total, *of which*:	**267 695**	**223 085**
Non-current	-	-
Current	267 695	223 085

21. Business combinations and acquisition of non-controlling interests

Due to the reorganization of the Group's structure, the following significant mergers of subsidiaries and of the parent with a subsidiary took place in the 2nd quarter of 2012:

- On 30 April 2012, merger of TAURON Ciepło S.A. (acquirer) with: Elektrociepłownia Tychy S.A. (acquiree), Elektrociepłownia EC Nowa Sp. z o.o. (acquiree) and Energetyka Cieplna w Kamiennej Górze Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. The share capital of TAURON Ciepło S.A. was increased from PLN 444,664 thousand to PLN 865,937 thousand, i.e. by PLN 421,273 thousand. As a result of the merger, non-controlling interests increased by PLN 1,884 thousand, with a simultaneous decrease of retained earnings by the same amount.
- On 12 June 2012, merger of the parent, TAURON Polska Energia S.A. (acquirer) and a subsidiary, Górnośląski Zakład Elektroenergetyczny S.A. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. As a result of the buyout of the 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 buyout of non-controlling interests for a price of PLN 1,015 thousand resulted in the decrease of non-controlling interests by PLN 784 thousand and the decrease of retained earnings by PLN 231 thousand. Due to the fact that TAURON Polska Energia S.A. held 100% of shares in the share capital of the acquired company, the merger was conducted under Article 515 Clause 1 of the Code of Commercial Companies, without increasing the acquirer's share capital.
- On 1 June 2012, merger of TAURON Ekoenergia Sp. z o.o. (acquirer) and Lipniki Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected without increasing the share capital and without any amendments to the Articles of Association. The acquirer was the sole shareholder of the acquired company. The merger had no impact on the consolidated financial statements.

The mergers described above were effected under the take-over procedure, i.e. pursuant to Article 492 Clause 1 Item 1 of the Code of Commercial Companies, by way of transferring all of the assets of the acquiree to the acquirer. As a result of the merger, the acquired companies were dissolved without liquidation.

After the balance sheet date, on 1 October 2012 mergers took place between companies from the distribution segment: TAURON Dystrybucja S.A. and TAURON Dystrybucja GZE S.A., and between companies from the renewable energy sources segment: TAURON Ekoenergia Sp. z o.o. and TAURON Ekoenergia GZE Sp. z o.o., as discussed in detail in Note 32.

On 24 August 2012, TAURON Polska Energia S.A. acquired from the State Treasury 50,803,138 shares of its subsidiary, TAURON Ciepło S.A., which accounted for 0.06% of the share capital of TAURON Ciepło S.A., for PLN 220 thousand. The buyout of non-controlling interests resulted in the decrease of non-controlling interests by PLN 514 thousand and increase of retained earnings by PLN 294 thousand.

As a result of the squeeze-outs of own shares for redemption purposes continued in the TAURON Group, the value of non-controlling interests in TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. decreased by PLN 6,628 thousand, while retained earnings increased by PLN 1,958 thousand.

(in PLN thousand)

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 30 September 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 30 September 2012 and 31 December 2011 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
1 Assets at fair value through profit or loss	**7 161**	**100 225**
Shares in unlisted and listed companies (current)	2 989	716
Investment fund units	-	2
Bonds, T-bills and other debt securities	-	99 507
Derivative hedging instruments (assets)	4 172	-
2 Financial assets available for sale	**155 053**	**170 223**
Shares in unlisted and listed companies (non-current)	145 424	161 286
Shares in unlisted and listed companies (current)	5 479	4 588
Investment fund units	2 250	2 124
Bonds, T-bills and other debt securities	1 900	2 225
3 Financial assets held to maturity	**-**	**-**
4 Loans and receivables	**2 947 384**	**2 778 390**
Trade receivables	2 052 482	1 881 992
Loans granted	63 275	-
Deposits	25 853	25 250
Other financial receivables	805 774	871 148
5 Financial assets excluded from the scope of IAS 39	**54 320**	**22 717**
Investments in associates and joint ventures recognised using the equity method	54 320	22 717
6 Cash and cash equivalents	**1 149 481**	**505 670**
Total financial assets, including in the statement of financial position:	**4 313 399**	**3 577 225**
Non-current assets	**300 987**	**220 187**
Investments in associates and joint ventures recognized using the equity method	54 320	22 717
Other long-term financial assets	246 667	197 470
Current assets	**4 012 412**	**3 357 038**
Trade and other receivables	2 850 291	2 743 344
Other current financial assets	12 640	108 024
Cash and cash equivalents	1 149 481	505 670

(in PLN thousand)

Categories and classes of financial liabilities	Carrying amount	
	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
1 Financial liabilities at fair value through profit or loss	**637**	**80**
Derivatives	637	80
2 Financial liabilities measured at amortized cost	**7 332 420**	**6 823 202**
Preferential loans	152 002	176 966
Arm's length loans	1 053 021	141 973
Bank overdrafts	10 097	-
Issued debentures and other debt securities	4 363 069	4 147 174
Trade payables	1 236 026	1 471 434
Other financial liabilities	102 479	71 744
Commitments resulting from purchases of fixed and intangible assets	310 772	630 295
Salaries and wages	101 339	148 393
Insurance contracts	3 615	35 223
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**60 518**	**70 993**
Obligations under finance leases and hire purchase contracts	60 518	70 993
4 Derivative hedging instruments (liabilities)	**86 718**	**-**
Total financial liabilities, including in the statement of financial position:	**7 480 293**	**6 894 275**
Long-term liabilities	**5 376 418**	**4 316 144**
Interest-bearing loans and borrowings	5 324 024	4 251 944
Finance lease and hire purchase commitments	46 004	56 232
Trade payables and other financial long-term liabilities	6 390	7 968
Short-term liabilities	**2 103 875**	**2 578 131**
Trade and other payables	1 835 196	2 349 201
Current portion of interest-bearing loans and borrowings	254 165	214 169
Current portion of finance lease and hire purchase commitments	14 514	14 761

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

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 2012, of treasury bonds held by the Group companies as at 31 December 2011.

Loans and receivables

Under loans granted, the Group showed a long-term loan granted by the parent to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 62,000 thousand together with accrued interest of PLN 1,275 thousand, as discussed in detail in Note 2.

The balance of other loans and receivables as at 30 September 2012 is mainly comprised of receivables from termination of long-term PPAs amounting to PLN 436,717 thousand (as at 31 December 2011: PLN 493,993 thousand). Trade and other financial receivables are discussed in detail in Note 16.

Financial liabilities measured at amortized cost

Arm's length loans mainly include a loan from the European Investment Bank for an amount of PLN 972,110 thousand, as discussed in detail in Note 23.1.

The increase of liabilities under issued debentures is due to the new issue of debentures with a nominal value of PLN 150,000 thousand on 30 January 2012 under tranche B, as discussed in detail in Note 23.2.

(in PLN thousand)

Hedging derivative instruments (liabilities)

Hedging derivative instruments of PLN 86,718 thousand include valuation of derivatives entered into in order to hedge against the interest rate risk arising from issued debentures, as discussed in detail in Note 24.

23. Interest-bearing loans and borrowings, including issued debentures

23.1 Loans and borrowings

Loans and borrowings taken out as at 30 September 2012 and 31 December 2011 are presented in the tables below.

Loans taken out as at 30 September 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	227 200	227 200	86 832	36 187	46 456	11 904	16 610	29 211
	fixed	969 070	969 070	51 359	1 019	93 144	93 144	186 287	544 117
Total PLN		**1 196 270**	**1 196 270**	**138 191**	**37 206**	**139 600**	**105 048**	**202 897**	**573 328**
EUR	floating	1 436	5 908	844	1 899	2 532	633	-	-
Total			**1 202 178**	**139 035**	**39 105**	**142 132**	**105 681**	**202 897**	**573 328**
Interest increasing carrying amount			12 942						
Total loans			**1 215 120**						

Loans taken out as at 31 December 2011

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**						

Movement in loans

Presented below are movements in loans, excluding interest increasing their carrying amount, for the 9-month period ended 30 September 2012 and for the comparative period.

(in PLN thousand)

	9-month period ended 30 September 2012 *(unaudited)*	9-month period ended 30 September 2011 *(unaudited)*
Opening balance	**318 354**	**554 797**
Acquisition of a subsidiary	**-**	**138 261**
Movement in bank overdrafts	**10 097**	**(2 464)**
Movement in loans (excluding bank overdrafts):	**873 727**	**(305 451)**
Taken out	999 000	87 255
Repaid	(127 747)	(398 809)
Change in valuation	2 474	6 103
Closing balance	**1 202 178**	**385 143**

During the 9-month period ended 30 September 2012, the Company received funds under two loans from the European Investment Bank with a total value of PLN 510,000 thousand, under the agreement dated 24 October 2011.

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

- PLN 300,000 thousand is to be used for the conversion and transfer for use of a high efficiency coal-fired cogeneration unit with the accompanying infrastructure in the Bielsko-Biała CHP Plant. Those funds will be used by the TAURON Group to replace the current unit with a unit of a higher efficiency amounting to 50 MWe and 182 MWt. Construction of this unit started in August 2010 and will last until mid 2013;
- PLN 210,000 thousand is 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 aforementioned 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 full repayment of the principal is 15 December 2021. Interest on the borrowed funds is payable on a semi-annual basis, on 15 June and 15 December each year.

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

On 3 July 2012, the Company entered into another loan agreement with the European Investment Bank for total funding of PLN 900,000 thousand. The funds obtained from this loan are to be used for grid investments – for the implementation of a 5-year investment program aimed at modernization and development of the power grids of TAURON Dystrybucja S.A. located in Southern Poland. The total cost of the project is approx. PLN 2,000,000 thousand. The first tranche of the loan amounting to PLN 450,000 thousand was made available in July 2012. The remaining amount will be used as required. The maximum repayment period is 12 years from the date of payment of the first tranche of the loan.

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

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

(in PLN thousand)

The financing parameters for the remaining, unpaid tranches in the total amount of PLN 450,000 thousand will be determined at the moment of submitting the request for the payment of funds and will reflect the current needs of TAURON Polska Energia S.A. and the current market conditions at that moment in time.

At the balance sheet date, the balance of liabilities under loans obtained from the European Investment Bank amounted to PLN 972,110 thousand, of which PLN 12,890 thousand represented accrued interest.

23.2 Debentures and other securities issued

As at 30 September 2012, the Group's liability under issued debentures amounted to PLN 4,363,069 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 24.

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 30 September 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 30 September 2012 and 31 December 2011.

Debentures issued as at 30 September 2012 *(unaudited)*

Tranche	Interest rate	Currrency	As at the balance sheet date *(unaudited)*		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	13 194	846 431	-	-	-	-	846 431	-
Tranche B	floating	PLN	7 076	449 093	-	-	-	150 000	299 093	-
Tranche C	floating	PLN	55 105	2 992 170	-	-	-	-	2 992 170	-
Total debentures			**75 375**	**4 287 694**	**-**	**-**	**-**	**150 000**	**4 137 694**	**-**

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**	**-**

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

24. Financial risk management objectives and policies

The Group has a specific risk management policy in the finance area, 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 segregation of duties to enable proper control of the activities relating to financial risk management;
- Defining general hedge accounting policies 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 Group 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.

Hedge accounting

As at 30 September 2012, the Group 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 dated 30 January 2012, in March 2012 the parent hedged against the interest rate risk arising from debentures issued under the Debentures Issue Program by entering into an interest rate swap (IRS) for a period of 5 years. This transaction was entered into due to variability of the expected future cash flows from interest payments resulting from the issue of debentures in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

The Group applies hedge accounting to the above-mentioned transactions. At the balance sheet date, as a result of valuation of hedging instruments (IRS) the Group recognized a liability of PLN 86,718 thousand, which was taken to the revaluation reserve. In the 9-month period ended 30 September 2012, the Group earned revenue from IRS transactions of PLN 4,596 thousand, of which PLN 1,951 thousand is the amount received from realization of the hedge and relates to interest payments realized by the Group, while the amount of PLN 2,645 thousand is the portion of valuation relating to accrued interest on debentures as at the balance sheet date that has been transferred from the revaluation reserve. In the consolidated statement of comprehensive income, the above-mentioned revenue from IRS transactions reduced finance costs arising from interest on issued debentures. In the statement of cash flows, the amount received by the Group from realization of the hedge reduced the expenditure related to interest paid on debentures, which has been presented under cash flows from financing activities.

(in PLN thousand)

25. 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 30 September 2012 ***(unaudited)***	**As at 31 December 2011**
Interest-bearing loans and borrowings	5 578 189	4 466 113
Trade and other payables, finance leases and hire purchase commitments	1 902 104	2 428 162
Less cash and cash equivalents	1 149 481	505 670
Net debt	**6 330 812**	**6 388 605**
Equity attributable to equity holders of the parent	16 336 651	15 677 721
Total capital	**16 336 651**	**15 677 721**
Capital and net debt	**22 667 463**	**22 066 326**
Leverage ratio	28%	29%

26. Contingent liabilities and contingent assets

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

TAURON Sprzedaż GZE Sp. z o.o.

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 – 2012, 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 – 2012 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, 2011 and 2012 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.

On 19 March 2010, the President of URE issued a decision in which it decided to withdraw ex officio the exemption from the requirement to submit electricity tariff for approval that was granted to Vattenfall Sales Poland Sp. z o.o. (currently TAURON Sprzedaż GZE Sp. z o.o.) by virtue of the position of the President of URE dated 28 June 2001. The Company filed an appeal against this decision with the Regional Court in Warsaw the Court for Competition and Consumers Protection (CCCP). On 9 December 2011, the CCCP passed a judgment which reversed the President's decision. On 20 September 2012, the Court of Appeal in Warsaw announced a judgment in the matter of URE's appeal against CCCP's judgment regarding the withdrawal of the exemption granted to TAURON Sprzedaż GZE Sp. z o.o. from the requirement to submit for approval the electricity tariff for group G. The Court dismissed URE's appeal. The judgment is final.

The company's Management believe that the probability of an unfavorable outcome of the above-mentioned cases is low, hence no provision has been recognized for those events.

TAURON Ciepło S.A.

On 23 February 2012, the subsidiary Elektrociepłownia EC Nowa Sp. z o.o. (currently TAURON Ciepło S.A.) was served with a notification about administrative proceedings instituted on 17 February 2012 by the President of the 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. (currently TAURON Ciepło S.A.) expressed an opinion that all the above-mentioned exemptions apply to the company. However, despite numerous arguments in favor of the application of the three aforementioned exemptions from the requirement to sell electricity through power exchange markets to EC Nowa Sp. z o.o. (currently TAURON Ciepło S.A.), 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.

TAURON Wytwarzanie S.A.

In connection with Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie S.A.) failing to fulfill in 2006 its obligation to purchase or generate a specified quantity of electricity in cogeneration with heat, the President of the Energy Regulatory Office did not recognize the company's arguments and imposed a cash penalty on it in the amount of PLN 6,136 thousand. The company lodged an appeal against this decision with the Regional Court, which passed a judgment reversing URE's decision. The President of URE lodged an appeal against the judgment of the Regional Court. On 22 June 2012 the Court of Appeal overruled the judgment of the Regional Court reversing the President of URE's decision imposing a cash penalty and remanded it for reexamination on the grounds that the proceedings conducted in this case were invalid. A complaint against this judgment was filed with the Supreme Court through the Court of Appeal in Warsaw. The proceedings are still pending as at the date of these interim condensed consolidated financial statements.

In addition, the Energy Regulatory Office challenged the fulfillment by TAURON Wytwarzanie S.A. of the obligation to sell a minimum of 15% of generated electricity on power exchange markets or on a regulated market, as well as the obligation to sell the remaining part of electricity in a manner ensuring equal and public access to such energy for the year 2010. On 30 August 2012, the President of URE issued a decision imposing a cash penalty of PLN 30 thousand on TAURON Wytwarzanie S.A. due to its failure to fulfill the obligations referred to in Article 49a Sections 1 and 2 of the Energy Law. On 17 September 2012, TAURON Wytwarzanie S.A. filed an appeal against this decision with the Regional Court in Warsaw – the Court for Competition and Consumers Protection. The case has not been ended as appellate proceedings are pending as at the date of these interim condensed consolidated financial statements. Based on sales assumptions and forecasts, TAURON Wytwarzanie S.A. does not expect any problems with the fulfillment of the said obligation in 2012.

The company's Management believe that the probability of an unfavorable outcome of the above-mentioned cases is low, hence no provision has been recognized 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 towards issuing a decision imposing on the company a requirement to fulfill the commitment to discontinue activities violating collective consumers' interests and to take steps preventing continued existence of the alleged violations. On 14 November 2011, the President of the Competition and Consumers Protection Office accepted TAURON Sprzedaż Sp. z o.o.' commitment and imposed on it a requirement to fulfill the commitment, while setting the deadline for its fulfillment at 1 June 2012 and the deadline for submitting a report on the fulfillment of the commitment at 30 June 2012. The company fulfilled its commitment within the required deadline and on 29 June 2012 submitted the relevant report to UOKiK.

Claims of Huta Łaziska S.A.

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

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

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

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

Court set a hearing for 27 November 2012. The case will again be heard before the court of first instance.

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 that they will have to be satisfied 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. After termination of PPAs, beginning from 2008 the Company receives quarterly cash advances based on the submitted request. 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 431,259 thousand for the 9-month period ended 30 September 2012.

Information on the amount of the adjustment to stranded costs for 2008-2011:

- for 2008:

  Under the decision of the President of the Energy Regulatory Office dated 31 July 2009, the company was obligated to return an amount of PLN 159,508 thousand to Zarządca Rozliczeń S.A. by 30 September 2009. The President of URE, while giving reasons for his decision, noted that the selling price included by the company in the calculation of compensation for stranded costs did not meet the criterion for selling price of electricity on a competitive market as majority of sales transactions had been made within the TAURON Polska Energia S.A. Capital Group. In addition, the President of URE challenged the inclusion of the value of the provision for missing carbon dioxide allowances in the calculation of stranded costs due to the deficit of such allowances in 2008.

  As a result of appeal proceedings, based on the judgments of: the Regional Court in Warsaw the Court for Competition and Consumers Protection dated 26 May 2010 and of the Court of Appeal in Warsaw dated 25 April 2012, which modified the President of URE's decision, the company received an adjustment to stranded costs for 2008 from Zarządca Rozliczeń S.A. in Warsaw amounting to PLN 158,842 thousand. The President of URE took advantage of the right of appeal and filed a cassation appeal against the judgment of the Court of Appeal, which was delivered to the Court of Appeal in Warsaw on 24 September 2012. On 25 October 2012, the cassation appeal was served on the lawyers representing TAURON Wytwarzanie S.A. TAURON Wytwarzanie SA must submit its reply within two weeks of the date of receiving the cassation appeal.

  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 had no direct impact on the results of the company or of the TAURON Group.

(in PLN thousand)

- for 2009:

  Under the decision dated 29 July 2010, the President of URE determined the amount of positive annual adjustment to stranded costs of TAURON Wytwarzanie S.A. for 2009 at PLN 138,202 thousand. On 30 September 2010, Zarządca Rozliczeń S.A. paid this amount to the company.

- for 2010:

  Under the decision dated 29 July 2011, the President of URE determined the amount of positive annual adjustment to stranded costs of TAURON Wytwarzanie S.A. for 2010 at PLN 205,703 thousand. On 30 September 2011, Zarządca Rozliczeń S.A. paid this amount to the company.

- for 2011:

  Under the decision dated 31 July 2012, the President of URE determined the amount of positive annual adjustment to stranded costs of TAURON Wytwarzanie S.A. for 2011 at PLN 211,677 thousand. This decision is consistent with the amount estimated by the Company and thus it has no impact on the results of the TAURON Group. On 28 September 2012, Zarządca Rozliczeń S.A. paid this amount to the company.

Revenues and proceeds from compensations for terminated PPAs

	3-month period ended 30 September 2012 *(unaudited)*	9-month period ended 30 September 2012 *(unaudited)*	3-month period ended 30 September 2011 *(unaudited)*	9-month period ended 30 September 2011 *(unaudited)*
Revenue from compensations for terminated long-term PPAs	154 648	431 259	107 759	276 529
Cash inflows generated from compensations concerning terminated long-term PPAs	249 940	488 535	247 193	332 485

Other contingent liabilities

	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
Suretyship for the repayment of loan	200	2 408
Liabilities arising from bank guarantees	1 898	1 898
Liabilities arising from legal actions	1 797	2 797
Other contingent liabilities	1 758	2 863
Total contingent liabilities	**5 653**	**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.

(in PLN thousand)

27. 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 30 September 2012 *(unaudited)*	As at 31 December 2011
Real estate	730 101	730 416
Plant and equipment	51 894	136 201
Motor vehicles	1 258	2 439
Assets under construction	-	75
Cash	9 954	663
Other financial and non-financial receivables	120	5 771
Total assets pledged as security for liabilities	**793 327**	**875 565**

The decrease of the carrying amount of plant and machinery pledged as security for liabilities in the 9-month period ended 30 September 2012 is mainly due to the repayment, at the end of 2011, of a loan by Południowy Koncern Węglowy S.A. 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 machinery.

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 30 September 2012 related to loans taken out by TAURON Wytwarzanie S.A. and included: assignment of receivables amounting to PLN 44,000 thousand, authorizations to bank accounts – PLN 74,000 thousand and blank promissory notes for PLN 122,977 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 65,282 thousand as at 30 September 2012. In order to secure proper performance of the contract and of the agreements signed by the company, including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for a total amount of PLN 77,911 thousand). Elektrociepłownia Tychy S.A. (currently TAURON Ciepło 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:

- up to PLN 1,560,000 thousand – valid until 31 December 2016,
- up to the amount of PLN 6,900,000 thousand – valid until 31 December 2018 (as at 31 December 2011 up to PLN 3,600,000 thousand – the increase of this amount by PLN 3,300,000 thousand is due to the signing of another agreement under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by PLN 2,750,000 thousand, up to the total amount of PLN 7,050,000 thousand, as discussed in detail in Note 23).

In order to secure the framework agreement concerning bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement under

Article 97 of the Banking Law up to the amount of PLN 125,000 thousand, valid until 31 December 2017. Additional collateral for this agreement is authorization to the bank account held with PKO Bank Polski S.A. As at 30 September 2012, the maximum amount of the limit set for the guarantees is PLN 100,000 thousand. The agreement will be valid until 31 December 2016.

As at 30 September 2012, under the aforementioned agreement, PKO Bank Polski S.A., at the Company's request, issued bank guarantees to secure the liabilities of the subsidiaries of TAURON Polska Energia S.A. for a total amount of PLN 4,537 thousand and to secure the Company's transactions for a total amount up to PLN 33,291 thousand, of which the most significant one is the guarantee of up to PLN 30,000 thousand granted to Izba Rozliczeniowa Giełd Towarowych S.A. As of 1 October 2012, this guarantee was increased up to PLN 80,000 thousand and was extended up to 31 December 2012.

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

In order to secure the transactions made by the Company 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.

28. Capital commitments

As at 30 September 2012, the Group committed to incur expenditures for property, plant and equipment in the amount of PLN 1,789,630 thousand. The largest items included:

- the capital commitment of PLN 142,143 thousand relating to boiler accommodation in the Jaworzno III Power Plant, being the property of TAURON Wytwarzanie S.A., to reduce emission of greenhouse gases,
- the capital commitment of TAURON Dystrybucja S.A. amounting to PLN 83,900 thousand and relating to the reconstruction of the Groszowice-Hermanowice high-voltage transmission line including construction of optical fiber.

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

29. 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.

(in PLN thousand)

Revenues and costs

	9-month period ended 30 September 2012 *(unaudited)*	9-month period ended 30 September 2011 *(unaudited)*
Revenue	1 547 980	1 224 869
Costs*	(2 930 643)	(2 379 804)

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

Receivables and payables

	As at 30 September 2012 *(unaudited)*	As at 31 December 2011
Receivables	305 772	469 020
Payables	515 593	571 740

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the 9-month period ended 30 September 2012: KGHM Polska Miedź S.A., PKP Energetyka S.A., Kompania Węglowa S.A. and PSE Operator S.A. Total sales to these counterparties accounted for 76% 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 73% of the value of purchases from State Treasury companies during the 9-month period ended 30 September 2012.

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.

30. Compensation of key management personnel

The amount of compensation and other benefits of the Board of Directors, Supervisory Boards and other key management personnel of the parent and of the subsidiaries for the 9-month period ended 30 September 2012 is presented in the table below.

(in PLN thousand)

	9-month period ended 30 September 2012 *(unaudited)*		9-month period ended 30 September 2011 *(unaudited)*	
	Parent	**Subsidiaries**	**Parent**	**Subsidiaries**
Board of Directors	**6 687**	**16 943**	**7 519**	**19 626**
Short-term employee benefits (salaries and surcharges)	5 996	15 460	6 780	17 016
Jubilee bonuses	-	28	-	-
Post-employment benefits	-	277	-	420
Employment termination benefits	-	237	-	313
Other	691	941	739	1 877
Supervisory Board	**702**	**929**	**578**	**1 786**
Short-term employee benefits (salaries and surcharges)	702	929	578	1 786
Total	**7 389**	**17 872**	**8 097**	**21 412**
Other key management personnel	**7 345**	**31 975**	**4 713**	**24 306**
Short-term employee benefits (salaries and surcharges)	6 575	30 087	4 023	23 347
Jubilee bonuses	-	570	156	491
Post-employment benefits	126	64	-	-
Employment termination benefits	-	782	88	305
Other	644	472	446	163

31. Details of other significant changes in the reporting period

Finance costs

The PLN 131,641 thousand increase in finance costs in the 9-month period ended 30 September 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 issued debentures for the 9-month period ended 30 September 2012 amounted to PLN 186,332 thousand, and for the 9-month period ended 30 September 2011 PLN 33,335 thousand.

In the 9-month period ended 30 September 2012, total interest paid by the Group on loans, debt securities and finance leases amounted to PLN 147,419 thousand. Borrowing costs capitalized in the cost of assets for the current period are presented by the Group under cash flows from investing activities in the consolidated statement of cash flows, as expenditures for the purchase of property, plant and equipment and intangible assets.

Other long-term non-financial assets

The PLN 197,556 thousand increase in other long-term non-financial assets is mainly due to advance payments made by the following companies: the advance paid by MEGAWAT MARSZEWO Sp. z o.o. to the constructor of the 82 MW Marszewo wind farm, amounting to PLN 126,402 thousand i.e. 20% of the value of the contract, and the advance paid by BELS INVESTMENT Sp. z o.o. to the constructor of the Wicko wind farm, amounting to PLN 73,130 thousand i.e. 30% of the value of the contract.

32. Events after the balance sheet date

Business combinations in the TAURON Group:

- Merger of TAURON Dystrybucja S.A. with TAURON Dystrybucja GZE S.A.

  On 1 October 2012, merger of TAURON Dystrybucja S.A. and TAURON Dystrybucja GZE S.A. was entered in the register. It was effected pursuant to Article 492 § 1 point 1 of the Code of Commercial Companies i.e. by way of a transfer of all of the assets of the acquiree to the acquirer. In this transaction, TAURON Dystrybucja S.A. is the acquirer and TAURON Dystrybucja GZE S.A. is the acquiree.

- Merger of TAURON Ekoenergia Sp. z o.o. with TAURON Ekoenergia GZE Sp. z o.o.

  On 1 October 2012, TAURON Ekoenergia Sp. z o.o. (the acquirer) merged with TAURON Ekoenergia GZE Sp. z o.o. (the acquiree). This merger was effected pursuant to Article 492 § 1 point 1 of the Code of Commercial Companies i.e. by way of a transfer of all of the assets of the acquiree to the acquirer.

These interim condensed consolidated financial statements of the TAURON Polska Energia S.A. Capital Group prepared for the 9-month period ended 30 September 2012 in accordance with International Accounting Standard 34 consist of 61 pages.

Katowice, 6 November 2012

Dariusz Lubera - President ………………………………….

Krzysztof Zawadzki – Vice President ………………………………….