EXTENDED CONSOLIDATED INTERIM REPORT OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FIRST HALF OF 2010

KATOWICE, 30 AUGUST 2010

Selected consolidated figures of the Capital Group of TAURON Polska Energia S.A. and individual figures of TAURON Polska Energia S.A.

SELECTED FIGURES	PLN '000		EUR '000	
	1st half of 2010 from 01.01.2010 to 30.06.2010	1st half of 2009 from 01.01.2009 to 30.06.2009	1st half of 2010 from 01.01.2010 to 30.06.2010	1st half of 2009 from 01.01.2009 to 30.06.2009
Figures from condensed consolidated financial statements				
Sales	7 260 289	6 779 287	1 813 153	1 500 368
Operating profit	782 751	711 803	195 481	157 534
Profit before tax	721 458	674 914	180 174	149 370
Profit after tax	572 961	527 235	143 089	116 686
Net profit attributable to shareholders to the parent company	481 767	424 576	120 314	93 966
Net profit attributable to non-controlling interests	91 194	102 659	22 774	22 720
Other total income	(6 388)	17 713	(1 595)	3 920
Total comprehensive income	566 573	544 948	141 494	120 606
Total comprehensive income attributable to shareholders of the parent company	476 337	439 562	118 958	97 282
Total comprehensive income attributable to non-controlling interests	90 236	105 386	22 535	23 324
Earnings per share (in PLN/EUR) (basic and diluted)	0,31	0,27	0,08	0,06
Average weighted number of shares (in pieces) (basic and diluted)	1 558 139 531	1 554 053 765	1 558 139 531	1 554 053 765
Net cash flows from operating activities	1 090 887	805 054	272 433	178 172
Net cash flows from investing activities	(733 338)	(652 143)	(183 141)	(144 330)
Net cash flows from financing activities	(294 251)	(60 845)	(73 485)	(13 466)
Movement in cash and cash equivalents, net	63 298	92 066	15 808	20 376
	As at 30.06.2010	**As at 31.12.2009**	**As at 30.06.2010**	**As at 31.12.2009**
Fixed assets	18 242 724	18 475 838	4 400 290	4 497 307
Current assets	3 768 200	3 673 704	908 920	894 237
Fixed assets held for sale	5 778	5 951	1 394	1 449
Total assets	22 016 702	22 155 493	5 310 604	5 392 993
Share capital	14 304 949	13 986 284	3 450 468	3 404 480
Equity attributable to shareholders of the parent company	12 507 950	11 858 566	3 017 017	2 886 560
Equity attributable to non-controlling interests	2 289 945	2 375 100	552 353	578 137
Total equity	14 797 895	14 233 666	3 569 370	3 464 697
Long-term payables	3 860 387	4 027 449	931 156	980 344
Current payables	3 358 420	3 894 378	810 078	947 952
Total payables	7 218 807	7 921 827	1 741 234	1 928 296
Figures from condensed financial statements				
	1st half of 2010 from 01.01.2010 to 30.06.2010	**1st half of 2009 from 01.01.2009 to 30.06.2009**	**1st half of 2010 from 01.01.2010 to 30.06.2010**	**1st half of 2009 from 01.01.2009 to 30.06.2009**
Sales	3 406 740	3 589 069	850 784	794 320
Operating profit	12 204	71 461	3 048	15 816
Profit before tax	196 470	109 810	49 065	24 303
Profit after tax	189 069	95 591	47 217	21 156

	1st half of 2010 from 01.01.2010 to 30.06.2010	1st half of 2009 from 01.01.2009 to 30.06.2009	1st half of 2010 from 01.01.2010 to 30.06.2010	1st half of 2009 from 01.01.2009 to 30.06.2009
Total comprehensive income	189 069	95 591	47 217	21 156
Earnings per share (in PLN/EUR) (basic and diluted)	0,12	0,06	0,03	0,01
Average weighted number of shares (in pieces) (basic and diluted)	1 558 139 531	1 522 066 768	1 558 139 531	1 522 066 768
Net cash flows from operating activities	(166 514)	33 992	(41 584)	7 523
Net cash flows from investing activities	13 610	(4 240)	3 399	(938)
Net cash flows from financing activities	(1 134)	(3 628)	(283)	(803)
Movement in cash and cash equivalents, net	(154 038)	26 124	(38 469)	5 782
	As at 30.06.2010	**As at 31.12.2009**	**As at 30.06.2010**	**As at 31.12.2009**
Fixed assets	14 587 655	14 183 536	3 518 659	3 452 494
Current assets	830 737	571 482	200 380	139 108
Total assets	15 418 392	14 755 018	3 719 039	3 591 602
Share capital	14 304 949	13 986 284	3 450 468	3 404 480
Total equity	14 819 397	14 226 493	3 574 557	3 462 950
Long-term payables	2 347	2 333	566	568
Current payables	596 648	526 192	143 916	128 083
Total payables	598 995	528 525	144 482	128 651

The above figures for the first half of 2010 and 2009 were translated into EUR in accordance with the following rules:

– particular items of the statement on financial standing: at an average exchange rate of the National Bank of Poland published on 30 June 2010 – 4.1458 PLN/EUR (as at 31 December 2009 – 4.1082 PLN/EUR)

– particular items of statement on comprehensive income and cash flow statement: at an exchange rate being an arithmetic mean of average exchange rates published by the National Bank of Poland on the last day of each month of the financial period from 1 January to 30 June 2010 – 4.0042 PLN/EUR (for the period from 1 January to 30 June 2009 – 4.5184 PLN/EUR).

INDEPENDENT AUDITORS' REVIEW REPORT
ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE FIRST HALF OF 2010

AUGUST 2010

Independent auditors' review report
on the interim condensed consolidated financial statements
for the 6-month period ended 30 June 2010

To the Shareholders of TAURON Polska Energia S.A.

1. We have reviewed the accompanying condensed consolidated financial statements of TAURON Polska Energia S.A Capital Group ('the Group') where TAURON Polska Energia S.A is the dominant entity ('the Company'), and is located in Katowice at ul. Lwowska 23, including the interim condensed consolidated statement of financial position as at 30 June 2010, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flow for the period from 1 January 2010 to 30 June 2010 and other explanatory notes ('the accompanying interim condensed consolidated financial statements').

2. The Company's Management Board is responsible for the compliance of the accompanying interim condensed consolidated financial statements' with International Financial Reporting Standard IAS 34 "Interim financial reporting" as adopted by the European Union ('IAS 34'). Our responsibility was to issue a report on these consolidated financial statements based, on our review.

3. We conducted our review in accordance with the provisions of the law binding in Poland and national auditing standards issued by the National Council of Statutory Auditors in Poland. These standards require that we plan and perform our review to obtain moderate assurance as to whether the consolidated financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, inspection of accounting records and discussions with the management of the Company as well as its employees. The scope[1] of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on whether financial statements comply with the required applicable accounting policies, and on the truth and fairness[2] of these financial statements. Consequently, the review does not enable us to obtain sufficient assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. The consolidated financial statements of the Group for the year ended 31 December 2009 were subject to our audit and we issued an opinion including an emphasis of matter on these consolidated financial statements, dated 16 March 2010. The emphasis of matter concerned the uncertainty relating to questioning by the President of Energy Regulatory Office of settlement for the year 2008 of compensation resulting from early termination of the long-term electricity and power purchase agreements, that the Group is entitled to, and appropriate appellation proceedings underway.

5. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not in accordance, in all material respects, with IAS 34.

[1] Translation of the following expression in Polish language: "*zakres i metoda*"
[2] Translation of the following expression in Polish language: "*rzetelności i jasności*"

6. Without qualifying our review report, we draw attention to the fact, that as it was described in more details in note 26 of the explanatory notes to the attached interim condensed consolidated financial statements, a subsidiary of the Company, Południowy Koncern Energetyczny S.A. ('PKE'), is entitled to receive a compensation to cover the stranded costs incurred by producers in relation to termination of long-term electricity and power purchase agreements ('the stranded costs') that is based on the act dated 29 June 2007 (Journal of Laws from 2007, no. 130, item 905, 'PPA Act'). Based on a financial model prepared in accordance with the accounting policy on compensations resulting from the provisions of the PPA Act as well as its own estimates and assumptions relating to planned financial results in the whole period when the Group is entitled to receive the compensations, the Group recognized revenue from the compensations amounting to 192 million zlotys in the year ended 31 December 2008, 484 million zlotys in the year ended 31 December 2009 and 225 million zlotys in the 6-month period ended 30 June 2010. On 31 July 2009 the President of the Energy Regulatory Office ('ERO') issued a decision dated ordering to reimburse part of the received advance for stranded costs compensation for the year 2008 in the amount of 160 million zlotys ('the Decision'). The Management of PKE did not agree with the Decision and lodged an appeal against it to the Court of Competition and Consumer Protection in Warsaw ('the Court'). On 26 May 2010 the Court passed a judgment confirming the Company's position in this respect. The President of the ERO lodged an appeal against the above judgment. The Company's Management is convinced that the final resolution of this issue will not have any negative impact on the comprehensive income and financial position of the Group. However, as at the date of this report the appeal proceedings are underway and their final outcome is unknown.

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warsaw
reg. no. 130

Key certified auditor

Artur Żwak
Certified auditor no. 9894

Warsaw, 24 August 2010

INDEPENDENT AUDITORS' REVIEW REPORT
ON THE INTERIM CONDENSED FINANCIAL STATEMENTS OF
TAURON POLSKA ENERGIA S.A.
FOR THE FIRST HALF OF 2010

AUGUST 2010

Independent auditors' review report
on the interim condensed financial statements
for the 6-month period ended 30 June 2010

To the Shareholders of TAURON Polska Energia S.A.

1. We have reviewed the accompanying condensed financial statements of TAURON Polska Energia S.A. ('the Company') located in Katowice at ul. Lwowska 23, including the interim condensed statement of financial position as at 30 June 2010, the interim condensed statement of comprehensive income, the interim condensed statement of changes in equity, the interim condensed statement of cash flow for the period from 1 January 2010 to 30 June 2010 and other explanatory notes ('the accompanying interim condensed financial statements').

2. The Company's Management Board is responsible for the compliance of the accompanying interim condensed financial statements with International Financial Reporting Standard IAS 34 "Interim financial reporting" as adopted by the European Union ('IAS 34'). Our responsibility was to issue a report on these financial statements, based on our review.

3. We conducted our review in accordance with the provisions of the law binding in Poland and national auditing standards issued by the National Council of Statutory Auditors in Poland. These standards require that we plan and perform our review to obtain moderate assurance as to whether the financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, inspection of accounting records and discussions with the management of the Company as well as its employees. The scope[1] of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on whether financial statements comply with the required applicable accounting policies, and on the truth and fairness[2] of these financial statements. Consequently, the review does not enable us to obtain sufficient assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not in accordance, in all material respects, with IAS 34.

on behalf of:
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warsaw
reg. no. 130

Key certified auditor

Artur Żwak
Certified auditor no. 9894

Warsaw, 24 August 2010

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[1] Translation of the following expression in Polish language: "*zakres i metoda*"
[2] Translation of the following expression in Polish language: "*rzetelności i jasności*"

STATEMENTS OF THE MANAGEMENT BOARD OF TAURON POLSKA ENERGIA S.A.

AUGUST 2010

TAURON POLSKA ENERGIA

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the compliance of the interim condensed consolidated financial statements of
TAURON Polska Energia S.A. Capital Group
and the Management Board's interim report on the activities of
TAURON Polska Energia S.A. Capital Group**

I, the undersigned, represent that, to my best knowledge, the interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group and comparable figures were prepared in accordance with accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group.

I also certify that the interim report on the activities of TAURON Polska Energia S.A. Capital Group gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A. Capital Group, including the description of key risks and threats.

Management Board Members:

Dariusz Lubera	– President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Stanisław Tokarski	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

24 August 2010

date

STATEMENT

of the Management Board of TAURON Polska Energia S.A.
on the appointment of an entity authorised to audit financial statements
(interim financial statements)

I, the undersigned, represent that an entity authorised to audit financial statements and review the interim condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group was appointed in accordance with legal regulations, and this entity and auditors examining the statements have met conditions for developing an impartial and independent report on the review of the audited interim consolidated financial statements in accordance with applicable regulations and professional standards.

Management Board Members:

Dariusz Lubera	– President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Stanisław Tokarski	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

24 August 2010

date

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

AUGUST 2010

CONTENTS

(in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

	Note	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		5 181 501	4 941 311
Excise		(209 694)	(198 232)
Sale of goods for resale, finished goods and materials		4 971 807	4 743 079
Rendering of services		2 274 962	2 024 306
Other income		13 520	11 902
Sales revenue		**7 260 289**	**6 779 287**
Cost of sales		(5 996 628)	(5 686 080)
Gross profit		**1 263 661**	**1 093 207**
Other operating income		52 643	55 152
Selling and distribution expenses		(109 214)	(91 352)
Administrative expenses		(340 620)	(294 260)
Other operating expenses		(83 719)	(50 944)
Operating profit		**782 751**	**711 803**
Finance income		43 783	57 672
Finance costs		(105 076)	(94 561)
Profit before tax		**721 458**	**674 914**
Income tax expense	9	(148 497)	(147 679)
Net profit from continuing operations		**572 961**	**527 235**
Net profit for the period		**572 961**	**527 235**
Other comprehensive income:			
Change in the value of hedging instruments		(7 886)	21 869
Income tax relating to other comprehensive income items		1 498	(4 156)
Other comprehensive income for the period, net of tax		**(6 388)**	**17 713**
Total comprehensive income for the period		**566 573**	**544 948**
Net profit for the period:			
Attributable to equity holders of the parent		481 767	424 576
Attributable to non-controlling interests		91 194	102 659
Total comprehensive income:			
Attributable to equity holders of the parent		476 337	439 562
Attributable to non-controlling interests		90 236	105 386
Earnings per share (in PLN):	17		
– basic, for profit for the period attributable to equity holders of the parent		0,31	0,27
– basic, for profit for the period from continuing operations attributable to equity holders of the parent		0,31	0,27
– diluted, for profit for the period attributable to equity holders of the parent		0,31	0,27
– diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0,31	0,27

(in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	30 June 2010 (*unaudited*)	31 December 2009 (*comparative figures*)
ASSETS			
Non-current assets			
Property, plant and equipment	**13**	17 123 302	17 260 573
Intangible assets	**12**	660 828	824 751
Other long-term financial assets	**23**	208 162	179 746
Other long-term non-financial assets	**30**	123 597	58 547
Deferred tax asset	**9**	126 835	152 221
		18 242 724	**18 475 838**
Current assets			
Inventories	**14**	439 363	536 201
Corporate income tax receivable		43 485	52 926
Trade and other receivables	**15, 23**	2 008 653	1 874 996
Other current financial assets	**23, 30**	42 320	18 753
Other current non-financial assets	**30**	185 158	158 725
Cash and cash equivalents	**10, 23**	1 049 221	1 032 103
		3 768 200	**3 673 704**
Non-current assets classified as held for sale		**5 778**	**5 951**
TOTAL ASSETS		**22 016 702**	**22 155 493**

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

(in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010 – continued

	Note	30 June 2010 (*unaudited*)	31 December 2009 (*comparative figures*)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	**16**	14 304 949	13 986 284
Reserve capital		240 209	64 050
Revaluation reserve on valuation of hedging instruments		(6 195)	(766)
Retained earnings / Accumulated losses		(2 031 013)	(2 191 002)
		12 507 950	**11 858 566**
Non-controlling interests		**2 289 945**	**2 375 100**
Total equity		**14 797 895**	**14 233 666**
Non-current liabilities			
Interest-bearing loans and borrowings	**21, 23**	989 098	1 179 406
Finance lease and hire purchase commitments	**23**	75 115	88 291
Long-term provisions and employee benefits	**18, 19**	993 588	978 807
Long-term accruals and government grants	**20**	610 845	624 567
Trade payables and other financial long-term liabilities	**23**	8 041	5 683
Deferred tax liability	**9**	1 183 700	1 150 695
		3 860 387	**4 027 449**
Current liabilities			
Trade and other payables	**23**	1 127 523	1 490 726
Current portion of interest-bearing loans and borrowings	**21, 23**	534 404	596 315
Current portion of finance lease and hire purchase commitments	**23**	31 777	35 377
Other current liabilities	**30**	639 528	556 669
Accruals and government grants	**20**	238 590	210 267
Income tax payable		68 663	67 034
Short-term provisions and employee benefits	**18, 19**	717 935	937 990
		3 358 420	**3 894 378**
Total liabilities		**7 218 807**	**7 921 827**
TOTAL EQUITY AND LIABILITIES		**22 016 702**	**22 155 493**

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

(in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

	Note	Equity attributable to the equity holders of the parent								Non-controlling interests	Total equity
		Issued capital	Capital of subsidiaries for the increase in TAURON's share capital	Treasury shares	Reserve capital	Revaluation reserve on valuation of hedging instruments	Capital resulting from share-based payments	Retained earnings/ Accumulated losses	Total		
As at 1 January 2010		**13 986 284**	–	–	**64 050**	**(766)**	–	**(2 233 034)**	**11 816 534**	**2 367 683**	**14 184 217**
Changes in accounting policies	**4**	–	–	–	–	–	–	42 032	**42 032**	7 417	**49 449**
Opening balance after adjustments		**13 986 284**	–	–	**64 050**	**(766)**	–	**(2 191 002)**	**11 858 566**	**2 375 100**	**14 233 666**
Profit for the period		–	–	–	–	–	–	481 767	**481 767**	91 194	**572 961**
Other comprehensive income		–	–	–	–	(5 429)	–	–	**(5 429)**	(958)	**(6 387)**
Total comprehensive income for the period		–	–	–	–	**(5 429)**	–	**481 767**	**476 338**	**90 236**	**566 574**
Appropriation of prior year profits	**11**	–	–	–	176 159	–	–	(176 159)	–	–	–
Issue of merger shares and accounting for the acquisition of non-controlling interests	**16**	318 665	–	–	–	–	–	(145 651)	**173 014**	(169 364)	**3 650**
Payment from profit to the State Treasury		–	–	–	–	–	–	32	**32**	–	**32**
Dividends		–	–	–	–	–	–	–	–	(6 027)	**(6 027)**
Share-based payments to employees – accrual		–	–	–	–	–	–	–	–	–	–
Redemption of treasury shares		–	–	–	–	–	–	–	–	–	–
As at 30 June 2010 (*unaudited*)		**14 304 949**	–	–	**240 209**	**(6 195)**	–	**(2 031 013)**	**12 507 950**	**2 289 945**	**14 797 895**

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

(in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2009

	Note	Equity attributable to the equity holders of the parent								Non-controlling interests	Total equity
		Issued capital	Capital of subsidiaries for the increase in TAURON's share capital	Treasury shares	Reserve capital	Revaluation reserve on valuation of hedging instruments	Capital resulting from share-based payments	Retained earnings/ Accumulated losses	Total		
As at 1 January 2009		**13 698 646**	**287 883**	**(245)**	**59 601**	**(17 765)**	**21 411**	**(2 923 621)**	**11 125 910**	**2 219 533**	**13 345 443**
Profit for the period		–	–	–	–	–	–	424 576	**424 576**	102 659	**527 235**
Other comprehensive income		–	–	–	–	14 986			**14 986**	2 727	**17 713**
Total comprehensive income for the period		–	–	–	–	**14 986**	–	**424 576**	**439 562**	**105 386**	**544 948**
Appropriation of prior year profits	**11**	–	–	–	4 449	–	–	(4 449)	–	–	–
Payment from profit to the State Treasury		–	–	–	–	–	–	(5 992)	**(5 992)**	–	**(5 992)**
Dividends	**11**	–	–	–	–	–	–	(51 167)	**(51 167)**	(7 714)	**(58 881)**
Share-based payments to employees – accrual		–	–	–	–	–	783	–	**783**	138	**921**
Redemption of treasury shares		(245)	–	245	–	–	–	–	–	–	–
As at 30 June 2009 (*unaudited*)		**13 698 401**	**287 883**	–	**64 050**	**(2 779)**	**22 194**	**(2 560 653)**	**11 509 096**	**2 317 343**	**13 826 439**

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

(in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

	Note	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Cash flows from operating activities			
Profit/(loss) before taxation		721 458	674 914
Adjustments for:			
Depreciation and amortization		688 528	649 092
(Gain)/loss on foreign exchange differences		2 777	6 240
Interest and dividens, net		56 409	45 033
(Gain)/loss on investing activities		1 252	(64 541)
(Increase)/decrease in receivables		(126 694)	(27 760)
(Increase)/decrease in inventories		96 263	(102 324)
Increase/(decrease) in payables excluding loans and borrowings		(172 297)	(98 964)
Change in other non-current and current assets		116 206	(112 056)
Change in deferred income, government grants and accruals		(3 407)	49 512
Change in provisions		(211 938)	(193 384)
Income tax paid		(77 688)	(21 455)
Share-based payments expense		–	921
Other		18	(174)
Net cash from operating activities		**1 090 887**	**805 054**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		3 147	5 807
Purchase of property, plant and equipment and intangible assets		(690 511)	(725 114)
Proceeds from sale of other financial assets		7 820	73 732
Purchase of other financial assets		(50 156)	(17 672)
Dividends received		2 198	2 892
Interest received		162	438
Repayment of loans granted		30	1 000
Loans granted		(9 000)	–
Other		2 972	6 774
Net cash used in investing activities		**(733 338)**	**(652 143)**

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

(in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010 – continued

	Note	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Cash flows from financing activities			
Payment of finance lease liabilities		(18 568)	(12 736)
Proceeds from loans		59 531	115 485
Repayment of loans		(233 080)	(167 002)
Issue of debt securities		–	44 000
Redemption of debt securities		(41 308)	–
Dividends paid to non-controlling interests		(2 287)	(6)
Interest paid		(55 110)	(40 118)
Other		(3 429)	(468)
Net cash used in financing activities		**(294 251)**	**(60 845)**
Net increase/(decrease) in cash and cash equivalents		**63 298**	**92 066**
Net foreign exchange difference		57	327
Cash and cash equivalents at the beginning of the period		**972 655**	**906 944**
Cash and cash equivalents at the end of the period, of which:	**10**	**1 035 953**	**999 010**
restricted cash		27 374	15 573

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

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 6-month period ended 30 June 2010 and include comparative data for the 6-month period ended 30 June 2009 and as at 31 December 2009. The interim condensed consolidated statement of comprehensive income and the interim condensed consolidated statement of cash flows, as well as notes to these financial statements, include figures for the 6-month period ended 30 June 2010 and comparative data for the 6-month period ended 30 June 2009. The comparative data for the period ended 30 June 2009 included in these interim condensed consolidated financial statements were not audited or reviewed by an independent auditor.

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

The parent was granted a statistical number REGON 240524697.

The parent and other Group entities have an unlimited period of operation.

The Group’s principal business activities include:

1. Hard coal mining.
2. Generation of electricity and heat energy using conventional sources.
3. Generation of electricity using renewable sources.
4. Distribution of electricity.
5. Sale of energy and other energy market products.
6. 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.

The Company’s main shareholder is the State Treasury of the Republic of Poland.

(in PLN thousands)

2. Composition of the Group

In the first half of 2010, there were certain restructuring changes in the Group. On 10 June 2010, the parent, TAURON Polska Energia S.A., was combined with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., which resulted in the acquisition of non-controlling interests in the subsidiaries ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. in the consolidated financial statements. The process has been described in detail in Note 22 hereto. As at 30 June 2010, the TAURON Polska Energia S.A. Group was composed of direct and indirect subsidiaries included in consolidation, as presented in the table below.

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 30 June 2010	% held by TAURON in the entity's governing body	Holder of shares as at 30 June 2010
1.	Południowy Koncern Energetyczny S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
2.	ENION S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
3.	EnergiaPro S.A.	53-314 Wrocław; Pl. Powstańców Śląskich 20	Transmission and distribution of electricity	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
4.	Elektrownia Stalowa Wola S.A.	37-450 Stalowa Wola; ul. Energetyków 13	Generation and distribution of electricity and heat	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
5.	ENION Energia Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
6.	EnergiaPro Gigawat Sp. z o.o.	53-314 Wrocław; Pl. Powstańców Śląskich 16	Sale of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
7.	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation, transmission and distribution of electricity	100.00%	TAURON Polska Energia S.A. – 100.00%	100.00%	TAURON Polska Energia S.A. – 100.00%
8.	Elektrociepłownia Tychy S.A.	43-100 Tychy; ul. Przemysłowa 47	Generation of electricity, production and distribution of heat	95.47%	TAURON Polska Energia S.A. – 95.47%	95.47%	TAURON Polska Energia S.A. – 95.47%
9.	Kopalnia Wapienia Czatkowice Sp. z o.o.	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	85.00%	PKE S.A. – 100.00%	85.00%	PKE S.A. – 100.00%
10.	Południowy Koncern Węglowy S.A.	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	44.61%	PKE S.A. – 52.48%	57.81%	PKE S.A. – 68.01%
11.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	69.50%	PKE S.A. – 70.00%; TAURON Polska Energia S.A. – 10.00%	79.72%	PKE S.A. – 61.11%; TAURON Polska Energia S.A. – 27.78%

(in PLN thousands)

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 30 June 2010	% held by TAURON in the entity's governing body	Holder of shares as at 30 June 2010
12.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	95.66%	TAURON Polska Energia S.A. – 95.66%	95.66%	TAURON Polska Energia S.A. – 95.66%
13.	Elektrociepłownia EC Nowa Sp. z o.o.	41-308 Dąbrowa Górnicza; al. J. Piłsudskiego 92	Generation of electricity, production of heat and technical gases	84.00%	TAURON Polska Energia S.A. – 84.00%	84.00%	TAURON Polska Energia S.A. – 84.00%
14.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	41-300 Dąbrowa Górnicza; al. J. Piłsudskiego 2	Heat production and distribution	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
15.	TAURON Czech Energy s.r.o.	750 00 Ostrava, Na Rovince 879/C Czech Republic	Trading in electricity	100%	TAURON Polska Energia S.A. – 100%	100%	TAURON Polska Energia S.A. – 100%

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 financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the Group's activities, within the scope of the accounting principles 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 International Financial Reporting Interpretations Committee ("IFRIC").

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. As at the date of authorization of these financial statements, Management is not aware of any facts or circumstances that would indicate a threat to the continued activity of the 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 2009.

These interim condensed consolidated financial statements for the 6-month period ended 30 June 2010 were authorized for issue on 24 August 2010.

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 2009, except for the application of the following amendments to standards and new interpretations applicable to annual periods beginning on or after 1 January 2010:

- In prior years, the Group recognized connection fees obtained and assets received free of charge under deferred income in the statement of financial position. These amounts were subsequently recognized as income in proportion to the depreciation of the related assets. In accordance with IFRIC 18 *Transfers of Assets from Customers*, the Group recognizes connection fees obtained and assets received free of charge as income on the date of receipt. As this interpretation refers to the method of recognizing connection fees and assets received from customers beginning from 1 July 2009, the Group made an appropriate restatement of the balance sheet as at 31 December 2009. The impact of changes resulting from the application of IFRIC 18 on the consolidated financial statements for the year ended 31 December 2009 is presented below.

	Reatained earnings/ (accumulated losses)	**Non-controlling interests**	**Non-current deferred income and government grants**	**Current deferred income and government grants**	**Deferred tax assets**	**Deferred tax liability**
Balance as at 31 December 2009	(2 233 034)	2 367 683	682 790	213 093	156 897	1 143 771
Change resulting from the application of IFRIC 18	42 032	7 417	(58 223)	(2 826)	(4 676)	6 924
Comparative balance as at 31 December 2009	**(2 191 002)**	**2 375 100**	**624 567**	**210 267**	**152 221**	**1 150 695**

- IFRS 3 *Business Combinations* (amended in January 2008) – applicable to annual periods beginning on or after 1 July 2009. The amended IFRS 3 increases the number of transactions to be recognized as business combinations under this standard and gives a choice to measure, on acquisition, non-controlling interests (previously "minority interests") in the acquiree either at their fair value or at their proportionate interest in the acquiree's net assets. Furthermore, the standard introduced a number of changes relating to, among others, accounting for step acquisitions, contingent consideration, acquisition-related costs, contingent liabilities of the acquiree, indemnification assets. The amended IFRS 3 should be applied prospectively with no need to restate previous business combinations. There were no business combinations in the period covered by these condensed interim consolidated financial statements of the Group.
- IAS 27 *Consolidated and separate financial statements* (amended in January 2008) – applicable to annual periods beginning on or after 1 July 2009. The amended standard introduces a number of changes, in particular it clarifies that changes in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction, losses incurred by the subsidiary will be

allocated between the controlling and non-controlling interests, and, on loss of control of a subsidiary, any retained interest will be remeasured to fair value, with the effect of remeasurement recognized in profit or loss. The amended IAS 27 should be applied prospectively. The Group applies the amended standard to accounting for transactions included in the scope of the standard beginning from 1 January 2010.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (amendments issued in July 2008) – applicable to annual periods beginning on or after 1 July 2009. The amendment clarifies that an entity may designate a portion of changes in the fair value or cash flows of a financial instrument as the hedged item. Furthermore, the amendment indicates that inflation is not a separately identifiable risk and cannot be designated as the hedged risk unless it represents a contractually specified cash flow. The application of these changes had no significant impact on the financial position or results of the Group.
- IFRIC 17 *Distribution of Non-cash Assets to Owners* – applicable to annual periods beginning on or after 1 July 2009. This interpretation provides guidance on accounting for transactions whereby an entity distributes non-cash assets to owners. The guidance concerns issues such as the moment of recognizing the liability, rules for measurement of the liability and of the assets to be distributed and the moment when the assets and the liability are derecognized from the statement of financial position. The application of this interpretation had no impact on the financial position or results of the Group since there were no events to which it applied.
- Annual Improvements to IFRSs (issued in April 2009) – these amendments had no significant impact on the financial position or results of the Group.
- Amendment to IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Arrangements* (amended in June 2009) – applicable to annual periods beginning on or after 1 January 2010. The amendments to IFRS 2 consist of three basic amendments. The definitions of share-based payment transactions and arrangements have been amended, the scope of IFRS 2 has been amended, and guidance on accounting for group cash-settled share-based payment transactions has been provided. The application of these amendments had no significant impact on the financial position or results of the Group.
- IFRIC 12 *Service Concession Arrangements*. This interpretation has been endorsed for application by the EU and entities are required to apply it no later than as of the beginning of the first annual period beginning after March 2009. This interpretation provides guidance on accounting for service concession arrangements between public and private sector entities by concession holders. The Group has completed its consideration of the necessity to apply this interpretation and concluded that its operations do not fall within the scope of IFRIC 12. Therefore, this interpretation had no impact on the financial position or results of the Group.

5. New standards and interpretations issued but not yet effective

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

- Amendment to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on or after 1 February 2010.
- IAS 24 *Related Party Disclosures* (amended in November 2009) – applicable to annual periods beginning on or after 1 January 2011.
- IFRS 9 *Financial Instruments* – 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 IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirement* – applicable to annual periods beginning on or after 1 January 2011.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – applicable to annual periods beginning on or after 1 July 2010.
- Amendment to IFRS 1 *First-time Adoption of IFRSs*: *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2010.
- Improvements to IFRSs (issued in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, the rest is effective for annual periods beginning on or after 1 January 2011 – not endorsed by EU till the date of approval of these financial statements.

The Company's Management Board does not expect the introduction of these standards and interpretations to have a significant impact on the accounting policies applied by the Company.

6. Changes in estimates

In the period ended 30 June 2010, there were no significant changes to the values or methodology of making estimates that would affect the current or future periods, other than those presented in the following sections of these interim condensed consolidated financial statements.

7. Seasonality of operations

The Group's operations are seasonal in nature. This concerns in particular 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.

The Group's reporting format is based on the following operating segments:

- Mining Segment, which includes hard coal mining. The entity which operates in the Mining Segment of the TAURON Group is 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, coke-oven gas and blast-furnace gas. The following entities operate in the Generation Segment of the TAURON Group: Południowy Koncern Energetyczny S.A., Elektrownia Stalowa Wola S.A., Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o.
- 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. and partly ENION Energia Sp. z o.o.
- Segment of Sale of Electricity and Other Energy Market Products, 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., Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., ENION Energia Sp. z o.o. and EnergiaPro Gigawat Sp. z o.o.
- Distribution Segment, including operations of ENION S.A. and EnergiaPro S.A.

In addition to the main business segments listed above, the TAURON Group also conducts operations in other areas, including heat distribution and sales (PEC Katowice S.A., PEC w Dąbrowie Górniczej S.A.), 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 Group settles transactions between segments as if they were made between unrelated parties, using current market prices.

Revenue from transactions between segments is eliminated on consolidation.

Segment assets do not include deferred tax, income tax receivables or financial assets.

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

The Management Board separately monitors the 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 operating profit or loss, which to a certain extent, as explained in the table below, are measured differently from the operating profit or loss in the consolidated financial statements. 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 thousands)

6-month period ended 30 June 2010 or as at 30 June 2010 (*unaudited*)	Coal mining	Generation of electricity and heat using conventional sources	Generation of electricity using renewable sources	Electricity distribution	Sales of electricity and other energy market products	Other	Unallocated items	Total	Eliminations	Total operations
Revenue										
Sales to external customers	199 318	704 488	23 810	540 871	5 489 789	302 013	–	7 260 289	–	7 260 289
Inter-segment sales	320 634	2 007 510	52 797	1 688 079	350 264	14 308	–	4 433 592	(4 433 592)	–
Segment revenue	**519 952**	**2 711 998**	**76 607**	**2 228 950**	**5 840 053**	**316 321**	–	**11 693 881**	**(4 433 592)**	**7 260 289**
Result										
Net profit/(loss) for the year	**4 885**	**361 171**	**42 570**	**227 500**	**112 102**	**17 573**	**(192 840)**	**572 961**	–	**572 961**
Income tax expense	–	–	–	–	–	–	(148 497)	(148 497)	–	(148 497)
Profit/(loss) before income tax	**4 885**	**361 171**	**42 570**	**227 500**	**112 102**	**17 573**	**(44 343)**	**721 458**	–	**721 458**
Share of associate's profit	–	–	–	–	–	–	–	–	–	–
Net finance income (costs)	–	–	–	–	–	–	(61 293)	(61 293)	–	(61 293)
Profit/(loss) from continuing operations before tax and net finance income (costs)	**4 885**	**361 171**	**42 570**	**227 500**	**112 102**	**17 573**	**16 950**	**782 751**	–	**782 751**
Unallocated expenses	–	–	–	–	–	–	–	–	–	–
Profit/(loss) of the segment	**4 885**	**361 171**	**42 570**	**227 500**	**112 102**	**17 573**	**16 950**	**782 751**	–	**782 751**
Assets and liabilities										
Segment assets	1 095 765	9 482 460	553 923	7 598 580	2 060 035	810 265	–	21 601 028	–	21 601 028
Investment in associate	–	–	–	–	–	–	–	–	–	–
Unallocated assets	–	–	–	–	–	–	415 674	415 674	–	415 674
Total assets	**1 095 765**	**9 482 460**	**553 923**	**7 598 580**	**2 060 035**	**810 265**	**415 674**	**22 016 702**	–	**22 016 702**
Segment liabilities	367 945	1 068 680	19 821	1 642 735	1 033 716	85 721	–	4 218 618	–	4 218 618
Unallocated liabilities	–	–	–	–	–	–	3 000 189	3 000 189	–	3 000 189
Total liabilities	**367 945**	**1 068 680**	**19 821**	**1 642 735**	**1 033 716**	**85 721**	**3 000 189**	**7 218 807**	–	**7 218 807**
Other segment information										
Capital expenditure*	43 987	152 694	13 390	291 492	18 328	9 985	–	529 876	–	529 876
Depreciation/amortization	(54 183)	(270 897)	(10 179)	(324 050)	(3 496)	(25 931)	–	(688 736)	–	(688 736)
Impairment of non-financial assets	(1 380)	(535)	26	2 372	(44)	1 129	–	1 568	–	1 568

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

(in PLN thousands)

6-month period ended 30 June 2009 (*unaudited*) or as at 31 December 2009	Coal mining	Generation of electricity and heat using conventional sources	Generation of electricity using renewable sources	Electricity distribution	Sales of electricity and other energy market products	Other	Unallocated items	Total	Eliminations	Total operations
Revenue										
Sales to external customers	251 083	480 412	23 413	370 974	5 395 113	258 292	–	6 779 287	–	6 779 287
Inter-segment sales	305 524	2 042 040	45 389	1 658 449	537 262	10 992	–	4 599 656	(4 599 656)	–
Segment revenue	**556 607**	**2 522 452**	**68 802**	**2 029 423**	**5 932 375**	**269 284**	–	**11 378 943**	**(4 599 656)**	**6 779 287**
Result										
Net profit/(loss) for the year	**113 173**	**352 043**	**36 566**	**9 772**	**219 523**	**(1 052)**	**(202 790)**	**527 235**	–	**527 235**
Income tax expense	–	–	–	–	–	–	(147 679)	(147 679)		(147 679)
Profit/(loss) before income tax	**113 173**	**352 043**	**36 566**	**9 772**	**219 523**	**(1 052)**	**(55 111)**	**674 914**	–	**674 914**
Share of associate's profit	–	–	–	–	–	–	–	–	–	–
Net finance income (costs)	–	–	–	–	–	–	(36 889)	(36 889)	–	(36 889)
Profit/(loss) from continuing operations before tax and net finance income (costs)	**113 173**	**352 043**	**36 566**	**9 772**	**219 523**	**(1 052)**	**(18 222)**	**711 803**	–	**711 803**
Unallocated expenses	–	–	–	–	–	–	–	–	–	–
Profit/(loss) of the segment	**113 173**	**352 043**	**36 566**	**9 772**	**219 523**	**(1 052)**	**(18 222)**	**711 803**	–	**711 803**
Assets and liabilities										
Segment assets	1 042 195	9 578 454	567 080	7 766 790	1 958 249	847 236	–	21 760 004	–	21 760 004
Investment in associate	–	–	–	–	–	–	–	–	–	–
Unallocated assets	–	–	–	–	–	–	395 489	395 489	–	395 489
Total assets	**1 042 195**	**9 578 454**	**567 080**	**7 766 790**	**1 958 249**	**847 236**	**395 489**	**22 155 493**	–	**22 155 493**
Segment liabilities	445 667	1 137 399	16 899	1 688 241	1 286 757	109 812	–	4 684 775	–	4 684 775
Unallocated liabilities	–	–	–	–	–	–	3 237 052	3 237 052	–	3 237 052
Total liabilities	**445 667**	**1 137 399**	**16 899**	**1 688 241**	**1 286 757**	**109 812**	**3 237 052**	**7 921 827**	–	**7 921 827**
Other segment information										
Capital expenditure*	27 607	349 945	8 622	287 653	3 589	17 297	–	694 713	–	694 713
Depreciation/amortization	(54 191)	(232 831)	(10 396)	(321 493)	(2 199)	(28 166)	–	(649 276)	–	(649 276)
Impairment of non-financial assets	–	396	–	44	(66)	20	–	394	–	394

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

(in PLN thousands)

9. Income tax

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 6-month period ended 30 June 2010 (*unaudited*)	For the 6-month period ended 30 June 2009 (*unaudited*)
Current income tax	**(88 700)**	**(59 996)**
Current income tax expense	(86 460)	(60 498)
Adjustments to current income tax from previous years	(2 240)	502
Deferred tax	**(59 797)**	**(87 683)**
Income tax in profit or loss	**(148 497)**	**(147 679)**
Income tax relating to the change in the value of hedging instruments	**1 498**	**(4 156)**

Deferred income tax

Deferred income tax relates to the following:

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*comparative figures*)
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	1 470 275	1 448 240
– difference between tax base and carrying amount of financial assets	15 072	11 520
– different timing of recognition of sales revenue for tax purposes	68 752	47 755
– recognition of estimated revenue from sale of power distribution services	4 990	21 975
– difference between tax base and carrying amount of property rights arising from energy certificates	18 457	25 550
– compensation for termination of long-term contracts	87 685	61 677
– other	16 831	26 233
Deferred tax liability	**1 682 062**	**1 642 950**

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*comparative figures*)
Deferred tax assets		
– difference between tax base and carrying amount of fixed and intangible assets	6 739	7 551
– difference between tax base and carrying amount of inventories	1 775	4 662
– difference between tax base and carrying amount of other non-financial assets	983	981
– power infrastructure received free of charge and connection fees obtained	88 288	89 407
– provisions	352 790	384 476
– difference between tax base and carrying amount of financial assets	9 766	5 167
– difference between tax base and carrying amount of financial liabilities	8 213	9 214
– different timing of recognition of cost of sales for tax purposes	42 123	43 921
– other accrued expenses	5 467	1 380
– tax losses	90 347	81 079
– other	18 706	16 638
Deferred tax assets	**625 197**	**644 476**
After the offsetting of balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**126 835**	**152 221**
Deferred tax liability	**(1 183 700)**	**(1 150 695)**

(in PLN thousands)

10. 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 June 2010 (*unaudited*)	As at 31 December 2009
Cash at bank and in hand	189 110	174 925
Short-term deposits (up to 3 months)	859 144	854 854
Other	967	2 324
Total cash and cash equivalents presented in the statement of financial position, of which:	**1 049 221**	**1 032 103**
– restricted cash	27 374	18 635
Bank overdraft	(13 209)	(59 453)
Foreign exchange and other differences	(59)	5
Total cash and cash equivalents presented in the statement of cash flows	**1 035 953**	**972 655**

11. Dividends paid and proposed

On 4 March 2010, the Ordinary General Shareholders' Meeting resolved to allocate the Company's net profit for 2009 in the amount of PLN 184,535 thousand for payment from profit made in accordance with separate regulations (PLN 8,376 thousand) and to the Company's reserve capital (PLN 176,159 thousand).

On 17 June 2009, the Ordinary General Shareholders' Meeting resolved to allocate the Company's net profit for 2008 in the amount of PLN 55,616 thousand for dividend distribution (PLN 51,167 thousand) and to the reserve capital (PLN 4,449 thousand).

(in PLN thousands)

12. Intangible assets

Movements in the period from 1 January to 30 June 2010 *(unaudited)*

	Development expenses	Goodwill	Software	Other acquired concessions, patents, licences and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST									
Opening balance	**4 104**	**169 553**	**187 529**	**3 034**	**481 885**	**52 701**	**3 969**	**7 266**	**910 041**
Direct purchase	–	–	103	1 325	196 470	–	–	6 856	**204 754**
Transfer of intangible assets not made available for use	–	–	6 317	–	–	–	275	(6 592)	–
Sale, disposal	–	–	–	–	(1 034)	–	–	–	**(1 034)**
Reclassification	–	–	24	7	–	–	(31)	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	(398)	(28)	–	–	(1)	–	**(427)**
Received free of charge	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	(44)	–	–	–	–	–	**(44)**
Energy certificates generated internally	–	–	–	–	66 378	–	–	–	**66 378**
Redemption of energy certificates	–	–	–	–	(419 127)	–	–	–	**(419 127)**
Write-off of discontinued investments	–	–	–	–	–	–	–	–	–
Transfers from assets under construction	–	–	307	–	–	–	200	2 158	**2 665**
Items discovered	–	–	–	–	–	–	–	–	–
Other movements	–	–	16	–	(464)	–	2	26	**(420)**
Closing balance	**4 104**	**169 553**	**193 854**	**4 338**	**324 108**	**52 701**	**4 414**	**9 714**	**762 786**
ACCUMULATED AMORTISATION					–				
Opening balance	**(2 038)**	–	**(80 615)**	**(878)**	–	–	**(1 309)**	**(450)**	**(85 290)**
Amortisation for the period	(451)	–	(16 033)	(241)	–	–	(244)	–	**(16 969)**
Increase of impairment	–	–	–	–	–	–	–	–	–
Decrease of impairment	–	–	2	–	–	–	–	–	**2**
Sale, disposal	–	–	–	–	–	–	–	–	–
Reclassification	–	–	34	(1)	–	–	(33)	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	269	28	–	–	1	–	**298**
Received free of charge	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	16	–	–	–	–	–	**16**
Transfers from assets under construction	–	–	–	–	–	–	–	–	–
Other movements	–	–	(15)	–	–	–	–	–	**(15)**
Closing balance	**(2 489)**	–	**(96 342)**	**(1 092)**	–	–	**(1 585)**	**(450)**	**(101 958)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 066**	**169 553**	**106 914**	**2 156**	**481 885**	**52 701**	**2 660**	**6 816**	**824 751**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 615**	**169 553**	**97 512**	**3 246**	**324 108**	**52 701**	**2 829**	**9 264**	**660 828**

(in PLN thousands)

Movements in the period from 1 January to 30 June 2009 *(unaudited)*

	Development expenses	Goodwill	Software	Other acquired concessions, patents, licences and similar items	Energy certificates	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST									
Opening balance	**3 759**	**169 553**	**158 610**	**1 412**	**244 945**	**2**	**4 276**	**5 274**	**587 831**
Direct purchase	–	–	432	323	56 682	41 446	–	7 905	**106 788**
Transfer of intangible assets not made available for use	–	–	10 469	15	–	–	146	(10 630)	–
Sale, disposal	–	–	–	–	(2 009)	–	–	–	**(2 009)**
Reclassification	–	–	391	(89)	–	–	(302)	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	(527)	–	–	–	(25)	–	**(552)**
Received free of charge	–	–	3	–	–	–	–	–	**3**
Contribution in kind	–	–	–	–	–	–	–	–	–
Energy certificates generated internally	–	–	–	–	124 241	–	–	–	**124 241**
Redemption of energy certificates	–	–	–	–	(237 403)	–	–	–	**(237 403)**
Write-off of discontinued investments	–	–	–	–	–	–	–	–	–
Transfers from assets under construction	–	–	16	–	–	–	–	1 363	**1 379**
Items discovered	–	–	–	–	–	–	–	–	–
Other movements	–	–	(7)	77	5 773	–	(79)	1 874	**7 638**
Closing balance	**3 759**	**169 553**	**169 387**	**1 738**	**192 229**	**41 448**	**4 016**	**5 786**	**587 916**
ACCUMULATED AMORTISATION									
Opening balance	**(1 134)**	–	**(51 345)**	**(410)**	–	–	**(1 187)**	**(450)**	**(54 526)**
Amortisation for the period	(452)	–	(14 882)	(282)	–	–	(227)	–	**(15 843)**
Increase of impairment	–	–	–	–	–	–	(66)	–	**(66)**
Decrease of impairment	–	–	–	–	–	–	–	–	–
Sale, disposal	–	–	–	–	–	–	–	–	–
Reclassification	–	–	(107)	12	–	–	95	–	–
Donations and free-of-charge transfers	–	–	–	–	–	–	–	–	–
Liquidation	–	–	288	–	–	–	10	–	**298**
Received free of charge	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	–	–	–	–	–	–	–
Transfers from assets under construction	–	–	–	–	–	–	–	–	–
Other movements	–	–	6	(37)	–	–	37	–	**6**
Closing balance	**(1 586)**	–	**(66 040)**	**(717)**	–	–	**(1 338)**	**(450)**	**(70 131)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 625**	**169 553**	**107 265**	**1 002**	**244 945**	**2**	**3 089**	**4 824**	**533 305**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**2 173**	**169 553**	**103 347**	**1 021**	**192 229**	**41 448**	**2 678**	**5 336**	**517 785**

(in PLN thousands)

13. Property, plant and equipment

Movements in the period from 1 January to 30 June 2010 *(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	**57 747**	**783 111**	**10 090 384**	**9 247 487**	**213 779**	**221 163**	**20 613 671**	**351 397**	**20 965 068**
Direct purchase	182	–	–	393	767	116	**1 458**	467 853	**469 311**
Transfer of assets under construction	1 652	973	170 979	177 136	2 634	13 201	**366 575**	(366 575)	–
Sale, disposal	(890)	(1 230)	(2 807)	(557)	(1 069)	(20)	**(6 573)**	(16)	**(6 589)**
Reclassification	–	–	14 246	(14 262)	–	16	–	–	–
Donations and free-of-charge transfers	–	(1)	(615)	(31)	(14)	–	**(661)**	–	**(661)**
Liquidation	(245)	(135)	(5 464)	(5 775)	(235)	(1 769)	**(13 623)**	–	**(13 623)**
Received free of charge	–	8 947	7 384	1 111	–	54	**17 496**	–	**17 496**
Contribution in kind	–	(362)	(3 464)	(139)	–	(203)	**(4 168)**	(57)	**(4 225)**
Received for use under rental, lease or similar agreements	–	–	–	298	890	–	**1 188**	(298)	**890**
Spare parts allocated to fixed assets	–	–	–	(312)	–	1 291	**979**	–	**979**
Overhaul expenses	–	–	–	5 398	–	–	**5 398**	35 042	**40 440**
Write-off of discontinued investments	–	–	–	–	–	–	–	(927)	**(927)**
Transfers to intangible assets	–	–	–	–	–	–	–	(2 665)	**(2 665)**
Items discovered	–	345	77	121	–	7	**550**	–	**550**
Items generated internally	–	–	–	–	–	–	–	10 951	**10 951**
Other movements	–	–	–	8 166	94	28	**8 288**	(351)	**7 937**
Closing balance	**58 446**	**791 648**	**10 270 720**	**9 419 034**	**216 846**	**233 884**	**20 990 578**	**494 354**	**21 484 932**
ACCUMULATED DEPRECIATION									
Opening balance	**(867)**	**(1 065)**	**(1 755 603)**	**(1 774 164)**	**(64 427)**	**(97 229)**	**(3 693 355)**	**(11 140)**	**(3 704 495)**
Depreciation for the period	–	–	(309 031)	(332 129)	(15 714)	(14 893)	**(671 767)**	–	**(671 767)**
Increase of impairment	–	–	(57)	(485)	(32)	(29)	**(603)**	–	**(603)**
Decrease of impairrment	493	24	2 845	315	7	42	**3 726**	99	**3 825**
Sale, disposal	–	–	131	427	518	7	**1 083**	–	**1 083**
Reclassification	–	–	(1 878)	1 607	–	–	**(271)**	271	–
Donations and free-of-charge transfers	–	–	323	31	10	2	**366**	–	**366**
Liquidation	–	–	4 232	4 278	227	1 063	**9 800**	–	**9 800**
Received free of charge	–	–	–	–	–	–	–	–	–
Contribution in kind	–	–	225	80	–	159	**464**	–	**464**
Transfers to intangible assets	–	–	–	–	–	–	–	–	–
Other movements	–	(4)	(20)	(105)	(71)	(28)	**(228)**	(75)	**(303)**
Closing balance	**(374)**	**(1 045)**	**(2 058 833)**	**(2 100 145)**	**(79 482)**	**(110 906)**	**(4 350 785)**	**(10 845)**	**(4 361 630)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**56 880**	**782 046**	**8 334 781**	**7 473 323**	**149 352**	**123 934**	**16 920 316**	**340 257**	**17 260 573**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**58 072**	**790 603**	**8 211 887**	**7 318 889**	**137 364**	**122 978**	**16 639 793**	**483 509**	**17 123 302**

(in PLN thousands)

Movements in the period from 1 January to 30 June 2009 *(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	**53 688**	**782 073**	**9 041 737**	**7 410 587**	**178 390**	**189 439**	**17 655 914**	**1 886 661**	**19 542 575**
Direct purchase	–	–	7	263	464	95	**829**	642 555	**643 384**
Transfer of assets under construction	1 743	1 297	711 195	1 490 936	10 779	15 121	**2 231 071**	(2 231 071)	–
Sale, disposal	(4)	(123)	(735)	(2 833)	(1 623)	(45)	**(5 363)**	(29)	**(5 392)**
Reclassification	(2)	2	926	(932)	3	3	–	–	–
Donations and free-of-charge transfers	–	(4)	(116)	(2)	–	–	**(122)**	–	**(122)**
Liquidation	–	(123)	(5 755)	(8 639)	(281)	(1 175)	**(15 973)**	–	**(15 973)**
Received free of charge	–	1 076	21 553	260	–	20	**22 909**	6 835	**29 744**
Contribution in kind	–	–	–	–	–	–	–	–	–
Received for use under rental, lease or similar agreements	–	–	–	2 688	1 232	–	**3 920**	(298)	**3 622**
Spare parts allocated to fixed assets	–	–	–	(6 184)	–	1 251	**(4 933)**	–	**(4 933)**
Overhaul expenses	–	–	–	9 975	–	–	**9 975**	16 499	**26 474**
Write-off of discontinued investments	–	–	–	–	–	–	–	(25)	**(25)**
Transfers to intangible assets	–	–	–	–	–	–	–	(1 379)	**(1 379)**
Items discovered	–	–	4	27	–	4	**35**	–	**35**
Items generated internally	–	–	–	–	–	–	–	12 573	**12 573**
Other movements	–	–	(5)	(17)	(54)	(2)	**(78)**	3 030	**2 952**
Closing balance	**55 425**	**784 198**	**9 768 811**	**8 896 129**	**188 910**	**204 711**	**19 898 184**	**335 351**	**20 233 535**
ACCUMULATED DEPRECIATION									
Opening balance	**(809)**	**(401)**	**(1 149 462)**	**(1 170 948)**	**(37 641)**	**(68 695)**	**(2 427 956)**	**(15 777)**	**(2 443 733)**
Depreciation for the period	–	–	(308 549)	(297 071)	(14 014)	(13 799)	**(633 433)**	–	**(633 433)**
Increase of impairment	–	–	(39)	(1 607)	–	(5)	**(1 651)**	–	**(1 651)**
Decrease of impairrment	–	–	1	2 200	–	–	**2 201**	–	**2 201**
Sale, disposal	–	–	98	313	1 455	13	**1 879**	–	**1 879**
Reclassification	–	–	(955)	951	(248)	6	**(246)**	246	–
Donations and free-of-charge transfers	–	–	14	2	–	–	**16**	–	**16**
Liquidation	–	–	3 437	4 749	160	657	**9 003**	–	**9 003**
Received free of charge	–	–	(196)	(1)	–	–	**(197)**	–	**(197)**
Contribution in kind	–	–	–	–	–	–	–	–	–
Transfers to intangible assets	–	–	–	–	–	–	–	–	–
Other movements	–	–	–	7	22	1	**30**	(22)	**8**
Closing balance	**(809)**	**(401)**	**(1 455 651)**	**(1 461 405)**	**(50 266)**	**(81 822)**	**(3 050 354)**	**(15 553)**	**(3 065 907)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**52 879**	**781 672**	**7 892 275**	**6 239 639**	**140 749**	**120 744**	**15 227 958**	**1 870 884**	**17 098 842**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**54 616**	**783 797**	**8 313 160**	**7 434 724**	**138 644**	**122 889**	**16 847 830**	**319 798**	**17 167 628**

(in PLN thousands)

14. Inventories

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009
Historical cost		
Raw materials	331 691	424 465
Semi-finished goods and work-in-progress	73 467	87 114
Finished goods	10 809	17 566
Goods for resale	14	1 702
Property rights arising from energy certificates	15 171	9 131
Emission allowances	13 585	–
Total	**444 737**	**539 978**
Write-downs to net realisable value		
Raw materials	(3 785)	(3 612)
Semi-finished goods and work-in-progress	(1 352)	–
Finished goods	(193)	(165)
Goods for resale	–	–
Property rights arising from energy certificates	–	–
Emission allowances	(44)	–
Total	**(5 374)**	**(3 777)**
Net realisable value		
Raw materials	327 906	420 853
Semi-finished goods and work-in-progress	72 115	87 114
Finished goods	10 616	17 401
Goods for resale	14	1 702
Property rights arising from energy certificates	15 171	9 131
Emission allowances	13 541	–
Total	**439 363**	**536 201**

15. Trade receivables

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

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

The values of trade receivables at the end of the 6-month period ended 30 June 2010 are presented in the table below.

Trade receivables as at 30 June 2010 *(unaudited)*

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009
Value of item before allowance/write-down	1 486 469	1 314 449
Allowance/write-down	(146 662)	(114 822)
Value of item net of allowance (carrying amount)	**1 339 807**	**1 199 627**

(in PLN thousands)

16. Issued capital

Issued capital as at 30 June 2010

Class/issue	Type of shares	Type of preference	Number of shares	Nominal value of one share	Value of class/issue at nominal value	Method of payment
AA	bearer shares	–	1 589 438 762	9	14 304 949	cash/in-kind contribution
		Total	**1 589 438 762**		**14 304 949**	

Shareholding structure as at 30 June 2010

Shareholder	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury	4 773 404	33,3689%	33,3689%
KGHM Polska Miedź S.A.	736 705	5,1500%	5,1500%
Other shareholders	8 794 840	61,4811%	61,4811%
Total	**14 304 949**	**100,00%**	**100,00%**

As a result of the parent's merger with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., as described in detail in Note 22, the Company issued shares with a total nominal value of PLN 318,665 thousand.

Following the reverse stock split the number of shares was reduced 9 times, from 14,304,948,858 (shares classes from A to K, including the existing shares from class A to class I and merger shares classes J and K issued by TAURON Polska Energia S.A. as a result of the Company's merger with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.) to 1,589,438,762 shares class AA. The amount of the issued capital did not change as a result of the reverse split and it is equal to PLN 14,304,949 thousand.

17. Earnings per share

In June 2010, the process of the reverse stock split came to an end. The number of shares was reduced 9 times, from 14,304,948,858 to 1,589,438,762. For comparability purposes, earnings per share for the 6-month period ended 30 June 2009 as presented in the statement of comprehensive income in these interim condensed consolidated financial statements was calculated for the period on the assumption that the nominal value of one share has always been equal to PLN 9 and the weighted average number of shares was nine times smaller. Earnings per share before the reverse split for the period ended 30 June 2009 amounted to PLN 0.03.

(in PLN thousands)

18. Provisions and employee benefits

Movement in provisions for employee benefits in the 6-month period ended 30 June 2010 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary termination benefits	Provisions, total
Opening balance	**176 385**	**319 772**	**98 009**	**26 642**	**441 186**	**–**	**1 061 994**
Acquisition of subsidiary	–	–	–	–	–	–	–
Current service costs	3 962	2 337	1 027	300	12 839	–	**20 465**
Actuarial gains and losses	(7 464)	(1 275)	(1 091)	70	(10 463)	–	**(20 223)**
Benefits paid	(4 960)	(8 744)	(1 440)	(365)	(15 704)	–	**(31 213)**
Past service costs	–	3 972	–	–	–	–	**3 972**
Contribution in kind	(229)	(249)	(168)	–	(586)	–	**(1 232)**
Interest expense	5 874	11 235	3 100	749	12 263	–	**33 221**
Other movements	–	–	–	–	–	33 492	**33 492**
Closing balance	**173 568**	**327 048**	**99 437**	**27 396**	**439 535**	**33 492**	**1 100 476**
CURRENT	**29 625**	**19 594**	**4 628**	**1 079**	**52 077**	**33 492**	**140 495**
NON-CURRENT	**143 943**	**307 454**	**94 809**	**26 317**	**387 458**	**–**	**959 981**

Movement in provisions for employee benefits in the 6-month period ended 30 June 2009 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary termination benefits	Provisions, total
Opening balance	**163 787**	**286 702**	**91 265**	**27 219**	**457 564**	**–**	**1 026 537**
Acquisition of subsidiary	–	–	–	–	–	–	–
Current service costs	4 157	2 323	1 034	264	12 284	–	**20 062**
Actuarial gains and losses	(1 998)	6 814	2 558	25	(9 516)	–	**(2 117)**
Benefits paid	(6 360)	(7 232)	(1 972)	(313)	(20 517)	–	**(36 394)**
Past service costs	–	3 972	–	–	–	–	**3 972**
Contribution in kind	–	–	–	–	–	–	–
Interest expense	5 909	10 320	2 728	694	12 414	–	**32 065**
Other movements	–	–	–	–	–	–	–
Closing balance	**165 495**	**302 899**	**95 613**	**27 889**	**452 229**	**–**	**1 044 125**
CURRENT	**29 718**	**22 507**	**4 491**	**1 290**	**46 971**	**–**	**104 977**
NON-CURRENT	**135 777**	**280 392**	**91 122**	**26 599**	**405 258**	**–**	**939 148**

In June 2010, ENION S.A., EnergiaPro S.A. and Południowy Koncern Energetyczny S.A. implemented a voluntary redundancy scheme. In ENION S.A. and EnergiaPro S.A., the following two forms of voluntary redundancies were offered to employees: early retirement scheme and severance payment scheme. The first scheme was available to employees who have already acquired or will acquire by the end of the year the right to early retirement, bridging retirement or retirement due to disability. The severance payment scheme was addressed to the other employees, who are not eligible for using the early retirement scheme. The employees were invited to submit applications in the period from 7 to 30 June 2010. In ENION S.A. and EnergiaPro S.A., 279 and 247 employees took advantage of the schemes, respectively. The companies recognized provisions for payments resulting from the schemes. As at 30 June 2010, these provisions amounted to:

- PLN 17,777 thousand in ENION S.A.,
- PLN 15,715 thousand in EnergiaPro S.A.

Południowy Koncern Energetyczny S.A. adopted, in June 2010, an employment cost cutting package which is addressed to those employees who acquired the right to retirement at a younger age. At the balance sheet date, the company is unable to reliably estimate the number of individuals that may be interested in making use of the package, hence no provision was recognized as at 30 June 2010.

Except for the provision for payments made under the voluntary redundancy scheme, the Group determines provisions for future employee benefits at an amount estimated using actuarial methods, taking into account the discount rate defined on the basis of market rates of return from treasury bonds. 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 main assumptions adopted by the actuary as at 31 December 2009 for the calculation of the amount of liability are as follows:

(in PLN thousands)

	31 December 2009
Discount rate (%)	5.75%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	1.08% – 2.62%
Estimated salary increase rate (%)	2.50%
Estimated electricity price increase rate (%)	2.70%
Estimated increase rate for contribution to the Social Fund (%)	4.10%
Remaining average employment period	9.97 – 14.18

The forecasted provisions for 2010 were prepared based on the previously calculated provisions as at 31 December 2009. The forecast was prepared based on the assumptions used for calculation of provisions as at 31 December 2009.

19. Provisions

19.1 Movements in provisions

Movement in provisions for the 6-month period ended 30 June 2010 *(unaudited)*

	Provision for counterparty claims, court disputes, onerous contracts	Provision for disputes with employees, restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**19 552**	**238**	**22 639**	**750 015**	**62 360**	**854 804**
Acquisition of subsidiary	–	–	–	–	–	–
Discount rate adjustment	–	–	481	–	–	**481**
Recognition	9 812	–	8 223	485 987	3 755	**507 777**
Reversal	(173)	–	–	(10 478)	(81)	**(10 732)**
Utilisation	(80)	–	–	(738 985)	(3 736)	**(742 801)**
Other movements	–	–	1 518	–	–	**1 518**
Closing balance	**29 111**	**238**	**32 861**	**486 539**	**62 298**	**611 047**
CURRENT	**29 111**	**238**	**–**	**486 539**	**61 552**	**577 440**
NON-CURRENT	**–**	**–**	**32 861**	**–**	**746**	**33 607**

Movement in provisions for the 6-month period ended 30 June 2009 *(unaudited)*

	Provision for counterparty claims, court disputes, onerous contracts	Provision for disputes with employees, restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for obligation to submit energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**15 603**	**1 504**	**23 550**	**620 706**	**47 086**	**708 449**
Acquisition of subsidiary	–	–	–	–	–	–
Discount rate adjustment	–	–	569	–	–	**569**
Recognition	9 620	–	–	413 932	700	**424 252**
Reversal	(258)	–	–	(7 260)	(10 348)	**(17 866)**
Utilisation	(82)	(532)	–	(615 635)	(409)	**(616 658)**
Other movements	41	–	200	(1 243)	(41)	**(1 043)**
Closing balance	**24 924**	**972**	**24 319**	**410 500**	**36 988**	**497 703**
CURRENT	**24 435**	**734**	**–**	**410 500**	**35 704**	**471 373**
NON-CURRENT	**489**	**238**	**24 319**	**–**	**1 284**	**26 330**

19.2 Details of significant provisions

19.2.1 Provision for counterparty claims, court disputes, onerous contracts

Provision for proceedings before the Consumers and Competition Protection Office

In 2009, ENION S.A. recognized a provision of PLN 15,850 thousand for cash penalties imposed on it by the President of the Consumers and Competition Protection Office for abuse of its dominant position on the electricity distribution market. ENION S.A. appealed against this decision to the Court of Competition and Consumers Protection. As at 30 June 2010, the proceedings relating to this issue are still pending.

Provision for proceedings against ArcelorMittal Poland S.A.

In the second quarter of 2010, ENION S.A. recognized a provision of PLN 7,200 thousand due to the call lodged with the court on 18 June 2010 by ArcelorMittal Poland S.A. to make an attempt at negotiating an agreement regarding payment of an amount that was unduly paid to ENION S.A.

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

Under 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. These provisions are recognized based on the estimate of the anticipated decommissioning costs related to the dismantling and removal of mining and other technological facilities and the restoration of land to its original condition after completion of mining activities. The amounts of the provisions are estimated based on expert studies and technological and economic analyses prepared by in-house staff or external experts. The amounts of the provisions are estimated and reviewed at each balance sheet date on the basis of current cost estimates and inflation and discount rates.

As at 30 June 2010, the provision recognized in this respect by Południowy Koncern Węglowy S.A., including the Mine Decommissioning Fund, amounted to PLN 21,080 thousand, and the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,558 thousand.

19.2.3 Provision for obligation to submit energy certificates

Due to the sale of electricity to final users, the Group is required to submit for redemption a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 30 June 2010, the provision recognized in this respect amounted to PLN 486,539 thousand.

19.2.4 Other provisions

Provision for use of land without a contract

The Group companies recognize provisions for all claims reported by the owners of real estate on which energy infrastructure items with no appropriate legal title are located. As at 30 June 2010, the provision amounted to PLN 13,664 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

Provision for real estate tax

Due to pending tax proceedings, Południowy Koncern Węglowy S.A. recognized a provision for the real estate tax on workings and the related structures for the period from the beginning of 2005 to 30 June 2010, including potential overdue amounts and interest. As at 30 June 2010, the provision amounted to PLN 16,926 thousand.

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

(in PLN thousands)

20. Accruals

20.1 Deferred income and government grants

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*comparative figures*)
Deferred income		
Donations, fixed assets received free-of-charge	182 082	180 636
Non-government subsidies	14 303	14 650
Subsidies for the purchase of fixed assets	46 258	47 524
Connection fees	343 671	355 524
Other deferred income	12 269	7 410
Total, of which:	**598 583**	**605 744**
Non-current	547 048	559 267
Current	51 535	46 477
Government subsidies		
Forgiven loans from environmental funds	10 307	10 874
Other	55 964	57 000
Total, of which:	**66 271**	**67 874**
Non-current	63 797	65 300
Current	2 474	2 574

Deferred income from connection fees and fixed assets received free of charge relates to transactions which took place up to 30 June 2009 i.e. prior to application of IFRIC 18. Beginning from 1 July 2009, the Group recognizes connection fees and fixed assets received free of charge as income.

Government grants presented in these consolidated financial statements mainly include the value of forgiven loans granted by environmental funds. Part of loans from environmental funds is forgiven if the anticipated environmental benefits are achieved.

20.2 Accrued expenses

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*comparative figures*)
Unused holidays	47 149	20 039
Annual bonuses	123 995	128 815
Audit fees	725	1 114
Bonuses for the directors	217	–
Other	12 495	11 248
Total, of which:	**184 581**	**161 216**
Non-current	–	–
Current	184 581	161 216

(in PLN thousands)

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

Loans taken out as at 30 June 2010 and 31 December 2009 are presented in the tables below.

Loans taken out as at 30 June 2010

Currency	Interest rate	Value of loans as at the balance sheet date (*unaudited*)		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	725 003	725 003	75 884	261 563	233 579	116 431	37 506	40
	fixed	6 884	6 884	235	2 329	1 302	1 302	1 716	–
Total PLN		**731 887**	**731 887**	**76 119**	**263 892**	**234 881**	**117 733**	**39 222**	**40**
EUR	floating	5 458	22 626	891	2 673	3 564	3 564	5 854	6 080
	fixed	–	–	–	–	–	–	–	–
Total EUR		**5 458**	**22 626**	**891**	**2 673**	**3 564**	**3 564**	**5 854**	**6 080**
USD	floating	62 556	212 352	24 374	84 983	78 889	24 106	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		**62 556**	**212 352**	**24 374**	**84 983**	**78 889**	**24 106**	**–**	**–**
Total			**966 865**	**101 384**	**351 548**	**317 334**	**145 403**	**45 076**	**6 120**
Interest increasing carrying amount			485						
Total loans			**967 350**						

Loans taken out as at 31 December 2009

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	888 394	888 394	111 921	289 785	275 852	170 644	40 144	48
	fixed	1 658	1 658	–	1 598	60	–	–	–
Total PLN		**890 052**	**890 052**	**111 921**	**291 383**	**275 912**	**170 644**	**40 144**	**48**
EUR	floating	5 887	24 187	883	2 649	3 532	3 532	7 064	6 527
	fixed	–	–	–	–	–	–	–	–
Total EUR		**5 887**	**24 187**	**883**	**2 649**	**3 532**	**3 532**	**7 064**	**6 527**
USD	floating	92 633	264 031	24 374	83 316	108 131	48 210	–	–
	fixed	–	–	–	–	–	–	–	–
Total USD		**92 633**	**264 031**	**24 374**	**83 316**	**108 131**	**48 210**	**–**	**–**
Total			**1 178 270**	**137 178**	**377 348**	**387 575**	**222 386**	**47 208**	**6 575**
Interest increasing carrying amount			670						
Total loans			**1 178 940**						

Presented below are movements in loans, excluding interest increasing their carrying amount, in the 6-month period ended 30 June 2010 and in the 6-month period ended 30 June 2009.

	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Opening balance	**1 178 270**	**1 357 231**
Movement in bank overdrafts	**(46 244)**	**(36 693)**
Movement in loans (excluding bank overdrafts):	**(165 161)**	**(43 577)**
Taken out	59 531	115 485
Repaid	(233 080)	(167 002)
Change in valuation	8 388	7 940
Closing balance	**966 865**	**1 276 961**

(in PLN thousands)

In the 6-month period ended 30 June 2010, Południowy Koncern Węglowy S.A. concluded two agreements for investment loans maturing in the first half of 2015, for a total amount of PLN 57,110 thousand. As at 30 June 2010, the carrying amount of those two loans was PLN 55,177 thousand.

Liabilities arising from issued debentures as at 30 June 2010 and 31 December 2009 are presented in the tables below.

Debentures issued as at 30 June 2010

Company	Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost (*unaudited*)	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
Południowy Koncern Energetyczny S.A.	floating	PLN	–	556 152	–	80 993	80 989	80 993	161 986	151 191
Total debentures			**–**	**556 152**	**–**	**80 993**	**80 989**	**80 993**	**161 986**	**151 191**

Debentures issued as at 31 December 2009

Company	Interest rate	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
Południowy Koncern Energetyczny S.A.	floating	PLN	126	596 655	–	80 993	81 314	81 314	162 629	190 405
Total debentures			**126**	**596 655**	**–**	**80 993**	**81 314**	**81 314**	**162 629**	**190 405**

The movement in the balance of issued debentures, excluding interest increasing the carrying amount of the liability, in the 6-month period ended 30 June 2010 by PLN 40,503 thousand was due to the redemption of bonds of PLN 41,308 thousand and a valuation increase of PLN 805 thousand (deferred commission). The increase in the value of bonds in the 6-month period ended 30 June 2009 by PLN 44,327 thousand was due to another issue of bonds on 30 June 2009 amounting to PLN 44,000 thousand as well as valuation.

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 restricted 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 June 2010 (*unaudited*)	As at 31 December 2009
Real estate	3 421 961	3 467 430
Plant and equipment	318 460	295 987
Motor vehicles	5 230	6 668
Assets under construction	447	745
Trade receivables	–	17 751
Cash	3 458	84 574
Other financial and non-financial receivables	15 616	15 616
Total assets pledged as security for liabilities	**3 765 172**	**3 888 771**

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

(in PLN thousands)

22. Business combinations and acquisitions of non-controlling interests

On 10 June 2010, the parent, TAURON Polska Energia S.A., was combined with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. As a result of this business combination, the shareholders of the acquired companies, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., received newly issued shares of the Company:

- 193,850,314 shares class K, with a nominal value of PLN 1 each, were granted to the shareholders of ENION Zarządzanie Aktywami Sp. z o.o.,
- 124,814,986 shares class L, with a nominal value of PLN 1 each, were granted to the shareholders of Energomix Servis Sp. z o.o.

The parities of exchange were determined on the basis of the market value of the entities being combined, calculated based on a valuation performed by an independent expert as at 1 December 2009. The parities of exchange were determined as follows: the shareholders of ENION Zarządzanie Aktywami Sp. z o.o. received 427 shares of TAURON Polska Energia S.A. (426.01 shares before rounding) in exchange for 1 share of ENION Zarządzanie Aktywami Sp. z o.o., while the shareholders of Energomix Servis Sp. z o.o. received 799 shares of TAURON Polska Energia S.A. (798.86 shares before rounding) in exchange for 1 share of Energomix Servis Sp. z o.o.

In addition, the non-controlling shareholders of ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. were required to make their contributions in cash (in accordance with art. 492 par. 3 of the Code of Commercial Companies), i.e. to make an additional payment of PLN 1.15 for each share of ENION Zarządzanie Aktywami Sp. z o.o. exchanged for the Company's shares, and PLN 0.16 for each share of Energomix Servis Sp. z o.o. exchanged for the Company's shares.

Following registration of merger shares, the Company's issued capital was increased by PLN 318,665 thousand, up to PLN 14,304,949 thousand.

The business combination as described above represents an acquisition of non-controlling interests in the following companies: TAURON Ekoenergia Sp. z o.o., EnergiaPro Gigawat Sp. z o.o., ENION Energia Sp. z o.o., Elektrociepłownia EC Nowa Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. In accordance with IAS 27 *Consolidated and Separate Financial Statements,* changes in the parent's ownership interests that do not result in loss of control over the subsidiary are accounted for as equity transactions. The difference between the nominal value of the issued shares decreased by additional payments in cash and the value of the non-controlling interest at the date of acquisition, amounting to PLN (145,651) thousand, was recognized in the Company's equity, in retained earnings.

23. Financial instruments

The fair values of the financial instruments held by the Group as at 30 June 2010 and 31 December 2009 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 30 June 2010 and 31 December 2009 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 30 June 2010 (*unaudited*)	As at 31 December 2009
1 Assets at fair value through profit or loss	**7 022**	**7 084**
Shares in unlisted and listed companies (current)	318	485
Investment fund units	6 704	6 599
2 Financial assets available for sale	**176 681**	**153 162**
Shares in unlisted and listed companies (non-current)	169 163	145 095
Shares in unlisted and listed companies (current)	1 074	937
Investment fund units	2 832	2 873
Bonds, T-bills and other debt securities	1 500	1 905
Other financial assets available for sale	2 112	2 352
3 Financial assets held to maturity	**2 789**	**4 151**
Bonds, T-bills and other debt securities	2 789	4 151
4 Loans and receivables	**2 072 643**	**1 907 351**
Trade receivables	1 339 807	1 199 627
Deposits	49 220	23 887
Loans granted	9 365	315
Other financial receivables	674 251	683 522
5 Derivative hedging instruments (assets)	–	**1 747**
6 Cash and cash equivalents	**1 049 221**	**1 032 103**

(in PLN thousands)

Categories and classes of financial liabilities	Carrying amount	
	As at 30 June 2010 (*unaudited*)	As at 31 December 2009
1 Financial liabilities at fair value through profit or loss	–	–
2 Financial liabilities measured at amortized cost	**2 645 188**	**3 261 092**
Preferential loans	282 239	329 369
Arm's length loans	671 902	790 118
Bank overdrafts	13 209	59 453
Issued debentures and other debt securities	556 152	596 781
Trade payables	764 400	966 193
Other financial liabilities	103 540	108 895
Commitments resulting from purchases of fixed and intangible assets	141 924	271 609
Salaries and wages	96 762	117 843
Insurance contracts	15 060	20 831
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**106 892**	**123 668**
Obligations under finance leases and hire purchase contracts	106 892	123 668
4 Derivative hedging instruments (liabilities)	**13 878**	**11 038**

24. Financial risk management objectives and policies

The financial risk management objectives and policies did not change compared with 31 December 2009.

25. Capital management

On 28 May 2010, the parent, TAURON Polska Energia S.A., and its subsidiaries: TAURON Ekoenergia Sp. z o.o., Elektrociepłownia EC Nowa Sp. z o.o., Elektrownia Stalowa Wola S.A., EnergiaPro Gigawat Sp. z o.o., EnergiaPro S.A., ENION Energia Sp. z o.o., Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. and Elektrociepłownia Tychy S.A. signed an agreement with Bank Polska Kasa Opieki S.A. for the provision of cash pool services. The purpose of the agreement is to ensure the most effective management of cash held by the companies, efficient funding of day-to-day working capital requirements of the Group companies, improvement of financial liquidity and optimization of finance income and finance costs of the individual Group companies participating in the agreement as well as of the entire TAURON Polska Energia S.A. Group. TAURON Polska Energia S.A. plays the role of the pool leader. Interest terms were determined at an arm's length. Under the cash pool agreement the Company may obtain external funding amounting to PLN 100,000 thousand by 28 May 2011. The first cash pool transactions were made in June 2010. Due to the intercompany nature of transactions made under the cash pool agreement, the balances of intercompany loans are eliminated in the consolidated financial statements.

The Group monitors capital levels using the leverage ratio presented in the table below.

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*comparative figures*)
Interest-bearing loans and borrowings	1 523 502	1 775 721
Trade and other payables, finance leases and hire purchase commitments	1 242 456	1 620 077
Less cash and cash equivalents	1 049 221	1 032 103
Net debt	**1 716 737**	**2 363 695**
Equity attributable to equity holders of the parent	12 507 950	11 858 566
Revaluation reserve on valuation of hedging instruments	(6 195)	(766)
Total capital	**12 514 145**	**11 859 332**
Capital and net debt	**14 230 882**	**14 223 027**
Leverage ratio	12%	17%

26. Contingent liabilities and contingent assets

Administrative proceedings instituted by the President of the Energy Regulatory Office

On 11 March 2010, the President of the Energy Regulatory Office initiated administrative proceedings in the matter of imposing a monetary penalty on ENION S.A. due to the possible breach of the terms and criteria for independence of a distribution system operator as referred to in Article 9d paragraphs 1–2 of the Energy Law.

In addition, on 30 March 2010 the President of the Energy Regulatory Office initiated administrative proceedings in the matter of imposing a monetary penalty on ENION S.A. due to:

- possible irregularities consisting in failure to maintain the facilities, installations and equipment in a proper technical condition as well as failure to comply with the requirements arising from the concession for distribution of electricity,
- a disclosure of a breach of law in concession-based operations consisting in the application of rates and charges that were inconsistent with the relevant terms, i.e. the refusal to recognize interruptions in the supply of electricity as a basis for granting bonuses to consumers who signed integrated agreements with ENION Energia Sp. z o.o.

The aforementioned proceedings are pending as at the date of these financial statements.

In addition, on 29 March 2010 the President of the Energy Regulatory Office initiated administrative proceedings in the matter of imposing a monetary penalty on ENION Energia Sp. z o.o. due to the disclosure of a breach of law in its concession-based operations consisting in the application of rates and charges that were inconsistent with the relevant terms, i.e. non-compliance with regulations relating to bonuses granted for interruptions in electricity supply. These proceedings are pending at the date of these financial statements.

Compensation for stranded costs

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") having come into force, Południowy Koncern Energetyczny S.A. ("PKE") 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 the 2nd quarter of 2008, PKE receives quarterly cash advances based on the submitted requests. An annual adjustment will be subsequently made to stranded costs over the so-called adjustment period, lasting until the expiry of the longest long-term agreement held by the 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.

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

In the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection dated 26 May 2010, the Court modified the challenged decision and acknowledged the company's right to make a positive adjustment to stranded costs of PLN 79,088 thousand.

On 8 July 2010, the President of URE lodged an appeal against the judgment of the Regional Court in Warsaw – the Court for Competition and Consumers Protection with the Court of Appeal in Warsaw (The 6th Civil Department). At the date of these financial statements, the issue of the annual adjustment to stranded costs for 2008 is still under dispute.

In the decision of 29 July 2010, the President of URE determined the amount of the annual adjustment to be made by Południowy Koncern Energetyczny S.A. to stranded costs for 2009 at PLN 138,202 thousand.

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 2009.

27. Capital commitments

As at 30 June 2010, the Group has committed to incur expenditures for property, plant and equipment in the amount of PLN 1,097,223 thousand. As it was the case as at 31 December 2009, the largest item in this amount was represented by capital commitments relating to the restoration of production capacities at the Bielsko-Biała CHP Plant, being part of Południowy Koncern Energetyczny S.A., for an amount of PLN 367,118 thousand.

(in PLN thousands)

Capital commitments of the Group as at 31 December 2009 amounted to PLN 892,289 thousand. The largest item was capital commitments related to the restoration of production capacities at the Bielsko-Biała CHP Plant, amounting to PLN 409,700 thousand.

28. Transactions with State Treasury companies

As the Group's main shareholder is the State Treasury of the Republic of Poland, 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, which are calculated based on their cost.

The total value of transactions with the above-mentioned companies and the balances of receivables and payables are presented in the tables below.

Revenues and costs

	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Revenue	599 444	610 449
Costs*	(1 177 377)	(1 136 487)

* Includes costs recognized in the statement of comprehensive income.

Receivables and payables

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009
Receivables	201 128	114 883
Payables	255 724	297 668

Among the State Treasury companies, the following were the largest counterparties of the TAURON Polska Energia S.A. Group during the 6-month period ended 30 June 2010: KGHM Polska Miedź S.A., Kompania Węglowa S.A. and PSE Operator S.A. Total revenue from these counterparties accounted for 87% of revenue from transactions with State Treasury companies. The largest costs were incurred by the Group on transactions with PSE Operator S.A. and Kompania Węglowa S.A. They accounted for 83% of total costs incurred on transactions with State Treasury companies.

(in PLN thousands)

29. Compensation of key management personnel

Until 28 June 2010, the compensation of the Directors and the Supervisory Board members was subject to the provisions of the Act of 3 March 2000 on Remunerating Individuals Being in Charge of Certain Legal Entities (companies with a majority shareholding of the State Treasury).

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the parent and of the subsidiaries for the 6-month period ended 30 June 2010 is presented in the table below.

	6-month period ended 30 June 2010 (*unaudited*)		Year ended 31 December 2009	
	Parent	**Subsidiaries**	**Parent**	**Subsidiaries**
Board of Directors	**1 160**	**8 537**	**1 622**	**10 724**
Short-term employee benefits (salaries and surcharges)	983	7 743	1 261	10 276
Jubilee bonuses	–	160	40	240
Post-employment benefits	–	–	–	–
Employment termination benefits	–	–	–	150
Share-based payments	–	19	–	–
Other	177	615	321	58
Supervisory Board	**145**	**1 723**	**279**	**2 955**
Short-term employee benefits (salaries and surcharges)	145	1 674	279	2 950
Jubilee bonuses	–	–	–	–
Post-employment benefits	–	–	–	–
Employment termination benefits	–	–	–	–
Share-based payments	–	48	–	–
Other	–	1	–	5
Total	**1 305**	**10 260**	**1 901**	**13 679**
Other key management personnel*	**2 987**	**15 901**	**4 205**	**18 647**
Short-term employee benefits (salaries and surcharges)	2 846	15 011	3 818	17 849
Jubilee bonuses	–	212	115	508
Post-employment benefits	–	–	–	140
Employment termination benefits	–	61	–	69
Share-based payments	–	164	–	–
Other	141	453	272	81

* The scope of individuals classified as key management personnel in the subsidiaries has been expanded in the period ended 30 June 2010 compared with the year 2009.

30. Details of other significant changes in the reporting period

30.1 Other operating expenses

Other operating expenses for the 6-month period ended 30 June 2010 include in particular the costs of removing damages caused by unfavorable weather conditions at the beginning of 2010, amounting to PLN 34,367 thousand.

30.2 Other current and long-term non-financial assets

The increase in long-term non-financial assets is mainly due to the increase in prepayments for fixed assets related to the following construction contracts: a new power unit at the Bielsko-Biała CHP Plant, amounting to PLN 36,720 thousand, a new RES power unit at the Jaworzno III Power Plant, amounting to PLN 11,498 thousand and a new 910 MW power unit at the Jaworzno III Power Plant, amounting to PLN 4,098 thousand, all of them carried out by Południowy Koncern Energetyczny S.A.

The increase in current non-financial assets mainly results from the increase in prepayments relating to transfers to the Social Fund, amounting to PLN 35,324 thousand as at 30 June 2010.

30.3 Other current financial assets

Other current financial assets amounting to PLN 42,320 thousand as at 30 June 2010 include in particular:

- investment fund units held by Południowy Koncern Energetyczny S.A., amounting to PLN 6,703 thousand;
- cash deposit of PLN 25,193 thousand, placed by TAURON Ekoenergia Sp. z o.o., to be used for the development and operation of a wind farm.

30.4 Other current liabilities

The increase in other current liabilities amounting to PLN 82,859 thousand was mainly due to the increase in taxation, customs duty, social security and other payables, amounting to PLN 47,073 thousand.

31. Events after the balance sheet date

Decrease of the market price of the Company's shares

As at 30 June 2010, the price of the Company's shares on the Stock Exchange market was PLN 5.05 per share, i.e. it was PLN 3.95 lower than their nominal value. At the date of these financial statements, the price of the shares is below the book value. However, the Company's Management believe that this indicates that the market valuation of the shares is low and does not reflect their value in use rather than that the Group's assets are impaired.

Board of Directors of the Company

Katowice, 24 August 2010

Dariusz Lubera	– President	....
Dariusz Stolarczyk	– Vice-president	....
Stanisław Tokarski	– Vice-president	....
Krzysztof Zamasz	– Vice-president	....
Krzysztof Zawadzki	– Vice-president	....

TAURON POLSKA ENERGIA S.A.

INTERIM CONDENSED FINANCIAL STATEMENTS PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

AUGUST 2010

CONTENTS

(in PLN thousands)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

	Note	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Continuing operations			
Sale of goods for resale, finished goods and materials		3 401 855	3 585 839
Rendering of services		4 872	3 223
Other income		13	7
Sales revenue		**3 406 740**	**3 589 069**
Cost of sales		(3 335 529)	(3 492 945)
Gross profit		**71 211**	**96 124**
Other operating income		124	9
Selling and distribution expenses		(5 130)	(1 239)
Administrative expenses		(53 657)	(23 210)
Other operating expenses		(344)	(223)
Operating profit		**12 204**	**71 461**
Finance income		184 832	41 708
Finance costs		(566)	(3 359)
Profit before tax		**196 470**	**109 810**
Income tax expense	**9**	(7 401)	(14 219)
Net profit from continuing operations		**189 069**	**95 591**
Net profit for the period		**189 069**	**95 591**
Other comprehensive income:		–	–
Total comprehensive income for the period		**189 069**	**95 591**
Earnings per share (in PLN)	**16**		
– basic, for profit for the period		0,12	0,06
– basic, for profit from continuing operations for the period		0,12	0,06
– diluted, for profit for the period		0,12	0,06
– diluted, for profit from continuing operations for the period		0,12	0,06

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

(in PLN thousands)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	30 June 2010 (*unaudited*)	31 December 2009 (*unaudited*)
ASSETS			
Non-current assets			
Property, plant and equipment		5 266	5 574
Intangible assets		5 683	3 939
Shares in unlisted and listed companies	**12**	14 569 884	14 170 251
Other long-term non-financial assets		287	417
Deferred tax asset	**9**	6 535	3 355
		14 587 655	**14 183 536**
Current assets			
Inventories	**13**	3 316	109
Corporate income tax receivables		5 233	9 097
Trade and other receivables	**14, 20**	649 183	340 560
Other current non-financial assets		3 889	8 283
Cash and cash equivalents	**10**	169 116	213 433
		830 737	**571 482**
Non-current assets classified as held for sale		–	–
TOTAL ASSETS		**15 418 392**	**14 755 018**

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

(in PLN thousands)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010 – continued

	Note	30 June 2010 (*unaudited*)	31 December 2009 (*unaudited*)
EQUITY AND LIABILITIES			
Equity			
Issued capital	**15**	14 304 949	13 986 284
Reserve capital		240 209	64 050
Retained earnings/Accumulated losses		274 239	176 159
Total equity		**14 819 397**	**14 226 493**
Non-current liabilities			
Finance lease and hire purchase commitments	**20**	531	1 013
Long-term provisions and employee benefits		1 816	1 320
		2 347	**2 333**
Current liabilities			
Trade and other payables		427 874	517 157
Current portion of interest-bearing loans and borrowings	**18, 20**	126 080	–
Current portion of finance lease and hire purchase commitments	**20**	936	839
Other current liabilities		20 700	4 010
Accruals and government grants		3 330	4 019
Short-term provisions and employee benefits	**17**	17 728	167
		596 648	**526 192**
Total liabilities		**598 995**	**528 525**
TOTAL EQUITY AND LIABILITIES		**15 418 392**	**14 755 018**

(in PLN thousands)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2010		**13 986 284**	**64 050**	**176 159**	**14 226 493**
Profit for the period		–	–	189 069	**189 069**
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	**189 069**	**189 069**
Appropriation of prior year profits	**11**	–	176 159	(176 159)	–
Issue of shares	**19**	318 665	–	–	**318 665**
Payment from profit		–	–	32	**32**
Dividends		–	–	–	–
Accounting for merger with subsidiaries		–	–	85 138	**85 138**
As at 30 June 2010 (*unaudited*)		**14 304 949**	**240 209**	**274 239**	**14 819 397**

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2009

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2009		**13 698 646**	**59 601**	**55 616**	**13 813 863**
Profit for the period		–	–	95 591	**95 591**
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	**95 591**	**95 591**
Appropriation of prior year profits	**11**	–	4 449	(4 449)	–
Issue of shares		–	–	–	–
Payment from profit		–	–	(5 992)	**(5 992)**
Dividends	**11**	–	–	(51 167)	**(51 167)**
Redemption of treasury shares		(245)	–	–	**(245)**
As at 30 June 2009 (*unaudited*)		**13 698 401**	**64 050**	**89 599**	**13 852 050**

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

(in PLN thousands)

INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2010

	Note	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Cash flows from operating activities			
Profit/(loss) before taxation		196 470	109 810
Adjustments for:			
Depreciation and amortization		1 545	1 104
(Gain)/loss on foreign exchange differences		(24)	–
Interest and dividens, net		(181 845)	(34 283)
(Gain)/loss on investing activities		–	67
(Increase)/decrease in receivables		(122 922)	(180 517)
(Increase)/decrease in inventories		(3 206)	(7 984)
Increase/(decrease) in payables excluding loans and borrowings		(71 633)	160 869
Change in other non-current and current assets		4 418	(1 585)
Change in deferred income, government grants and accruals		(688)	(815)
Change in provisions		18 056	246
Income tax paid		(6 717)	(12 920)
Other		32	–
Net cash from (used in) operating activities		**(166 514)**	**33 992**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		–	2
Purchase of property, plant and equipment and intangible assets		(3 225)	(4 524)
Proceeds from sale of other financial assets		–	12 508
Purchase of other financial assets		–	(12 226)
Dividends received		13 289	–
Other		3 546	–
Net cash from (used in) investing activities		**13 610**	**(4 240)**
Cash flows from financing activities			
Acquisition of treasury shares		(245)	–
Payment of finance lease liabilities		(387)	(232)
Interest paid		(102)	(3 093)
Other		(400)	(303)
Net cash used in financing activities		**(1 134)**	**(3 628)**
Net increase/(decrease) in cash and cash equivalents		**(154 038)**	**26 124**
Net foreign exchange difference		24	–
Cash and cash equivalents at the beginning of the period		**213 402**	**68 130**
Cash and cash equivalents at the end of the period, of which:	**10**	**59 364**	**94 254**
restricted cash		13 040	12 085

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

EXPLANATORY NOTES

1. General information

These interim condensed financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("the Company") with its registered office in Katowice at ul. Lwowska 23, whose shares are in public trading.

The interim condensed financial statements of the Company cover the 6-month period ended 30 June 2010 and include comparative data for the 6-month period ended 30 June 2009 and as at 31 December 2009. The interim condensed statement of comprehensive income and the interim condensed statement of cash flows as well as notes to these financial statements include figures for the 6-month period ended 30 June 2010 and comparative data for the 6-month period ended 30 June 2009. The comparative data for the periods ended 30 June 2009 and 31 December 2009, as included in these interim condensed financial statements, were not audited or reviewed by an independent auditor.

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

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

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

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

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

TAURON Polska Energia S.A. is the parent of the TAURON Polska Energia S.A. Capital Group.

The Company's main shareholder is the State Treasury of the Republic of Poland.

2. Basis of preparation of interim condensed financial statements

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

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

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

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

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

The interim condensed financial statements do not include all information and disclosures that are required in annual financial statements and should be read in conjunction with the Company's financial statements prepared in accordance with the Accounting Act for the year ended 31 December 2009.

These interim condensed financial statements for the 6-month period ended 30 June 2010 were authorized for issue on 24 August 2010.

The Company also prepared interim condensed consolidated financial statements for the 6-month period ended 30 June 2010, which were authorized for issue by the Board of Directors on 24 August 2010.

These interim condensed financial statements are part of a consolidated report which also includes the interim condensed consolidated financial statements for the 6-month period ended 30 June 2010.

3. Summary of significant accounting policies

The accounting policies applied while preparing the interim condensed financial statements are consistent with those applied in preparation of the annual consolidated financial statements of the TAURON Polska Energia S.A. Group for the year ended 31 December 2009.

The standards and interpretations applied are applicable to annual periods beginning on or after 1 January 2010.

(in PLN thousands)

The financial statements prepared in accordance with the Accounting Act for the year ended 31 December 2009, which were authorized for issue on 9 February 2010, were the last published financial statements of the Company.

Business combinations

In accounting for the merger with the subsidiaries, the Company makes use of its consolidated financial statements as the source of the value of assets and liabilities in the acquired subsidiaries. The difference resulting from the net assets acquired and issued in consequence of the merger is taken to retained earnings. No restatement is made with respect to comparative data.

Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are stated at historical cost. The Company has made use of an exemption from the obligation to apply certain IFRS requirements relating to the measurement of investments in subsidiaries, as discussed in detail in Note 5 hereto, and measured its investments in the subsidiaries at the date of transition to IFRSs at deemed cost, which is their carrying amount determined at that date in accordance with the Accounting Act.

4. Changes in estimates

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

5. First-time adoption of IFRSs

The International Accounting Standards Board issued International Financial Reporting Standard 1 ("IFRS 1") *First-time Adoption of International Financial Reporting Standards*, which is applicable to financial statements prepared for the periods beginning on or after 1 January 2004. IFRS 1 applies to entities which are preparing their IFRS financial statements for the first time as well as entities which have been applying IFRS but included in their financial statements a statement of non-compliance with specific standards. IFRS 1 requires that the first IFRS financial statements be the first annual financial statements in which an entity adopts all IFRSs and includes a statement of full compliance with all IFRSs.

These financial statements are interim condensed financial statements prepared in accordance with International Accounting Standard 34 within the year for which the Company will first prepare its annual financial statements in accordance with IFRS.

For the purposes of these financial statements, the date of transition to IFRSs is 1 January 2009. The last financial statements of the Company prepared in accordance with Polish Accounting Standards as defined in the Accounting Act that were available at the date of authorization of these financial statements were the financial statements prepared for the year ended 31 December 2009.

In accordance with IFRS 1, these interim condensed financial statements were prepared by applying all standards effective as at 30 June 2010 as if they were effective as at 1 January 2009, with a provison that the Company used an exemption from the obligation to apply certain requirements of the remaining IFRSs, as referred to in IFRS 1, relating to the measurement of investments in subsidiaries (IFRS 1.12, Appendix D). According to the provisions of paragraph 15 b (ii) of Appendix D to IFRS 1, in the opening statement of financial position as at the date of transition to IFRSs the Company measured its investments in the subsidiaries at deemed cost, which is their carrying amount determined at that date in accordance with the previously applied accounting principles as specified in the Accounting Act.

Presented below is reconciliation of equity reported under the Accounting Act with equity reported under IFRS as at the date of transition to IFRSs and as at 31 December 2009, reconciliation of comprehensive income reported under the Accounting Act with comprehensive income reported under IFRS for the year ended 31 December 2009 and reconciliation of assets reported under the Accounting Act with assets reported under IFRS as at 31 December 2009.

The impact of IFRS restatements on equity as at the date of transition and as at 31 December 2009, on assets as at 31 December 2009 and on the net profit for the year 2009 has been presented with reference to the authorized financial statements of the Company for the year ended 31 December 2009.

The types of restatements that had to be made by the Company to achieve full conformity with IFRS and their impact on comprehensive income, assets and equity are presented below:

	Equity as at 1 January 2009	Equity as at 31 December 2009	Total comprehensive income for the year ended 31 December 2009	Assets as at 31 December 2009
Figures in the financial statements under the Accounting Act	**13 813 863**	**14 226 493**	**184 535**	**14 755 081**
Presentation of Social Fund assets and liabilities on a net basis	–	–	–	(63)
Figures in the financial statements under IFRS (*unaudited*)	**13 813 863**	**14 226 493**	**184 535**	**14 755 018**

(in PLN thousands)

Presented below is reconciliation of cash flows from operating, investing and financing activities and movement in cash and cash equivalents under the Accounting Act with the cash flows from operating, investing and financing activities and movement in cash and cash equivalents under IFRS as at 31 December 2009 and for the year then ended.

The impact of IFRS restatements on cash flows from operating, investing and financing activities and movement in cash and cash equivalents for the year 2009 has been presented with reference to the authorized financial statements of TAURON Polska Energia S.A.

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase/(decrease) in cash and cash equivalents
Figures in the financial statements under the Accounting Act	**218 942**	**116 280**	**(189 890)**	**145 332**
Presentation of Social Fund assets and liabilities on a net basis	(60)	–	–	(60)
Figures in the financial statements under IFRS (*unaudited*)	**218 882**	**116 280**	**(189 890)**	**145 272**

In accordance with Polish law, the Company administers the Social Fund on behalf of its employees. Transfers made to the Social Fund are placed in separate bank accounts of the entity.

In the financial statements prepared in accordance with PAS the assets of the Social Fund were recognized as cash and cash equivalents, receivables or prepayments and deferred costs.

In the financial information prepared in accordance with IFRS no Social Fund assets were recognized due to the lack of expected future economic benefits that could result in the inflow of cash and cash equivalents into the Company's bank account.

(in PLN thousands)

6. Shares in related entities

In the first half of 2010, there were certain restructuring changes in the TAURON Polska Energia S.A. Group. On 10 June 2010, the parent, TAURON Polska Energia S.A., was combined with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. The process has been described in detail in Note 19 hereto.

As at 30 June 2010, TAURON Polska Energia S.A. held shares, either directly or indirectly, in the following significant related companies:

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 30 June 2010	% held by TAURON in the entity's governing body	Holder of shares as at 30 June 2010
1.	Południowy Koncern Energetyczny S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
2.	ENION S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
3.	EnergiaPro S.A.	53-314 Wrocław; Pl. Powstańców Śląskich 20	Transmission and distribution of electricity	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
4.	Elektrownia Stalowa Wola S.A.	37-450 Stalowa Wola; ul. Energetyków 13	Generation and distribution of electricity and heat	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
5.	ENION Energia Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100%	TAURON Polska Energia S.A. – 100.00%	100%	TAURON Polska Energia S.A. – 100.00%
6.	EnergiaPro Gigawat Sp. z o.o.	53-314 Wrocław; Pl. Powstańców Śląskich 16	Sale of electricity	100%	TAURON Polska Energia S.A. – 100.00%	100%	TAURON Polska Energia S.A. – 100.00%
7.	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation, transmission and distribution of electricity	100%	TAURON Polska Energia S.A. – 100.00%	100%	TAURON Polska Energia S.A. – 100.00%
8.	Elektrociepłownia Tychy S.A.	43-100 Tychy; ul. Przemysłowa 47	Generation of electricity, production and distribution of heat	95.47%	TAURON Polska Energia S.A. – 95.47%	95.47%	TAURON Polska Energia S.A. – 95.47%
9.	Kopalnia Wapienia Czatkowice Sp. z o.o.	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	85.00%	PKE S.A. – 100.00%	85.00%	PKE S.A. – 100.00%
10.	Południowy Koncern Węglowy S.A.	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	44.61%	PKE S.A. – 52.48%	57.81%	PKE S.A. – 68.01%
11.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	69.50%	PKE S.A. – 70.00%; TAURON Polska Energia S.A. – 10.00%	79.72%	PKE S.A. – 61.11%; TAURON Polska Energia S.A. – 27.78%

(in PLN thousands)

No.	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 30 June 2010	% held by TAURON in the entity's governing body	Holder of shares as at 30 June 2010
12.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	95.66%	TAURON Polska Energia S.A. – 95.66%	95.66%	TAURON Polska Energia S.A. – 95.66%
13.	Elektrociepłownia EC Nowa Sp. z o.o.	41-308 Dąbrowa Górnicza; Al. J. Piłsudskiego 92	Generation of electricity, production of heat and technical gases	84.00%	TAURON Polska Energia S.A. – 84.00%;	84.00%	TAURON Polska Energia S.A. – 84.00%;
14.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	41-300 Dąbrowa Górnicza; Al. J. Piłsudskiego 2	Heat production and distribution	85.00%	TAURON Polska Energia S.A. – 85.00%	85.00%	TAURON Polska Energia S.A. – 85.00%
15.	TAURON Czech Energy s.r.o.	750 00 Ostrava, Na Rovince 879/C, Czech Republic	Trading in electricity	100%	TAURON Polska Energia S.A. – 100.00%	100%	TAURON Polska Energia S.A. – 100.00%

(in PLN thousands)

7. Seasonality of operations

The Company's operations in the area of trading in electricity are not seasonal in nature, hence the Company's results in this area show no significant fluctuations during the year. Due to holding activities conducted by the Company, its finance income may show significant fluctuations relating to revenue from dividends, which is recognized at the date of the resolution on the distribution of dividend, unless the resolution indicates a different date for establishing the right to the dividend.

In 2010, the resolutions on the appropriation of profit for 2009 in the subsidiaries and the allocation of profits for distribution in the form of a dividend were taken in the second quarter of the year; payments were made in June, in the amount of PLN 13,289 thousand and in July 2010, in the amount of PLN 168,659 thousand. In the previous year, dividends due to TAURON Polska Energia S.A. from the subsidiaries for the year 2008 were paid in the second half of 2009; the Company recognized the related finance income of PLN 37,308 thousand in the first half of 2009.

8. Segment information

The Company's operating activity is presented in the segment of "Sale of Electricity and Other Energy Market Products". Unallocated items include investments in other entities, financing activity including dividends and income tax.

Information on operating segments is presented in Note 8 in the Interim Consolidated Financial Statements for the 6-month period ended 30 June 2010.

6-month period ended 30 June 2010 or as at 30 June 2010 (*unaudited*)	Sales of electricity and other energy market products	Unallocated items	Total
Revenue			
Sales to external customers	218 333	–	**218 333**
Sales within the Group	3 188 407		**3 188 407**
Segment revenue	**3 406 740**	–	**3 406 740**
Result			
Net profit/(loss) for the period	**12 204**	**176 865**	**189 069**
Income tax expense	–	(7 401)	**(7 401)**
Profit/(loss) before income tax	**12 204**	**184 266**	**196 470**
Net finance income (costs)	–	184 266	**184 266**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**12 204**	–	**12 204**
Unallocated expenses	–	–	–
Profit/(loss) of the segment	**12 204**	–	**12 204**
Assets and liabilities			
Segment assets	652 520	–	**652 520**
Unallocated assets	–	14 765 872	**14 765 872**
Total assets	**652 520**	**14 765 872**	**15 418 392**
Segment liabilities	470 817	–	**470 817**
Unallocated liabilities	–	128 178	**128 178**
Total liabilities	**470 817**	**128 178**	**598 995**
Other segment information			
Capital expenditure*	2 845	–	**2 845**
Depreciation/amortization	(1 545)	–	**(1 545)**
Impairment of non-financial assets	(44)	–	**(44)**

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

(in PLN thousands)

6-month period ended 30 June 2009 (unaudited) or as at 31 December 2009 (*unaudited*)	Sales of electricity and other energy market products	Unallocated items	Total
Revenue			
Sales to external customers	66 668	–	**66 668**
Sales within the Group	3 522 401	–	**3 522 401**
Segment revenue	**3 589 069**	–	**3 589 069**
Result			
Net profit/(loss) for the period	**71 461**	**24 130**	**95 591**
Income tax expense	–	(14 219)	**(14 219)**
Profit/(loss) before income tax	**71 461**	**38 349**	**109 810**
Net finance income (costs)	–	38 349	**38 349**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**71 461**	–	**71 461**
Unallocated expenses	–	–	–
Profit/(loss) of the segment	**71 461**	–	**71 461**
Assets and liabilities			
Segment assets	572 315	–	**572 315**
Unallocated assets	–	14 182 703	**14 182 703**
Total assets	**572 315**	**14 182 703**	**14 755 018**
Segment liabilities	525 782	–	**525 782**
Unallocated liabilities	–	2 743	**2 743**
Total liabilities	**525 782**	**2 743**	**528 525**
Other segment information			
Capital expenditure*	2 529	–	**2 529**
Depreciation/amortization	(1 104)	–	**(1 104)**
Impairment of non-financial assets	(66)	–	**(66)**

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

(in PLN thousands)

9. Income tax

9.1 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 6-month period ended 30 June 2010 (*unaudited*)	For the 6-month period ended 30 June 2009 (*unaudited*)
Current income tax	**(10 581)**	**(13 644)**
Current income tax expense	(10 581)	(13 644)
Deferred tax	**3 180**	**(575)**
Income tax expense in the statement of comprehensive income	**(7 401)**	**(14 219)**

9.2 Deferred income tax

Deferred income tax relates to the following:

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	509	332
– difference between tax base and carrying amount of financial assets	2	5
Deferred tax liability	**511**	**337**

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Deferred tax assets		
– difference between tax base and carrying amount of fixed and intangible assets	13	3
– difference between tax base and carrying amount of inventories	8	–
– provisions	4 259	1 024
– other accrued expenses	–	146
– tax losses	2 443	2 443
– other	323	76
Deferred tax assets	**7 046**	**3 692**
After the offsetting of the balances, deferred tax is presented as a deferred tax asset in the statement of financial position	**6 535**	**3 355**

(in PLN thousands)

10. Cash and cash equivalents

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

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Cash at bank and in hand	74 603	13 111
Short-term deposits (up to 3 months)	94 513	200 322
Other	–	–
Total cash and cash equivalents presented in the statement of financial position, of which:	**169 116**	**213 433**
– restricted cash	13 040	17 626
Cash pool	(109 698)	–
Foreign exchange and other differences	(54)	(31)
Total cash and cash equivalents presented in the statement of cash flows	**59 364**	**213 402**

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

11. Dividends paid and proposed

On 4 March 2010, the Ordinary General Shareholders' Meeting resolved to allocate the Company's net profit for 2009 in the amount of PLN 184,535 thousand for payment from profit made in accordance with separate regulations (PLN 8,376 thousand) and to the Company's reserve capital (PLN 176,159 thousand).

On 17 June 2009, the Ordinary General Shareholders' Meeting resolved to allocate the Company's net profit for 2008 in the amount of PLN 55,616 thousand for dividend distribution (PLN 51,167 thousand) and to the reserve capital (PLN 4,449 thousand).

(in PLN thousands)

12. Shares in unlisted and listed companies

The tables below present movements in long-term investments in the period from 1 January 2010 to 30 June 2010 and in the comparative period from 1 January 2009 to 30 June 2009.

Movements in long-term investments in the period from 1 January to 30 June 2010 *(unaudited)*

No.	Company	Opening balance	Increases	Decreases	Closing balance
1.	Południowy Koncern Energetyczny S.A.	6 697 999	–	–	**6 697 999**
2.	ENION S.A.	2 948 630	–	–	**2 948 630**
3.	EnergiaPro S.A.	2 206 153	–	–	**2 206 153**
4.	Elektrownia Stalowa Wola S.A.	475 106	–	–	**475 106**
5.	Elektrociepłownia Tychy S.A.	40 862	–	–	**40 862**
6.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	345 285	–	–	**345 285**
7.	Energomix Servis Sp. z o.o.	586 092	–	(586 092)	–
8.	EnergiaPro Gigawat Sp. z o.o.	–	345 015	–	**345 015**
9.	TAURON Ekoenergia Sp. z o.o.	–	419 315	–	**419 315**
10.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o.	–	6 959	–	**6 959**
11.	Elektrociepłownia EC Nowa Sp. z o.o.	125 327	92 086	–	**217 413**
12.	ENION Zarządzanie Aktywami Sp. z o.o.	578 017	–	(578 017)	–
13.	ENION Energia Sp. z o.o.	–	692 550	–	**692 550**
14.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	–	6 886	–	**6 886**
15.	Zespół Elektrowni Wodnych Rożnów Sp. z o.o.	–	931	–	**931**
16.	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	162 557	–	–	**162 557**
17.	TAURON Czech Energy s.r.o.	4 223	–	–	**4 223**
		14 170 251	**1 563 742**	**(1 164 109)**	**14 569 884**

Movements in the balance of the Company's long-term investments in the period from 1 January to 30 June 2010 result from the merger of the parent, TAURON Polska Energia S.A., with the subsidiaries Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., as described in detail in Note 19.

The above-mentioned merger resulted in the decrease of long-term investments due to the derecognition of investments in the acquired companies, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., with a value of PLN 1,164,109 thousand.

Movements in long-term investments in the period from 1 January to 30 June 2009 *(unaudited)*

No.	Company	Opening balance	Increases	Decreases	Closing balance
1.	Południowy Koncern Energetyczny S.A.	6 697 999	–	–	**6 697 999**
2.	ENION S.A.	3 526 647	–	(578 017)	**2 948 630**
3.	EnergiaPro S.A.	2 206 153	–	–	**2 206 153**
4.	Elektrownia Stalowa Wola S.A.	475 106	–	–	**475 106**
5.	Elektrociepłownia Tychy S.A.	40 862	–	–	**40 862**
6.	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	345 285	–	–	**345 285**
7.	Energomix Servis Sp. z o.o.	586 092	–	–	**586 092**
8.	ENION Zarządzanie Aktywami Sp. z o.o.	–	578 017	–	**578 017**
		13 878 144	**578 017**	**(578 017)**	**13 878 144**

The movement in the balance of the Company's long-term investments in the period from 1 January to 30 June 2009 resulted from the separation of ENION Zarządzanie Aktywami Sp. z o.o. from the assets of ENION S.A.

(in PLN thousands)

13. Inventories

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Hostorical cost		
Property rights arising from energy certificates	665	–
Emission allowances	2 695	109
Total	**3 360**	**109**
Write-downs to net realisable value		
Property rights arising from energy certificates	–	–
Emission allowances	(44)	–
Total	**(44)**	–
Net realisable value		
Property rights arising from energy certificates	665	–
Emission allowances	2 651	109
Total	**3 316**	**109**

14. Trade receivables

Trade receivables are non-interest bearing and are usually receivable within 30 days. Sales are only made to customers who have undergone an appropriate credit verification procedure. As a result, Management believe there is no additional credit risk that would exceed the doubtful debts allowance recognized for the Company's trade receivables.

The values of trade receivables together with aging and allowances/write-downs are presented in the tables below.

Trade receivables as at 30 June 2010 *(unaudited)*

	Not past due	Past due <30 days	Total
Value of item before allowance/write-down	462 637	6	**462 643**
Allowance/write-down	–	(5)	**(5)**
Value of item net of allowance (carrying amount)	**462 637**	**1**	**462 638**

Trade receivables as at 31 December 2009 *(unaudited)*

	Not past due	Past due <30 days	Total
Value of item before allowance/write-down	322 050	575	**322 625**
Allowance/write-down	–	–	–
Value of item net of allowance (carrying amount)	**322 050**	**575**	**322 625**

Related party transactions and balances are presented in Note 24 hereto.

(in PLN thousands)

15. Issued capital

Issued capital as at 30 June 2010

Class/issue	Type of shares	Type of preference	Number of shares	Nominal value of one share	Value of class/issue at nominal value	Method of payment
AA	bearer shares	–	1 589 438 762	9	14 304 949	cash/in-kind contribution
		Total	**1 589 438 762**		**14 304 949**	

Shareholding structure as at 30 June 2010

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury	4 773 404	33,3689%	33,3689%
KGHM Polska Miedź S.A.	736 705	5,1500%	5,1500%
Other shareholders	8 794 840	61,4811%	61,4811%
Total	**14 304 949**	**100,00%**	**100,00%**

On 30 June 2010, the State Treasury carried out a public offering of the shares of TAURON Polska Energia S.A., as a result of which individual and institutional investors acquired 51.6% of the Company's shares. Employee shares, which represented about 13% of the Company's capital, were also introduced into trading on the stock exchange market. In addition, as a result of a reverse stock split the nominal value of one share increased from PLN 1 to PLN 9.

The number of shares was reduced 9 times, from 14,304,948,858 (shares classes from A to K, including the existing shares from class A to class I and merger shares classes J and K issued by TAURON Polska Energia S.A. as a result of the Company's merger with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.) to 1,589,438,762 shares class AA. The amount of the issued capital did not change as a result of the reverse split and it is equal to PLN 14,304,949 thousand.

16. Earnings per share

In June 2010, the process of the reverse stock split came to an end. The number of shares was reduced 9 times, from 14,304,948,858 to 1,589,438,762. For comparability purposes, earnings per share for the 6-month period ended 30 June 2009 as presented in the statement of comprehensive income in these interim condensed financial statements was calculated for the period on the assumption that the nominal value of one share has always been equal to PLN 9 and the weighted average number of shares was nine times smaller.

Earnings per share before the reverse split for the period ended 30 June 2009 amounted to PLN 0.007.

17. Provisions

Due to the sale of electricity to final users, the Company is required to submit for redemption a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 30 June 2010, the Company recognized a short-term provision for the obligation to submit energy certificates for redemption, amounting to PLN 17,521 thousand.

(in PLN thousands)

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

As at 30 June 2010, TAURON Polska Energia S.A. had no liabilities arising from loans taken out or issued debentures, except for loans taken out from related entities under the “Agreement for Provision of Cash Pool Services”, as described in detail in Note 21.

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

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Loans granted under cash pool agreement	16 370	–
Interest receivable on loans granted under cash pool agreement	12	–

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Loans received under cash pool agreement	126 044	–
Interest payable on loans received under cash pool agreement	36	–

Under the cash pool agreement the Company may use external funding amounting to PLN 100,000 thousand by 28 May 2011.

Assets pledged as security

Vehicles used under lease agreements and restricted cash are most frequently used by TAURON Polska Energia S.A. as security for its liabilities.

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 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Motor vehicles	1 832	2 088
Trade receivables	–	17 751
Cash	–	7 000
Total assets pledged as security for liabilities	**1 832**	**26 839**

19. Business combinations

On 10 June 2010, the parent, TAURON Polska Energia S.A., combined with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. As a result of this business combination, the shareholders of the acquired companies, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., received newly issued shares of the Company:

- 193,850,314 shares class K, with a nominal value of PLN 1 each, were granted to the shareholders of ENION Zarządzanie Aktywami Sp. z o.o.,
- 124,814,986 shares class L, with a nominal value of PLN 1 each, were granted to the shareholders of Energomix Servis Sp. z o.o.

The parities of exchange were determined on the basis of the market value of the entities being combined, calculated based on a valuation performed by an independent expert as at 1 December 2009. The parities of exchange were determined as follows: the shareholders of ENION Zarządzanie Aktywami Sp. z o.o. received 427 shares of TAURON Polska Energia S.A. (426.01 shares before rounding) in exchange for 1 share of ENION Zarządzanie Aktywami Sp. z o.o., while the shareholders of Energomix Servis Sp. z o.o. received 799 shares of TAURON Polska Energia S.A. (798.86 shares before rounding) in exchange for 1 share of Energomix Servis Sp. z o.o.

In addition, the non-controlling shareholders of ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. were required to make their contributions in cash (in accordance with art. 492 par. 3 of the Code of Commercial Companies), i.e. to make an additional payment of PLN 1.15 for each share of ENION Zarządzanie Aktywami Sp. z o.o. exchanged for the Company’s shares, and PLN 0.16 for each share of Energomix Servis Sp. z o.o. exchanged for the Company’s shares.

Following registration of merger shares, the Company’s issued capital was increased by PLN 318,665 thousand, up to PLN 14,304,949 thousand.

The Company’s merger with its subsidiaries, ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., resulted in the recognition, in these interim condensed financial statements, of the assets of the acquired companies with a total value of PLN 1,567,366 thousand. At the same time, investments previously held in these companies, with a total value of PLN 1,164,109 thousand, were derecognized. In exchange for the acquired non-controlling interests in the acquired companies, the Company issued shares with a total nominal value of PLN 318,665 thousand. The difference between the net assets acquired, the value of derecognized shares in ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o., and the nominal value of the issued shares amounting to PLN 318,665 thousand, after taking into account the additional payments of PLN 547 thousand due from the previous shareholders, was taken to retained earnings.

(in PLN thousands)

20. Financial instruments

The fair values of the financial instruments held by the Company as at 30 June 2010 and 31 December 2009 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 30 June 2010 and 31 December 2009 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
1 Assets at fair value through profit or loss	–	–
2 Financial assets available for sale	**7 890**	–
3 Financial assets held to maturity	–	–
4 Loans and receivables	**649 183**	**340 560**
Trade receivables	462 638	322 625
Dividends receivables	167 838	–
Loans granted	16 382	–
Other	2 325	17 935
5 Financial assets excluded from the scope of IAS 39	**14 561 994**	**14 170 251**
7 Cash and cash equivalents	**169 116**	**213 433**

The significant increase in other financial receivables as at 30 June 2010 is due to higher dividend revenue. Those dividends are recognized under finance income.

Categories and classes of financial liabilities	Carrying amount	
	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
1 Financial liabilities at fair value through profit or loss	–	–
2 Financial liabilities measured at amortized cost	**553 954**	**517 157**
Arm's length loans	126 080	–
Trade payables	424 499	512 139
Other financial liabilities	632	2 487
Commitments resulting from purchases of fixed and intangible assets	952	1 141
Salaries and wages	1 779	1 390
Insurance contracts	12	–
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**1 467**	**1 852**
Obligations under finance leases and hire purchase contracts	1 467	1 852

21. Capital and financial risk management

Capital and financial risk management is performed at the level of the TAURON Polska Energia S.A. Group and has been described in detail in Notes 24 and 25 to the Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2010.

Agreement for provision of Cash Pool services

On 28 May 2010, the parent, TAURON Polska Energia S.A., and its subsidiaries: TAURON Ekoenergia Sp. z o.o., Elektrociepłownia EC Nowa Sp. z o.o., Elektrownia Stalowa Wola S.A., EnergiaPro Gigawat Sp. z o.o., EnergiaPro S.A., ENION Energia Sp. z o.o., Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. and Elektrociepłownia Tychy S.A. signed an agreement with Bank Polska Kasa Opieki S.A. for the provision of cash pool services. The purpose of the agreement is to ensure the most effective management of cash held by the companies, efficient funding of day-to-day working capital requirements of the Group companies, improvement of financial liquidity and optimization of finance income and finance costs of the individual Group companies participating in the agreement as well as of the entire TAURON Polska Energia S.A. Group. TAURON Polska Energia S.A. plays the role of the pool leader. The first cash pool transactions were made in June 2010.

Interest terms have been determined at an arm's length.

The balances of receivables and payables arising from loans granted and received under the cash pool agreement as well as the related interest receivable or payable are presented in Note 18 hereto.

22. Contingent liabilities

As at 30 June 2010, the Company's contingent liabilities amounted to PLN 6,219 thousand and included the following:

- A guarantee of EUR 1,000 thousand (PLN 4,146 thousand), issued in connection with the EFET framework agreement for the sale of electricity to TAURON Czech Energy s.r.o., for the benefit of CEZ a.s. The guarantee is valid for the period from 1 April 2010 to 31 December 2010;
- A bank guarantee for OTE amounting to EUR 500 thousand (PLN 2,073 thousand), issued to TAURON Czech Energy s.r.o. for the benefit of UniCredit Bank Czech Republik a.s. The guarantee is valid for the period from 9 June 2010 to 8 June 2011.

23. Capital commitments

As at 30 June 2010 and 31 December 2009 the Company had no capital commitments.

(in PLN thousands)

24. Related party disclosures

24.1 Transactions with related companies and State Treasury companies

The Company enters into transactions with related companies as presented in Note 6. In addition, due to the fact that the Company's main shareholder is the State Treasury of the Republic of Poland, State Treasury companies are treated as related parties. Transactions with State Treasury companies mainly relate to the operating activity of the Company and are made on an arm's length basis.

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

Revenues and costs

	6-month period ended 30 June 2010 (*unaudited*)	6-month period ended 30 June 2009 (*unaudited*)
Revenue from related companies	3 190 125	3 522 821
Dividends from related companies	181 126	37 308
Revenue from State Treasury companies	155 604	42 321
Costs incurred on transactions with related companies	(1 907 605)	(2 027 311)
Costs incurred on transactions with State Treasury companies	(32 693)	(28 424)

Receivables and payables

	As at 30 June 2010 (*unaudited*)	As at 31 December 2009 (*unaudited*)
Receivables from related companies	581 617	294 658
Receivables from State Treasury companies	45 044	14 335
Payables to related companies	368 147	267 261
Payables to State Treasury companies	4 706	4 675

Among the State Treasury companies, the following were the largest counterparties of TAURON Polska Energia S.A. during the 6-month period ended 30 June 2010 and the 6-month period ended 30 June 2009: PSE Operator S.A. and Kompania Węglowa S.A.

(in PLN thousands)

24.2 Compensation of key management personnel

Until 28 June 2010, the compensation of the Directors and the Supervisory Board members was subject to the provisions of the Act of 3 March 2000 on Remunerating Individuals Being in Charge of Certain Legal Entities (companies with a majority shareholding of the State Treasury).

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the Company for the 6-month period ended 30 June 2010 is presented in the table below.

	6-month period ended 30 June 2010 (*unaudited*)	Year ended 31 December 2009 (*unaudited*)
Board of Directors	**1 160**	**1 622**
Short-term employee benefits (salaries and surcharges)	983	1 261
Jubilee bonuses	–	40
Other	177	321
Supervisory Board	**145**	**279**
Short-term employee benefits (salaries and surcharges)	145	279
Jubilee bonuses	–	–
Other	–	–
Total	**1 305**	**1 901**
Other members of key management personnel	**2 987**	**4 205**
Short-term employee benefits (salaries and surcharges)	2 846	3 818
Jubilee bonuses	–	115
Other	141	272

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

25. Details of other significant changes in the reporting period

25.1 Administrative expenses

The increase in the administrative expenses in the first half of 2010 compared with the first half of 2009 results from the costs of introducing the Company's shares into public trading, amounting to PLN 17,128 thousand, and the costs of the Company's merger with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o., amounting to PLN 1,348 thousand.

25.2 Finance income

The increase of finance income in the 6-month period ended 30 June 2010 compared with the first half of 2009 is connected with dividend revenue of PLN 181,948 thousand.

26. Events after the balance sheet date

As at 30 June 2010, the price of the Company's shares on the Stock Exchange market was PLN 5.05 per share and was PLN 3.95 lower than their nominal value. At the date of these financial statements, the price of the shares is below the book value. However, the Company's management believe that this indicates that the market valuation of the shares is low and does not reflect their value in use rather than that the Group's assets are impaired.

Board of Directors of the Company

Katowice, 24 August 2010

Dariusz Lubera	– President	....
Dariusz Stolarczyk	– Vice-president	....
Stanisław Tokarski	– Vice-president	....
Krzysztof Zamasz	– Vice-president	....
Krzysztof Zawadzki	– Vice-president	....

MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP IN THE FIRST HALF OF 2010

Legal basis: § 90.1.3) of the Decree of the Minister of Finance of 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, with amendments).

AUGUST 2010

CONTENTS

1. ORGANISATION OF THE CAPITAL GROUP

1.1 Key information about the Capital Group

As at 30 June 2010, the Capital Group of TAURON Polska Energia S.A. (hereinafter referred to as the "TAURON Group") was composed of the parent company: TAURON Polska Energia S.A. (hereinafter referred to as the "Company"), 39 subsidiaries, 17 associates, and 39 other companies.

Major companies subject to consolidation were: Południowy Koncern Węglowy S.A. dealing with hard coal mining, Południowy Koncern Energetyczny S.A. and Elektrownia Stalowa Wola S.A. dealing with the generation of electricity using conventional sources and biomass combustion, TAURON EKOENERGIA Sp. z o.o. dealing with the generation of electricity using renewable sources, ENION S.A. and EnergiaPro S.A. providing electricity distribution services, Enion Energia Sp. z o.o. and EnergiaPro Gigawat Sp. z o.o. selling electricity to retail customers.

In addition, the TAURON Group included 7 other subsidiaries subject to consolidation which dealt with the generation of electricity and heat, electricity and heat trading, heat distribution, limestone mining and grinding, extraction of building stone, as well as the activities of financial holdings.

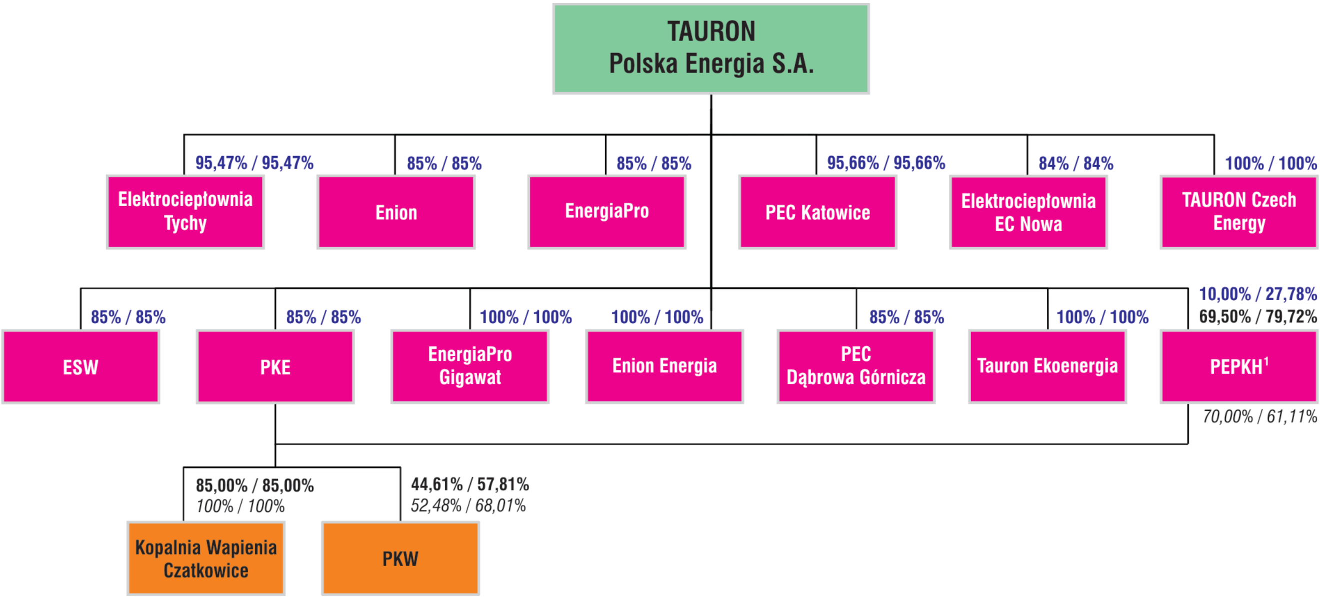
1.2 Entities subject to consolidation

The TAURON Group is made of the Company and fifteen subsidiaries whose financial statements are subject to full consolidation with the Company's financial statements as at 30 June 2010, including:

1) Południowy Koncern Energetyczny S.A. with its registered office in Katowice (hereinafter referred to as PKE),
2) Elektrownia Stalowa Wola S.A. with its registered office in Stalowa Wola (hereinafter referred to as ESW),
3) Południowy Koncern Węglowy S.A. with its registered office in Jaworzno (hereinafter referred to as PKW),
4) ENION S.A. with its registered office in Kraków (hereinafter referred to as Enion),
5) EnergiaPro S.A. with its registered office in Wrocław (hereinafter referred to as EnergiaPro),
6) Enion Energia Sp. z o.o. with its registered office in Kraków (hereinafter referred to as Enion Energia),
7) EnergiaPro Gigawat Sp. z o.o. with its registered office in Wrocław (hereinafter referred to as EnergiaPro Gigawat),
8) TAURON EKOENERGIA Sp. z o.o. with its registered office in Jelenia Góra (hereinafter referred to as Tauron Ekoenergia),
9) Polska Energia – Polska Kompania Handlowa Sp. z o.o. with its registered office in Katowice (hereinafter referred to as PEPKH),
10) Elektrociepłownia Tychy S.A. with its registered office in Tychy (hereinafter referred to as Elektrociepłownia Tychy),
11) Kopalnia Wapienia Czatkowice Sp. z o.o. with its registered office in Krzeszowice (hereinafter referred to as Kopalnia Wapienia Czatkowice),
12) Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. with its registered office in Katowice (hereinafter referred to as PEC Katowice),
13) Elektrociepłownia EC Nowa Sp. z o.o. with its registered office in Dąbrowa Górnicza (hereinafter referred to as Elektrociepłownia EC Nowa),
14) Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. with its registered office in Dąbrowa Górnicza (hereinafter referred to as PEC Dąbrowa Górnicza),
15) TAURON Czech Energy s.r.o. (hereinafter referred to as TAURON Czech Energy).

1.3 Structure of the TAURON Group

The following scheme presents the corporate structure of the TAURON Group as at 30 June 2010 and as at the date of this report, including the Company and its subsidiaries subject to consolidation.



Notes:

% share in the capital / % share in the decision-making authority

Blue figures mean the Company's direct share.

Bolded figures mean the Company's direct and indirect share.

Figures in italic mean PKE S.A.'s direct share.

[1] The Company holds 10% direct share in the capital of PEPKH and 27.78% direct share in the decision-making authority, PKE holds 70% share in the capital of PEPKH and 61.11% in the decision-making authority.

1.4 Consequences of changes in the business entity's structure

In the first half of 2010, the TAURON Group was subject to restructuring. On 10 June 2010, the parent company, TAURON Polska Energia S.A., merged with its subsidiaries: ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. As a result of the merger, the share capital of TAURON Polska Energia S.A. increased by PLN 318 665 300, and the aforementioned subsidiaries were deleted from the business register.

The shares of the new issue were taken over by shareholders of taken-over companies who were obligated to make cash contributions of PLN 547 100. The capital raise is described in details in Note 22 of the abridged consolidated financial statements for 6 months ended 30 June 2010.

Major assets taken over by TAURON Polska Energia S.A. included shares of companies so far owned by Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o.

As a result of the merger, TAURON Polska Energia S.A. took over shares in the following companies:

- Tauron Ekoenergia: PLN 419 315 000,
- EnergiaPro Gigawat: PLN 345 015 000,
- ENION Energia: PLN 692 550 000,
- PEPKH: PLN 6 886 000,
- Elektrociepłownia EC Nowa: PLN 92 087 000,
- Zespół Elektrowni Wodnych Rożnów Sp. z o.o.: PLN 931 000,
- Energetyka Cieplna w Kamiennej Górze Sp. z o.o.: PLN 6 959 000.

The following table presents the share of TAURON Polska Energia S.A. in the capital of taken-over subsidiaries and their authorities before the merger and as at 30 June 2010.

No	Name of a company	TAURON's share in the company's capital before the merger with ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.	TAURON's share in the company's authorities before the merger with ENION Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.	TAURON's share in the company's capital as at 30 June 2010	TAURON's share in the company's authorities as at 30 June 2010
1.	ENION Energia Sp. z o.o.	85.00%	85.00%	100.00%	100.00%
2.	EnergiaPro Gigawat Sp. z o.o.	85.00%	85.00%	100.00%	100.00%
3.	TAURON Ekoenergia Sp. z o.o.	85.00%	85.00%	100.00%	100.00%
4.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	68.00%	75.55%	69.50%	79.72%
5.	Elektrociepłownia EC Nowa Sp. z o.o.	77.72%	77.72%	84.00%	84.00%

In the interim condensed consolidated financial statements, the merger is recognised as the redemption of non-controlling shares and the consequences thereof are accounted for under equity in accordance with IAS 27.

1.5 Key information about the parent company, i.e. TAURON Polska Energia S.A.

Name: TAURON Polska Energia Spółka Akcyjna

Registered office and address: ul. Lwowska 23, 40-389 Katowice

Country: Poland

Telephone: +48 32 774 27 00

Fax: +48 32 774 27 99

VAT Number (NIP): 9542583988

Statistical identification (REGON): 240524697

Web site: www.tauron-pe.pl

The Company acts as a joint stock company on the basis of the Commercial Companies Code and other commonly applicable regulations of the Polish law.

The Company was established on 6 December 2006 as a joint stock company called Energetyka Południe Spółka Akcyjna as a result of the implementation of the document entitled "Programme for Electrical and Power Industry" adopted by the Government on 27 March 2006. The Company was entered into the business register kept by the District Court for Katowice in Katowice, 8th Commercial Division of the National Court Register, on 8 January 2007, under the number KRS 0000271562. The Company was established for an unlimited period. On 16 November 2007, the change of the Company's name to TAURON Polska Energia Spółka Akcyjna was recorded in the business register.

1.5.1 Composition of the Management Board and the Supervisory Board

As at 30 June 2010 and this report delivery date, the authorities of TAURON Polska Energia S.A. were composed of:

Management Board:

1. Dariusz Lubera, President of the Management Board, Chief Executive Officer
2. Dariusz Stolarczyk, Vice-President of the Management Board, Chief Communications & Management Officer
3. Stanisław Tokarski, Vice-President of the Management Board, Chief Strategy & Business Development Officer
4. Krzysztof Zamasz, Vice-President of the Management Board, Chief Commercial Officer
5. Krzysztof Zawadzki, Vice-President of the Management Board, Chief Financial Officer

Supervisory Board:

1. Antoni Tajduś, Chairman of the Supervisory Board
2. Agnieszka Trzaskalska, Deputy Chairwoman of the Supervisory Board
3. Witold Kurowski, Secretary of the Supervisory Board
4. Włodzimierz Luty, Member of the Supervisory Board
5. Tadeusz Stanisław Skrzypek, Member of the Supervisory Board
6. Marek Ściążko, Member of the Supervisory Board
7. Michał Michalewski, Member of the Supervisory Board.

1.5.2 Structure of the share capital

As at 30 June 2010, the Company's share capital amounted to PLN 14 304 948 858 and was divided into 1 589 438 762 shares of AA series of the par value of PLN 9.00 each. The paid-up share capital amounted to PLN 14 304 948 858. All shares representing the Company's share capital were ordinary bearer's shares. Pursuant to the Articles of Association, shares may not be converted into registered shares. Each share entitles to one vote at the General Shareholders Meeting of the Company.

The structure of the Company's share capital as at the report delivery date:

Series of shares	Number of shares	Par value of shares
Series AA	1 589 438 762	PLN 9.00

Events which contributed to the change of the share capital and the number of shares:

<u>Issue of shares connected with the merger of the Company with Enion Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.</u>

On 10 June 2010, the issue of Merger Shares was recorded in the business register and the Company's share capital was raised from PLN 13 986 283 558 by PLN 318 665 300, i.e. to PLN 14 304 948 858. The share capital was divided into 14 304 948 858 ordinary bearer's shares of the par value of PLN 1.00 each.

The above event resulted from the merger of the Company (taking-over entity) with Enion Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. (taken-over companies) through the transfer of all assets of Enion Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o. to the Company in exchange for merger shares of J and K series, which were taken over by the shareholders of Enion Zarządzanie Aktywami Sp. z o.o. and Energomix Servis Sp. z o.o.

Merger shares were consolidated after the registration of the merger by the registration court.

<u>Merger of shares</u>

Based on the resolution adopted by the Company's Shareholders at the General Meeting on 26 April 2010 on the merger of the Company's shares and amendments to the Company's Articles of Association, shares were merged by increasing the par value of a Company's Share from PLN 1.00 to PLN 9.00 and proportionally decreasing the total number of Shares in such a manner that each 9 Shares of PLN 1.00 were converted into 1 share of PLN 9.00. The shares were merged without raising the Company's share capital. As a result of the merger of shares, all the existing shares of A, B, C, D, E, F, G, H, I, J and K series were marked as the new AA series including 1 589 438 762 shares, which was recorded in the business register on 14 June 2010.

1.5.3 Shareholders holding, directly or indirectly through subsidiaries, at least 5% of total votes at the issuer's General Meeting

As at 1 June 2010, i.e. the prospectus publication date, the structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting was as follows:

Shareholders	Number of shares held	Percentage share in the share capital	Number of votes held	Percentage share in the total number of votes
State Treasury	12 228 207 715	87.43%	12 228 207 715	87.43%
Other shareholders	1 758 075 843	12.57%	1 758 075 843	12.57%

As at this report delivery date, the structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Shareholders Meeting was as follows:

Shareholders	Number of shares held	Percentage share in the share capital	Number of votes held	Percentage share in the total number of votes
State Treasury (notice of 4.08.2010)	574 917 160	36.17%	574 917 160	36.17%
KGHM Polska Miedź S.A. (notice of 2.07.2010)	81 822 499	5.15%	81 822 499	5.15%
Other shareholders	932 699 103	58.68%	932 699 103	58.68%

1.5.4 Issuer's shares or rights to shares held by managing and supervising persons

As at 1 June 2010, i.e. the prospectus publication date and this report delivery date, persons managing and supervising the Company held the following number of shares of TAURON Polska Energia S.A. or rights to the shares:

Managing persons:

Full name	Number of shares as at the prospectus publication date (shares with par value of PLN 1)	Change in the number of shares held (shares with par value of PLN 1)	Change in the number of shares held (shares with par value of PLN 9)	Number of shares as at the report publication date (shares with par value of PLN 9)
Dariusz Lubera	36 681	+14 091*	+934	6 576
Dariusz Stolarczyk	0	–	+935	935
Stanisław Tokarski	139 942	–	+935	16 485
Krzysztof Zamasz	0	–	+935	935
Krzysztof Zawadzki	111 454	–	+934	13 318

* Change in the number of shares held resulted from taking over the Company's shares in exchange for shares in Enion Zarządzanie Aktywami Sp. z o.o., after the merger described in 1.4.

Supervising persons:

Full name	Number of shares as at the prospectus publication date	Change in the number of shares held (shares with par value of PLN 9)	Number of shares as at the report publication date (shares with par value of PLN 9)
Witold Kurowski	0	+934	934
Włodzimierz Luty	0	+935	935
Michał Michalewski	0	+32 500	32 500

Other persons supervising the Company do not hold and have not held shares of the Company.

1.5.5 Activity

Core activity

Pursuant to Section 5 of the Articles of Association, the scope of the Company's business activities is broad and includes primarily in the activity of financial holdings, head offices and holdings, as well as trading in electricity. The Company may carry out its activities both in Poland and abroad.

Scope of business activity

TAURON Polska Energia S.A., as the parent company, performs a consolidating and managing function at the TAURON Group.

Apart from its management function, the Company's core activity comprises wholesale electricity trading in the territory of Poland. Such an activity is carried out on the basis of an electricity trading concession (OEE/508/18516/W/2/2008/MZn) issued by the President of the Energy Regulatory Office for the period from 1 June 2008 to 31 May 2018.

Electricity is traded to secure procurement and sales needs of TAURON Group companies, other customers of the Company, and for arbitration purposes. In addition, the Company takes an active part in intersystem energy transmission exchange auctions at the Polish and

Czech, as well as Polish and German borders, based on agreements concluded with transmission system operators, 50Hertz Transmission GmbH and Transpower stromübertragungs GmbH.

The Company also acts as a commercial and technical operator for TAURON Group companies and third party customers. Such services consisted mainly in commercial balancing based on the Transmission Agreement of 21 August 2008 with the Transmission System Operator, PSE Operator S.A.

Another activity was the management of certificates of origins confirming the generation of electricity using renewable and co-generation, both gas and coal, sources for the Company's customers, including TAURON Group companies. Such an activity consists in the active control of demand for certificates, the purchase, sale and redemption of the units.

The Company is also a competence centre in terms of CO_2 emission limits for TAURON Group companies and third party customers. To such an extent, the Company's activity is based on controlling customer demand for limits for installations subject to the EU ETS system, the active purchase and sale thereof, as well as advice on issues connected with the reduction of emission. To fulfil the above needs, the Company became a participant of the most liquid European CO_2 emission right trading platforms. The Company is a member to the Paris BlueNext exchange and has a direct access to the German EEX exchange, and the Scandinavian Nordpool exchange via the POEE platform. In addition, the Company counts on the diversification of sources in order to achieve the best possible market conditions and has signed agreements with several biggest CO_2 emission market players in Europe. In the first half of the year, the estimated total turnover earned for the Company by the Certificate of Origin and Emission Limit Management Bureau in the Energy Trading Department amounts to over a half million units in the SPOT and futures market. While, given the approaching third settlement period under EU ETS and planned right auctions on the single central platform or alternatively several smaller platforms, the Company is fully prepared to the planned solutions.

1.5.6 Headcount

In the first half of 2010, average headcount at TAURON Polska Energia S.A. was 225 persons.

2. ACTIVITY OF THE CAPITAL GROUP

2.1 Key operating areas

The TAURON Group is a vertical integrated power company with a leading position in the production, distribution and sale of electricity in Poland. It is one of the biggest distributors and sellers of electricity both in Poland and Central and Eastern Europe. The TAURON Group is also the second biggest power company in Poland in terms of the installed production power and net energy production outcome.

The TAURON Group operates in the following areas (segments):

– Mining Area, covering mainly the mining, concentration and sale of hard coal in Poland by PKW.

– Generation Area, covering mainly the generation of electricity and heat using conventional sources, as well as the generation of electricity and heat through the combustion of biomass, by PKE, Elektrociepłownia Tychy, ESW and Elektrociepłownia EC Nowa.

– RES Area, covering the generation of electricity using renewable sources (excluding the generation of electricity through the combustion of biomass coming within the Generation Area) by Tauron Ekoenergia and Enion Energia.

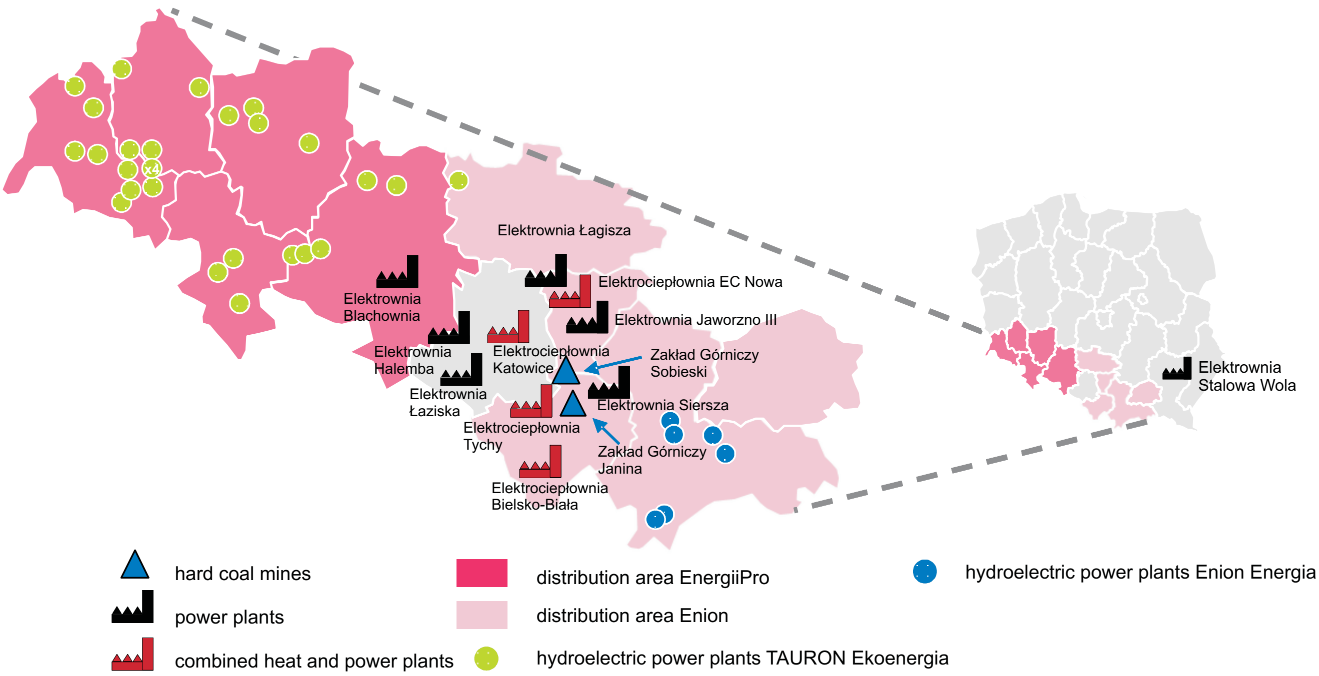
– Distribution Area, covering the distribution of electricity through distribution networks located in southern Poland by EnergiaPro and Enion.

– Trading Area, covering the sale of electricity to final customers and electricity wholesale, as well as the trading and management of CO_2 emission rights and property rights under certificates of origin by Enion Energia and EnergiaPro Gigawat, PEPKH, TAURON Czech Energy and TAURON Polska Energia S.A.

– "Other" Area, covering mainly the distribution and sale of heat, as well as other activities, by PEC Katowice, PEC Dąbrowa Górnicza and Kopalnia Wapienia Czatkowice.

The TAURON Group runs its activities and earns income mainly from the sale of hard coal, as well as the production, distribution and sale of electricity and heat.

The following map presents the location of key assets of the TAURON Group in its particular activity areas and areas where TAURON Group companies act as distribution system operators.



2.1.1 Mining Area

Introduction

Major activities carried out by the TAURON Group in the Mining Area are mining, concentrating and selling hard coal in Poland. Through PKW, the TAURON Group has an indirect access to, and manages, Zakład Górniczy Sobieski and Zakład Górniczy Janina. Pursuant to the Polish Classification of Deposits, as at 31 December 2009, those companies had 2 480 million balance tones of hard coal resources, i.e. around 20% of Polish balance hard coal resources.

In the first half of 2010 PKW produced 2.2 million tons of coal for sale, which was by approximately 10.7% less in comparison to the same period of 2009, when production of coal for sale amounted to 2.5 million tons.

TAURON Group's ownership rights to mines

Zakład Górniczy Sobieski and Zakład Górniczy Janina are owned by PKW, i.e. the subsidiary of PKE, where TAURON Polska Energia S.A. holds 85% of shares. PKE owns 52.48% of shares in the share capital of PKW, authorising PKE to 68.01% of votes at PKW. The remaining 47.52% of shares authorising to 31.99% of votes are held by Kompania Węglowa S.A., the State Treasury's company.

2.1.2 Generation Area

Introduction

The core activity in the Generation Area of the TAURON Group covers the generation of electricity and heat in 11 power plants and combined heat and power plants (installations generating electricity and usable heat at the same time) fed with hard coal and biomass. As at the end of June 2010, the total feasible power of production units in the Generation Area was 5 448 MW of electricity (it did not change in comparison to 2009 and constituted 15.3% of the Polish production potential), and 3 200 MWt of heat. In 2009, the production units of the Generation Area generated 18.2 TWh of electricity net and the TAURON Group's share in the net electricity production in Poland constituted 13.3% in 2009. In the same period, companies operating in the Generation Area of the TAURON Group produced 20.5 TWh of electricity and in 2009 the TAURON Group had 14% share in the gross generation of electricity in Poland. In 2009, the production units of the Generation Area generated 15.7 GJ of heat gross. In the first half of 2010, companies operating in the Generation Area generated around 10 TWh of net electricity in total, i.e. around 16% more than in the same period of 2009, when the net generation of electricity was 8.6 TWh. The production of heat in the first half of 2010 was 9.9 PJ and was by 8.8% bigger than in the first half of 2009 (9.1 PJ).

TAURON Group's ownership rights to production assets

PKE, the subsidiary of TAURON Polska Energia S.A. (85% share), owns six power plants of the TAURON Group, i.e. Jaworzno III, Łaziska, Łagisza, Siersza, Halemba and Blachownia, as well as two combined heat and power plants, i.e. Katowice and Bielsko-Biała.

The power plants in Stalowa Wola are owned by the subsidiary of TAURON Polska Energia S.A., Elektrownia Stalowa Wola S.A., where the Company holds 85% share.

The combined heat and power plant in Tychy is owned by the subsidiary of TAURON Polska Energia S.A., Elektrociepłownia Tychy S.A., where the Company holds 95.47% share.

The combined heat and power plant EC Nowa is owned by the subsidiary of TAURON Polska Energia S.A., Elektrociepłownia EC Nowa Sp. z o.o., where the Company directly holds 84% share.

2.1.3 RES Area

Introduction

The core activity carried out by the TAURON Group in the RES Area is the generation of electricity using renewable energy sources in hydroelectric power plants, and the management of the TAURON Group's projects relating to the production of energy from other renewable energy sources. In the RES Area, there are 35 hydroelectric power plants of the feasible capacity of 131.2 MW, i.e. 2.4% of total feasible capacity of the TAURON Group in the first half of 2010. In 2009, hydroelectric power plants of the TAURON Group produced 0.4 TWh of electricity net, while in the first half of 2010 they produced 0.2 TWh, thus outcome was maintained at the level similar to the one achieved in the first half of 2009.

Ownership rights to production assets in the RES Area

Out of 35 hydroelectrical power plants of the TAURON Group, 29 are owned by Tauron Ekoenergia, the 100% subsidiary of TAURON Polska Energia S.A. Other 6 hydroelectric power plants are managed by ZEW Rożnów and owned by Enion Energia, the 100% subsidiary of TAURON Polska Energia S.A.

2.1.4 Distribution Area

Introduction

The TAURON Group is one of the biggest electricity distributors in Poland, both in terms of the volume of electricity supplied, as well as income from distribution. The Distribution Area operates distribution networks of a large scope, located in the southern part of Poland. "Distribution" means the transport of electricity via the distribution networks to final recipients. Distribution activities of the TAURON Group are carried out by two companies: Enion and EnergiaPro. Both Enion and EnergiaPro operate five branches, but Enion runs its activity through branches in Bielsko-Biała, Będzin, Częstochowa, Kraków and Tarnów, and EnergiaPro through branches in Jelenia Góra, Wrocław, Legnica, Opole and Wałbrzych. On 31 December 2008, the URE President appointed Enion and EnergiaPro as distribution system operators in the area of the concession granted to those entities till 31 December 2025.

In the first half of 2010, the Distribution Area of the TAURON Group supplied 16.4 TWh of electricity to final recipients in total, including 9.1 TWh supplied by Enion and 7.3 TWh by EnergiaPro. In the first half of 2010, the Distribution Area provided distribution services to 4.1 million recipients. In the same period of a previous year, the Distribution Area supplied 15.3 TWh of electricity to around 4 million recipients, including 8.4 TWh by Enion and 6.9 TWh by EnergiaPro.

Ownership rights to distribution assets in the Distribution Area

At present, the TAURON Group's distribution activities are carried out by the subsidiaries of TAURON Polska Energia S.A.: Enion and EnergiaPro, where the Company owns 85% of the share capital.

2.1.5 Trading Area

Introduction

The Trading Area covers sale and wholesale trading. Selling activities comprise the sale of electricity to final and key customers. While wholesale trading includes mainly the wholesale of electricity, as well as the trading and management of CO_2 emission rights and property rights arising from certificates of origin.

In the first half of 2010, the companies of the Trading Area sold around 16.9 TWh of electricity in total to over 4 million final customers, including both households and enterprises, i.e. by 9% more than in the same period of 2009, when sales amounted to around 15.5 TWh. The share of the TAURON Group in the total electricity sales in Poland, based on data available to the Company, i.e. data from the Energy Market Agency (ARE) constituted 27.1% in 2009. In the Company's opinion, in the first half of 2010, its market share was at a similar level.

Ownership rights to assets in the Trading Area

Electricity is sold by Enion Energia and EnergiaPro Gigawat, 100% subsidiaries of TAURON Polska Energia S.A. Electricity is also sold, but only to key customers, directly by the Trading Division of TAURON Polska Energia S.A. Wholesale trading activities are conducted only by the Trading Division of the Company and PEPKH, the subsidiary of TAURON Polska Energia S.A., where it directly holds 10% share. 70% share is owned by PKE and the Company uses these shares on the basis of the binding agreement establishing a right to use the shares. TAURON Czech Energy with its registered office in the Czech Republic deals with electricity trading. TAURON Polska Energia S.A. directly holds 100% of the share capital of the Czech company.

2.1.6 "Other" Area

Introduction

The "Other" Area covers mainly activities consisting in the distribution and sale of heat, as well as other activities. Heat is mainly distributed and sold by PEC Katowice and PEC Dąbrowa Górnicza, which also produce heat in their own heat stations. As at 30 June 2010, the total feasible capacity of production assets of PEC Katowice was 21 MWt, and PEC Dąbrowa Górnicza 174 MWt, and constituted around 5.7% of the feasible heat capacity of the TAURON Group. In the first half of 2010, PEC Katowice and PEC Dąbrowa Górnicza produced respectively 0.1 PJ and 0.5 PJ, comparing to 0.08 PJ and 0.45 PJ in the first half of 2009.

Ownership rights to assets in the "Other" Area

The TAURON Group owns shares in the following companies:

a) PEC Katowice, where the Company owns 95.7% share, which is the major supplier of heat in Chorzów, Katowice, Mysłowice, Siemianowice Śląskie and Świętochłowice;

b) PEC Dąbrowa Górnicza, where the Company owns 85% share, which is the main heat supplier in Sosnowiec, Dąbrowa Górnicza, Będzin, Czeladź, Zawiercie and Olkusz;

c) Kopalnia Wapienia Czatkowice, where PKE owns 100% share, which mines and treats calcareous rocks and produces sorbents to fumes desulphuring installations.

2.2 Financial figures

2.2.1 Structure of sales by activity area

The following table presents the volumes and structure of sales of the TAURON Group by particular activity area (segment) in the first half of 2010 and 2009

Specification	Measurement unit	1st half of 2010	1st half of 2009
Coal mining (sale)	million Mg	2.24	2.30
Generation of electricity and heat using conventional sources (sale of electricity and heat)	TWh PJ	10.4 9.3	9.7 8.6
Generation of electricity using renewable sources (sale of electricity)	TWh	0.24	0.24
Sale of electricity and other products of the power market (retail sale)	TWh	16.9	15.5
Distribution of electricity (sale of electricity distribution services)	TWh	18.8	18.0
Other (sale of heat)	PJ	5.9	5.4

Coal mining

In the first half of 2010, the sales of coal covered 2.24 million tons, i.e. by 2.6% less than in the same period of 2009. The major reasons for the smaller volume of sales were production restrictions connected with temporary difficulties with underground works and coal transport caused by geological conditions that were less favourable than planned.

Generation of electricity and heat using conventional sources

The volume of electricity sold by the TAURON Group increased by 0.74 TWh, i.e. 7.7%, from 9.66 TWh in the first half of 2009 to 10.40 TWh in the first half of 2010, which was mainly connected with the growth of electricity sales contracted by companies selling electricity.

Generation of electricity using renewable sources

In the first half of 2010, the volume of electricity produced and sold by companies representing the RES Area of the TAURON Group was similar to the same period of the previous year.

Distribution of electricity

The volume of electricity supplied to recipients by companies from the Distribution Area of the TAURON Group grew by 0.8 TWh, i.e. 4.4%, from 17.96 TWh in the first half of 2009 to 18.76 TWh in the first half of 2010, which was connected with the improvement of economic situation observable in 2010 in comparison to the economic slowdown of 2009, particularly in the first months of 2009. Economic boom contributed to the growth of industrial production in large production places and small and medium-sized enterprises, which further translated into the growth of demand for electricity.

Sale of electricity and other products of the power market

The volume of electricity sold to recipients by the TAURON Group grew by 1.39 TWh, i.e. 9%, from 15.46 TWh in the first half of 2009 to 16.85 TWh in the first half of 2010.

Individual tariff groups recorded the following growth:

- Group A by 0.56 TWh, i.e. 16.4%, from 3.41 TWh in the first half of 2009 to 3.96 TWh in the first half of 2010,
- Groups C, D, R in total by 0.12 TWh, i.e. 4,7%, respectively from 2.55 TWh to 2.67 TWh,
- Group G by 0.24 TWh, i.e. 6,2%, respectively from 3.86 TWh to 4.10 TWh,
- other recipients by 0.47 TWh, i.e. 33.5%, respectively from 1.41 TWh to 1.88 TWh,
- no changes were recorded in Group B.

Reasons for the growth of sale are similar like in the Distribution Area and result from economic book contributing to increased demand for electricity.

Income from other activities

The volume of heat bought and sold by the TAURON Group increased by 0.53 PJ, i.e. 9.8%, from 5.36 PJ in the first half of 2009 to 5.88 PJ in the first half of 2010.

The sales of heat produced by the Group increased by 0.06 PJ, i.e. 11.6%, from 0.48 PJ in the first half of 2009 to 0.54 PJ in the first half of 2010.

Such a favourable rate of growth is connected with good weather conditions, which contributed to bigger demand for heat in 2010 than in the same period of 2009. Average temperatures were smaller than in 2009 and maintained longer, which caused that the heating season ended later.

2.2.2 Financial standing of the TAURON Group in the first half of 2010

A. Consolidated statement of comprehensive income

The following table presents selected items of the consolidated statement of comprehensive income of the TAURON Group for a half of the year ended 30 June 2010 and comparable figures for a half of the year ended 30 June 2009. These items come from the consolidated financial statements for the first half of 2010 and the first half of 2009.

Specification	1st half of 2010		1st half of 2009	
	PLN '000	% of total sales	PLN '000	% of total sales
Continued activity				
Sales of goods, products and materials, including excise	5 181 501	71.4%	4 941 311	72.9%
Excise tax	209 694	2.9%	198 232	2.9%
Sales of goods, products and materials	4 971 807	68.5%	4 743 079	70.0%
Sales of services	2 274 962	31.3%	2 024 306	29.9%
Other sales	13 520	0.2%	11 902	0.2%
Sales	**7 260 289**	**100.0%**	**6 779 287**	**100.0%**
Own cost to sell	5 996 628	82.6%	5 686 080	83.9%
Gross profit (loss) from sale	**1 263 661**	**17.4%**	**1 093 207**	**16.1%**
Other operating income	52 643	0.7%	55 152	0.8%
Cost to sell	109 214	1.5%	91 352	1.3%
Overheads	340 620	4.7%	294 260	4.3%
Other operating expenses	83 719	1.2%	50 944	0.8%
Operating profit (loss)	**782 751**	**10.8%**	**711 803**	**10.5%**
Financial income	43 783	0.6%	57 672	0.9%
Financial cost	105 076	1.4%	94 561	1.4%
Profit (loss) before tax	**721 458**	**9.9%**	**674 914**	**10.0%**
Income tax	148 497	7.0%	147 679	2.2%
Profit (loss) after tax for the financial year	**572 961**	**7.9%**	**527 235**	**7.8%**

In the first half of 2010, the TAURON Group recorded the total sales of PLN 7 260.3 million in comparison to PLN 6 779.3 million in the first half of 2009, which means the growth by around 7.1%. The biggest growth of income was recorded in the case of the sales of services, which grew by PLN 250.1 million, i.e. 12.4%, and the sales of goods and products, which grew by PLN 228.7 million, i.e. 4.8%. Key reasons for the growth:

– the growth of the volume of sales of electricity to final recipients,
– the growth of income from electricity distribution,
– the growth of heat sales.

Own cost to sell, in the first half of 2010, amounted to PLN 5 996.6 million, i.e. by around 5.5% more than in the first half of 2009. The growth of own cost to sell was caused by:

– employee benefit costs higher by PLN 89.4 million as a result of the growth of wages and salaries, as well as employee benefits,
– material and power consumption costs higher by PLN 66.8 million, and
– depreciation higher by PLN 39.5 million.

Own cost to sell was also influenced by the drop of taxes and fees by PLN 22.2 million.

Gross profit from sale in the first half of 2010 was PLN 1 263.7 million in comparison to PLN 1 093.2 million in the first half of 2009, which means that it grew by approximately 15.6%.

In the first half of 2010, total cost to sell of the TAURON Group amounted to PLN 109.2 million, i.e. by 19.6% more than in the first half of 2009. The growth of cost to sell was mainly caused by bigger costs borne by Sales Area companies in relation to property right amortisation.

In the first half of 2010, overheads, including (non-production) asset depreciation costs, material and power consumption costs, as well as wages and salaries and employee benefits to the extent they are used to perform management and administration functions, amounted to PLN 340.6 million, i.e. by around 15.8% more than in the first half of 2009.

Other operating income of the TAURON Group in the first half of 2010 amounted to PLN 52.6 million, i.e. by approximately 4.5% less in comparison to PLN 55.2 million in the first half of 2009. Other operating income decreased mainly as a result of smaller released provisions and impairments.

The growth of other operating expenses by PLN 32.8 million PLN in the first half of 2010 in comparison to the first half of 2009 resulted mainly from bigger provisions and impairments recognised in the balance sheet.

Operating profit in the first half of 2010 amounted to PLN 782.8 million in comparison to PLN 711,8 million in the first half of 2009, i.e. by 10.0% more.

In the first half of 2010, financial income of the TAURON Group amounted to PLN 43.8 million, i.e. by around 24.1% less in comparison to PLN 57.7 million in the first half of 2009. Financial income dropped mainly as a result of the revaluation of investments and the reduction of profit from divestments. The drop was partially compensated with bigger income from interest (by PLN 9.5 million).

The growth of financial expenses by PLN 10.5 million (11.1%) in the first half of 2010, in comparison to the first half of 2009, mainly resulted from the growth of interest paid.

In the first half of 2010, the profit before tax of the TAURON Group amounted to PLN 721.5 million in comparison to PLN 674.9 million in the first half of 2009 (the growth by around 6.9%).

As a result of the above effects, profit after tax of the first half of 2010 amounted to PLN 573.0 million in comparison to PLN 527.2 million in the first half of 2009, i.e. the growth by around 8.7%. The TAURON Group's mark-up on the net profit (net profit in relation to total sales) grew slightly to 7.9% from 7.8% in the first half of 2009.

As presented in the consolidated statement of comprehensive income, the total income of the TAURON Group, including net profit increased or reduced by movements in hedging instruments and other income, including tax, amounted to PLN 566.6 million in the first half of 2010 in comparison to PLN 544.9 million in the first half of 2009, which means the growth by around PLN 21.7 million PLN (4%).

Financial figures by activity area

The following table presents the TAURON Group's financial results by activity area (segment) in the first half of 2010 and 2009.

Figures for particular areas do not include consolidation eliminations.

Specification (PLN '000)	1st half of 2010	1st half of 2009
Coal mining		
Sales	519 952	556 607
Operating profit	4 885	113 173
Depreciation and deductions to non-financial assets	55 563	54 191
EBITDA	60 448	167 364
Generation of electricity and heat using conventional sources		
Sales	2 711 998	2 522 452
Operating profit	361 171	352 043
Depreciation and deductions to non-financial assets	271 432	232 435
EBITDA	632 603	584 478
Generation of electricity using renewable sources		
Sales	76 607	68 802
Operating profit	42 570	36 566
Depreciation and deductions to non-financial assets	10 153	10 396
EBITDA	52 723	46 962
Distribution of electricity		
Sales	2 228 950	2 029 423
Operating profit	227 500	9 772
Depreciation and deductions to non-financial assets	321 678	321 449
EBITDA	549 178	331 221
Sale of energy and other products of the power market		
Sales	5 840 053	5 932 375
Operating profit	112 102	219 523
Depreciation and deductions to non-financial assets	3 540	2 265
EBITDA	115 642	221 788

Specification (PLN '000)	1st half of 2010	1st half of 2009
Other		
Sales	316 321	269 284
Operating profit	17 573	-1 052
Depreciation and deductions to non-financial assets	24 802	28 146
EBITDA	42 375	27 094
Non-allocated items and exclusions		
Sales	-4 433 592	-4 599 656
Operating profit	16 950	-18 222
Depreciation and deductions to non-financial assets	0	0
EBITDA	16 950	-18 222
Total EBITDA	**1 469 919**	**1 360 685**

Coal mining

In the first half of 2010, total sales of the Mining Segment amounted to PLN 520.0 million, i.e. around 6.6% less than in the first half of 2009.

The segment's EBIT in the first half of 2010 was PLN 4.9 million, and EBITDA was PLN 60.4 million. In the same period of the previous year, EBIT was PLN 113.2 million, while EBITDA was PLN 167.4 million. The drop of EBIT in the mining segment by around 95.7% in the first half of 2010 in comparison to the first half of 2009 resulted mainly from smaller sales caused by reduced coal mining because of more difficult geological conditions.

Generation of electricity and heat using conventional sources

In the first half of 2010, total sales in the Generation Area amounted to PLN 2 712.0 million, i.e. by around 7.5% more than in the first half of 2009.

EBIT of the segment in the first half of 2010 was PLN 361.2 million, and EBITDA was PLN 632.6 million. In the same period of the previous year, EBIT was PLN 352.0 million, and EBITDA was PLN 584.5 million. The growth of EBIT in the first half of 2010 by approximately 2.6% in comparison to the first half of 2009 mainly resulted from the growth of the volume of electricity sales. While, a smaller average selling price of electricity and bigger costs of production fuel had an adverse impact on EBIT.

Generation of electricity using renewable sources

In the first half of 2010, total sales in the RES segment amounted to PLN 76.6 million, i.e. by around 11.3% more than in the first half of 2009.

EBIT of the segment in the first half of 2010 was PLN 42.6 million, and EBITDA was PLN 52.7 million. In the same period of the previous year, EBIT was PLN 36.6 million, and EBITDA was PLN 47.0 million. The growth of EBIT in the first half of 2010 by 16.4% in comparison to the first half of 2009 was mainly caused by bigger average selling prices of electricity and property rights arising from certificates of electricity origin.

Distribution of electricity

In the first half of 2010, total sales of the Distribution Area amounted to PLN 2 229.0 million PLN, i.e. by around 9.8% more than in the first half of 2009.

EBIT of the segment in the first half of 2010 was PLN 227.5 million, and EBITDA was PLN 549.2 million. In the same period of the previous year, EBIT was PLN 9.8 million, and EBITDA was PLN 331.2 million. The growth of EBIT by over 20 times in the first half of 2010 in comparison to the first half of 2009 was mainly caused by bigger sales at bigger average distribution service rates and the reduction of cost to buy energy to cover a balance difference and fixed costs.

Sale of energy and other products of the power market

In the first half of 2010, total sales of the Trading Segment amounted to PLN 5 840.1 million, i.e. around 1.6% less than in the first half of 2009.

EBIT of the segment in the first half of 2010 was PLN 112.1 million PLN, and EBITDA was PLN 115.6 million. In the same period of the previous year, EBIT was PLN 219.5 million, and EBITDA was PLN 221.8 million. The drop of EBIT by around 48.9% in the first half of 2010 in comparison to the first half of 2009 was mainly caused by bigger costs connected with the obligatory amortisation of property rights (energy certificates of origin) given the drop in average prices of energy selling to final recipients.

Income from other activities

In the first half of 2010, total sales in the "Other" Area amounted to PLN 316.3 million, i.e. around 17.5% more than in the first half of 2009.

EBIT of the segment in the first half of 2010 was PLN 17.6 million, and EBITDA was PLN 42.4 million. In the same period of the previous year, EBIT was PLN -1.1 million, and EBITDA was PLN 27.1 million. The growth of EBIT in the first half of 2010, in comparison to the first half of 2009, mainly resulted from bigger sales given the substantial growth of demand for heat because of long and frosty winter.

B. Assets

Consolidated statement on financial standing

Consolidated statement on financial standing (PLN '000)	As at 30.06.2010	As at 31.12.2009
ASSETS		
Fixed assets		
Tangible fixed assets	17 123 302	17 260 573
Intangibles	660 828	824 751
Other long-term financial assets	208 162	179 746
Other long-term non-financial assets	123 597	58 547
Deferred income assets	126 835	152 221
Total fixed assets	**18 242 724**	**18 475 838**
Current assets		
Inventories	439 363	536 201
Income tax receivables	43 485	52 926
Trade and other receivables	2 008 653	1 874 996
Other short-term financial assets	42 320	18 753
Other short-term non-financial assets	185 158	158 725
Cash and cash equivalents	1 049 221	1 032 103
Total current assets	**3 768 200**	**3 673 704**
Fixed assets held for sale	5 778	5 951
TOTAL ASSETS	**22 016 702**	**22 155 493**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the parent company		
Share capital	14 304 949	13 986 284
Supplementary capital	240 209	64 050
Revaluation reserve on valuation of hedging instruments	-6 195	-766
Retained earnings / Accumulated loss	-2 031 013	-2 191 002
Non-controlling interests	**2 289 945**	**2 375 100**
Total equity	**14 797 895**	**14 233 666**
Long-term payables		
Loans, borrowings and debt securities	989 098	1 179 406
Finance lease and hire purchase commitments	75 115	88 291
Long-term provisions and employee benefits	993 588	978 807
Long-term accruals and government grants	610 845	624 567
Trade and other financial long-term payables	8 041	5 683
Deferred income tax provision	1 183 700	1 150 695
Total long-term payables	**3 860 387**	**4 027 449**
Current payables		
Trade and other payables	1 127 523	1 490 726
Current part of loans, borrowings and debt securities	534 404	596 315
Current part of finance lease and hire purchase commitments	31 777	35 377
Other current payables	639 528	556 669
Accruals and government grants	238 590	210 267
Income tax payables	68 663	67 034
Current provisions and employee benefits	717 935	937 990
Total current payables	**3 358 420**	**3 894 378**
Total payables	**7 218 807**	**7 921 827**
TOTAL EQUITY AND LIABILITIES	**22 016 702**	**22 155 493**

As at 30 June 2010 and 31 December 2009, fixed assets of the TAURON Group amounted respectively to PLN 18 242.7 million and PLN 18 475.8 million and constituted approximately 83% of total assets.

Current assets of the TAURON Group, as at 30 June 2010 and 31 December 2009, were at a relatively similar level and amounted respectively to PLN 3 768.2 million and PLN 3 673.7 million.

As at 30 June 2010 and 31 December 2009, the total equity of the TAURON Group amounted respectively to PLN 14 797.9 million and PLN 14 233.7 million, i.e. constituting respectively 67.2% and 64.2% of total equity and liabilities. The minority shareholders' capital (non-controlling interests), as at 30 June 2010 and 31 December 2009, amounted respectively to PLN 2 289.9 million and PLN 2 375.1 million. The growth of total equity was caused mainly by the net profit of PLN 573.0 million earned in the first half of 2010.

Movements in long-term payables and provisions in six months ended 30 June 2010 mainly resulted from the drop in debt due to bank loans, borrowings and debt securities by PLN 190.3 million as an effect of its reclassification to the current part.

Current payables and provisions dropped from PLN 3 894.4 million as at 31 December 2009 to PLN 3 358.4 million as at 30 June 2010 mainly because of the drop in trade payables and provisions by PLN 583.3 million in total (for example because of the use of provisions connected with the obligatory amortisation of certificates by the Sales Area companies). As at 30 June 2010, current bank loans, borrowings and debt securities amounted to PLN 534.4 million, and the drop by PLN 61.9 million in comparison to 31 December 2009 takes into account the reclassification of payables from the long-term part.

C. Cash flows

Consolidated cash flow statement

The following table presents cash flows of the TAURON Group in the half of years ended 30 June 2010 and 2009.

Specification (PLN '000)	1st half of 2010	1st half of 2009
Cash flows from operating activities		
Profit (loss) before tax	721 458	674 914
Adjustments for:		
Depreciation	688 528	649 092
Foreign currency translation gains/loss	2 777	6 240
Interest and dividends, net	56 409	45 033
Profit/loss on investing activities	1 252	-64 541
Increase/decrease in receivables	-126 694	-27 760
Increase/decrease in inventories	96 263	-102 324
Increase/decrease in payables, excluding loans and borrowings	-172 297	-98 964
Movement in other non-current and current assets	116 206	-112 056
Movement in deferred income, government grants and accruals	-3 407	49 512
Movement in provisions	-211 938	-193 384
Income tax paid	-77 688	-21 455
Share-based payment expenses	0	921
Other	18	-174
Net cash from operating activities	**1 090 887**	**805 054**
Cash flows from investing activities		
Sale of tangible fixed assets and intangibles	3 147	5 807
Purchase of tangible fixed assets and intangibles	-690 511	-725 114
Sale of other financial assets	7 820	73 732
Purchase of other financial assets	-50 156	-17 672
Purchase of investments in subsidiaries, associates and joint ventures	0	0
Purchase of subsidiary, net of cash acquired	0	0
Dividends received	2 198	2 892
Interest received	162	438
Repayment of loans granted	30	1 000
Loans granted	-9 000	0
Other	2 972	6 774
Net cash from investing activities	**-733 338**	**-652 143**
Cash flows from financing activities		
Purchase of own shares	0	0
Repayment of financial lease payables	-18 568	-12 736

Specification (PLN '000)	1st half of 2010	1st half of 2009
Proceeds from loans/borrowings taken	59 531	115 485
Repayment of loans/borrowings	-233 080	-167 002
Issue of debt securities	0	44 000
Redemption of debt securities	-41 308	0
Dividends paid to shareholders of the parent company	0	0
Dividends paid to non-controlling shareholders	-2 287	-6
Other disbursement to shareholders	0	0
Interest paid	-55 110	-40 118
Other	-3 429	-468
Net cash from financing activities	**-294 251**	**-60 845**
Net increase/(decrease) in cash and cash equivalents	**63 298**	**92 066**
Net foreign currency translation gains/loss	57	327
Cash as at the period beginning	**972 655**	**906 944**
Cash as at the period end, including	**1 035 953**	**999 010**
– restricted cash	27 374	3 488

Total net cash flows from operating activities for the first half of the year ended 30 June 2010 amounted to PLN 1 090.9 million in comparison to PLN 805.1 million in the first half of the year ended 30 June 2009.

The growth of cash flows from operating activities in the first half of 2010, comparing to the first half of 2009, was mainly caused by bigger profit before tax (growth by PLN 46.5 million), bigger depreciation (by PLN 65.8 million), the drop in inventories, which had a positive impact on cash flows (contrary to the first half of 2009, when the growth of inventories reduced cash from operating activities), and movements in other assets (growth by PLN 228.3 million). In addition, in the first half of 2010, net cash from operating activities was influenced by movements in receivables (by PLN 98.9 million), movements in payables, excluding loans and borrowings, (by PLN 73.3 million); movements in prepayments and accruals (drop by PLN 52.9 million PLN), and income tax paid (drop by PLN 56.2 million).

Negative net cash flows from investing activity in the first half of 2010 ended 30 June 2010 amounted to PLN 733.3 million. Comparing to the first half of 2009 ended 30 June 2009, investment expenses increased by approximately 12.5%.

Cash flows from investing activities were mainly influenced by the purchase of tangible fixed assets and intangibles of PLN 690.5 million.

Negative net cash flows from financing activities in the first half of 2010 ended 30 June 2010 amounted to PLN 294.3 million in comparison to PLN 60.8 million in the first half of 2009 ended 30 June 2009. The growth of net expenses relating to financing activities in the first half of 2010, comparing to the first half of 2009, was mainly caused by the bigger negative balance of inflows from/repayments of loans and borrowings of PLN 173.5 million in the first half of 2010, comparing to the negative balance of inflows/repayments of PLN 51.5 million in the first half of 2009. At the same time, the TAURON Group bore interest expenses bigger by PLN 15.0 million than in the first half of 2009.

D. Ratio analysis

Ratios	Definition	1st half of 2010	1st half of 2009
PROFITABILITY			
EBIT mark-up	Operating profit (loss)/Sales	10.8%	10.5%
EBITDA mark-up	EBITDA/Sales	20.2%	20.1%
Net profitability	Net profit (loss)/Sales	7.9%	7.8%
Return on equity (ROE)	Net profit (loss)/Equity	3.9%	3.8%
LIQUIDITY			
Current liquidity	Current assets/current payables	1.12	0.99
DEBT			
Total indebtedness	Total payables/Total equity and liabilities	0.33	0.35
Net debt/EBITDA	(Average financial payables – average cash)/EBITDA	0.52	0.92
OTHER RATIOS			
Earnings per share (EPS)	Net profit (loss)/Number of ordinary shares	0.31	0.27
Price to Book Value (PBV)	Price of share/Book value per share	0.56	–

The profitability of the TAURON Group for the first half of 2010, in comparison to the same period of 2009, was slightly higher. Both operating profitability, as well as net sales profitability and return on equity were comparable in the analysed periods given the 7% growth of the Group's sales.

As regards the core activity of the TAURON Group In the first half of 2010, each PLN 1 million of sales generated around PLN 0.1 million of operating profit. However, after correction by costs not generating negative cash flows, the profit amounted to around PLN 0.2 million from each PLN 1 million of sales. The TAURON Group generated the return of PLN 39 000 on each PLN 1 million invested by its shareholders.

The TAURON Group's liquidity and indebtedness improved in the first half of 2010 in comparison to the first half of 2009. A current liquidity ratio was 1.12 given 0.99 in the previous half of the year, which resulted from the smaller growth of current payables in relation to the growth of current assets (without accruals) in the comparable periods. In the first half of 2010, the TAURON Group was fully capable of covering its current payables in cash and liquid current assets.

The total indebtedness ratio and the Net debt/EBITDA ratio show that the role of payables in financing the TAURON Group has been decreasing. AT the same time, this means that the capacity of the TAURON Group to acquire third party finance in order to carry out its planned investments improved.

Earnings per share, including the half-year profit of the TAURON Group, are slightly different in the first half of 2010 than in the same period of 2009. The ratio respectively of 0.31 and 0.27 was achieved given the half-year net profit respectively of PLN 0.57 million and PLN 0.53 million.

2.3 Employment at the TAURON Group

The average headcount of the TAURON Group in the first half of 2010 was 28 737 in total. While, headcount broken into by particular activity area was as follows:

a) Mining Area 6 109 persons,

b) Generation Area 6 451 persons,

c) RES Area 235 persons,

d) Distribution Area 12 738 persons,

e) Trading Area 1 484 persons,

f) "Other" Area 1 720 persons.

3. DESCRIPTION OF KEY THREATS AND RISKS FOR THE TAURON GROUP

Taking into account comprehensive risk management, the Management Board of TAURON Polska Energia S.A. adopted the Corporate Risk Management Policy of the TAURON Group with the Map of Risks. The Comprehensive Risk Management System supports the achievement of the TAURON Group's goals and enables to efficiently respond to challenges faced by the TAURON Group.

The Risk Management System of TAURON Polska Energia S.A. covers all material risks relating to activities run by the TAURON Group. Risks apply to all elements of the chain of values earned by the TAURON Group. The Comprehensive Risk Management System covers TAURON Polska Energia S.A. and its subsidiaries. Risk management is attended by all employees of the above companies.

The sequence which particular risks are presented at does reflect neither the probability of their existence, nor their scope and materiality.

1. ***Macroeconomic risk:*** the macroeconomic situation of Poland, the European Union and the global economy has a significant impact on the activity and situation of the TAURON Group. Macroeconomic risks are mainly connected with the level of Polish GDP, inflation rate, foreign exchange rates, interest rates, the State's fiscal and monetary policies. Changes in the general economic situation may influence the activity (in particular the production of electricity and heat and the volume of sales), financial results, and market position of the TAURON Group.
2. ***Unstable legal system risk:*** this risk relates to changes in law and regulations of Poland and the European Union that the TAURON Group is subject to. Changes in regulations of the power sector may result in necessary substantial and unexpected costs, and even the loss of concessions to the extent required to run the activity of the TAURON Group. In addition, environmental regulations become more and more rigorous and the adjustment to such changes may be connected with further substantial costs. While any failure to fulfil environmental requirements may contribute to the periodical suspension or termination of activities.
3. ***Risk of incompliance with URE/UOKIK/IRIESD requirements:*** material risk that the Power Regulatory Office (URE) decides that the Distribution System Operator (DSO) is not independent or does not treat market entities equally. URE may order to make specific changes. It may impose penalties on the TAURON Group by virtue of the very Power Law. This risk is not connected with the determination of tariffs. In the field of the competition and consumer protection law, there is a risk that processes relating to activity concentration strategies will not be carried out in accordance with the requirements of the Office for Competition and Consumer Protection (UOKIK). There is a risk that monopoly regulations are violated.
4. ***Competition risk:*** the TAURON Group is exposed to the increasing risk of competition of new and existing power market players. This risk is connected with the on-going liberalisation of the power market. Given changes in the retail market and recipients' right to change a seller, the TAURON Group is exposed to the risk of losing its present retail customers or a need to decrease its mark-up on the sale of electricity to its existing recipients, which influences the income of retail sales companies and the TAURON Group's profit.
5. ***Finance acquisition and repayment risk:*** the risk that the group will not be able to acquire finance for its operating and investment purposes or acquires finance on terms and conditions different than assumed (finance costs bigger than benchmark expenses, bigger number of covenants). This risk is represented by the absence of funds for projects planned in the corporate strategy and investment plans, and in extreme cases the management of the Company's operating and financial activities. Risk connected with an inadequate finance strategy and inadequate finance management (repayment, timeliness or failure to fulfil financial agreement conditions) may cause that finance agreements are terminated or their terms are worsened, which decreases the Company's/TAURON Group's profit.
6. ***Risk connected with the termination of Long-term Power Purchase Agreements:*** the provisions of the act on principles for paying producers' costs in relation to the earlier termination of long-term electricity sales agreements enable the TAURON Group to receive the compensation of stranded costs. There is a risk that in the case of the negative correction of stranded costs, the TAURON Group will have to return a part or all compensations. Additionally, there is a risk that the URE President will refer to the judgement of the Competition and Consumer Protection Court concerning the electricity producers' appeal against URE decisions regarding the return of a part of downpayments charged by the producers in 2008 to cover stranded costs arising from the termination of long-term electricity sales agreements.
7. ***Risk connected with weather conditions:*** weather conditions influence demand for electricity and heat. Some variable weather conditions, in particular strong winds, rain or snowfalls, hoar frost and rapidly changing air temperature, may have an adverse impact on the technical conditions of electricity and heat production and distribution. If such a risk materialises, the income of the TAURON Group will decrease and electricity and heat recipients will claim compensations and discounts.
8. **Risk connected with CO_2 emission rights**: this risk is connected with the emission of CO_2 to the air as a result of the TAURON Group's activity connected with the production of electricity and heat and a need to redeem the relevant volume of CO_2 emission rights, corresponding to the actual electricity and heat production, by the TAURON Group. Given the limited pool of free CO_2 emission rights allocated to the TAURON Group under KPRU II (National Right Distribution Scheme), there is a risk that it will be necessary to buy additional CO_2 emission rights, whose prices fluctuate and whose availability may be limited, in the market.
9. ***Risk of asset breakdown:*** the risk of serious breakdowns and defects of equipment used by TAURON Group companies. In particular, companies connected with hard coal mining, the production and distribution of electricity and heat are exposed to such a risk.

10. ***Risk connected with the determination of tariffs:*** it is connected with an obligation to submit electricity, heat, distribution tariffs to the URE President for approval. The major threat is that the Power Regulatory Office will adopt a policy that is unprofitable for the TAURON Group given the coverage of reasonable costs requested by the TAURON Group, including electricity prices, to cover a balance difference.
11. ***Volumetric risk:*** volumetric risk is connected with the volatility of electricity trading volume determined by the quality or the possibility of planning sale/purchases. Its main consequence is a difference between the planned and actually achieved volume of supplies. Major factors of this risk are seasonal character, changes in customer demand determined by weather and economic conditions, competitive activity or customer acquisition activeness, technological conditions.

4. FACTORS THAT, IN THE ISSUER'S OPINION, WILL INFLUENCE ITS RESULTS DURING AT LEAST THE NEXT HALF OF THE YEAR

Given its past experience, the TAURON Group believes that its business results may be mainly influenced by the following factors:

- changes in regulations of the power sector, activity/decisions of the URE President;
- macroeconomic situation, particularly in Poland, as well as the economic situation of the TAURON Group's operating area, the European Union, and the global economy;
- political environment, particularly in Poland and the European Union;
- the amendment of the Power Law and other acts concerning the obligatory public sale of electricity by producers (obligation as of 2010);
- the implementation of a system supporting the generation of electricity in highly efficient cogeneration by units fed with methane (obligation as of September 2010);
- wholesale electricity prices;
- electricity and coal selling prices and distribution tariffs as factors influencing income;
- prices of certificates of origin for electricity from using renewable sources and cogeneration;
- prices of CO_2 emission rights;
- prices of power raw materials;
- demand for electricity and heat;
- number of CO_2 emission rights granted free of charge, and prices of rights bought;
- seasonal character and weather conditions;
- the amount of compensations to cover stranded costs connected with the termination of long-term power purchase agreements (PPAs), including consequences of the settlement of a dispute between the URE President and producers coming from the TAURON Group (PKE S.A.) authorised to receive compensations under the PPA Termination Act, concerning the annual adjustment of stranded costs for 2008 (URE appealed against the judgement of SOKiK);
- results of the settlement of URE proceeding in relation to ENION and ENION Energia (URE runs proceedings connected with winter network breakdowns in the territory of our operating area);
- potential breakdowns of equipment, installations and networks owned by the TAURON Group.

5. OTHER INFORMATION

5.1 Material transactions with related entities (not made on an at-arm's length basis)

All transactions with related entities are made on an at-arm's length basis. Detailed information about transactions with related entities is presented in Note 28 of the Interim Condensed Consolidated Financial Statements for 6 months ended 30 June 2010.

5.2 Loans and credit guarantees granted by the Group

In the reporting period, TAURON Polska Energia S.A., as well as its subsidiaries, granted neither loans or borrowings nor guarantees jointly to one entity or such an entity's subsidiary whose total value would be equivalent to at least 10% of the equity of TAURON Polska Energia S.A.

5.3 Proceedings before courts, arbitration or public administration authorities

In the reporting period, no proceeding relating to obligations and debts whose total or individual value would exceed 10% of the equity of TAURON Polska Energia S.A. were pending.

5.4 Other information important to evaluate the issuer's personnel, assets, finance and financial result, as well as changes therein, and information important to assess whether the issuer is able to pay its liabilities

Macroeconomic situation

The TAURON Group operates mainly in the territory of Poland. Therefore macroeconomic trends in Poland are important for the Group. We may observe that there is a positive correlation between the growth of demand for electricity and the economic growth, thus the macroeconomic situation of Poland has a direct impact on financial results earned by the TAURON Group.

In particular, economic boom and long and frosty winter contributed to the growth of demand for electricity in the National Power System in the reporting period by around 4% in comparison to the first half of 2009.

Key economic ratios connected with the Polish economy

Specification	1st half of 2010	1st half of 2009
Real growth of GDP (% of growth)[1]	103,0	100,8
Inflation rate[2]	102,6	103,5
Domestic power consumption (GWh)[3]	41 336	39 802

Source:
[1] Polish Statistical Office, real growth of GDP in fixed prices of a previous year based on the similar period of the previous year = 100; data for the first quarter of 2010
[2] Polish Statistical Office, inflation rate based on the same period of a previous period = 100
[3] Agencja Rynku Energii SA

Long-term Power Purchase Agreements (PPA) Termination Act

Given the termination of PPAs in accordance with the act on rules for the reimbursement of expenses borne by producers as a result of the earlier termination of long-term power purchase agreements (PPA Termination Act), producers that were parties to such contracts were entitled to receive compensations to cover so called stranded costs (producers' expenses connected with costs borne thereby till 1 May 2004 to buy assets connected with the generation of electricity that were not covered with the sales of generated electricity, power reserves and system services in the competitive market after the earlier termination of long-term contracts). The PPA Termination Act limits total funds that may be paid to all producers to cover stranded costs discounted, as at 1 January 2007, at PLN 11.6 billion.

Key information about producers coming within the TAURON Group and subject to the PPA Termination Act

The impact of PPA compensations on the TAURON Group's performance is described in Note 26 of the Interim Condensed Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards, for 6 months ended 30 June 2010.

Market position

The TAURON Group is one of the two biggest power companies in Poland. It is a leader in terms of distribution and the second biggest producer of electricity in Poland. Apart from the production and distribution of electricity, the TAURON Group trades electricity, mines coal, produces, distributes and sells heat.

Potential

The TAURON Group is a key entity in the power sector and an important element in the power safety system of Poland. The holding operates in the area that is almost equal to 20% of Poland's territory. The corporate strategy of the TAURON Group provides for the systematic development of the company in Poland and abroad.

In the whole value chain, the TAURON Group owns assets that cover its operating needs to the significant extent.

Prices of electricity in particular market segments

Balancing market

In the balancing market, an average price in the analysed period of the first half of 2010 was PLN 186.52 per MWh. The smallest average monthly level was recorded for March (174.88 PLN/MWh) and the biggest one for May (202.66 PLN/MWh)

Taking into account the same period of the previous year, the average price of the first half of 2010 on a year-to-year basis grew by 7.5%.

SPOT market

The Energy Exchange and the internet trading platform POEE are major trading platforms. The average price of electricity in SPOT contracts listed in the Electricity Exchange was 184.96 PLN/MWh. Prices grew by 8.2% on a year-to-year basis.

Forward market

At present, toward transactions in the electricity market in Poland are made mostly in the bilateral market via the Internet trading platforms, like TFS, GFI or POEE. The Energy Exchange has a small share in forward contract trading, although it has been increasing.

Analysing product prices in the first half of 2010, we could observe the drop of prices in the TFS trading platform in the first three months and then quite a dynamic growth till the half of May. Then prices dropped slightly and stabilised.

On the average, BASE Q+1 (next quarter) quarterly contracts were priced by the market in the first half of 2010 at 177.69 PLN/MWh. Comparing to the same period of the last year, prices grew by 4%.

The average price of yearly BASE-type contracts priced by the market in the half of 2010 was 191.33 PLN/MWh. Comparing to the same period of the last year, prices dropped by 3.7%. It is necessary to point out that the growth or drop of prices under yearly contracts may be assessed correctly on the basis of prices listed in the second half of the year because of a bigger number of contracts concluded in such a period and incomparably bigger contract trading.

National Emission Right Allocation Plan for the years 2008–2012 (KPRU II)

The National CO_2 Emission Right Allocation Plan (National Allocation Plan) has to be reported to the European Commission under the EU emission right trading system. Since the European Commission reduced the number of CO_2 emission rights granted to Poland in both settlement periods in relation to the number requested in the National Allocation Plan, limits granted constitute substantial limitations for the power sector.

In the settlement period of 2008–2012, Poland applied for the limit of 284 million tons of CO_2. The European Commission decided to grant the average yearly limit of 208.5 million tons to Poland. Pursuant to the existing KPRU II, emission allocable to public utility power plants covers only 110.8 million tons of CO_2, while the estimated emission in normal conditions is around 120 million tons.

Breakdown of emission right limits (in Mg)

Sector	Average yearly allocation of rights Mg CO_2
Public utility power plants	110 791 200
Public utility combined heat and power plants	25 391 008

6. EVENTS AFTER 30 JUNE 2010

1. Under the TAURON Group's strategy providing for the establishment of a company generating electricity using renewable energy sources on the basis of Tauron Ekoenergia, a company selling electricity on the basis of Enion Energia, and a company providing customer service, so called minor electricity receipt, on the basis of EnergiaPro Gigawat, the Group launched the following processes in the first half of 2010:
   1) the separation of assets connected with the generation of electricity using renewable energy sources from Enion Energia under Art. 529 § 1.4 of the Commercial Companies Code, i.e. by dividing Enion Energia consisting in the transfer of a part of its assets connected with the generation of electricity using renewable energy sources to the existing entity: Tauron Ekoenergia (division by separation);
   2) the establishment of a company selling electricity on the basis of Enion Energia consisting in:
      a) dividing, under Art. 529 § 1.4 of the Commercial Companies Code, EnergiaPro Gigawat sp. z o.o. and transferring a part of its assets connected with electricity trading to Enion Energia;
      b) transferring retail customer service staff from Enion Energia to EnergiaPro Gigawat.

   To perform the TAURON RES project, Enion Energia will transfer the organised set of assets, both tangible and intangible, as well as payables connected with the generation of electricity using renewable energy sources to Tauron Ekoenergia. Assets connected with the generation of electricity in hydroelectric power plants include a number of production equipment (so called hydrosystems), i.e. facilities and technical devices used to produce electricity using renewable energy sources currently allocated to six units (Elektrownia Wodna Rożnów, Elektrownia Wodna Czchów, Elektrownia Wodna Dąbie, Elektrownia Wodna Przewóz, Elektrownia Wodna Kuźnice, Elektrownia Wodna Olcza), as well as land, buildings, structures and equipment recognised as fixed assets.

   On 27 July 2010, management boards of Enion Energia ("Divided Company") and Tauron Ekoenergia ("Taking-over Company") agreed on the Enion Energia division plan. The Divided Company will be divided in accordance with Art. 529 § 1.4 of the Commercial Companies Code by the way of Tauron Ekoenergia taking over a part of the Divided Company's assets constituting an organised part of an enterprise composed of tangible and intangible assets connected with the generation of electricity using renewable energy sources: hydroelectric power plants.

   The division plan of 27 July 2010 was announced in *Monitor Sądowy i Gospodarczy* No 150 of 4 August 2010, item 9791.
2. On 1 July 2010, PKE and ZAK S.A. (ZAK) informed the President of the Office for Competition and Consumer Protection (UOKiK) about the planned concentration in order to establish a Single Enterprise whose activity would consist in the construction and later operation of the Polygeneration Power Plant "Kędzierzyn". The concentration is to consist in the establishment of the Single Enterprise on the basis of the existing company, Ecocarbon sp. z o.o. (Ecocarbon). At present, PKE owns 100% of shares in the share capital of Ecocarbon. As a result of the concentration, PKE will sell 50% of its shares in Ecocarbon to ZAK. It is planned to raise the share capital of Ecocarbon and establish new shares in the share capital to be taken over by PKE and ZAK on a fifty-fifty basis. It is assumed that the Single Enterprise will be finally established after the decision of the European Commission on granting the finance to the Kędzierzyn Project from the EU NER 300 Programme, as a commercial demonstration project aiming at the environment-friendly collection, transport and storage of CO_2 under the Community thermal gas emission right trading programme defined in the Directive of the European Parliament and Council 2003/87/EC.
3. As a part of the TAURON Group's strategy, which, in particular, provides for the construction of production capacities in the wind power market, on 14 July 2010, Tauron Ekoenergia announced its order for the delivery, installation, activation and maintenance of the Wicko Wind Farm of 40 MW and the finance of the investment in the form of lease. Total estimated investment cost is over PLN 200 million. The order covers the delivery, installation, activation and maintenance of twenty wind farms of 2 MW each forming the Wicko Wind Farm of 40 MW with accompanying infrastructure, including access roads, installation yards, wind turbine foundations, middle voltage networks, and MV/110kV substations connected with the existing Main Power Supply Point of Wicko, on the basis of project documentation prepared by the contracting authority. The order covers the finance of the investment in the form of lease and other financial instruments.
4. On 31 July 2009, the URE President issued a decision on the correction of PKE's stranded costs for 2008 obligating PKE to return PLN 159 508 000 from the down payment paid on account of compensation to cover stranded costs of PLN 192 163 000 for 2008. Pursuant to the PPA Termination Act, the URE President's decision was enforceable immediately. On 19 August 2009, PKE appealed against the decision by requesting that the URE President's decision should be changed, the obligation to return PLN 159 508 100 should be revoked, and additional PLN 79 088 000 should be granted to PKE since, in PKE's opinion, in 2008 stranded costs were bigger than the down payment received in 2008 on account of the compensation. In its appeal, PKE requested that the obligation to return the aforementioned amount should be suspended until the final settlement. On 23 September 2009, the Competition and Consumer Protection Court issued a decision on the basis of which the obligation to pay PLN 79 754 000 was suspended until the final settlement of PKE's appeal. On 26 May 2010, the Competition and Consumer Protection Court issued a judgement, taking into account PKE's appeal against the URE President's decision. The court revoked the obligation to return a part of the down payment received by PKE for 2008 of PLN 159.5 million and additionally allocated PLN 79.1 million to PKE.

In July 2010, TAURON Polska Energia S.A. was informed that the President of the Energy Regulatory Office appealed against the judgement of the Competition and Consumer Protection Court of 26 May 2010. As at this report delivery date, the final result of the dispute may not be determined.

5. On 3 August 2010, TAURON Polska Energia S.A. was informed that the President of the Energy Regulatory Office made a decision, on 29 July 2010, on the annual correction of stranded costs for 2009 for PKE S.A. which PKE S.A. is to receive from Zarządca Rozliczeń S.A., i.e. PLN 138.2 million. Pursuant to Art. 34.1.1.a) of the Act of 29 June 2007 on rules for covering costs borne by producers in relation to the earlier termination of long-term power and electricity sales contracts, Zarządca Rozliczeń S.A. will pay PKE S.A. the amount of the annual correction of stranded costs by 30 September 2010.
6. On 28 July 2010, Południowy Koncern Energetyczny S.A. Elektrownia Jaworzno III signed a contract concerning the modernisation of boilers at Elektrownia Jaworzno III with the consortium of companies composed of Fortum Power and Heat Oy and Zakłady Remontowe Energetyki Katowice S.A. The contract of PLN 224 million net covers the adjustment of six boilers type OP-650k operating at Elektrownia Jaworzno III to the standards of lower nitrogen oxides emission. Works will commence in July 2010 and will last till August 2016. The purpose of the project is to reduce the emission of pollution and improve the effectiveness of power plant operation. This will enable to meet stricter requirements for the emission of nitrogen oxides, which will come into force in Poland in 2018.
7. On 27 August 2010 Vice-President of the Company's Management Board, Mr. Stanisław Tokarski submitted his resignation from the post of the Company's Management Board Member as of 31 August 2010.

7. RULES FOR THE PREPARATION OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU, including, in particular, International Accounting Standard 34. IFRS comprise standards and interpretations accepted by the International Accounting Standard Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

Interim condensed consolidated financial statements were prepared on the assumption that the TAURON Group would continue its activity in the foreseeable future.

Accounting rules (policy) used to prepare financial statements for six months ended 30 June 2010 are presented in Note 4 to the interim condensed consolidated financial statements.

8. MANAGEMENT BOARD'S OPINION ON THE POSSIBLE ACHIEVEMENT OF EARLIER PUBLISHED FORECASTS

TAURON Group Polska Energia S.A. has not published any financial forecasts for 2010.

Katowice, 24 August 2010

Signatures of Management Board Members:

Dariusz Lubera, President of the Management Board	....
Dariusz Stolarczyk, Vice-President of the Management Board	....
Stanisław Tokarski, Vice-President of the Management Board	....
Krzysztof Zamasz, Vice-President of the Management Board	....
Krzysztof Zawadzki, Vice-President of the Management Board	....