EXTENDED CONSOLIDATED INTERIM REPORT OF

TAURON POLSKA ENERGIA S.A.

CAPITAL GROUP
FOR THE FIRST HALF OF 2011

KATOWICE, 18 AUGUST 2011

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 2011 from 01.01.2011 to 30.06.2011	1st half of 2010 from 01.01.2010 to 30.06.2010	1st half of 2011 from 01.01.2011 to 30.06.2011	1st half of 2010 from 01.01.2010 to 30.06.2010
Figures from condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group				
Sales	10 331 144	7 260 289	2 604 074	1 813 153
Operating profit	938 078	782 751	236 452	195 481
Profit before tax	914 865	721 458	230 601	180 174
Profit after tax	727 947	572 961	183 487	143 089
Net profit attributable to shareholders of the parent company	704 033	481 767	177 459	120 314
Net profit attributable to non-controlling interests	23 914	91 194	6 028	22 774
Other total income	151	(6 388)	38	(1 595)
Total comprehensive income	728 098	566 573	183 525	141 494
Total comprehensive income attributable to shareholders of the parent company	704 184	476 337	177 497	118 958
Total comprehensive income attributable to non-controlling interests	23 914	90 236	6 028	22 535
Earnings per share (in PLN/EUR) (basic and diluted)	0,40	0,31	0,10	0,08
Average weighted number of shares (in pieces) (basic and diluted)	1 752 549 394	1 558 139 531	1 752 549 394	1 558 139 531
Net cash flows from operating activities	1 062 885	1 090 887	267 911	272 433
Net cash flows from investing activities	(909 204)	(733 338)	(229 174)	(183 141)
Net cash flows from financing activities	(249 241)	(294 251)	(62 824)	(73 485)
Movement in cash and cash equivalents, net	(95 560)	63 298	(24 087)	15 808
	As at 30.06.2011	**As at 31.12.2010**	**As at 30.06.2011**	**As at 31.12.2010**
Fixed assets	18 961 611	18 959 101	4 756 337	4 787 289
Current assets	4 438 467	4 466 786	1 113 346	1 127 891
Fixed assets held for sale	4 397	4 397	1 103	1 110
Total assets	23 404 475	23 430 284	5 870 786	5 916 290
Share capital	8 762 747	15 772 945	2 198 050	3 982 765
Equity attributable to shareholders of the parent company	15 157 415	14 704 825	3 802 090	3 713 058
Equity attributable to non-controlling interests	479 419	507 246	120 258	128 083
Total equity	15 636 834	15 212 071	3 922 348	3 841 141
Long-term payables	4 115 836	4 070 063	1 032 418	1 027 716
Current payables	3 651 805	4 148 150	916 020	1 047 433
Total payables	7 767 641	8 218 213	1 948 438	2 075 149
Figures from condensed financial statements of TAURON Polska Energia S.A.				
SELECTED FIGURES	PLN '000		EUR '000	
	1st half of 2011 from 01.01.2011 to 30.06.2011	1st half of 2010 from 01.01.2010 to 30.06.2010	1st half of 2011 from 01.01.2011 to 30.06.2011	1st half of 2010 from 01.01.2010 to 30.06.2010
Sales	4 225 974	3 406 740	1 065 201	850 784
Operating profit	45 845	12 204	11 556	3 048
Profit before tax	1 061 332	196 470	267 520	49 065
Profit after tax	1 048 873	189 069	264 380	47 217
Total comprehensive income	1 048 873	189 069	264 380	47 217
Earnings per share (in PLN/EUR) (basic and diluted)	0,60	0,12	0,15	0,03
Average weighted number of shares (in pieces) (basic and diluted)	1 752 549 394	1 558 139 531	1 752 549 394	1 558 139 531
Net cash flows from operating activities	(214 885)	(166 514)	(54 164)	(41 584)
Net cash flows from investing activities	513 006	13 610	129 309	3 399

Net cash flows from financing activities	(24 482)	(1 134)	(6 171)	(283)
Movement in cash and cash equivalents, net	273 639	(154 038)	68 974	(38 469)
	As at 30.06.2011	**As at 31.12.2010**	**As at 30.06.2011**	**As at 31.12.2010**
Fixed assets	17 310 420	17 234 390	4 342 151	4 351 789
Current assets	2 274 309	1 210 795	570 488	305 733
Total assets	19 584 729	18 445 185	4 912 639	4 657 522
Share capital	8 762 747	15 772 945	2 198 050	3 982 765
Total equity	17 309 672	16 523 681	4 341 964	4 172 331
Long-term payables	849 105	848 392	212 990	214 224
Current payables	1 425 952	1 073 112	357 686	270 967
Total payables	2 275 057	1 921 504	570 676	485 191

The above figures for the first half of 2011 and 2010 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 2011 – 3.9866 PLN/EUR (as at 31 December 2010 – 3.9603 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 2011 – 3.9673 PLN/EUR (for the period from 1 January to 30 June 2010 – 4.0042 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 2011

AUGUST 2011

Translation of auditors' report originally issued in Polish

Independent Auditors' Review Report on the Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2011

To the Shareholders and Supervisory Board 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 Lwowska Street 23, including the interim condensed consolidated statement of financial position as at 30 June 2011, 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 2011 to 30 June 2011 and other explanatory notes ('the interim condensed consolidated financial statements').
2. The Company's Management Board is responsible for the compliance of the 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 2010 were subject to our audit and we issued an opinion dated 1 March 2011 that included an emphasis of matter on these consolidated financial statements. The emphasis of matter concerned uncertainty related 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 appeal 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 25 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 that is based on the act dated 29 June 2007 (Journal of Laws from 2007, no. 130, item 905, 'PPA Act'). Based on accounting policy on compensations resulting from the provisions of the PPA Act as well as its own estimates and assumptions, the Group recognizes revenue from the compensations starting from the financial year ended 31 December 2008. As further described in above mentioned note, on 31 July 2009 the President of the Energy Regulatory Office (Urząd Regulacji Energetyki) issued a decision ordering to reimburse part of received advance 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 (Sąd Ochrony Konkurencji i Konsumentów) in Warsaw ('the Court'). On 26 May 2010 the Court gave the verdict confirming the Company's position in this respect. The President of the Energy Regulatory Office appealed against the above verdict, the case however, has not yet been considered by the appropriate court. The Company's Management Board is convinced that the appeal of the President of the Energy Regulatory Office will be ineffective and the proceedings will be completed positively for the Group. As at the date of this report the appeal proceedings are still in progress.

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, 10 August 2011

STATEMENTS OF THE MANAGEMENT BOARD OF

TAURON POLSKA ENERGIA S.A.

AUGUST 2011

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	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

10 August 2011
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 the 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	....
Joanna Schmid	– Vice-President of the Management Board	....
Dariusz Stolarczyk	– Vice-President of the Management Board	....
Krzysztof Zamasz	– Vice-President of the Management Board	....
Krzysztof Zawadzki	– Vice-President of the Management Board	....

10 August 2011
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 2011

AUGUST 2011

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Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2011

	Note	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise	30	8 119 449	5 181 501
Excise		(225 527)	(209 694)
Sale of goods for resale, finished goods and materials		7 893 922	4 971 807
Rendering of services		2 416 965	2 274 962
Other income		20 257	13 520
Sales revenue		**10 331 144**	**7 260 289**
Cost of sales		(8 980 229)	(5 996 628)
Gross profit		**1 350 915**	**1 263 661**
Other operating income		44 458	52 643
Selling and distribution expenses		(99 711)	(109 214)
Administrative expenses		(308 572)	(340 620)
Other operating expenses		(49 012)	(83 719)
Operating profit		**938 078**	**782 751**
Finance income		54 821	43 783
Finance costs		(77 495)	(105 076)
Share in profit/(loss) of associate and joint venture recognised using the equity method	2	(539)	-
Profit before tax		**914 865**	**721 458**
Income tax expense	9	(186 918)	(148 497)
Net profit from continuing operations		**727 947**	**572 961**
Net profit for the period		**727 947**	**572 961**
Other comprehensive income:			
Change in the value of hedging instruments		-	(7 886)
Foreign exchange differences from translation of foreign entities		151	-
Income tax relating to other comprehensive income items		-	1 498
Other comprehensive income for the period, net of tax		**151**	**(6 388)**
Total comprehensive income for the period		**728 098**	**566 573**
Net profit for the period:			
Attributable to equity holders of the parent		704 033	481 767
Attributable to non-controlling interests		23 914	91 194
Total comprehensive income:			
Attributable to equity holders of the parent		704 184	476 337
Attributable to non-controlling interests		23 914	90 236
Earnings per share (in PLN):			
- basic, for profit for the period attributable to equity holders of the parent		0.40	0.31
- basic, for profit for the period from continuing operations attributable to equity holders of the parent		0.40	0.31
- diluted, for profit for the period attributable to equity holders of the parent		0.40	0.31
- diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.40	0.31

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	As at 30 June 2011 (unaudited)	As at 31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	**13**	17 600 406	17 524 936
Intangible assets	**12**	866 286	970 530
Investments in associates and joint ventures recognised using the equity method	**2, 22**	13 223	764
Other long-term financial assets	**22, 30**	185 086	177 452
Other long-term non-financial assets	**30**	138 413	123 613
Deferred tax asset	**9**	158 197	161 806
		18 961 611	**18 959 101**
Current assets			
Inventories	**14**	388 935	408 560
Corporate income tax receivable		14 991	74 749
Trade and other receivables	**15, 22**	2 422 059	2 273 145
Other current financial assets	**22, 30**	9 745	28 193
Other current non-financial assets	**30**	226 633	208 158
Cash and cash equivalents	**10, 22**	1 376 104	1 473 981
		4 438 467	**4 466 786**
Non-current assets classified as held for sale		**4 397**	**4 397**
TOTAL ASSETS		**23 404 475**	**23 430 284**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	**16**	8 762 747	15 772 945
Reserve capital	**16**	7 412 882	475 088
Foreign exchange differences from translation of foreign entities		(120)	(271)
Retained earnings/Accumulated losses		(1 018 094)	(1 542 937)
		15 157 415	**14 704 825**
Non-controlling interests		**479 419**	**507 246**
Total equity		**15 636 834**	**15 212 071**
Non-current liabilities			
Interest-bearing loans and borrowings	**20, 22**	1 045 564	1 076 178
Finance lease and hire purchase commitments	**22**	61 246	67 810
Long-term provisions and employee benefits	**17, 18**	1 085 313	1 059 028
Long-term accruals and government grants	**19**	637 279	644 522
Trade payables and other financial long-term liabilities	**22**	6 213	6 910
Deferred tax liability	**9**	1 280 221	1 215 615
		4 115 836	**4 070 063**
Current liabilities			
Trade and other payables	**22**	1 479 792	1 629 723
Current portion of interest-bearing loans and borrowings	**20, 22**	195 849	325 027
Current portion of finance lease and hire purchase commitments	**22**	17 786	23 452
Other current liabilities	**30**	686 263	752 819
Accruals and government grants	**19**	280 809	189 712
Income tax payable		76 310	68 672
Short-term provisions and employee benefits	**17, 18**	914 996	1 158 745
		3 651 805	**4 148 150**
Total liabilities		**7 767 641**	**8 218 213**
TOTAL EQUITY AND LIABILITIES		**23 404 475**	**23 430 284**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2011

	Note	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2011		**15 772 945**	**475 088**	**-**	**(271)**	**(1 542 937)**	**14 704 825**	**507 246**	**15 212 071**
Profit for the period		-	-	-	-	704 033	704 033	23 914	727 947
Other comprehensive income		-	-	-	151	-	151	-	151
Total comprehensive income for the period		**-**	**-**	**-**	**151**	**704 033**	**704 184**	**23 914**	**728 098**
Appropriation of prior year profits		-	-	-	-	-	-	-	-
Dividends	**11**	-	(72 404)	-	-	(190 478)	(262 882)	(14 278)	(277 160)
Reduction of issued capital through reduced nominal value of shares	**16**	(7 010 198)	7 010 198	-	-	-	-	-	-
Mandatory squeeze-out	**21**	-	-	-	-	11 288	11 288	(37 463)	(26 175)
As at 30 June 2011 (unaudited)		**8 762 747**	**7 412 882**	**-**	**(120)**	**(1 018 094)**	**15 157 415**	**479 419**	**15 636 834**

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	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2010		**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		-	176 159	-	-	(176 159)	-	-	-
Issue of merger shares and accounting for the acquisition of non-controlling interests		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)
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**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2011

	Note	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Cash flows from operating activities			
Profit/(loss) before taxation		914 865	721 458
Adjustments for:			
Share in profit/(loss) of associate and joint venture recognised using the equity method		539	-
Depreciation and amortization		697 832	688 528
(Gain)/loss on foreign exchange differences		(426)	2 777
Interest and dividens, net		25 180	56 409
(Gain)/loss on investing activities		12 205	1 252
(Increase)/decrease in receivables		(152 979)	(126 694)
(Increase)/decrease in inventories		16 750	96 263
Increase/(decrease) in payables excluding loans and borrowings		(342 376)	(172 297)
Change in other non-current and current assets		28 075	116 206
Change in deferred income, government grants and accruals		72 500	(3 407)
Change in provisions		(157 895)	(211 938)
Income tax paid		(51 306)	(77 688)
Other		(79)	18
Net cash from operating activities		**1 062 885**	**1 090 887**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		19 786	3 147
Purchase of property, plant and equipment and intangible assets		(932 831)	(690 511)
Proceeds from sale of other financial assets		25 065	7 820
Purchase of other financial assets		(14 634)	(50 156)
Acquisition of shares in associates and joint ventures recognised using the equity method		(13 000)	-
Dividends received		6 358	2 198
Interest received		27	162
Repayment of loans made		25	30
Loans granted		-	(9 000)
Other		-	2 972
Net cash used in investing activities		**(909 204)**	**(733 338)**
Cash flows from financing activities			
Acquisition of non-controlling interests		(27 192)	-
Payment of finance lease liabilities		(14 920)	(18 568)
Proceeds from loans		75 594	59 531
Repayment of loans		(235 984)	(233 080)
Redemption of debt securities		-	(41 308)
Dividends paid to non-controlling interests		(10 885)	(2 287)
Interest paid		(28 199)	(55 110)
Other		(7 655)	(3 429)
Net cash used in financing activities		**(249 241)**	**(294 251)**
Net increase/(decrease) in cash and cash equivalents		**(95 560)**	**63 298**
Net foreign exchange difference		146	57
Cash and cash equivalents at the beginning of the period		**1 471 660**	**972 655**
Cash and cash equivalents at the end of the period, of which:	**10**	**1 376 100**	**1 035 953**
restricted cash		69 123	27 374

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

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 2011 and include comparative figures for the 6-month period ended 30 June 2010 and as at 31 December 2010. The data for the 6-month period ended 30 June 2011 included in these interim condensed consolidated financial statements and the comparative figures for the 6-month period ended 30 June 2010 were reviewed by an independent auditor. Comparative figures as at 31 December 2010 were audited by an independent auditor.

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

The parent was granted a statistical number REGON 240524697.

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

The Group's principal business activities include:

1. Hard coal mining.
2. Generation of electricity 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.

2. Composition of the Group

As at 30 June 2011, 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 2011	% held by TAURON in the entity's governing body	Holder of shares as at 30 June 2011
1	Południowy Koncern Energetyczny S.A.	40–389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99,46%	TAURON Polska Energia S.A. – 99,46%	99,46%	TAURON Polska Energia S.A. – 99,46%
2	ENION S.A.	30–390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99,70%	TAURON Polska Energia S.A. – 99,70%	99,70%	TAURON Polska Energia S.A. – 99,70%
3	EnergiaPro S.A.	53–314 Wrocław; Pl. Powstańców Śląskich 20	Transmission and distribution of electricity	99,00%	TAURON Polska Energia S.A. – 99,00%	99,00%	TAURON Polska Energia S.A. – 99,00%
4	Elektrownia Stalowa Wola S.A.	37–450 Stalowa Wola; ul. Energetyków 13	Generation and distribution of electricity and heat	99,74%	TAURON Polska Energia S.A. – 99,74%	99,74%	TAURON Polska Energia S.A. – 99,74%
5	TAURON Sprzedaż 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	TAURON Obsługa Klienta Sp. z o.o.	53–314 Wrocław; Pl. Powstańców Śląskich 16	Customer service	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 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%

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9	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	32–063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99,46%	PKE S.A. – 100,00%	99,46%	PKE S.A. – 100,00%
10	Południowy Koncern Węglowy S.A.[1]	43–600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52,20%	PKE S.A. – 52,48%	67,64%	PKE S.A. – 68,01%
11	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.[1]	40–389 Katowice; ul. Lwowska 23	Trading in electricity	99,53%	PKE S.A. – 87,50%; TAURON Polska Energia S.A. – 12,50%	99,53%	PKE S.A. – 87,50%; TAURON Polska Energia S.A. – 12,50%
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.	720 00 Ostrawa, Na Rovince 879/C Republika Czeska	Trading in electricity	100,00%	TAURON Polska Energia S.A. – 100%	100,00%	TAURON Polska Energia S.A. – 100%
16	BELS INVESTMENT Sp. z o.o.	58–500 Jelenia Góra, ul. Obrońców Pokoju 2B.	Generation of electricity	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%
17	MEGAWAT MARSZEWO Sp. z o.o.	58–500 Jelenia Góra, ul. Obrońców Pokoju 2B.	Generation of electricity	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%

1 TAURON Polska Energia S.A. is the usufructuary of shares owned by PKE S.A. As a result of signing agreements for the usufruct of shares, TAURON Polska Energia S.A. holds 100% interests in the share capital and in the governing body of Polska Energia Pierwsza Kompania Handlowa sp. z o.o. and Kopalnia Wapienia Czatkowice sp. z o.o. Under an agreement for the usufruct of shares, TAURON Polska Energia S.A. holds a 52.48% interest in the share capital of Południowy Koncern Węglowy S.A., giving it 68.01% of votes at the company's General Shareholders' Meeting. On 26 July 2011 Południowy Koncern Energetyczny S.A. transferred all of its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. to TAURON Polska Energia S.A. in order to settle part of its dividend liability. As a result, the Company increased its direct interest in the capital and in the governing body of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. to 100%.

Redemption of shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In March 2011, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. signed contracts for the purchase of 200 of its own shares with a total nominal value of PLN 1,200 thousand from the shareholders of Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz Sp. z o.o.

The purchase of shares for the purpose of redeeming them using the net profit was made based on the resolution of the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. dated 30 December 2010. The consideration for the shares was paid to both of the existing shareholders until the end of March 2011. On 21 April 2011, the District Court in Katowice registered redemption of shares of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

As a result, the direct interest of TAURON Polska Energia S.A. in the share capital of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. increased from 10% to 12.50% (in the governing body: – from 27.78% to 31.25% votes), while the direct interest of Południowy Koncern Energetyczny S.A. – from 70% to 87.50% (in the governing body – from 61.11% to 68.75% of votes).

After the balance sheet date, as described in detail in Note 31, the Company purchased from Południowy Koncern Energetyczny S.A. all of the shares held by Południowy Koncern Energetyczny S.A. in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., thus increasing its direct interest in the capital and in the governing body of this company to 100%.

Redemption of share capital In ENION S.A. and EnergiaPro S.A.

On 8 February 2011, the District Court in Kraków 9th Economic Department of the National Court Register registered redemption of share capital in ENION S.A. The decrease of the capital by PLN 64 thousand resulted from redemption of 6,421,248 shares acquired to redemption from minority shareholders. As a result of redemption, the share of TAURON Polska Energia S.A. increased from 99.68% to 99.70% in the entity's share capital and governing body.

On 7 April 2011, the District Court In Wrocław, 11th Economic Department of the National Court Register registered redemption of share capital in EnergiaPro S.A. The decrease of the capital by PLN 201 thousand resulted from redemption of 20,131,748 shares acquired to redemption from minority shareholders. As a result of redemption, the share of TAURON Polska Energia S.A. increased from 98.76% to 99.00% in the entity's capital and governing body.

Joint venture

Elektrociepłownia Stalowa Wola S.A. was set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. with a share capital of PLN 2,000 thousand. In March 2011, the General Meeting resolved to increase the share capital by PLN 26,000 thousand. The District Court in Tarnobrzeg registered the increase of capital on 20 April 2011. The new issue was taken up by the existing shareholders i.e. Elektrownia Stalowa Wola S.A. and PGNiG Energia S.A., each of them holding 50% stakes in the share capital and in the governing body of Elektrociepłownia Stalowa Wola S.A. (the indirect share of TAURON Polska Energia S.A. amounts to 49.87%).

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

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

The equity-accounted investment in the joint venture as at 30 June 2011 is presented in the table below:

Non-current assets	23 119
Current assets	4 408
Non-current liabilities (-)	(80)
Current liabilities (-)	(1 002)
Total net assets	**26 445**
Share in net assets	**13 223**
Goodwill	-
Invetment in joint venture	**13 223**
Share in revenue of joint venture	**-**
Share in profit/(loss) of joint venture	**(539)**

3. Basis of preparation of interim condensed consolidated financial statements

These interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards endorsed by the EU ("IFRS"), in particular in accordance with International Accounting Standard 34 ("IFRS 34"). At the date of authorization of these financial statements, considering the pending process of IFRS endorsement in the EU and the nature of the Group's activities, 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, the Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group companies.

The interim condensed consolidated financial statements do not include all information and disclosures that are required in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2010.

These interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 were authorized for issue on 10 August 2011.

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 2010, except for the application of the following amendments to standards and new interpretations effective for annual periods beginning on or after 1 January 2011:

- Amendment to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on or after 1 February 2010. The application of this amendment had no impact on the financial position or results reported by the Group, since no events took place that would have been affected by the aforementioned amendment.
- IAS 24 *Related Party Disclosures* (amended in November 2009) – applicable to annual periods beginning on or after 1 January 2011. The revised IAS 24 is applied retrospectively for annual periods beginning on 1 January 2011.

- 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. The application of these amendments had no impact on the financial position or results reported by the Group, since no events took place that would have been affected by the aforementioned amendments.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – applicable to annual periods beginning on or after 1 July 2010. The application of this interpretation had no impact on the financial position or results reported by the Group.
- 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. The application of this amendment had no impact on the financial position or results reported by the Group.
- *Improvements to IFRSs* (issued in May 2010) – some improvements are applicable to annual periods beginning on or after 1 July 2010, while others are applicable to annual periods beginning on or after 1 January 2011. The application of these amendments had no impact on the financial position or results reported by the Group.

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

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

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU until the date of authorization of these financial statements. In the next phases, IASB will deal with hedge accounting and impairment methodology. The project is expected to be completed in mid 2011. The application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. The Group assessed this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent view,
- Amendment to IFRS 7 *Financial Instruments Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU until the date of authorization of these financial statements,
- Amendments to IAS 12 I*ncome Taxes: Deferred Tax: Recovery of Underlying Assets* –applicable to annual periods beginning on or after 1 January 2012 - not endorsed by the EU until the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU until the date of authorization of these financial statements,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012 – not endorsed by the EU as at the date of authorization of these financial statements.

As at the date of these interim condensed consolidated financial statements, the Company's Management Board has not completed the analysis that would enable it to determine whether or not and to what extent the introduction of the aforementioned standards and interpretations may affect the Company's accounting policies.

6. Changes in estimates

In the period ended 30 June 2011, there were no significant changes to the values or methodology of making estimates that would affect the current or future periods, other than those presented in the following sections of these interim condensed consolidated financial statements.

7. Seasonality of operations

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

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

The level of sales of electricity to individual customers depends on the length of day, as a result of which sales of electricity in this group of customers are usually lower in spring and summertime and higher in autumn and wintertime.

Sales of coal to individual customers are higher in autumn and wintertime.

The seasonality of other areas of Group operations is insignificant.

8. Segment information

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

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

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 the two companies acquired in 2010: BELS INVESTMENT Sp. z o.o. and MEGAWAT MARSZEWO Sp. z o.o. TAURON Sprzedaż Sp. z o.o. also operated in this segment until 30 September 2010. On that date an organized part of the enterprise related to the generation of electricity using renewable sources – hydroelectric plants was separated out of TAURON Sprzedaż Sp. z o.o. and taken over by TAURON Ekoenergia Sp. z o.o.,
- Segment of Sale of Energy 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., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o. and TAURON Czech Energy s.r.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.

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

6-month period ended 30 June 2011 or as at 30 June 2011(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	299 371	2 871 184	351	681 701	6 175 832	302 705	–	10 331 144	–	10 331 144
Inter-segment sales	353 005	308 863	92 781	1 628 575	608 583	14 859	–	3 006 666	(3 006 666)	–
Segment revenue	**652 376**	**3 180 047**	**93 132**	**2 310 276**	**6 784 415**	**317 564**	**–**	**13 337 810**	**(3 006 666)**	**10 331 144**
Result	**44 767**	**377 206**	**55 911**	**337 557**	**140 741**	**21 910**	**(4 589)**	**973 503**	**–**	**973 503**
Profit/(loss) of the segment	–	–	–	–	–	–	(35 425)	(35 425)	–	(35 425)
Unallocated expenses	**44 767**	**377 206**	**55 911**	**337 557**	**140 741**	**21 910**	**(40 014)**	**938 078**	**–**	**938 078**
Profit/(loss) from continuing operations before tax and net finance income (costs)	–	(539)	–	–	–	–	–	(539)	–	(539)
Share in profit/(loss) of associate and joint venture recognised using the equity method	–	–	–	–	–	–	(22 674)	(22 674)	–	(22 674)
Net finance income (costs)	**44 767**	**376 667**	**55 911**	**337 557**	**140 741**	**21 910**	**(62 688)**	**914 865**	**–**	**914 865**
Profit/(loss) before income tax	–	–	–	–	–	–	(186 918)	(186 918)	–	(186 918)
Income tax expense	**44 767**	**376 667**	**55 911**	**337 557**	**140 741**	**21 910**	**(249 606)**	**727 947**	**–**	**727 947**
Assets and liabilities										
Segment assets	1 080 568	9 689 156	655 374	7 710 919	3 129 664	764 645	–	23 030 326	–	23 030 326
Investments in associates and joint ventures recognised using the equity method	–	13 223	–	–	–	–	–	13 223	–	13 223
Unallocated assets	–	–	–	–	–	–	360 926	360 926	–	360 926
Total assets	**1 080 568**	**9 702 379**	**655 374**	**7 710 919**	**3 129 664**	**764 645**	**360 926**	**23 404 475**	**–**	**23 404 475**
Segment liabilities	487 995	1 185 369	20 713	1 738 664	1 237 044	95 904	–	4 765 689	–	4 765 689
Unallocated liabilities	–	–	–	–	–	–	3 001 952	3 001 952	–	3 001 952
Total liabilities	**487 995**	**1 185 369**	**20 713**	**1 738 664**	**1 237 044**	**95 904**	**3 001 952**	**7 767 641**	**–**	**7 767 641**
Other segment information										
Capital expenditure *	50 622	325 850	17 454	369 292	11 207	14 211	–	788 636	–	788 636
Depreciation/amortization	(52 740)	(278 705)	(12 036)	(327 366)	(4 799)	(22 401)	–	(698 047)	–	(698 047)
Impairment of non-financial assets	14	722	–	719	(473)	261	–	1 243	–	1 243

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

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

6-month period ended 30 June 2011 or as at 30 June 2011 (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	**4 885**	**361 171**	**42 570**	**227 500**	**165 759**	**17 573**	**13 960**	**833 418**	**–**	**833 418**
Profit/(loss) of the segment	–	–	–	–	–	–	(50 667)	(50 667)	–	(50 667)
Unallocated expenses	**4 885**	**361 171**	**42 570**	**227 500**	**165 759**	**17 573**	**(36 707)**	**782 751**	**–**	**782 751**
Profit/(loss) from continuing operations before tax and net finance income (costs)	–	–	–	–	–	–	–	–	–	–
Share in profit/(loss) of associate and joint venture recognised using the equity method	–	–	–	–	–	–	(61 293)	(61 293)	–	(61 293)
Net finance income (costs)	**4 885**	**361 171**	**42 570**	**227 500**	**165 759**	**17 573**	**(98 000)**	**721 458**	**–**	**721 458**
Profit/(loss) before income tax	–	–	–	–	–	–	(148 497)	(148 497)	–	(148 497)
Income tax expense	**4 885**	**361 171**	**42 570**	**227 500**	**165 759**	**17 573**	**(246 497)**	**572 961**	**–**	**572 961**
Assets and liabilities										
Segment assets	1 200 022	9 749 717	727 065	7 720 068	2 755 409	841 196	–	22 993 477	–	22 993 477
Investments in associates and joint ventures recognised using the equity method	–	764	–	–	–	–	–	764	–	764
Unallocated assets	–	–	–	–	–	–	436 043	436 043	–	436 043
Total assets	**1 200 022**	**9 750 481**	**727 065**	**7 720 068**	**2 755 409**	**841 196**	**436 043**	**23 430 284**	**–**	**23 430 284**
Segment liabilities	496 260	1 394 426	24 411	1 908 521	1 399 603	121 255	–	5 344 476	–	5 344 476
Unallocated liabilities	–	–	–	–	–	–	2 873 737	2 873 737	–	2 873 737
Total liabilities	**496 260**	**1 394 426**	**24 411**	**1 908 521**	**1 399 603**	**121 255**	**2 873 737**	**8 218 213**	**–**	**8 218 213**
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.

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

Up to the third quarter of 2010 (inclusive) the value of energy certificates used for internal purposes that were obtained due to the generation of electricity using TAURON Sprzedaż Sp. z o.o. 's hydroelectric plants was included in the revenues of the "Sales of electricity and other energy market products" segment. The value of those certificates in the second quarter of 2010 was PLN 32,769 thousand.

Since 30 September 2010, which was the date of the separation of an organized part of the enterprise related to the generation of electricity using renewable energy sources out of TAURON Sprzedaż Sp. z o.o. and the take-over of those assets by TAURON Ekoenergia Sp. z o.o., energy certificates have been included in the revenues of the "Generation of electricity using renewable sources" segment.

In the first quarter of 2011, the parent company decided to change the method of unallocated expenses analysis and to include administrative expenses of the parent in this item, after elimination of costs resulting from intercompany transactions. The administrative expenses of the parent company are incurred for the whole Group and are not directly attributable to any single operating segment.

The change in the method of analyzing unallocated expenses affected the presentation of the note relating to the operating segments. In prior periods, administrative expenses of the parent were presented in the "Sales of electricity and other energy market products" segment. The note for the comparable period has been restated according to the amended principles of presentation of unallocated expenses as a result of the change in the method of analyzing segments by the Group.

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 2011 (unaudited)	For the 6-month period ended 30 June 2010 (unaudited)
Current income tax	**(118 705)**	**(88 700)**
Current income tax expense	(117 774)	(86 460)
Adjustments to current income tax from previous years	(931)	(2 240)
Deferred tax	**(68 213)**	**(59 797)**
Income tax in profit or loss	**(186 918)**	**(148 497)**
Income tax relating to other comprehensive income	**-**	**1 498**

Deferred income tax

Deferred income tax relates to the following:

	As at 30 June 2011 (unaudited)	As at 31 December 2010"
Deferred tax liability		
- investment tax credits	95	102
- difference between tax base and carrying amount of fixed and intangible assets	1 536 615	1 545 106
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	508	558
- difference between tax base and carrying amount of financial assets available for sale	8 161	8 800
- difference between tax base and carrying amount of financial assets held to maturity	87	238
- difference between tax base and carrying amount of loans and receivables	4 136	1 633
- difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	98	101
- different timing of recognition of sales revenue for tax purposes	90 824	69 601
- recognition of estimated revenue from sale of power distribution services	9 507	14 292
- difference between tax base and carrying amount of property rights arising from energy certificates	25 618	14 085
- compensation for termination of long-term contracts	101 964	86 103
- other	25 609	15 796
Deferred tax liability	**1 803 222**	**1 756 415**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Deferred tax assets		
- difference between tax base and carrying amount of fixed and intangible assets	4 988	5 661
- difference between tax base and carrying amount of inventories	2 602	1 877
- difference between tax base and carrying amount of other non-financial assets	215	213
- power infrastructure received free of charge and connection fees obtained	87 594	88 085
- provisions	410 319	437 423
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	254	1 563
- difference between tax base and carrying amount of financial assets available for sale	931	990
- difference between tax base and carrying amount of loans and receivables	7 751	3 483
- difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	42	42
- difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	154	-
- difference between tax base and carrying amount of financial liabilities measured at amortized cost	675	935
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	2 071	2 262
- accrued audit expenses and actuary's fees	13	107
- different timing of recognition of cost of sales for tax purposes	63 019	56 914
- other accrued expenses	20 448	5 597
- tax losses	66 906	47 340
- different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	-	31 920
- other	13 216	18 194
Deferred tax assets	**681 198**	**702 606**
After the offsetting of balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**158 197**	**161 806**
Deferred tax liability	**(1 280 221)**	**(1 215 615)**

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 2011 (unaudited)	"As at 31 December 2010 "
Cash at bank and in hand	132 850	366 849
Short-term deposits (up to 3 months)	1 243 094	1 106 180
Other	160	952
Total cash and cash equivalents presented in the statement of financial position, of which:	**1 376 104**	**1 473 981**
- restricted cash	69 123	165 862
Bank overdraft	-	(2 464)
Foreign exchange and other differences	(4)	143
Total cash and cash equivalents presented in the statement of cash flows	**1 376 100**	**1 471 660**

Restricted cash consists mainly of cash held in the parent’s settlement account used for trading in electricity at Towarowa Giełda Energii S.A. (Polish Power Exchange), amounting to PLN 56,066 thousand.

11. Dividends paid and proposed

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders, which gives 0.15 per share, This amount is composed of the Company's net profit for 2010 in the amount of PLN 190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represents part of the Company's net profit for 2009 allocated to the reserve capital. The dividend payment day was set at 20 July 2011.

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

12. Intangible assets

Movements in the period from 1 January to 30 June 2011 (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	**4 389**	**169 553**	**210 046**	**3 371**	**523 017**	**161 150**	**4 430**	**10 362**	**1 086 318**
Direct purchase	-	-	46	63	191 267	55 958	-	12 727	260 061
Transfer of intangible assets not made available for use	-	-	8 700	-	-	-	1 554	(10 254)	-
Sale, disposal	-	-	-	-	-	(6 052)	-	-	(6 052)
Reclassification	-	-	6	(6)	-	-	-	-	-
Liquidation	-	-	(1 510)	(17)	-	-	(9)	-	(1 536)
Received free of charge	-	-	-	-	-	-	40	-	40
Energy certificates generated internally	-	-	-	-	133 198	-	-	-	133 198
Cancellation of energy certificates	-	-	-	-	(369 314)	-	-	-	(369 314)
Depreciation of greenhouse gas emission allowances	-	-	-	-	-	(104 728)	-	-	(104 728)
Transfers from assets under construction	-	-	43	-	-	-	90	751	884
Other movements	-	-	-	-	(36)	-	-	(282)	(318)
Closing balance	**4 389**	**169 553**	**217 331**	**3 411**	**478 132**	**106 328**	**6 105**	**13 304**	**998 553**
ACCUMULATED AMORTIZATION									
Opening balance	**(2 913)**	**-**	**(109 559)**	**(1 247)**	**-**	**(22)**	**(1 596)**	**(450)**	**(115 787)**
Amortization for the period	(284)	-	(16 926)	(268)	-	-	(321)	-	(17 799)
Decrease of impairment	-	-	-	-	-	22	-	-	22
Reclassification	-	-	(4)	4	-	-	-	-	-
Liquidation	-	-	1 277	11	-	-	9	-	1 297
Received free of charge	-	-	-	-	-	-	-	-	-
Transfers from assets under construction	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-
Closing balance	**(3 197)**	**-**	**(125 212)**	**(1 500)**	**-**	**-**	**(1 908)**	**(450)**	**(132 267)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 476**	**169 553**	**100 487**	**2 124**	**523 017**	**161 128**	**2 834**	**9 911**	**970 530**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 192**	**169 553**	**92 119**	**1 911**	**478 132**	**106 328**	**4 197**	**12 854**	**866 286**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

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)	-	-
Liquidation	-	-	(398)	(28)	-	-	(1)	-	(427)
Received free of charge	-	-	-	-	-	-	-	-	-
Contribution in kind	-	-	(44)	-	-	-	-	-	(44)
Energy certificates generated internally	-	-	-	-	66 378	-	-	-	66 378
Cancellation of energy certificates	-	-	-	-	(419 127)	-	-	-	(419 127)
Transfers from assets under construction	-	-	307	-	-	-	200	2 158	2 665
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)	-	-
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**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

13. Property, plant and equipment

Movements in the period from 1 January to 30 June 2011 (unaudited)

	Land	Perpetual usufruct	Buildings, premises and constructions	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**61 995**	**789 048**	**10 656 165**	**9 753 514**	**255 375**	**257 369**	**21 773 466**	**723 919**	**22 497 385**
Adjustments	(3 425)	3 425	-	-	-	-	-	-	-
Opening balance after adjustments	58 570	792 473	10 656 165	9 753 514	255 375	257 369	21 773 466	723 919	22 497 385
Direct purchase	-	-	-	481	36	43	560	720 125	720 685
Transfer of assets under construction	1 270	236	244 160	163 496	3 986	18 171	431 319	(431 319)	-
Sale, disposal	(39)	(4 584)	(650)	(1 254)	(1 139)	(46)	(7 712)	(10 474)	(18 186)
Reclassification	-	-	(2)	(2)	-	4	-	-	-
Donations and free-of-charge transfers	-	-	-	(26)	-	(6)	(32)	-	(32)
Liquidation	-	(5)	(9 825)	(103 208)	(738)	(2 117)	(115 893)	(403)	(116 296)
Received free of charge	-	14	10 368	209	-	-	10 591	-	10 591
Received for use under rental, lease or similar agreements	-	-	-	4 542	3	-	4 545	(4 542)	3
Spare parts allocated to fixed assets	-	-	-	(6 153)	-	(142)	(6 295)	-	(6 295)
Overhaul expenses	-	-	200	1 562	-	-	1 762	40 956	42 718
Write-off of discontinued investments	-	-	-	-	-	-	-	(270)	(270)
Transfers to intangible assets	-	-	-	-	-	-	-	(884)	(884)
Items discovered	-	-	831	10	-	1	842	-	842
Items generated internally	-	-	-	-	-	-	-	12 119	12 119
Other movements	(5)	6	(3)	7	-	237	242	394	636
Closing balance	**59 796**	**788 140**	**10 901 244**	**9 813 178**	**257 523**	**273 514**	**22 093 395**	**1 049 621**	**23 143 016**
ACCUMULATED DEPRECIATION									
Opening balance	(374)	(1 341)	(2 353 470)	(2 391 976)	(93 111)	(126 277)	(4 966 549)	(5 900)	(4 972 449)
Depreciation for the period	-	-	(302 583)	(343 667)	(17 876)	(16 122)	(680 248)	-	(680 248)
Increase of impairment	(322)	(46)	(98)	(431)	-	(35)	(932)	-	(932)
Decrease of impairrment	-	-	6	2 193	92	10	2 301	76	2 377
Sale, disposal	-	-	34	699	904	44	1 681	-	1 681
Reclassification	-	-	-	-	-	-	-	-	-
Donations and free-of-charge transfers	-	-	-	23	-	1	24	-	24
Liquidation	-	-	3 430	101 146	608	1 562	106 746	399	107 145
Received free of charge	-	-	-	-	-	-	-	-	-
Transfers to intangible assets	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	(7)	-	(234)	(241)	33	(208)
Closing balance	**(696)**	**(1 387)**	**(2 652 681)**	**(2 632 020)**	**(109 383)**	**(141 051)**	**(5 537 218)**	**(5 392)**	**(5 542 610)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**61 621**	**787 707**	**8 302 695**	**7 361 538**	**162 264**	**131 092**	**16 806 917**	**718 019**	**17 524 936**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**59 100**	**786 753**	**8 248 563**	**7 181 158**	**148 140**	**132 463**	**16 556 177**	**1 044 229**	**17 600 406**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

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 O F THE PERIOD	**58 072**	**790 603**	**8 211 887**	**7 318 889**	**137 364**	**122 978**	**16 639 793**	**483 509**	**17 123 302**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

14. Inventories

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Historical cost		
Raw materials	278 430	294 712
Semi-finished goods and work-in-progress	74 722	87 409
Finished goods	9 032	11 195
Goods for resale	23	14
Property rights arising from energy certificates	27 191	15 626
Emission allowances	4 837	4 664
Total	**394 235**	**413 620**
Write-downs to net realizable value		
Raw materials	(4 433)	(4 578)
Semi-finished goods and work-in-progress	-	-
Finished goods	(188)	(277)
Goods for resale	-	-
Property rights arising from energy certificates	(109)	-
Emission allowances	(570)	(205)
Total	**(5 300)**	**(5 060)**
Net realizable value		
Raw materials	273 997	290 134
Semi-finished goods and work-in-progress	74 722	87 409
Finished goods	8 844	10 918
Goods for resale	23	14
Property rights arising from energy certificates	27 082	15 626
Emission allowances	4 267	4 459
Total	**388 935**	**408 560**

15. Trade receivables

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

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

The value of trade receivables at the end of the 6-month period ended 30 June 2011 is presented in the table below.

Trade receivables

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Value of item before allowance/write-down	1 722 381	1 684 000
Allowance/write-down	(117 791)	(116 063)
Value of item net of allowance (carrying amount)	**1 604 590**	**1 567 937**

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

16. Equity

16.1. Issued capital

Issued capital as at 30 June 2011 (unaudited)

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

Issued capital as at 31 December 2010

Class/ issue	Type of shares	Type of preference	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	-	1 589 438 762	9	14 304 949	cash/in-kind contribution
BB	registered shares	-	163 110 632	9	1 467 996	in-kind contribution
		Total	**1 752 549 394**		**15 772 945**	

On 25 March 2011, the District Court in Katowice registered a decrease of the Company's share capital effected by way of the reduction of the nominal value of shares. The share capital decreased from PLN 15,772,945 thousand to PLN 8,762,747 thousand, due to the reduction of the nominal value of each share from PLN 9 to PLN 5. The resulting amount of PLN 7,010,198 thousand was allocated to the reserve capital. The decrease of the share capital was made in order to restructure the Company's equity.

Shareholding structure as at 30 June 2011 (to the Company's best knowledge)

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 29 March 2011)	2 634 419	30.06%	30.06%
KGHM Polska Miedź S.A. (notification of 23 March 2011)	910 553	10.39%	10.39%
Other shareholders	5 217 775	59.55%	59.55%
Total	**8 762 747**	**100.00%**	**100.00%**

Shareholding structure as at 31 December 2010 (to the Company's best knowledge)

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 28 February 2011)	6 618 257	41.96%	41.96%
KGHM Polska Miedź S.A.	736 402	4.67%	4.67%
Other shareholders	8 418 286	53.37%	53.37%
Total	**15 772 945**	**100.00%**	**100.00%**

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

In the current period, movements in reserve capital were as follows:

- In accordance with the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 6 May 2011, described in detail in Note 11 of these interim condensed consolidated financial statements, part of the Company's reserve capital in the amount of PLN 72,404 thousand resulting from the net profit for 2009 was allocated for the payment of dividend to the Company's shareholders.
- As a result of registration of the decrease of the Company's share capital by way of reduction of the nominal value of shares by the District Court in Katowice on 25 March 2011, as described in detail in Note 16.1 of these interim condensed consolidated financial statements, an amount of PLN 7,010,198 thousand was allocated to the Company's reserve capital. The aforementioned amount is not a subject to distribution for dividend payment.

In the current period, movements in retained earnings were as follows:

- Net profit for the period attributable to equity holders of the parent in the amount of PLN 704,033 thousand.
- In accordance with the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 6 May 2011, described in detail in Note 11 of these interim condensed consolidated financial statements, profit generated by the Company in 2010 in the amount of PLN 190,478 thousand was allocated for the payment of dividend to the Company's shareholders.

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

- An increase of PLN 11,288 thousand resulting from the reacquisition of non-controlling interests by the Group's subsidiaries for the purpose of redemption, as discussed in detail in Note 21 of these interim condensed consolidated financial statements.

Part of retained earnings amounting to PLN 1,048,905 thousand, which is mainly comprised of the parent's net profit for the current period amounting to PLN 1,048,873 thousand, is subject to distribution.

17. Employee benefits and provisions

Movement in provisions for employee benefits in the 6-month period ended 30 June 2011 (unaudited)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Voluntary Redundancy Scheme (VRS)	Provisions, total
Opening balance	**183 009**	**351 573**	**105 955**	**33 526**	**468 688**	**50 330**	**1 193 081**
Current service costs	4 387	2 407	1 089	864	13 147	-	**21 894**
Actuarial gains and losses	3 307	(156)	(841)	402	(10 635)	-	**(7 923)**
Benefits paid	(10 944)	(9 116)	(1 183)	(661)	(16 142)	(33 215)	**(71 261)**
Past service costs	-	3 968	-	-	-	-	**3 968**
Interest expense	6 341	11 239	3 182	1 131	12 487	-	**34 380**
Recognition of provision for VRS	-	-	-	-	-	33 699	**33 699**
Reversal of provision for VRS	-	-	-	-	-	(442)	**(442)**
Closing balance	**186 100**	**359 915**	**108 202**	**35 262**	**467 545**	**50 372**	**1 207 396**
CURRENT	**34 822**	**20 179**	**5 026**	**1 299**	**54 346**	**50 372**	**166 044**
NON-CURRENT	**151 278**	**339 736**	**103 176**	**33 963**	**413 199**	**-**	**1 041 352**

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 Redundancy Scheme (VRS)	Provisions, total
Opening balance	**176 385**	**319 772**	**98 009**	**26 642**	**441 186**	**-**	**1 061 994**
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**
Recognition of provision for VRS	-	-	-	-	-	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**

In the 6-month period ended 30 June 2011, the Group continued to run the voluntary redundancy schemes ("VRS") that were implemented in 2010.

In Elektrownia Stalowa Wola S.A., the voluntary redundancy scheme was set up based on the Regulation dated 18 November 2010. As at 31 December 2010, a provision of PLN 1,120 thousand was recognized for severance payments due to the employees joining the scheme. The related benefits were paid to employees in January and February 2011. The scheme was terminated on 28 February 2011.

ENION S.A. and EnergiaPro S.A. continued the voluntary redundancy schemes that were implemented in December 2010. Benefits were paid in the following amounts: ENION S.A. – PLN 11,616 thousand, EnergiaPro S.A. – PLN 10,676 thousand. In addition, as a result of modification of the terms and conditions of the previous VRS, made in June 2011 by way of an annex, an additional provision of PLN 3,556 thousand was recognized in EnergiaPro S.A.

Południowy Koncern Energetyczny S.A. also continued the voluntary redundancy scheme that was implemented in 2010. In the 6-month period ended 30 June 2011, a provision was recognized in the amount of PLN 9,621 thousand, while part of the provision amounting to PLN 442 thousand was reversed due to the resignation of some individuals from participation in the scheme. The related benefits paid out during the period amounted to PLN 8,670 thousand.

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Furthermore, a Voluntary Redundancy Scheme for employees was set up in PEC Katowice S.A. based on the Regulation dated 28 April 2011. Benefits resulting from the above-mentioned scheme in the amount of PLN 963 thousand were paid in May 2011, thus there was no need for recognizing a provision for the scheme's costs.

In addition, a Redundancy Payment Scheme was set up as part of voluntary redundancy schemes in the ENION S.A. subsidiary based on the Regulation dated 13 April 2011. As a result, the company recognized a provision of PLN 20,522 thousand for redundancy payments due to the employees joining the scheme. Up to the balance sheet date, an amount of PLN 1,133 thousand was paid out under this scheme.

As at 30 June 2011, the following provisions were recognized for amounts payable under the voluntary redundancy schemes:

- PLN 28,477 thousand at ENION S.A.,
- PLN 3,556 thousand at EnergiaPro S.A.,
- PLN 18,339 thousand at Południowy Koncern Energetyczny S.A.

The voluntary redundancy scheme ("VRS") was set up in June 2010. As at 30 June 2010, the provisions were as follows:

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

Except for the provision for payments made under the voluntary redundancy scheme, the Group determines provisions for future employee benefits at an amount estimated using actuarial methods, taking into account the discount rate defined on the basis of market rates of return from treasury bonds. The forecasted provisions for 2011 were prepared based on the previously calculated provisions as at 31 December 2010. Analysis of provisions into non-current and current is made by the Group based on estimates relating to the distribution of payments over time, prepared using actuarial techniques.

The forecast was prepared based on the assumptions used for calculation of provisions as at 31 December 2010. The main assumptions adopted by the actuary as at 31 December 2010 for the calculation of the amount of liability are as follows:

	31 December 2010
Discount rate (%)	5.50%
Estimated inflation rate (%)	2.50%
Employee rotation rate (%)	0.48%-4.82%
Estimated salary increase rate (%)	2.50%
Estimated electricity price increase rate (%)	2.80%
Estimated increase rate for contribution to the Social Fund (%)	4.20%
Remaining average employment period	9.62-16.30

18. Provisions

18.1. Movements in provisions

Movement in provisions for the 6-month period ended 30 June 2011 (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 gas emission obligations	Provision for obligation to surrender energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**34 274**	**612**	**34 699**	**101 173**	**787 031**	**66 903**	**1 024 692**
Discount rate adjustment	-	-	507	-	-	-	**507**
Recognition	5 761	730	384	45 157	595 555	7 315	**654 902**
Reversal	(3 044)	(16)	-	-	(9 318)	(394)	**(12 772)**
Utilization	(80)	(373)	-	(104 728)	(768 511)	(1 880)	**(875 572)**
Other movements	(1 517)	-	1 133	-	25	1 515	**1 156**
Closing balance	**35 394**	**953**	**36 723**	**41 602**	**604 782**	**73 459**	**792 913**
CURRENT	**35 394**	**953**	**-**	**35 089**	**604 782**	**72 734**	**748 952**
NON-CURRENT	**-**	**-**	**36 723**	**6 513**	**-**	**725**	**43 961**

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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 gas emission obligations	Provision for obligation to surrender energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**19 552**	**238**	**22 639**	**-**	**750 015**	**62 360**	**854 804**
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**

18.2. Details of significant provisions

18.2.1 Provision for counterparty claims, court disputes, onerous contracts

18.2.1.1 Provision for proceedings before the Competition and Consumers Protection Office

Provision for the proceedings pending before the Competition and Consumers Protection Office amounts to PLN 15,850 thousand and did not change in comparison to the provision as at 31 December 2010.

18.2.1.2 Provision for claims of ArcelorMittal Poland S.A.

Provision for the claims of ArcelorMittal Poland S.A. amounts to PLN 7,200 thousand and did not change in comparison to the provision as at 31 December 2010.

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

Based on the requirements of the Geological and Mining Law, Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. recognize provisions for future decommissioning costs of their mining facilities. 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, assessments of the usage of land and inflation and discount rates. As at 30 June 2011, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,437 thousand, and the provision recognized by Południowy Koncern Węglowy S.A. amounted to PLN 24,580 thousand. The amounts of the provisions include the balances of the Mine Decommissioning Funds set up by these entities.

Due to the legal obligation to dismantle and remove fixed assets after the period of their usage, Elektrownia Stalowa Wola S.A. recognizes a provision for the estimated future costs necessary to discharge of this obligation. As at 30 June 2011, the provision amounted to PLN 8,706 thousand.

18.2.3 Provision for obligation to surrender energy certificates

Due to the sale of electricity to final users, the Group is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 30 June 2011, the provision recognized in this respect amounted to PLN 604,782 thousand.

18.2.4 Provision for gas emission related obligations

As a result of the purchase of greenhouse gas emission allowances, Południowy Koncern Energetyczny S.A. and Elektrociepłownia EC Nowa Sp. z o.o. recognized a provision for the cost of surrendering those allowances for cancellation, which amounted to PLN 41,602 thousand as at 30 June 2011.

18.2.5 Other provisions

18.2.5.1 Provision for use of land without a contract

The Group companies recognize provisions for all claims reported by the owners of real estate on which distribution systems and heat installations are located. As at 30 June 2011, the provision amounted to PLN 22,929 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

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18.2.5.2 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. The provision including interest for late payments for the period from 2006 to 30 June 2011 amounted to PLN 19,857 thousand.

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

19. Accruals

19.1. Deferred income and government grants

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Deferred income		
Donations, fixed assets received free-of-charge	189 881	186 784
Non-government subsidies	13 830	14 125
Perpetual usufruct	548	572
Subsidies for the purchase of fixed assets	46 320	45 626
Connection fees	325 587	334 352
Other deferred income	11 308	12 245
Total, of which:	**587 474**	**593 704**
Non-current	536 400	540 789
Current	51 074	52 915
Government grants		
Forgiven loans from environmental funds	9 714	10 040
Other deferred government grants	97 159	98 333
Total, of which:	**106 873**	**108 373**
Non-current	100 879	103 733
Current	5 994	4 640

Other deferred government grants comprise mainly government grants received by Południowy Koncern Węglowy S.A. for initial investments in coal mines, amounting to PLN 42,205 thousand, and the remeasurement of preferential loans received by Południowy Koncern Energetyczny S.A. to market value, amounting to PLN 42,735 thousand.

19.2. Accrued expenses

	As at 30 June 2011 (unaudited)	As at 31 December 2010"
Unused holidays	**43 378**	**22 301**
Bonuses	158 908	99 301
Additional excise tax	14 350	5 249
Other	7 105	5 306
Total, of which:	**223 741**	**132 157**
Non-current	-	-
Current	223 741	132 157

The increase of accrued expenses for bonuses results mainly from implementation in the Group changes in the remuneration principles.

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

Loans taken out as at 30 June 2011 and 31 December 2010 are presented in the tables below

Loans taken out as at 30 June 2011 (unaudited)

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	381 016	381 016	23 562	163 960	119 242	43 173	20 057	11 022
EUR	floating	2 154	8 586	613	1 840	2 453	2 453	1 227	-
USD	floating	1 893	5 209	-	5 209	-	-	-	-
Total			**394 811**	**24 175**	**171 009**	**121 695**	**45 626**	**21 284**	**11 022**

Interest increasing carrying amount	402
Total loans	**395 213**

Loans taken out as at 31 December 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	534 046	534 046	152 240	158 589	168 500	36 576	18 119	22
	fixed	210	210	210	-	-	-	-	-
Total PLN		**534 256**	**534 256**	**152 450**	**158 589**	**168 500**	**36 576**	**18 119**	**22**
EUR	floating	2 461	9 747	609	1 828	2 437	2 437	2 437	-
USD	floating	3 641	10 793	-	10 793	-	-	-	-
Total			**554 797**	**153 059**	**171 210**	**170 937**	**39 013**	**20 556**	**22**

Interest increasing carrying amount	401
Total loans	**555 198**

Presented below are movements in loans, excluding interest increasing their carrying amount, in the 6-month periods ended 30 June 2011 and 30 June 2010.

	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Opening balance	**554 797**	**1 178 270**
Movement in bank overdrafts	**(2 464)**	**(46 244)**
Movement in loans (excluding bank overdrafts):	**(157 522)**	**(165 161)**
Taken out	75 594	59 531
Repaid	(235 984)	(233 080)
Change in valuation	2 868	8 388
Closing balance	**394 811**	**966 865**

During the 6-month period ended 30 June 2011, the Group received funds from loans in the amount of PLN 75,594 thousand, which mainly included the proceeds from the investment loan tranche of PLN 60,000 thousand received by EnergiaPro S.A. The funds received were the second and final tranche of the investment loan granted to the company under the agreement signed in 2010 for a total amount of PLN 100,000 thousand.

Liabilities arising from issued debentures as at 30 June 2011 and 31 December 2010 are presented in the tables below.

Debentures issued as at 30 June 2011 (unaudited)

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
TAURON Polska Energia S.A.	floating	PLN	263	845 937	-	-	-	-	845 937	-
Total debentures			**263**	**845 937**	**-**	**-**	**-**	**-**	**845 937**	**-**

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Debentures issued as at 31 December 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
TAURON Polska Energia S.A.	floating	PLN	357	845 650	-	-	-	-	845 650	-
Total debentures			**357**	**845 650**	**-**	**-**	**-**	**-**	**845 650**	**-**

As at 30 June 2011, the Group's liability under issued debentures was comprised of debentures issued on 29 December 2010 by TAURON Polska Energia S.A. in connection with the central financing model implemented in the Group and debt refinancing within the Group, as described in detail in the consolidated financial statements of the Group for the year ended 31 December 2010.

The PLN 287 thousand increase in the balance of issued debentures excluding accrued interest increasing the carrying amount of the liability, which took place in the 6-month period ended 30 June 2011, resulted from the measurement of the debentures at amortized cost.

As at 30 June 2010, the Group's liability under issued debentures in the amount of PLN 556,152 thousand was comprised of debentures issued by Południowy Koncern Energetyczny S.A. The PLN 40,503 thousand movement in the balance of issued debentures excluding interest increasing the carrying amount of the liability, which took place in the 6-month period ended 30 June 2010, resulted from the redemption of debentures amounting to PLN 41,308 thousand and the PLN 805 thousand increase in value arising from remeasurement (deferred commission).

21. Business combinations and acquisition of non-controlling interests

Division of TAURON Obsługa Klienta Sp. z o.o.

At the beginning of 2011, the organizational structure of the Group's companies dealing with sales was changed. The existing selling companies of the Group changed the scope of their operations: TAURON Sprzedaż Sp. z o.o. sells electricity to all clients (under the TAURON Polska Energia brand), while TAURON Obsługa Klienta Sp. z o.o. provides customer service to mass clients and part of business clients. The integration of activities relating to sales and customer service results from the Group's implementation of a business model representing part of its restructuring plan.

On 3 January 2011, the District Court in Cracow registered the increase of the share capital of TAURON Sprzedaż Sp. z o.o. The division of TAURON Obsługa Klienta Sp. z o.o. was effected pursuant to Article 529 § 1 point 4 of the CCC, i.e. by way of the acquisition by TAURON Sprzedaż Sp. z o.o. of part of the assets of TAURON Obsługa Klienta Sp. z o.o. representing an organized part of the enterprise which comprised tangible and intangible assets and liabilities related to the sale of electricity. The share capital of TAURON Sprzedaż Sp. z o.o. was increased by PLN 196,433 thousand, from PLN 282,597 thousand to PLN 479,030 thousand, by way of creating 3,928,649 shares with a nominal value of PLN 50 each, all of which were taken up by TAURON Polska Energia S.A.

As a result of the division of TAURON Obsługa Klienta Sp. z o.o., its share capital was decreased by PLN 32,932 thousand, from PLN 35,650 thousand to PLN 2,718 thousand, by way of redemption of 329,316 shares with a value of PLN 100 each. The decrease of the share capital was registered on 31 December 2010.

Due to the fact that the changes discussed above were of restructuring nature and took place in the Group companies, they had no impact on the interim condensed consolidated financial statements prepared as at 30 June 2011.

Acquisition of non-controlling interests

The TAURON Polska Energia S.A. Group continues the processes of compulsory reacquisition (squeeze-out) of their own shares by Południowy Koncern Energetyczny S.A., ENION S.A., EnergiaPro S.A., Elektrownia Stalowa Wola S.A., Elektociepłownia Tychy S.A. and Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. for the purpose of their redemption. As a result of the purchase of own shares, non-controlling interests in equity have decreased in the first half of 2011 by PLN 25,630 thousand, while retained earnings have increased by PLN 11,081 thousand.

In addition, the purchase of its own shares by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. for redemption purposes, as discussed in detail in Note 2, resulted in the decrease of non-controlling interests by PLN 11,833 thousand and in the increase of retained earnings by PLN 207 thousand.

22. Financial instruments

The fair values of the financial instruments held by the Group as at 30 June 2011 and 31 December 2010 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

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The carrying amounts and fair values of the particular classes and categories of financial instruments as at 30 June 2011 and 31 December 2010 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at30 June 2011 (unaudited)	As at 31 December 2010
1. Assets at fair value through profit or loss	**529**	**7 658**
Shares in unlisted and listed companies (current)	529	553
Investment fund units	-	6 848
Derivative instruments	-	257
2. Financial assets available for sale	**161 681**	**156 089**
Shares in unlisted and listed companies (non-current)	152 037	148 514
Shares in unlisted and listed companies (current)	5 375	1 058
Investment fund units	2 769	2 958
Bonds, T-bills and other debt securities	1 500	1 500
Other financial assets available for sale	-	2 059
3. Financial assets held to maturity	**135**	**-**
Bonds, T-bills and other debt securities	135	-
4. Loans and receivables	**2 454 545**	**2 315 043**
Trade receivables	1 604 590	1 567 937
Deposits	25 184	35 493
Loans granted	215	240
Other	824 556	711 373
5. Financial assets excluded from the scope of IAS 39	**13 223**	**764**
Investments in associates and joint ventures recognised using the equity method	13 223	764
6. Derivative hedging instruments (assets)	**-**	**-**
7. Cash and cash equivalents	**1 376 104**	**1 473 981**

The balance of other loans and receivables as at 30 June 2011 comprises mainly terminated long-term contracts receivables in the amount of PLN 536,651 thousand. The increase of the balance of other loans and receivables in the 6-month period ended 30 June 2011 results from the increase of terminated long-term contracts receivables in the amount of PLN 83,477 thousand.

Categories and classes of financial assets	Carrying amount	
	As at30 June 2011 (unaudited)	As at 31 December 2010
1. Financial liabilities at fair value through profit or loss	**165**	**6 917**
Derivative instruments	165	6 917
2. Financial liabilities measured at amortized cost	**2 727 253**	**3 030 921**
Preferential loans	207 007	243 323
Arm's length loans	188 206	309 411
Bank overdrafts	-	2 464
Issued debentures and other debt securities	846 200	846 007
Trade payables	811 355	945 457
Other financial liabilities	324 816	90 057
Commitments resulting from purchases of fixed and intangible assets	238 274	388 467
Salaries and wages	91 166	178 482
Insurance contracts	20 229	27 253
3. Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**79 032**	**91 262**
Obligations under finance leases and hire purchase contracts	79 032	91 262
4. Derivative hedging instruments (liabilities)	**-**	**-**

Other financial liabilities comprise a dividend payable to the Company's shareholders in the amount of PLN 262,882 thousand.

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23. Financial risk management objectives and policies

On 10 May 2011 the Parent Company's Management Board adopted a resolution implementing specific risk management policy in the finance area of the Group, which objectives are as follow:

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

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

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

As a result of implementation of the specific risk management policy in the finance area, the financial risk management function was centralized in order to optimize the financial risk management process, including minimization of the Group's costs in this area. From the perspective of financial risk management in the Group, the individual companies are responsible for identifying, measuring and reporting the financial risk associated with their activities to the parent company.

As at 30 June 2011, the Company did not enter into any hedge transactions under the specific risk management policy in the finance area.

24. Capital management

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

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Interest-bearing loans and borrowings	1 241 413	1 401 205
Trade and other payables, finance leases and hire purchase commitments	1 565 037	1 727 895
Less cash and cash equivalents	1 376 104	1 473 981
Net debt	**1 430 346**	**1 655 119**
Equity attributable to equity holders of the parent	15 157 415	14 704 825
Total capital	**15 157 415**	**14 704 825**
Capital and net debt	**16 587 761**	**16 359 944**
Leverage ratio	9%	10%

25. Contingent liabilities and contingent assets

Administrative proceedings initiated by the President of the Energy Regulatory Office

Due to interruptions in electricity supply, in 2010 the President of the Energy Regulatory Office (URE) instituted ex officio proceedings in the matter of imposing cash penalties on ENION S.A. and TAURON Sprzedaż Sp. z o.o. due to the identification of a breach of law in their operations consisting in the application of rates and charges that were inconsistent with the terms relating to bonuses granted for interruptions in electricity supply. These proceedings ended with the Decision of the President of URE of 11 March 2011 imposing cash penalties on ENION S.A. at an amount of PLN 1,000 thousand and on TAURON Sprzedaż Sp. z o.o. at an amount of PLN 500 thousand. ENION S.A and TAURON Sprzedaż Sp. z o.o. filed an appeal against the aforementioned decision with the Court of Competition and Consumers Protection. At the same time, in March 2011 TAURON Sprzedaż Sp. z o.o. recognized a provision of PLN 500 thousand for the potential obligation to pay the above-mentioned penalty.

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Antimonopoly proceedings

The Competition and Consumers Protection Office is conducting two antimonopoly proceedings with respect to ENION S.A. These proceedings relate to the alleged abuse of the dominant position on the electricity distribution market. An appeal has been filed against the decision of the Competition and Consumers Protection Office (see Note 19.2.1.). The Company's directors and management of the aforementioned company believe that its operations in the area of electricity distribution are carried out in conformity with binding regulations and the outcome of the above-mentioned proceedings will have no significant impact on the Group's financial position.

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.

In accordance with the accounting policy adopted, in 2008, 2009, 2010 and for the 6-month period ended 30 June 2011 PKE recognized, based on the developed financial model, compensation revenue amounting to PLN 192,163 thousand, PLN 483,956 thousand, PLN 437,875 thousand and PLN 168,770 thousand, respectively.

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 2011, the President of URE determined the amount of the annual adjustment to be made by Południowy Koncern Energetyczny S.A. to stranded costs for 2010 at PLN 205,703 thousand.

	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Revenue from compensations for terminated long-term PPAs	168 770	220 396
Cash inflows generated from compensations concerning terminated long-term PPAs	85 292	113 516

Other contingent liabilities

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Suretyship for the repayment of loan	2 908	3 108
Suretyship for the repayment of promissory note	414	414
Liabilities arising from bank guarantees	4 176	2 251
Liabilities arising from legal actions	2 240	2 400
Other contingent liabilities	1 415	2 195
Total contingent liabilities	**11 153**	**10 368**

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 2010.

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

26. Assets pledged as security

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

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

Carrying amount of assets pledged as security for liabilities

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Real estate	732 594	3 313 463
Plant and equipment	141 400	275 467
Motor vehicles	2 448	4 241
Assets under construction	224	224
Cash	134	3 772
Other financial and non-financial receivables	3 863	16 850
Total assets pledged as security for liabilities	**880 663**	**3 614 017**

The significant decrease in the carrying amount of assets pledged as security for liabilities is due to the restructuring of debt within the Group. Using the funds obtained from the issue of intercompany debentures that were acquired by TAURON Polska Energia S.A. in December 2010 and in January 2011, Południowy Koncern Energetyczny S.A. redeemed the debentures previously issued and repaid its investment loans. As a result, the following mortgages and registered pledges were deleted from the registers: in respect of real estate – for an amount of PLN 2,540,281 thousand, plant and machinery – PLN 26,721 thousand, and other financial and non-financial receivables – PLN 15,001 thousand. Likewise, Południowy Koncern Węglowy S.A. deleted mortgages (PLN 32,640 thousand) and registered pledges on plant and machinery (PLN 89,873 thousand) from the registers due to the repayment of loans.

In addition to the collaterals listed above, the Group also uses other forms of security to secure payment of liabilities, of which the most significant ones as at 30 June 2011 related to loans taken out by Południowy Koncern Energetyczny S.A. and included: assignment of receivables amounting to PLN 132,000 thousand, authorizations to bank accounts – PLN 182,000 thousand and blank promissory notes for PLN 207,000 thousand. Loans taken out by the companies from the distribution segment were secured by granting authorizations to dispose of the funds in borrowers' bank accounts up to the balance of the outstanding loan plus interest and other amounts due to the bank – a total of PLN 136,412 thousand as at 30 June 2011. Elektrociepłownia Tychy S.A. issued a blank promissory note for an amount of PLN 92,383 thousand to secure the sale and leaseback agreement signed in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, real estate mortgage (in the table above) and authorization to dispose of bank accounts.

The parent, under the debentures issue program, signed a declaration of submission to enforcement for an amount up to PLN 1,560,000 thousand.

In addition, in order to secure the agreement for bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement up to the amount of PLN 48,000 thousand and granted authorizations to bank accounts up to the amount of PLN 40,000 thousand.

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

27. Capital commitments

As at 30 June 2011, the Group has committed to incur expenditures for property, plant and equipment in the amount of PLN 1,928,937 thousand which mainly refers to capital commitments of PKE S.A. among which the largest items represented by capital commitments relate to the restoration of power capacity at the Bielsko-Biała CHP Plant in the amount of PLN 315,730 thousand, accommodation of OP-650k boiler to reduce emission of nitric oxide in Elektrownia Jaworzno III in the amount of PLN 180,096 thousand and contract for construction of biomass boiler in Elektrowania Jaworzno III with auxiliary devices, delivery and storage system of biomass in the amount of PLN 134,905 thousand.

Capital commitments of the TAURON Polska Energia S.A. Group as at 31 December 2010 amounted to PLN 1,096,642 thousand. The largest item was capital commitments related to the restoration of power capacity at the Bielsko-Biała CHP Plant, amounting to PLN 360,700 thousand.

28. Transactions with State Treasury companies

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

Interim condensed consolidated financial statements for the 6-month period ended 30 June 2011 (in PLN thousands)

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

Przychody i koszty

	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Revenue	758 063	599 444
Costs*	(1 506 271)	(1 177 377)

* includes costs recognized in the statement of comprehensive income

Receivables and payables

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Receivables	212 352	249 525
Payables	290 846	379 597

The figures presented above relate to transactions with State Treasury companies according to the classification of State Treasury companies with a significant share in revenues and costs in 2010, prepared as at 31 December 2010. Comparative figures present transactions with State Treasury companies according to their classification as at 30 June 2010, i.e. before updating the list of State Treasury companies.

In the 6-month period ended 30 June 2011, PSE Operator S.A., Kompania Węglowa S.A. and KGHM Polska Miedź S.A. were the Company's largest customers among the State Treasury companies, which accounted for 89% of total revenue from State Treasury companies. In the 6-month period ended 30 June 2011, the largest costs were incurred by the Group in transactions with PSE Operator S.A. and Kompania Węglowa S.A. They accounted for 85% of total costs incurred as a result of transactions with State Treasury companies.

Furthermore, the Capital Group enters into significant transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only deals with organization of stock exchange trading, the Company does not consider purchase and sale transactions made through this entity as related party transactions. Comparative figures for 2010 have been restated.

In the 6-month period ended 30 June 2010, KGHM Polska Miedź S.A., Kompania Węglowa S.A. and PSE Operator S.A. were the Company's largest contractors among the State Treasury companies.

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 sharehol-ding of the State Treasury).

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management per-sonnel of the parent and of the subsidiaries for the 6-month period ended 30 June 2011 is presented in the table below.

	6-month period ended 30 June 2011 (unaudited)		Year ended 31 December 2010	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	**5 057**	**12 285**	**5 967**	**15 318**
Short-term employee benefits (salaries and surcharges)	4 424	10 759	5 200	14 282
Jubilee bonuses	-	-	73	246
Post-employment benefits	83	360	41	-
Employment termination benefits	-	-	-	31
Other	550	1 166	653	759
Supervisory Board	**344**	**1 144**	**329**	**2 872**
Short-term employee benefits (salaries and surcharges)	344	1 096	329	2 691
Other	-	48	-	181
Total	**5 401**	**13 429**	**6 296**	**18 190**
Other key management personnel	**3 477**	**16 585**	**5 745**	**32 826**
Short-term employee benefits (salaries and surcharges)	3 116	15 889	5 079	31 549
Jubilee bonuses	35	294	91	736
Post-employment benefits	-	-	-	61
Employment termination benefits	34	305	-	-
Other	292	97	575	480

30. Details of other significant changes in the reporting period

30.1. Revenue from sale of goods for resale, finished goods and materials

The increase of revenue from sale of goods for resale, finished goods and materials in the 6-month period ended 30 June 2011 is mainly due to the amendment to the Energy Law effective from 9 August 2010, which imposes an obligation on generators to sell electricity through public sale. As a result, the companies from the segment of "Generation of electricity using conventional sources" sold about 90% of the total volume of their sales of electricity through the power exchange and power trading platforms. Prior to the aforementioned amendment, sales of electricity by companies from the "Generation of electricity using conventional sources" segment were eliminated in the process of preparing consolidated financial statements due to the fact that almost the whole volume of electricity generated was sold to Group companies.

The application of the aforementioned regulations has also resulted in the increase of the cost of sales for the 6-month period ended 30 June 2011.

30.2. Finance costs

The decrease of finance costs in the 6-month period ended 30 June 2011 in comparison to 6-month period ended 30 June 2010 results mainly from the decrease of interest expense being the result of implementation the central financing model in fourth quarter 2010.

30.3. Other current and long-term non-financial assets

The increase in the balance of long-term non-financial assets is mainly due to the increase in prepayments for fixed assets, which are related to the following construction contracts carried out by Południowy Koncern Energetyczny S.A.: the new power unit at the Bielsko–Biała CHP Plant –amounting to PLN 31,807 thousand, the new OZE unit at the Jaworzno III Power Plant – amounting to PLN 20,236 thousand, and the new 910 MW power unit at the Elektrownia Jaworzno III Power Plant – amounting to PLN 5,558 thousand at the balance sheet date.

Current non-financial assets amounting to PLN 226,633 thousand as at 30 June 2011 mainly include costs of preparing production and costs of drilling tunnels in hard coal mines amounting to PLN 82,254 thousand, and prepayments for the Social Fund amounting to PLN 35,621 thousand and input VAT receivables in the amount of PLN 33,980 thousand. The increase in current non-financial assets mainly results from the increase in prepayments due to transfers made to the Social Fund.

30.4. Other long-term financial assets

The increase in other long-term financial assets of PLN 7,634 thousand is mainly due to the acquisition of shares in a non-related entity, PEC Ruda Śląska sp. z o.o., with a value of PLN 10,001 thousand by Południowy Koncern Energetyczny S.A., the disposal of shares in non-related entities P.U.P.H. Jarem Sp. z o.o. and P.U.H. Etrans Sp. z o.o., with a value of PLN 4,098 thousand, by Południowy Koncern Energetyczny S.A. and the increase of PLN 3,342 thousand in the Mine Decommissioning Fund deposits held by Południowy Koncern Węglowy S.A.

30.5. Other current financial assets

The decrease in other current financial assets of PLN 18,448 thousand mainly results from the termination, in April and May 2011, of short-term cash deposits held by Kopalnia Wapienia Czatkowice Sp. z o.o., with a nominal value of PLN 13,000 thousand.

30.6. Other current liabilities

The change in the balance of other current liabilities amounting to PLN 66,556 thousand was mainly due to the decrease in taxation, customs duty, social security and other payables amounting to PLN 75,356 thousand and increase in the excess of Social Fund liabilities over Social Fund assets amounting to PLN 8,564 thousand.

31. Events after the balance sheet date

On 26 July 2011, Południowy Koncern Energetyczny S.A. and TAURON Polska Energia S.A. signed an agreement for the sale of shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in order to settle part of the liability of Południowy Koncern Energetyczny S.A. relating to the payment of a dividend due to the Company in respect of dividend for the year 2010. Południowy Koncern Energetyczny S.A. sold all of its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., namely 700 shares with a nominal value of PLN 6 thousand each, i.e. total nominal value of PLN 4,200 thousand, for the total amount of PLN 42,170 thousand. The value of purchased shares was determined based on valuation dated 20 June 2011. On 26 July 2011, the shares were transferred to the Company.

These interim condensed consolidated financial statements of the TAURON Polska Energia S.A. Capital Group prepared for the 6-month period ended 30 June 2011 in accordance with International Financial Reporting Standards 34 consist of 45 pages.

Katowice, 10 August 2011

Dariusz Lubera - President ....

Joanna Schmid - Vice-president ....

Dariusz Stolarczyk - Vice-president ....

Krzysztof Zamasz - Vice-president ....

Krzysztof Zawadzki - Vice-president ....

INDEPENDENT AUDITORS' REVIEW REPORT
ON THE INTERIM CONDENSED FINANCIAL STATEMENTS OF

TAURON POLSKA ENERGIA S.A.

FOR THE FIRST HALF OF 2011

AUGUST 2011

Translation of auditors' report originally issued in Polish

Independent Auditors' Review Report on the Interim Condensed Financial Statements for the 6-month period ended 30 June 2011

To the Shareholders and Supervisory Board 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 Lwowska Street 23, including the interim condensed statement of financial position as at 30 June 2011, 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 2011 to 30 June 2011 and other explanatory notes ('the 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, 10 August 2011

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

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 2011

AUGUST 2011

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INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2011

	Note	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		4 220 685	3 401 855
Excise		(8 344)	-
Sale of goods for resale, finished goods and materials		4 212 341	3 401 855
Rendering of services		13 633	4 872
Other income		-	13
Sales revenue		**4 225 974**	**3 406 740**
Cost of sales		(4 132 485)	(3 335 529)
Gross profit		**93 489**	**71 211**
Other operating income		72	124
Selling and distribution expenses		(9 221)	(5 130)
Administrative expenses		(38 035)	(53 657)
Other operating expenses		(460)	(344)
Operating profit		**45 845**	**12 204**
Dividends		1 009 580	181 948
Finance income		49 889	2 884
Finance costs		(43 982)	(566)
Profit before tax		**1 061 332**	**196 470**
Income tax expense	**9**	(12 459)	(7 401)
Net profit from continuing operations		**1 048 873**	**189 069**
Net profit for the period		**1 048 873**	**189 069**
Other comprehensive income		**-**	**-**
Total comprehensive income for the period		**1 048 873**	**189 069**
Earnings per share (in PLN)			
- basic, for profit for the period		0.60	0.12
- basic, for profit from continuing operations for the period		0.60	0.12
- diluted, for profit for the period		0.60	0.12
- diluted, for profit from continuing operations for the period		0.60	0.12

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	As at 30 June 2011 (unaudited)"	As at 31 December 2010"
ASSETS			
Non-current assets			
Property, plant and equipment		7 406	5 425
Intangible assets	**12**	21 392	17 095
Shares in unlisted and listed companies	**13**	16 353 470	16 353 470
Bonds, T-bills and other debt securities	**19**	909 500	848 200
Other long-term non-financial assets		1 629	1 686
Deferred tax asset	**9**	17 023	8 514
		17 310 420	**17 234 390**
Current assets			
Inventories	**14**	9 659	9 238
Corporate income tax receivables		-	2 822
Trade and other receivables	**15, 19**	1 080 269	634 531
Bonds, T-bills and other debt securities	**19**	823	383
Other financial assets		-	257
Other current non-financial assets		18 564	36 553
Cash and cash equivalents	**10**	1 164 994	527 011
		2 274 309	**1 210 795**
Non-current assets classified as held for sale		**-**	**-**
TOTAL ASSETS		**19 584 729**	**18 445 185**
EQUITY AND LIABILITIES			
Equity			
Issued capital	**16**	8 762 747	15 772 945
Reserve capital		7 412 882	475 088
Retained earnings/Accumulated losses		1 134 043	275 648
Total equity		**17 309 672**	**16 523 681**
Non-current liabilities			
Interest-bearing loans and borrowings	**18, 19**	845 937	845 650
Finance lease and hire purchase commitments	**19**	35	136
Long-term provisions and employee benefits		3 133	2 606
		849 105	**848 392**
Current liabilities			
Trade and other payables	**19**	424 166	540 702
Current portion of interest-bearing loans and borrowings	**18, 19**	811 838	461 627
Current portion of finance lease and hire purchase commitments	**19**	534	906
Other current liabilities		90 584	26 094
Accruals and government grants		6 128	6 719
Corporate income tax payables		11 244	-
Short-term provisions and employee benefits	**17**	81 458	37 064
		1 425 952	**1 073 112**
Total liabilities		**2 275 057**	**1 921 504**
TOTAL EQUITY AND LIABILITIES		**19 584 729**	**18 445 185**

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2011

	Note	Issued capital	Reserve capital	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2011		**15 772 945**	**475 088**	**275 648**	**16 523 681**
Profit for the period		-	-	1 048 873	1 048 873
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**-**	**-**	**1 048 873**	**1 048 873**
Appropriation of prior year profits		-	-	-	-
Dividend	**11**	-	(72 404)	(190 478)	(262 882)
Decrease of issued capital through a reduction of the nominal value of shares	16	(7 010 198)	7 010 198	-	-
As at 30 June 2011 (unaudited)		8 762 747	7 412 882	1 134 043	17 309 672
Na dzień 30 czerwca 2011 roku (niebadane)		**8 762 747**	**7 412 882**	**1 134 043**	**17 309 672**

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		-	176 159	(176 159)	-
Issue of shares		318 665	-	-	318 665
Payment from profit		-	-	32	32
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 CASH FLOWS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2011

	Note	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Cash flows from operating activities			
Profit / (loss) before taxation		1 061 332	196 470
Adjustments for:			
Depreciation and amortization		2 343	1 545
(Gain)/loss on foreign exchange differences		(55)	(24)
Interest and dividends, net		(1 014 399)	(181 845)
(Gain) / loss on investing activities		664	–
(Increase) / decrease in receivables		(689)	(122 922)
(Increase) / decrease in inventories		(421)	(3 206)
Increase / (decrease) in payables excluding loans and borrowings		(316 479)	(71 633)
Change in other non-current and current assets		15 391	4 418
Change in deferred income, government grants and accruals			
Change in provisions		(591)	(688)
Income tax paid		44 921	18 056
Other		(6 902)	(6 717)
Pozostałe		–	32
Net cash used in operating activities		**(214 885)**	**(166 514)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		55	–
Purchase of property, plant and equipment and intangible assets		(1 996)	(3 225)
Purchase of bonds, T-bills and other debt securities		(61 300)	–
Dividends received		550 550	13 289
Loans granted		(168 000)	–
Repayment of loans granted		168 000	–
Interest received		25 697	–
Other		–	3 546
Net cash used in investing activities		**513 006**	**13 610**
Cash flows from financing activities			
Acquisition of treasury shares		–	(245)
Payment of finance lease liabilities		(473)	(387)
Interest paid		(21 406)	(102)
Other		(2 603)	(400)
Net cash used in financing activities		**(24 482)**	**(1 134)**
Net increase / (decrease) in cash and cash equivalents		**273 639**	**(154 038)**
Net foreign exchange difference		57	24
Cash and cash equivalents at the beginning of the period		**85 574**	**213 402**
Cash and cash equivalents at the end of the period, of which:	**10**	**359 213**	**59 364**
restricted cash		59 724	13 040

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 2011 and include comparative figures for the 6-month period ended 30 June 2010 and as at 31 December 2010.

The figures for the period ended 30 June 2011 as well as the comparative figures for the period ended 30 June 2010, as included in these interim condensed financial statements, were reviewed by an independent auditor. Comparative figures as at 31 December 2010 were audited 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 with 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 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.

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 IFRS for the year ended 31 December 2010.

These interim condensed financial statements for the 6-month period ended 30 June 2011 were authorized for issue on 10 August 2011.

The Company also prepared interim condensed consolidated financial statements for the 6-month period ended 30 June 2011, which were authorized for issue by the Board of Directors on 10 August 2011.

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 2011.

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 financial statements of the TAURON Polska Energia S.A. for the year ended 31 December 2010, except for application of the following amendments to standards and new interpretations effective for annual periods beginning on or after 1 January 2011:

- Amendments to IAS 32 *Financial instruments: Presentation: Classification of Rights Issues* – effective for annual periods beginning on or after 1 February 2010. Application of these amendments had no impact on the Company's financial position or the results of its operations, since no events took place that would have been affected by the aforementioned amendments.

- IAS 24 *Related Party Disclosures* (revised in November 2009) – effective for annual periods beginning on or after 1 January 2011. The revised IAS 24 is applied by the Company retrospectively for annual periods beginning on or after 1 January 2011.
- Amendments to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of Minimum Funding Requirements* – effective for annual periods beginning on or after 1 January 2011. Application of these amendments had no impact on the Company's financial position or the results of its operations, since no events took place that would have been affected by the aforementioned amendments.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – effective for annual periods beginning on or after 1 July 2010. Application of this interpretation had no impact on the Company's financial position or results.
- Amendment to IFRS *1 First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – effective for annual periods beginning on or after 1 July 2010. Application of these amendments had no significant impact on the Company's financial position or results.
- Improvements to IFRSs (issued in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, and others are effective for annual periods beginning on or after 1 January 2011. Application of these amendments had no significant impact on the Company's financial position or results.

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

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

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – effective for annual periods beginning on or after 1 January 2013 – not endorsed by the EU until the date of authorization of these financial statements. In the next phases, IASB will deal with hedge accounting and impairment methodology. The project is expected to be completed in mid 2011. The application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets. The Company will assess this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent view,
- Amendment to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* - effective for annual periods beginning on or after 1 July 2011 – not endorsed by the EU until the date of authorization of these financial statements,
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – effective for annual periods beginning on or after 1 January 2012 - not endorsed by the EU until the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – effective for annual periods beginning on or after 1 July 2011 – not endorsed by the EU until the date of authorization of these financial statements,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income – applicable to annual periods beginning on or after 1 July 2012 – not endorsed by the EU as at the date of authorization of these financial statements.

As at the date of these interim condensed financial statements, the Company's Management Board has not completed the analysis that would enable it to determine whether or not and to what extent the introduction of the aforementioned standards and interpretations may affect the Company's accounting policies.

5. 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.

6. Shares in related entities

As at 30 June 2011 TAURON Polska Energia S.A. held shares, either directly or indirectly, in the following significant subsidiaries:

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 2011	% held by TAURON in the entity's governing body	Holder of shares as at 30 June 2011
1	Południowy Koncern Energetyczny S.A.	40–389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99,46%	TAURON Polska Energia S.A. – 99,46%	99,46%	TAURON Polska Energia S.A. – 99,46%
2	ENION S.A.	30–390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99,70%	TAURON Polska Energia S.A. – 99,70%	99,70%	TAURON Polska Energia S.A. – 99,70%
3	EnergiaPro S.A.	53–314 Wrocław; Pl. Powstańców Śląskich 20	Transmission and distribution of electricity	99,00%	TAURON Polska Energia S.A. – 99,00%	99,00%	TAURON Polska Energia S.A. – 99,00%
4	Elektrownia Stalowa Wola S.A.	37–450 Stalowa Wola; ul. Energetyków 13	Generation and distribution of electricity and heat	99,74%	TAURON Polska Energia S.A. – 99,74%	99,74%	TAURON Polska Energia S.A. – 99,74%
5	TAURON Sprzedaż 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	TAURON Obsługa Klienta Sp. z o.o.	53–314 Wrocław; Pl. Powstańców Śląskich 16	Customer service	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 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.[1]	32–063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99,46%	PKE S.A. – 100,00%	99,46%	PKE S.A. – 100,00%
10	Południowy Koncern Węglowy S.A.[1]	43–600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52,20%	PKE S.A. – 52,48%	67,64%	PKE S.A. – 68,01%
11	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.[1]	40–389 Katowice; ul. Lwowska 23	Trading in electricity	99,53%	PKE S.A. – 87,50%; TAURON Polska Energia S.A. – 12,50%	99,53%	PKE S.A. – 87,50%; TAURON Polska Energia S.A. – 12,50%
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.	720 00 Ostrawa, Na Rovince 879/C Republika Czeska	Trading in electricity	100,00%	TAURON Polska Energia S.A. –100%	100,00%	TAURON Polska Energia S.A. –100%
16	BELS INVESTMENT Sp. z o.o.	58–500 Jelenia Góra, ul. Obrońców Pokoju 2B.	Generation of electricity	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%
17	MEGAWAT MARSZEWO Sp. z o.o.	58–500 Jelenia Góra, ul. Obrońców Pokoju 2B.	Generation of electricity	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%	100,00%	TAURON Ekoenergia Sp. z o.o. – 100,00%

[1] TAURON Polska Energia S.A. is the usufructuary of shares owned by PKE S.A. Under agreements for the usufruct of shares, TAURON Polska Energia S.A. holds 100% interests in the share capital and in the governing body of Polska Energia Pierwsza Kompania Handlowa sp. z o.o. and Kopalnia Wapienia Czatkowice sp. z o.o. Under an agreement for the usufruct of shares, TAURON Polska Energia S.A. holds a 52.48% interest in the share capital of Południowy Koncern Węglowy S.A., giving it 68.01% of votes at the company's General Shareholders' Meeting. On 26 July 2011 Południowy Koncern Energetyczny S.A. transferred all of its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. to TAURON Polska Energia S.A. in order to settle part of its dividend liability. As a result, the Company increased its direct interest in the capital and in the governing body of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. to 100%.

In March 2011, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. signed contracts for the purchase of 200 of its own shares with a total nominal value of PLN 1,200 thousand from the shareholders of Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz Sp. z o.o.

The purchase of shares for the purpose of redeeming them using the net profit was made based on the resolution of the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. dated 30 December 2010. The consideration for the shares was paid to both of the existing shareholders until the end of March 2011. On 21 April 2011 the District Court in Katowice registered redemption of shares of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

As a result, the direct interest of TAURON Polska Energia S.A. in the share capital of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. increased from 10% to 12.50% (in the governing body – from 27.78% to 31.25% votes), while the direct interest of Południowy Koncern Energetyczny S.A. – from 70% to 87.50% (in the governing body – from 61.11% to 68.75% of votes).

After the balance sheet date, as described in detail in Note 26, the Company purchased from Południowy Koncern Energetyczny S.A. all of the shares held by Południowy Koncern Energetyczny S.A. in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., thus increasing its direct interest in the capital and in the governing body of this company to 100%.

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.

As a result of the Company's holding activities, its finance income may show significant fluctuations due to revenue from dividends, which is recognized at the date of the resolution on the payment of dividend, unless the resolution indicates a different date for establishing the right to the dividend. In 2011, the resolutions on the appropriation of the 2010 profits in the subsidiaries and on the allocation of prior year profits for the payment of dividends were adopted in the second quarter of 2011. In June 2011 the Company received dividend payments in the amount of PLN 550,550 thousand. In the period after the balance sheet date until the date of authorization of these interim condensed financial statements, other amounts due in respect of the dividend were paid in cash amounting to PLN 416,860 thousand and through the transfer by Południowy Koncern Energetyczny S.A. to TAURON Polska Energia S.A. of all of its shares held in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. with a total value of PLN 42,170 thousand (see Note 26).

In 2010, resolutions on the appropriation of the 2009 profits in the subsidiaries and the allocation of profits for the payment of dividend were adopted in the second quarter of the year, while dividend payments took place in June 2010 in the amount of PLN 13,289 thousand and in July 2011 in the amount of PLN 168,659 thousand.

8. Segment information

The Company's operations are presented in the following two segments: the "Sale of Electricity and Other Energy Market Products" segment and the "Holding activity" segment.

Assets of the "Holding activity" segment comprise shares in subsidiaries, dividend receivables from subsidiaries, debentures acquired from subsidiaries and cash pool loan receivables including the cash pool deposit. Segment liabilities comprise debentures issued by TAURON Polska Energia S.A. and cash pool loan liabilities. Finance income and costs comprise dividend income and net interest income and costs generated and incurred by the Company due to the Group's central financing model.

In the first quarter of 2011, the Company decided to change the method of unallocated expenses analysis and to include administrative expenses under this item. The administrative expenses are incurred for the whole Group and they cannot be allocated directly to a single segment.

The change in the method of analyzing unallocated expenses affected the presentation of the note relating to the operating segments. In prior periods, administrative expenses were presented within the "Sale of Electricity and Other Energy Market Products" segment. The note for the comparable period has been restated according to the amended principles of presentation of unallocated expenses as a result of the change in the method of analyzing segments by the Group.

6-month period ended 30 June 2011 or as at 30 June 2011 (unaudited)	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	819 103	-	-	819 103
Sales within the Group	3 406 871	-	-	3 406 871
Segment revenue	**4 225 974**	**-**	**-**	**4 225 974**
Profit/(loss) of the segment	**83 880**	**-**	**-**	**83 880**
Unallocated expenses	-	-	(38 035)	(38 035)
Profit/(loss) from continuing operations before tax and net finance income (costs)	**83 880**	**-**	**(38 035)**	**45 845**
Net finance income/(costs)	-	1 010 770	4 717	1 015 487
Profit/(loss) before income tax	**83 880**	**1 010 770**	**(33 318)**	**1 061 332**
Income tax expense	-	-	(12 459)	(12 459)
Net profit/(loss) for the period	**83 880**	**1 010 770**	**(45 777)**	**1 048 873**
Assets and liabilities				
Segment assets	779 692	18 788 013	-	19 567 705
Unallocated assets	-	-	17 024	17 024
Total assets	**779 692**	**18 788 013**	**17 024**	**19 584 729**
Segment liabilities	340 245	1 657 775	-	1 998 020
Unallocated liabilities	-	-	277 037	277 037
Total liabilities	**340 245**	**1 657 775**	**277 037**	**2 275 057**
Other segment information				
Capital expenditure *	5 980	-	-	5 980
Depreciation/amortization	(2 343)	-	-	(2 343)
Impairment of non-financial assets	(473)	-	-	(473)

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

In the 6-month period ended 30 June 2011, the Company's revenue from its key client, amounting to the total of PLN 2,814,169 thousand, accounted for 67% of the Company's total revenue in the "Sale of electricity and other energy market products" segment.

6-month period ended 30 June 2010 (unaudited) or as at 31 December 2010	Sales of electricity and other energy market products	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	216 779	-	-	216 779
Sales within the Group	3 189 961	-	-	3 189 961
Segment revenue	**3 406 740**	**-**	**-**	**3 406 740**
Profit/(loss) of the segment	**65 861**	**-**	**-**	**65 861**
Unallocated expenses	-	-	(53 657)	(53 657)
Profit/(loss) from continuing operations before tax and net finance income (costs)	**65 861**	**-**	**(53 657)**	**12 204**
Net finance income/(costs)	-	181 968	2 298	184 266
Profit/(loss) before income tax	**65 861**	**181 968**	**(51 359)**	**196 470**
Income tax expense	-	-	(7 401)	(7 401)
Net profit/(loss) for the period	**65 861**	**181 968**	**(58 760)**	**189 069**
Assets and liabilities				
Segment assets	1 211 720	17 221 872	-	18 433 592
Unallocated assets	-	-	11 593	11 593
Total assets	**1 211 720**	**17 221 872**	**11 593**	**18 445 185**
Segment liabilities	609 217	1 307 303	-	1 916 520
Unallocated liabilities	-	-	4 984	4 984
Total liabilities	**609 217**	**1 307 303**	**4 984**	**1 921 504**
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.

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 2011 (unaudited)	For the 6-month period ended 30 June 2010 (unaudited)
Current income tax	**(20 968)**	**(10 581)**
Current income tax expense	(20 968)	(10 581)
Deferred tax	**8 509**	**3 180**
Income tax expense in the statement of comprehensive income	**(12 459)**	**(7 401)**

9.2. Deferred income tax

Deferred income tax relates to the following:

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Deferred tax liability		
- difference between tax base and carrying amount of fixed and intangible assets	867	691
- difference between tax base and carrying amount of financial assets	422	174
-other	149	99
Deferred tax liability	**1 438**	**964**

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Deferred tax assets		
- provisions	16 980	8 860
- difference between tax base and carrying amount of fixed and intangible assets	52	27
- difference between tax base and carrying amount of financial liabilities	506	-
- difference between tax base and carrying amount of inventories	129	39
- other accrued expenses	794	299
- other	-	253
Deferred tax assets	**18 461**	**9 478**
After the offsetting of the balances, deferred tax is presented as a deferred tax asset in the statement of financial position	**17 023**	**8 514**

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 2011 (unaudited)	As at 31 December 2010
Cash at bank and in hand	102 495	321 942
Short-term deposits (up to 3 months)	1 062 499	205 069
Other	-	-
Total cash and cash equivalents presented in the statement of financial position, of which:	**1 164 994**	**527 011**
- restricted cash	59 724	154 589
Cash pool	(805 737)	(441 451)
Foreign exchange and other differences	(44)	14
Total cash and cash equivalents presented in the statement of cash flows	**359 213**	**85 574**

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.

A significant increase in the balance of short-term deposits up to 3 months results from increase of the balance of the cash pool deposit from the level of PLN 200,074 thousand as at 31 December 2010 to PLN 1,059,352 thousand as at 30 June 2011.

Restricted cash consists of cash held in the settlement account for trading in electricity

at Towarowa Giełda Energii S.A. (Commodities Exchange), amounting to PLN 56,066 thousand, and cash held in the special purpose account for trading in electricity at the POEE energy exchange, amounting to PLN 3,658 thousand.

The details of cash pool balances are presented in Note 18.

11. Dividends paid and proposed

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders, which gives 0.15 PLN per share. This amount is composed of the Company's net profit for 2010 in the amount of PLN 190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represents part of the Company's net profit for 2009 allocated to the reserve capital. The dividend payment day was set at 20 July 2011.

12. Intangible assets

6-month period ended 30 June 2011 (unaudited)

	Software	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST					
Opening balance	**8 044**	**9 773**	**617**	**505**	**18 939**
Direct purchase	-	10 293	-	2 559	12 852
Allocation of intangible assets not made available for use	1 438	-	46	(1 484)	-
Liquidation	(42)	-	-	-	(42)
Cancellation of energy certificates	-	(7 638)	-	-	(7 638)
Closing balance	**9 440**	**12 428**	**663**	**1 580**	**24 111**
ACCUMULATED AMORTIZATION					
Opening balance	**(1 583)**	**-**	**(261)**	**-**	**(1 844)**
Amortization for the period	(827)	-	(80)	-	(907)
Liquidation	32	-	-	-	32
Closing balance	**(2 378)**	**-**	**(341)**	**-**	**(2 719)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**6 461**	**9 773**	**356**	**505**	**17 095**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**7 062**	**12 428**	**322**	**1 580**	**21 392**

6-month period ended 30 June 2010 (unaudited)

	Software	Energy certificates	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
Cost					
Opening balance	**3 727**	**-**	**376**	**657**	**4 760**
Direct purchase	-	110	-	2 076	2 186
Allocation of intangible assets not made available for use	1 251	-	205	(1 456)	-
Merger with subsidiaries Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o.	16	-	-	-	16
Closing Balance	**4 994**	**110**	**581**	**1 277**	**6 962**
ACCUMULATED AMORTISATION					
Opening balance	**(690)**	**-**	**(131)**	**-**	**(821)**
Amortisation for the period	(390)	-	(53)	-	(443)
Merger with subsidiaries Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o.	(15)	-	-	-	(15)
Closing Balance	**(1 095)**	**-**	**(184)**	**-**	**(1 279)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**3 037**	**-**	**245**	**657**	**3 939**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**3 899**	**110**	**397**	**1 277**	**5 683**

13. Shares in unlisted and listed companies

Movements in long-term investments in the period from 1 January to 30 June 2011 (unaudited)

No.	Company	Opening balance	Increases	Decreases	Closing balance
1	Południowy Koncern Energetyczny S.A.	7 562 250	-	-	**7 562 250**
2	ENION S.A.	3 356 415	-	-	**3 356 415**
3	EnergiaPro S.A.	2 557 110	-	-	**2 557 110**
4	Elektrownia Stalowa Wola S.A.	555 697	-	-	**555 697**
5	Elektrociepłownia Tychy S.A.	40 862	-	-	**40 862**
6	Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.	345 285	-	-	**345 285**
7	TAURON Obsługa Klienta Sp. z o.o.	345 015	-	(318 707)	**26 308**
8	TAURON Ekoenergia Sp. z o.o.	897 069	-	-	**897 069**
9	Energetyka Cieplna w Kamiennej Górze Sp. z o.o.	6 959	-	-	**6 959**
10	Elektrociepłownia EC Nowa Sp. z o.o.	217 413	-	-	**217 413**
11	TAURON Sprzedaż Sp. z o.o.	294 798	318 707	-	**613 505**
12	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	6 886	-	-	**6 886**
13	Zespół Elektrowni Wodnych Rożnów Sp. z o.o.	931	-	-	**931**
14	Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.	162 557	-	-	**162 557**
15	TAURON Czech Energy s.r.o.	4 223	-	-	**4 223**
		16 353 470	**318 707**	**(318 707)**	**16 353 470**

The movement in the balance of the Company's long-term investments in the period from 1 January to 30 June 2011 results from the division of TAURON Obsługa Klienta sp. z o.o. by way of the acquisition by TAURON Sprzedaż sp. z o.o. of part of TAURON Obsługa Klienta sp. z o.o.'s assets representing an organized part of the enterprise and comprising tangible and intangible assets and liabilities related to sale of electricity. The division was effected pursuant to art. 529 § 1 point 4 of the CCC.

On 3 January 2011, the District Court in Kraków registered an increase of the share capital of TAURON Sprzedaż sp. z o.o. resulting from its acquisition of part of TAURON Obsługa Klienta sp. z o.o.'s assets. As a result of the above, the Company reallocated the value of shares between TAURON Obsługa Klienta sp. z o.o. and TAURON Sprzedaż sp. z o.o., by dividing the value of the shares in TAURON Obsługa Klienta sp. z o.o. in proportion to the relation of the value of assets transferred to TAURON Sprzedaż sp. z o.o. (as determined for the purposes of the division) to the value of total assets of TAURON Obsługa Klienta sp. z o.o. determined for the purposes of the division.

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	TAURON Obsługa Klienta 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	TAURON Sprzedaż 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 long-term investments in the period from 1 January to 30 June 2010 result from 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 a result of the merger, the balance of long-term investments decreased due to derecognition of investments in the acquired companies, Energomix Servis sp. z o.o. and ENION Zarządzanie Aktywami sp. z o.o., amounting to PLN 1,164,109 thousand.

14. Inventories

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Historical cost		
Property rights arising from energy certificates	5 489	4 779
Emission allowances	4 837	4 664
Materials	12	-
Total	**10 338**	**9 443**
Write-downs to net realizable value		
Property rights arising from energy certificates	(109)	-
Emission allowances	(570)	(205)
	(679)	**(205)**
Net realizable value		
Property rights arising from energy certificates	5 380	4 779
Emission allowances	4 267	4 459
Materials	12	-
Total	**9 659**	**9 238**

15. 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 2011 (unaudited)

	Not past due	Past due		Total
		<30 days	30-90 days	
Value of item before allowance/write-down	613 613	45	63	613 721
Allowance/write-down	-	-	-	-
Value of item net of allowance (carrying amount)	**613 613**	**45**	**63**	**613 721**

Trade receivables as at 31 December 2010

	Not past due	Past due		Total
		<30 days	30-90 days	
Value of item before allowance/write-down	605 407	18	5	605 430
Allowance/write-down	-	-	(5)	(5)
Value of item net of allowance (carrying amount)	**605 407**	**18**	**-**	**605 425**

Related party transactions and balances are presented in Note 24.

16. Equity

16.1. Issued capital

Issued capital as at 30 June 2011 (unaudited)

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

Issued capital as at 31 December 2010

Class/ issue	Type of shares	Type of preference	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	-	1 589 438 762	9	14 304 949	cash/in-kind contribution
BB	registered shares	-	163 110 632	9	1 467 996	in-kind contribution
		Total	**1 752 549 394**		**15 772 945**	

On 25 March 2011, the District Court in Katowice registered a decrease of the Company's share capital effected by way of reduction of the nominal value of shares. The share capital decreased from PLN 15,772,945 thousand to PLN 8,762,747 thousand, due to the reduction of the nominal value of each share from PLN 9 to PLN 5. The resulting amount of PLN 7,010,198 thousand was allocated to the Company's reserve capital. The decrease of the share capital was made in order to restructure the Company's equity.

16.2. Shareholders with significant interest

Shareholding structure as at 30 June 2011 (to the best knowledge of the Company)

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 29 March 2011)	2 634 419	30.06%	30.06%
KGHM Polska Miedź S.A. (notification of 23 March 2011)	910 553	10.39%	10.39%
Other shareholders	5 217 775	59.55%	59.55%
Total	**8 762 747**	**100.00%**	**100.00%**

Shareholding structure as at 31 December 2010 (to the best knowledge of the Company)

Shareholder	Value of shares	% of issued capital	% of total vote
State Treasury (notification of 28 February 2011)	6 618 257	41.96%	41.96%
KGHM Polska Miedź S.A.	736 402	4.67%	4.67%
Other shareholders	8 418 286	53.37%	53.37%
Total	**15 772 945**	**100.00%**	**100.00%**

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

In the current period, movements in the reserve capital were as follows:

- In accordance with the resolution of the Ordinary General Shareholders' Meeting of Tauron Polska Energia S.A. dated 6 May 2011, described in detail in Note 11, part of the Company's reserve capital in the amount of PLN 72,404 thousand resulting from the net profit for 2009 was allocated for the payment of dividend to the Company's shareholders.
- As a result of registration of the decrease of the Company's share capital by way of reduction of the nominal value of shares by the District Court in Katowice on 25 March 2011, as described in detail in Note 16.1, an amount of PLN 7,010,198 thousand was allocated to the Company's reserve capital. The aforementioned amount is not a subject to distribution.

In the current period, movements in retained earnings were as follows:

- Net profit for the period in the amount of PLN 1,048,873 thousand.
- In accordance with the resolution of the Ordinary General Shareholders' Meeting of Tauron Polska Energia S.A. dated 6 May 2011, described in detail in Note 11, profit generated by the Company in 2010 in the amount of PLN 190,478 thousand was allocated for the payment of dividend to the Company's shareholders.

The amount of PLN 85,138 thousand included in retained earnings and resulting from accounting for the Company's merger with subsidiaries in the previous financial year is not a subject to distribution.

17. Provisions

Due to the sale of electricity to final users, the Company is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration.

As at 30 June 2011, short-term provision for the obligation to surrender energy certificates for cancellation, amounted to PLN 81,136 thousand.

As at 31 December 2010, the provision for the obligation to surrender energy certificates for cancellation amounted to PLN 36,795 thousand. The provision was utilized in full in March 2011. The Company cancelled energy certificates with a value of PLN 7,638 thousand and paid a replacement fee of PLN 30,687 thousand. The costs of complying with the obligation to surrender energy certificates for 2010, amounting to PLN 1,528 thousand, which exceeded the amount of the provision recognized for this purpose, were charged against the Company's result for 2011.

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

Liabilities of TAURON Polska Energia S.A. arising from loans taken out or issued debentures as at 30 June 2011 and 31 December 2010 resulted from loans taken out from affiliates under the "Agreement for the Provision of Cash Pool Services" and debentures issued on 29 December 2010.

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

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Loans granted under cash pool agreement	5 531	19 700
Interest receivable on loans granted under cash pool agreement	307	119
Total	**5 838**	**19 819**

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Loans received under cash pool agreement	808 425	460 051
Interest payable on loans received under cash pool agreement	3 150	1 219
Total	**811 575**	**461 270**
Balance of cash pool	**805 737**	**441 451**

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

Under the cash pool agreement the Company may use external funding amounting to PLN 100,000 thousand. Based on the annex to the cash pool agreement the use of external funding was extended from 28 May 2011 to 31 December 2011.

The table below presents the balance of the Company's liability under issued debentures, together with interest calculated as at 30 June 2011 and 31 December 2010 using the effective interest rate.

Issued debentures as at 30 June 2011 (unaudited)

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
floating	PLN	263	845 937	-	-	-	-	845 937	-
Total debentures		**263**	**845 937**	**-**	**-**	**-**	**-**	**845 937**	**-**

Issued debentures as at 31 December 2010

Interest rate	Cur-rency	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
floating	PLN	357	845 650	-	-	-	-	845 650	-
Total debentures		**357**	**845 650**	**-**	**-**	**-**	**-**	**845 650**	**-**

19. Financial instruments

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

The fair values of the financial instruments held by the Company as at 30 June 2011 and 31 December 2010 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 2011 and 31 December 2010 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 30 June 2011 (unaudited)	As at 31 December 2010
1. Assets at fair value through profit or loss	**–**	**257**
2. Financial assets available for sale	**7 890**	**7 890**
3. Financial assets held to maturity	**–**	**–**
4. Loans and receivables	**1 990 592**	**1 483 114**
Trade receivables	613 721	605 425
Bonds, T-bills and other debt securities	910 323	848 583
Dividend receivables	459 030	–
Loans granted	5 838	19 819
Other	1 680	9 287
5. Financial assets excluded from the scope of IAS 39	**16 345 580**	**16 345 580**
6. Cash and cash equivalents	**1 164 994**	**527 011**

Categories and classes of financial assets	Carrying amount	
	As at 30 June 2011 (unaudited)	As at 31 December 2010
1. Financial liabilities at fair value through profit or loss	**165**	**–**
2. Financial liabilities measured at amortized cost	**2 081 776**	**1 847 979**
Arm's length loans	811 575	461 270
Issued debentures	846 200	846 007
Trade payables	152 130	533 969
Other financial liabilities	265 058	3 969
Commitments resulting from purchases of fixed and intangible assets	4 788	803
Salaries and wages	2 025	1 961
3. Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**569**	**1 042**
Obligations under finance leases and hire purchase contracts	569	1 042

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

Bonds, treasury bills and other debt securities in the category of loans and receivables, amounting to PLN 910,323 thousand, and issued debentures amounting to PLN 846,200 thousand relate to the program of issue of external and intercompany debentures which was launched in December 2010.

In the period from 1 January 2011 to 30 June 2011, the Company acquired debentures issued by the following subsidiaries: Elektrownia Stalowa Wola S.A., Polska Energia Pierwsza Kompania Handlowa sp. z o.o. and Elektrociepłownia Tychy S.A.

Loans granted included loans granted by the Company under the cash pool services agreement, amounting to PLN 5,838 thousand.

Arm's length loans granted in the amount of PLN 811,575 thousand relate to intercompany transactions concluded as part of the cash pool service.

The balances arising from cash pool transactions and issued debentures are described in Note 18.

The increase of cash and cash equivalents results mainly from the increase of the balance of cash pool deposit from PLN 200,074 thousand as at 31 December 2010 to PLN 1,059,352 thousand as at 30 June 2011.

Other financial liabilities comprise dividend payable to the Company's shareholders in the amount of PLN 262,882 thousand.

Financial assets available for sale, in the amount of PLN 7,890 thousand, include shares in Zespół Elektrowni Wodnych Rożnów Sp. z o.o. and Energetyka Cieplna w Kamiennej Górze Sp. z o.o., which were acquired in 2010 as a result of the Company's merger with its subsidiaries, Energomix Servis Sp. z o.o. and ENION Zarządzanie Aktywami Sp. z o.o.

20. Capital management and financial risk management

On 10 May 2011 the Company's Management Board adopted a resolution implementing specific risk management policy in the finance area of the TAURON Polska Energia S.A. Capital Group, which defines specific risk management strategy in the finance area i.e. currency risk and interest rate risk. The policy also implements hedge accounting policies, which define the principles and types of hedge accounting and the accounting treatment of hedging instruments and hedged items to be applied as part of hedge accounting under IFRS. The specific risk management policy in finance and hedge accounting policies refer to cash flow risk and do not include fair value risk due to its low significance for the Group.

The specific risk management policy in the finance area has been described in detail in Note 23 to the Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2011.

As at 30 June 2011, the Company did not enter into any hedge transactions under the specific risk management policy in the finance area, thus there was no need to implement hedge accounting policies.

Capital management is performed at the level of the TAURON Polska Energia S.A. Group and has been described in detail in Note 24 to the Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2011.

21. Contingent liabilities

As at 30 June 2011, guarantees granted by the Company amounted to PLN 7,269 thousand and included the following:

- A guarantee of EUR 1,000 thousand (PLN 3,987 thousand), issued to TAURON Czech Energy s.r.o. in connection with the EFET framework agreement for the sale of electricity, for the benefit of CEZ a.s. The guarantee is valid for the period from 1 April 2010 to 31 December 2011;
- A bank guarantee for OTE a.s. amounting to CZK 20,000 thousand (PLN 3,282 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 2011 to 8 June 2012.

As at 31 December 2010, the Company had contingent liabilities in the amount of PLN 5,940 thousand and included the following:

- A guarantee of EUR 1,000 thousand (PLN 3,960 thousand), issued to TAURON Czech Energy s.r.o. in connection with the EFET framework agreement for the sale of electricity, for the benefit of CEZ a.s. The guarantee is valid also at at 30 June 2011;
- A bank guarantee for OTE a.s. amounting to EUR 500 thousand (PLN 1,980 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.

In December 2010, the Company issued two blank promissory notes to the Voivodship Fund for Environmental Protection and Water Management in Katowice, with a maturity date of 15 December 2022 and for a total amount of PLN 40,000 thousand, in order to secure the loan granted to its subsidiary Południowy Koncern Energetyczny S.A. In January 2011, TAURON Polska Energia S.A. guaranteed a blank promissory note issued by Elektrownia Stalowa Wola S.A. for the benefit of Polskie Sieci Elektroenergetyczne S.A. for an amount of PLN 4,000 thousand.

On 25 February 2011, TAURON Polska Energia S.A. declared to provide a financial support in the amount of PLN 87,040 thousand to its subsidiary Elektrociepłownia Tychy S.A., in order to cover the costs of the project relating to the „Construction of a biomass power plant and modernization of the fluidized OF-135 boiler in Elektrociepłownia Tychy S.A." Costs of the investment project amounting to PLN 30,000 thousand will be funded by a loan granted by the Voivodship Fund for Environmental Protection and Water Management in Katowice.

Due to the application of the subsidiary PKE S.A. for funding of an investment project relating to "Construction of a biomass boiler in PKE S.A. Elektrownia Jaworzno III – Elektrownia II" under the Infrastructure and Environment Operational Programme, Priority IX "Environmentally friendly energy infrastructure and energy efficiency", Activity 9.4. "Energy production from renewable sources", and to ensure the coverage of the remaining costs of this project, TAURON Polska Energia S.A. committed to submit a declaration to provide project funding in the amount of PLN 200,000 thousand by 31 December 2012. The application is addressed to the Ministry of Economy

22. Assets pledged as security

Under the debentures issue program the Company provided a declaration of submission to enforcement up to the amount of PLN 1,560,000 thousand.

In order to secure the agreement concerning bank guarantees from PKO Bank Polski S.A., TAURON Polska Energia S.A. provided a declaration of submission to enforcement up to the amount of PLN 48,000 thousand and granted authorizations to bank accounts up to the amount of PLN 40,000 thousand.

In order to secure the transactions made by the Company on electricity markets through Towarowa Giełda Energii S.A. and its participation in the system securing the liquidity of settlements, restrictions were placed on the EUAs of Południowy Koncern Energetyczny S.A. entered in the National Register of Emission Allowances (KRUE). In addition, Południowy Koncern Energetyczny

S.A. issued a suretyship to Izba Rozliczeniowa Giełd Towarowych S.A. for the settlement of the Company's future transactions up to the amount of PLN 145,000 thousand. It was agreed that the Company would pay a consideration to Południowy Koncern Energetyczny S.A. for setting up collateral in the form of suretyship.

Liabilities secured on the assets of TAURON Polska Energia S.A. include lease agreements, which are secured by pledges on the vehicles leased by the Company. The carrying amount of vehicles leased by the Company amounted to PLN 1,320 thousand as at 30 June 2011 and PLN 1,576 thousand as at 31 December 2010.

23. Capital commitments

As at 30 June 2011 and 31 December 2010, the Company had capital commitments of PLN 1,126 thousand, which resulted from the contract for implementation of the SAP integrated system.

24. Related party disclosures

24.1. 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 figures presented below relate to transactions with State Treasury companies according to the classification of State Treasury companies with a significant share in revenue and costs in 2010, prepared as at 31 December 2010. Comparative figures present transactions with State Treasury companies according to their classification as at 30 June 2010, i.e. before updating the list of State Treasury companies.

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

Revenues and expenses

	6-month period ended 30 June 2011 (unaudited)	6-month period ended 30 June 2010 (unaudited)
Revenue from related companies, of which:	**4 444 687**	**3 371 251**
Revenue from operating activities	3 406 871	3 189 961
Dividends	1 008 705	181 126
Finance income	29 098	66
Other income	13	98
Revenue from State Treasury companies	**475 033**	**155 604**
Costs from related companies, of which:	**(362 292)**	**(1 907 605)**
Costs of operating activities	(341 188)	(1 907 569)
Finance costs	(21 104)	(36)
Costs from State Treasury companies	**(92 158)**	**(32 693)**

Receivables and payables

	As at 30 June 2011 (unaudited)	As at 31 December 2010
Loans granted to related companies and receivables from related companies, of which:	**1 804 880**	**1 412 053**
Trade receivables	429 664	543 651
Debentures	910 323	848 583
Loans granted under cash pool agreement	5 838	19 819
Dividend receivables	459 030	-
Other loans	25	-
Receivables from State Treasury companies	113 937	53 563
Payables to related companies, of which:	**841 835**	**811 964**
Trade payables	30 260	350 694
Loans received under cash pool agreement	811 575	461 270
Payables to State Treasury companies	**20 639**	**45 605**

Among the State Treasury companies, the largest contractors of TAURON Polska Energia S.A. in the 6-month period ended 30 June 2011 as regards sales revenue included Kompania Węglowa S.A., KGHM Polska Miedź S.A. and PSE Operator S.A. Revenue from those companies accounted for 95% of total revenue from transactions with State Treasury companies.

The largest costs were incurred as a result of transactions with Zespół Elektrowni Pątnów Adamów Konin S.A. and PSE Operator, which accounted for 92% of total costs incurred as a result of purchases from State Treasury companies.

The Company enters into significant transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As this entity only deals with organization of stock exchange trading, the Company does not consider purchase and sale transactions made through this entity as related party transactions. The comparative figures for 2010 have been restated.

In the 6-month period ended 30 June 2010, PSE Operator S.A. and Kompania Węglowa S.A. were the Company's largest contractors among the State Treasury companies.

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 2011 is presented in the table below.

	6-month period ended 30 June 2011 (unaudited)	Year ended 31 December 2010
Board of Directors	**5 057**	**5 967**
Short-term employee benefits (salaries and surcharges)	4 424	5 200
Other	633	767
Supervisory Board	**344**	**329**
Short-term employee benefits (salaries and surcharges)	344	329
Total	**5 401**	**6 296**
Other members of key management personnel	3 477	5 745
Short-term employee benefits (salaries and surcharges)	3 116	5 079
Other	361	666

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

25. Details of other significant changes in the reporting period

Finance income and costs

Finance income in the 6-month period ended 30 June 2011 amounted to PLN 1,059,469 thousand and was higher by PLN 874,637 thousand in comparison to finance income generated in the 6-month period ended 30 June 2010. The increase of finance income results mainly from higher dividend income from subsidiaries for 2010 in comparison to dividend income for 2009. Dividend income in the 6-month period ended 30 June 2011 amounted to PLN 1,009,580 thousand, in comparison to PLN 181,948 thousand in the 6-month period ended 30 June 2010.

In addition, the increase in finance income results from the commencement of provision of cash pool services in the second quarter 2010 and implementation of the debenture issue program in December 2010 in order to refinance debt in the Group. Implementation of the cash pool service and the debenture issue program resulted in a higher level of finance costs in relation to the comparative period.

Sales revenue

Due to the Company's commencement of sales to final users, starting from 1 January 2011 excise tax obligation exists. Since the beginning of the year, each electricity volume supplied to customers which do not have license for generation, transmission, distribution or electricity trading is subject to excise taxation. The value of the excise tax recognized as an expense in the period from January 2011 to June 2011 amounted to PLN 8,344 thousand.

Other current liabilities

The increase of other current liabilities in the amount of PLN 64,490 thousand results mainly from the increase of liability arising from excess of output VAT over input VAT in the amount of PLN 63,642 thousand.

26. Events after the balance sheet date

On 26 July 2011, Południowy Koncern Energetyczny S.A. and TAURON Polska Energia S.A. signed an agreement for the sale of shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in order to settle part of the liability of Południowy Koncern Energetyczny S.A. relating to the payment of a dividend due to the Company in respect of dividend for the year 2010. Południowy Koncern Energetyczny S.A. sold all of its shares in Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., namely 700 shares with a nominal value of PLN 6 thousand each, i.e. total nominal value of PLN 4,200 thousand, for a price of PLN 60 thousand per share, i.e. for the total amount of PLN 42,170 thousand. The value of purchased shares was determined based on valuation dated 20 June 2011. On 26 July 2011, the shares were transferred to the Company.

These interim condensed financial statements of TAURON Polska Energia S.A. prepared for the 6-month period ended 30 June 2011 in accordance with International Financial Reporting Standard 34 consist of 29 consecutive pages.

Katowice, 10 August 2011

Dariusz Lubera – President	………………………………………………………………………
Joanna Schmid – Vice-president	………………………………………………………………………
Dariusz Stolarczyk – Vice-president	………………………………………………………………………
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REPORT OF THE MANAGEMENT BOARD ON OPERATIONS OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FIRST HALF OF 2011

AUGUST 2011

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1. ORGANISATION OF THE CAPITAL GROUP

1.1. Basic information on the Group

As of 30 June 2011, the Capital Group TAURON Polska Energia (hereinafter referred to as: the TAURON Capital Group) consisted of the parent entity - TAURON Polska Energia S.A. (hereinafter referred to as the Company) and 38 subsidiaries (direct and indirect), 16 affiliates with the share between 50% - 20% shares and 26 other companies.

In relation to information contained in the Extended Consolidated Quarterly Report of the Capital Group TAURON Polska Energia S.A. for the first quarter of 2011 (hereinafter referred to as: Report of the Capital Group TAURON for the first quarter 2011), the following changes occurred in the number of companies in which the Company is the Shareholder:

- two subsidiaries were merged,
- shares in three affiliates with the share between 50% - 20% were disposed of,
- shares in one of the companies of other companies group were disposed of.

The main companies subject to consolidation included: Południowy Koncern Węglowy S.A. dealing with hard coal mining, Południowy Koncern Energetyczny S.A. dealing with generation of power from conventional sources and biomass co-burning, TAURON Ekoenergia sp. z.o.o. dealing with generation of power from renewable sources, Enion S.A. and EnergiaPro S.A. dealing with provision of electric energy distribution services, TAURON Sprzedaż sp. z.o.o. dealing with supply of electric energy to retail customers and TAURON Obsługa Klienta sp. z.o.o., currently dealing with customer service.

Moreover, the TAURON Capital Group consisted of ten other subsidiaries and one co-subsidiary, subject to consolidation dealing, among others, with generation of electric energy and heat, distribution of heat, extraction, crushing and grinding of limestone as well as extraction of stone for construction purposes.

In order to improve management of the TAURON Group, perceived as a single economic entity consisting of autonomous commercial law companies, as well as to enhance its functionality, on 12 October 2010, the Management Board of the Company adopted the Resolution on establishment of the TAURON Group operating on the basis of TAURON Group Code (hereinafter referred to as: the Code).

During the first half of 2011, two additional companies joined the TAURON Group defined in that way, i.e.: Kopalnia Wapienia Czatkowice sp. z o.o. and Południowy Koncern Węglowy S.A.

According to the status on 30 June 2011, the TAURON Group established in the aforementioned way comprised TAURON Polska Energia S.A., as the Parent Company as well as the following companies:

Table no. 1. List of subsidiaries included in the TAURON Group

Item	Name of the Company	Date of accession to the TAURON Group
1.	TAURON Sprzedaż sp. z o.o.	26.10.2010
2.	TAURON Obsługa Klienta sp. z o.o.	26.10.2010
3.	TAURON EKOENERGIA sp. z o.o.	26.10.2010
4.	Południowy Koncern Energetyczny S.A.	28.10.2010
5.	Elektrociepłownia EC Nowa sp. z o.o.	04.11.2010
6.	TAURON Czech Energy s.r.o.	10.11.2010
7.	Elektrociepłownia Tychy S.A.	22.11.2010
8.	Polska Energia - PKH Sp. z o.o.	29.11.2010
9.	ENION S.A.	30.11.2010
10.	EnergiaPro S.A.	06.12.2010
11.	PEC Katowice S.A.	09.12.2010
12.	Elektrownia Stalowa Wola S.A.	10.12.2010
13.	PEC w Dąbrowie Górniczej S.A.	14.12.2010
14.	Kopalnia Wapienia Czatkowice sp. z o.o.	05.01.2011
15.	Południowy Koncern Węglowy S.A.	13.01.2011

The Code came into force in each company as of the date of adoption of the resolution on accession of the company to TAURON Group by the General Meeting of the General Shareholders' Meeting of each company, which was equivalent to commitment of the respective company to comply with the provisions of the Code.

The Code adopted in the TAURON Group regulates the functionality of the Group, ensuring fulfilment of the objectives through tailor-made solutions related to management of the TAURON Group entities, including in particular definition of objectives of the companies operations, allowing for accomplishment of the assumed outcomes.

Another important element facilitating operational decisions within the TAURON Group was the establishment of three Committees, pursuant to the Code:

1. TAURON Group Management Committee,
2. TAURON Group Compliance Committee,
3. Project Evaluation Committee.

The objective governing the establishment of the above Committees was to launch operational activity of the companies according to consistent principles in compliance with law and to the best interest of the TAURON Group and its stakeholders.

The Committees perform following functions:

1. Opinion-making for the Company Management Board,
2. Decision-making function,
3. Supervisory function for the management boards of the TAURON Group subsidiaries.

The main task of the Committees is to monitor implementation of the adopted consistency programme by the participants of the Group, for the advantage of the common interest of all its members. The specific functions of the Committees have been specified in the by-laws on their operations adopted by the Company Management Board.

Due to the implementation of the TAURON Group management model, based on the Code, actions have been undertaken to terminate the management Agreements concluded with individual subsidiaries, within the meaning of art. 7 of the Act of 15 September 2000: Code of Commercial Companies. This process was concluded on 12 April 2011.

1.2. Entities subject to consolidation

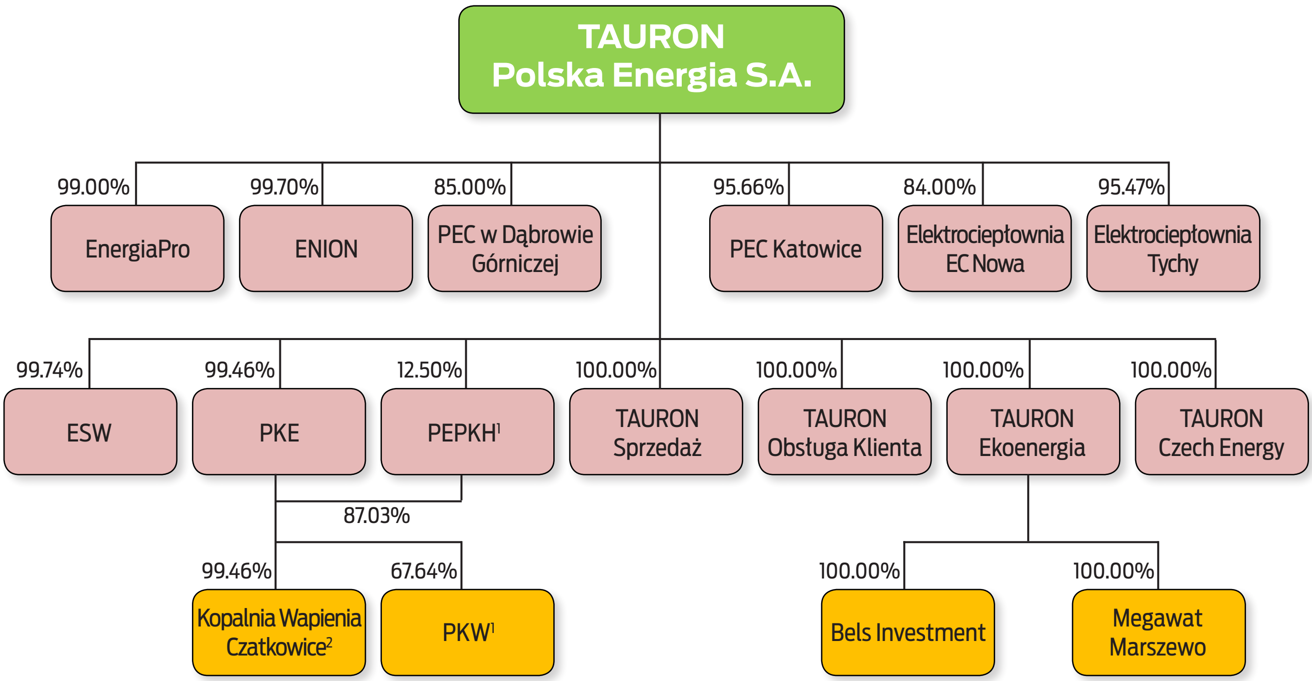
As of 31 June 2011, within the TAURON Capital Group, financial statements of seventeen subsidiaries listed below shall be consolidated with the financial statement of the Company, by applying full consolidation method:

1) Południowy Koncern Energetyczny S.A. with the seat in Katowice (hereinafter referred to as: PKE),
2) ENION S.A. with the seat in Kraków (hereinafter referred to as: Enion),
3) EnergiaPro S.A. with the seat in Wrocław (hereinafter referred to as: EnergiaPro),
4) Elektrownia Stalowa Wola S.A. with the seat in Stalowa Wola (hereinafter referred to as: ESW),
5) Elektrociepłownia Tychy S.A. with the seat in Tychy (hereinafter referred to as: Elektrociepłownia Tychy),
6) Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. with the seat in Katowice (hereinafter referred to as: PEC Katowice),
7) Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza (hereinafter referred to as: Elektrociepłownia EC Nowa),
8) Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A. with the seat in Dąbrowa Górnicza (hereinafter referred to as: PEC Dąbrowa Górnicza),
9) Kopalnia Wapienia „Czatkowice" sp. z o.o. with the seat in Krzeszowice (hereinafter referred to as: Kopalnia Wapienia Czatkowice),
10) Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice (hereinafter referred to as: PEPKH),
11) Południowy Koncern Węglowy S.A. with the seat in Jaworzno (hereinafter referred to as: PKW),
12) TAURON Sprzedaż sp. z o.o. with the seat in Kraków (hereinafter referred to as: TAURON Sprzedaż),
13) TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as: TAURON Ekoenergia),
14) TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław (hereinafter referred to as: TAURON Obsługa Klienta),
15) TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic (hereinafter referred to as: TAURON Czech Energy),
16) BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as: Bels Investment),
17) MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra (hereinafter referred to as: Megawat Marszewo).

Moreover, by application of the equity method, the TAURON Capital Group, recognises the investment in the joint venture - Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola (hereinafter referred to as: EC Stalowa Wola).

1.3. Structure of the Capital Group

The scheme below presents the structure of the TAURON Capital Group, covering companies subject to consolidation, as of 30 June 2011.



Notes:
% - direct or indirect share in the governing body of the Company (General Meeting (WZ)/ Meeting of the Shareholders (ZW)),
[1] The Company holds 12.50% of shares in the PEPKH share capital, accounting for 12.50% of shares at ZW and utilises shares owned by PKE, constituting 87.50% of shares in the PEPKH share capital, accounting for 87.50%of votes at ZW.
[2] The Company utilises shares owned by PKE, constituting 100% of shares in KW Czatkowiceshare capital, accounting for 100% of votes at ZW.
[3] The Company utilises shares owned by PKE, constituting 52.48% of shares in the PKW share capital, accounting for 68.01% of votes at WZ.

As of the date of the present report, the direct share of the Company in the share capital/ votes at the Meeting of the Shareholders of the PEPKH Company increased from 12.50% to 100%. Detailed information on this event is provided in section on Significant events after 30 June 2011 below.

1.4. Effects of changes in the structure of the Company and the Capital Group

Below, the effects of changes in the structure of the TAURON Capital Group are presented, including those resulting from merger of business entities, acquisition or sales of entities of the issuer's capital group, long-term investment, division, restructuring and discontinuation of operations.

1.4.1. The division of TAURON Obsługa Klienta sp. z o.o.

At the beginning of 2011, the change in structure of supply companies took place. The previous supply companies of the TAURON Capital Group have changed the scope of their activities: TAURON Sprzedaż has been involved in supply of electric energy to all customers (under the brand of TAURON Polska Energia), while TAURON Obsługa Klienta has been providing services related to mass client service and business parts. Integration of the activities related to supply and customer service results from implementation of the business model of the in the TAURON Capital Group constituting the part of the broader restructuring plan.

The division of TAURON Obsługa Klienta was performed pursuant to Article 529 § 1 item 4 of the Act of 15 September 2000: Code of Commercial Companies, i.e. through acquisition of the part of assets of TAURON Obsługa Klienta by TAURON Sprzedaż constituting an organised part of the enterprise, consisting of tangible and intangible assets as well as liabilities associated with the supply of electric energy. The share capital of TAURON Sprzedaż was increased from the amount of PLN 282.597 thousand to PLN 479.030 thousand, i.e. by PLN 196.433 thousand, through issue of 3.928.649 of new shares at par value of PLN 50 each, which were taken over by the Company in total. On 3 January 2011, the increase of the share capital of the TAURON Sprzedaż company was incorporated by the Regional Court in Kraków. In connection with the division of the TAURON Obsługa Klienta company, its share capital was reduced from the amount of PLN 33.650 thousand to the amount of PLN 2,718 thousand, i.e. by the amount of PLN 32,932 thousand, through redemption of 329,316 shares at the value of PLN 100 each. The reduction of the share capital was registered on 31 December 2010.

Due to the fact that the aforementioned changes were of restructuring nature and they were performed in the companies of the TAURON Capital Group, they had no impact on the consolidated condensed semi-annual financial statement as of 30 June 2011.

1.4.2. Redemption of shares of the PEPKH company

On 31 March 2011 redemption of 200 of treasury shares at total par value of PLN 1,200 thousand was performed, purchased from the previous shareholders of the PEPKH company, i.e.: Katowicki Holding Węglowy S.A and KWK Kazimierz Juliusz sp. z o.o., as a result of which the aforementioned entities lost the status of PEPKH shareholders. The redemption of shares was registered by the Regional Court in Katowice on 21 April 2011.

As a result of the above transaction:

a) share of the Company in the share capital of PEPKH increased from 10% to 12.50%, and in the decision making body – from 27.78% to 31.25%

b) share of PKE in the share capital of PEPKH increased from 70% to 87.50%, and in the decision making body – from 61.11% to 68.75%.

Simultaneously, considering utilisation of the PKE shares in PEPKH by the Company in total, the actual share of the Company in the PEPKH capital increased from 80% to 100%, and in its decision making body – from 88.88% to 100%.

On 28 June 2011, amendments to the PEPKH company Articles of Association were registered, among others, in relation to cancellation of privileged shares in terms of votes, consequently:

a) the Company share in the decision making body of PEPKH decreased from 31.25% to 12.50%,

b) the share of PKE in the decision making body of PEPKH increased from 68.75% to 87.50%.

1.4.3. Forced repurchase of the treasury shares by the subsidiaries

In the first half of 2011, in the TAURON Capital Group, the processes of forced repurchase of treasury shares was continued, with the purpose of redemption, pursuant to Article 418[1] of the Act of 15 September 2000: Code of Commercial Companies by the following companies: PKE, Enion, EnergiaPro, ESW, Elektrociepłownia Tychy and PEC Katowice.

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Management Board and Supervisory Board

Company Management Board

As of 30 June 2011 and as of the date of generating of the report hereto, the Management Board of the Company consisted of the following persons:

1. Dariusz Lubera	- President of the Board, Chief Executive Officer.
2. Joanna Schmid	- Vice President of the Board, Chief Strategy and Business Development Officer.
3. Dariusz Stolarczyk	- Vice President of the Board, Chief Officer for Corporate Matters.
4. Krzysztof Zamasz	- Vice President of the Board, Chief Commercial Officer.
5. Krzysztof Zawadzki	- Vice President of the Board, Chief Financial Officer.

Company Supervisory Board

As of 30 June 2011 and as of the date of generating of the report hereto, the Supervisory Board of the Company consisted of the following persons:

1. Antoni Tajduś	- Chairman of the Supervisory Board.
2. Agnieszka Trzaskalska	- Vice Chairman of the Supervisory Board.
3. Leszek Koziorowski	- Secretary of the Supervisory Board.
4. Jacek Kuciński	- Member of the Supervisory Board.
5. Włodzimierz Luty	- Member of the Supervisory Board.
6. Michał Michalewski	- Member of the Supervisory Board.
7. Jacek Szyke	- Member of the Supervisory Board.
8. Marek Ściążko	- Member of the Supervisory Board.

2.2. Subject of operations

In accordance with § 5 item 1 of the Company Articles of Association, the main area of the Company operations is the electric energy trade. The Company may conduct operations on the territory of Poland and abroad.

2.3. Scope of operations

TAURON Polska Energia S.A., as the parent entity, fulfils the consolidating and managerial function in the TAURON Capital Group.

Besides the managerial function, the basic operations of the Company involve wholesale electric energy trading on the territory of the Republic of Poland, based on the license on trade of electric energy (OEE/508/18516/W/2/2008/MZn), issued by the President of the Energy Regulatory Office (Urząd Regulacji Energetyki) for the period from 1 June 2008 till 31 May 2018.

The Company focuses on purchasing and trading electricity needed to secure the purchasing and trading position of the TAURON Group entities, other customers of the Company as well as within trade on its own account. Moreover, the Company actively participates in the auctions of the Intersystem Exchange of energy transmission on the Polish-Czech and Polish-German border. The trade on the German market is conducted on the basis of bilateral contracts concluded with customers as well as through the EPEX Spot exchange. The transboundary exchange is carried out due to contracts concluded with the operators of transmission systems on the German market, i.e. 50Hertz Transmission GmbH and Transpower Stromübertragungs GmbH. On the Czech market, through its daughter company - TAURON Czech Energy, the Company operates at the Prague Power Exchange Central Europe (PXE), covering the markets of the Czech Republic, Slovakia and Hungary, as well as at the OTE a.s. stock exchange.

In addition, the Company also plays the role of the trade and technical operator for the companies of the TAURON Capital Group and for external customers. Trade balancing is carried out on the basis of the transmission Contract of 21 August 2008 concluded with the Transmission System Operator (hereinafter refereed to as: OSP) – the company PSE Operator S.A. At the turn of 2010 and 2011, the Company extended its function of the Trade-Technical Operator in favour of companies of the TAURON Capital Group of the Generation Segment. In accordance with the Instruction on Transmission Grids' Operation and Maintenance, the Company currently holds exclusive trade and technical capacity. The Company is responsible for optimisation of generation, i.e. selection of generation units for operation as well as efficient distribution of loads in order to execute the contracts concluded, taking into consideration the technical conditions of the generation units as well as network limitations and other horizons. Within services provided to the Generation Segment the Company participates in preparation of overhaul plans, plans of available energy capacity as well as production plans for generation units, for various time horizons, as well as in their settlement with OSP and the Operator of the Distribution System (hereinafter referred to as: OSD).

It should be indicated that the competence of the Company covers management of energy certificates for the needs of the TAURON Capital Group, confirming the generation of electric energy from renewable and co-generation sources, both gas and coal ones. This activity is based on active controlling of demand for certificates, trade, disposal and redemption of these units.

The Company also serves as the competence centre in the area of CO_2 emission allocations for the companies of the TAURON Capital Group and external customers. Since January 2011, the so-called Installation Group has been operating in the area of CO_2 emission allowances managed by TAURON Polska Energia S.A. The aim of establishment of the Installation Group was to provide for common settlement of emission allowances within installations owned by the TAURON Capital Group. Due to centralisation of emission trade the synergy effect was obtained, consisting in increase of effectiveness and efficiency as well as optimisation of costs of exploitation of available resources of the entities included in the Group. It has simultaneously influenced the increase of competitiveness of the whole TAURON Capital Group on the CO_2 market. Parallel to centralisation of this function in TAURON Polska Energia S.A., the Company is in charge of settlement of CO_2 emission allowances of companies, cost-effective management of the allowances obtained, provision of the subsidiaries' emission needs, support in negotiating the future allocations of emission allowances as well as involvement of the companies into the new EU ETS conditions after 2012. In order to implement the above goals in the area of CO_2, emission allowances trading, the Company actively participates in the Paris exchange BlueNext as well as in the European OTC market.

The Company also conducts operations in the area of electric energy trading with selected group of strategic customers. This group of customers includes such entities as: KGHM Polska Miedź S.A. (hereinafter referred to as: KGHM), ArcelorMittal Poland S.A., CMC Zawiercie S.A., Zakłady Górniczo-Hutnicze „Bolesław" S.A., Kompania Węglowa S.A. (hereinafter referred to as: Kompania Węglowa) and other entities of various sectors of industry of considerable demand for electric energy, requiring appropriate tailor-made offers. Functions performed in this area include implementation of the adopted marketing strategy of the Company as well as marketing plans in the area of sales to customers of strategic character, research on product needs related to the energy trading market in order to improve the product offer of the Company as well as acquisition of information concerning operations of competitors, events occurring in the Company environment, in order to predict potential future behaviours of competitors. Moreover, the Company coordinates the management activities in the area of marketing and customer service executed by the companies: TAURON Sprzedaż and TAURON Obsługa Klienta.

2.4. Employment in TAURON Polska Energia S.A.

The average employment in TAURON Polska Energia S.A. in the first half of 2011 amounted to 263 FTEs

3. OPERATIONS OF THE TAURON CAPITAL GROUP

3.1. Major areas of operations

The TAURON Capital Group is a vertically integrated utility enterprise holding the leading position in generation, distribution and supply of electricity in Poland. It belongs to the largest distributors and suppliers of electricity, both in Poland and in Central and Eastern Europe. The TAURON Capital Group is also the second largest utility company in Poland in terms of installed power capacity and net energy production volume.

The TAURON Capital Group conducts its operations and acquires its revenues mainly from generating, trade and distribution of electric energy and heat as well as from sales of hard coal, acting in the following areas (Segments):

- Mining Segment, comprising mainly mining, preparation and sales of hard coal in Poland.
- Generation Segment, mainly comprising generating electric energy and heat from conventional sources, as well as generating electric power and heat using biomass co-burning.
- RES Segment, comprising generating electric energy from renewable sources (excluding generation of electric energy using biomass co-burning which is covered by the Generation Segment).
- Distribution Segment, covering distribution of electric energy using distribution networks located in southern Poland.
- Trade Segment, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO_2 emission allowances and the proprietary rights arising from the energy certificates. Customer service of sales and distribution customers is also assigned to this Segment.
- “Other” Segment, comprising mainly distribution and sales of heat, as well as other activities[1].

In the first half of 2011 and in the second quarter of 2011, the TAURON Capital Group reached the following key operating parameters (as compared to corresponding periods of the previous year):

Table no. 2. Key operating parameters of the TAURON Capital Group (against corresponding periods of the previous year)

Key operating parameters	unit	1st half of 2011	1st half of 2010	Change	2nd quarter of 2011	2nd quarter of 2010	Change
Production of commercial coal	mln Mg	2.6	2.2	18.2%	1.44	0.86	67.4%
Generation of electric energy (net production of Generation Segment and RES)	TWh	11.2	10.2	9.8%	5.3	4.9	8.2%
Including : renewable sources (production of biomass of the Generation Segment and hydropower plants of the RES Segment)	TWh	0.46	0.53	-13.2%	0.23	0.30	-23.3%
Heat generation (production of Generation Segment and “Other” Segment)	PJ	9.4	10.5	-10.5%	2.0	2.4	-16.7%
Distribution of electric energy	TWh	19.4	18.8	3.2%	9.4	9.1	3.3%
Retail sales of electric energy	TWh	18.6	16.9	10.1%	9.3	8.3	12.1%
Number of customers - Distribution	thou	4,128.1	4,117.6	0.26%	4,128.1	4,117.6	0.26%

3.1.1. The Mining Segment

The basic operations conducted by the TAURON Capital Group within the Mining Sector cover mining, preparation and trade of hard coal in Poland – these operations are handled by PKW company, running two mining plants: Zakład Górniczy Sobieski and Zakład Górniczy Janina.

3.1.2. The Generation Segment

The main operations of the Generation Segment of the TAURON Capital Group include generation of electric energy and heat in 11 power plants and cogeneration plants (installations producing electric power and heat simultaneously) hard coal-fired or using biomass co-burning. The Segment comprises companies: PKE, ESW, Elektrociepłownia Tychy and Elektrociepłownia EC Nowa, with the total attainable capacity of their generation units reaching 5 448 MW of electric energy as of the end of June 2011 (which means that it remained unchanged as compared to 2010, accounting for 15.3% of the domestic power generating potential) and 3 200 MW of heat.

3.1.3. The RES Segment

The basic kind of operations conducted by the TAURON Capital Group in the RES Segment is the generation of electric energy from renewable sources of energy in hydroelectric power plants, as well as management of the TAURON Capital Group projects in the scope of generating energy from other renewable energy sources. The RES Segment is composed of the TAURON Ekoenergia company and its subsidiaries: Bels Investment and Megawat Marszewo, Within the RES Segment, 35 hydroelectric power plants operate with the attainable capacity of 131.7 MW, which accounts for 2.4% of the total generating capacity of the TAURON Capital Group.

3.1.4. The Distribution Segment

The TAURON Capital Group belongs to the largest electric energy distributors in Poland, both in terms of the supplied electricity volume as well as the revenue on the distribution operations. The Distribution Segment exploits power grids of considerable range, located in the southern part of Poland.

[1] In accordance with the adopted “Corporate strategy of the TAURON Group for the years 2011-2015, with the perspective till the year 2020”, constituting the updated version of “Corporate strategy of the TAURON Polska Energia S.A. for the years 2008-2012, with the perspective till the year 2020”, activities aimed at development of the Heat Segment are ongoing, to cover, among others, companies dealing with heat distribution and generation.

The operations within the Distribution Segment of the TAURON Capital Group are conducted by two companies: ENION and EnergiaPro. Both ENION, as well as EnergiaPro conduct their operations based on five branches, with Enion conducting its operations through the branches in Bielsko-Biała, Będzin, Częstochowa, Kraków and Tarnów, and EnergiaPro conducting its operations through the branches in Jelenia Góra, Wrocław, Legnica, Opole and Wałbrzych. On 31 December, the President of the Energy Regulatory Office (hereinafter referred to as: URE) appointed Enion and EnergiaPro as distribution system operators within the scope of the license granted to these entities for the period up to 31 December 2025.

3.1.5. The Trade Segment

The Trade Segment includes operations in the area of sales of electric energy, wholesale trading of electric energy and sales of other products of the energy market as well as customer service (for the supply company and OSD companies). The trade operations cover supply of electric energy to end users, including key clients. Operations within wholesale trading include mainly the wholesale electric energy trading as well as trading and management of CO_2 emission allowances and proprietary rights arising from energy certificates.

3.1.6. The "Other" Segment

The "Other" Segment includes mostly operations consisting in distribution and trade of heat, as well as other operations in the scope of extraction of stone, including limestone, for power industry, metallurgy, construction and road building as well as production of sorbents for flue gas desulphurization installations using the wet method and for the use in the fluidized bed boilers. The companies of the TAURON Capital Group conducting operations within the distribution and trade of heat include mostly PEC Katowice and PEC in Dąbrowa Górnicza, which also deal with generating heat in their own heating plants, while the operations in the area of stone extraction are carried out by Kopalnia Wapienia Czatkowice.

In accordance with the adopted "Corporate strategy of the TAURON Group for the years 2011-2015, with the perspective till the year 2020", constituting the updated version of "Corporate strategy of the TAURON Polska Energia S.A. for the years 2008-2012, with the perspective till the year 2020", activities aimed at development of the Heat Segment are ongoing, to include, among others, such companies as: PEC Katowice, PEC Dąbrowa Górnicza and Elektrociepłownia Tychy.

3.2. Significant achievements and failures of the TAURON Capital Group in the reported period

3.2.1. Structure of sales by segments

The following table presents volumes and structure of sales of TAURON Capital Group, divided into individual areas (segments) of operations for the first half of 2011 as compared to the corresponding periods of 2010.

Table no. 3. Volumes and structure of sales of the TAURON Capital Group divided into individual areas (segments) of operations (against corresponding periods of the previous year)

Specification	unit	1st half of 2011	1st half of 2010	Change	2nd quarter of 2011	2nd quarter of 2010	Change
Sales of coal by the Mining Segment	mln Mg	2.57	2.24	14.7%	1.43	0.97	47.4%
Sales of electric energy and heat by Generation Segment of electric energy and heat from conventional sources	TWh	12.6	10.4	21.2%	5.9	4.9	20.4%
	PJ	8.3	9.3	-10.8%	1.8	2.1	-14.3%
Sales of electric energy generated in hydroelectric power plants by the RES Segment of electric energy from renewable sources	TWh	0.20	0.24	-16.7%	0.09	0.14	-35.7%
Sales of distribution services by the Distribution Segment	TWh	19.4	18.8	3.2%	9.4	9.1	3.3%
Retail sales of electric energy by the Trade Segment of electric energy and other products of the energy market	TWh	18.6	16.9	10.1%	9.3	8.3	12.1%
Sales of heat purchased and generated by the "Other" Segment	PJ	5.6	6.4	-12.5%	1.0	1.3	-23.1%

3.2.2. Coal mining

In the first half of 2011 PKW produced about 2.6 million tonnes of commercial coal, i.e. by about 18% more as compared to the corresponding period of 2010 when the production of commercial coal reached about 2.2 million tonnes.

In the second quarter of 2011, the level of coal production reached about 1.5 million tonnes and its was higher by about 67% than in the second quarter of 2010 r., when PKW had problems with coal extractions due to mining and geological conditions.

The volume of coal sales in the first half of 2011 amounted to almost 2.6 million tonnes (over 1.4. million tonnes in the second quarter of 2011) which makes an increase by about 15%, as compared to the corresponding period of 2010 when the volume of sales reached the level of over 2.2 million tonnes (almost 1.0 million tonnes in the second quarter of 2011. During the period under analysis, the mining-geological conditions did not allow for intensification of coal extraction, which is reflected in the increased level of production and sales of commercial coal.

3.2.3. Generating electric energy and heat from conventional sources

In the first half of 2011, the companies of the Generation Segment produced jointly about 11 TWh (including about 0.27 TWh from biomass) net of electric energy, which makes about 10% more than a year ago (almost 10 TWh, including 0.30 TWh from biomass), as well as about 9 PJ of heat, against about 10 PJ in the corresponding period of 2010, i.e. 10% less.

In the second quarter of 2011, the companies of the Generation Segment generated jointly about 5.2 TWh of net electric energy (including 0.15 TWh from biomass), i.e. by about 13% more as compared to the corresponding period of 2010 when the net production of electric energy reached 4.6 TWh (including 0.17 TWh from biomass). Heat generation of the companies of the Generation Segment in the second quarter of 2011 reached 2 PJ and it was by 13% lower as compared to production in the corresponding period of 2010 which amounted to 2.3 PJ.

In the first half of 2011. the Generation Segment of the TAURON Capital Group achieved the electric energy sales volume at the level of about 12.6 TWh, which makes the increase by about 21% as compared to 10.4 TWh of the corresponding period of the previous year.

The quarterly volume of electric energy sold by the Generation Segment increased by about 1.0 TWh, it means by 20%, from 4.9 TWh in the second quarter of 2010 to over 5.9 TWh in the first quarter of 2011, which is the result of higher demand for electric energy in the National Electric Power System as well as increased activity on the power market – due to the amendments to the Act of 10 April 1997 Energy Law (since 9 August 2010), energy generators are obliged to sell a part or total (in the case of PKE, as a beneficiary of the Act on premature long-term contracts termination) volume of electricity (except generated from RES and in congregation) so as to ensure equal public access to the energy. Accordingly, most of the electric energy produced is sold, like in the first quarter of 2011, to the Polish Power Exchange (before amendment to the Law, almost the entire volume of production was sold within the TAURON Capital Group).

3.2.4. Generating electric energy from renewable sources

The volume of electric energy generated in hydroelectric power plants and supplied through the companies of the RES Segment of the TAURON Capital Group in the first half of 2011 was lower than in the corresponding period of 2010 reaching 0.2 TWh (against 0.24 TWh in 2010) which was mainly due to different hydrological conditions: the first half of 2011 was drier than the corresponding period in 2010, thus, although the first quarter of 2011 allowed for over 10% increase of the volume of sales, against the corresponding period of last year, the atmospheric conditions were not so favourable in the second quarter of 2011. Short-term intensive rainfall in the period of spring vegetation and longer rainless periods resulted in lack of runoff of rainfall water to rivers and reservoirs causing lower energy production than in the corresponding period of 2010. For those reasons, in the second quarter of 2011 the RES Segment generated 0.1 TWh of energy against 0.14 TWh in the second quarter of 2010, i.e. by about 36% less.

3.2.5. Electric energy distribution

The volume of electric energy supplied to about 4.128 million recipients by the companies of the Distribution Segment of the TAURON Capital Group increased by approximately 0.6 TWh, which means by 3%, from approx. 18.8 TWh in the first half of 2010 (against 9.1 TWh in the second quarter of 2010) to 19.4 TWh in the first half of 2011 (9.4 TWh in the second quarter of 2011), which was associated with the increased demand for electric energy supply of current customers and acquiring of new customers connected to the network. The increase in sales referred mainly to enterprises of high voltage and medium voltage tariff groups. An upward trend to a lesser extent concerned low voltage customers; a slight decrease in the volume of supplies, at minimum decrease of fees for distribution services referred to households.

3.2.6. Sales of energy and other products of the energy market

The volume of electric power sold by companies of the Trade Segment of the TAURON Capital Group increased by approximately 1.7 TWh, year by year, i.e. by about 10%, from about 16.9 TWh in the first half of 2010 (almost 8.3 TWh in the second quarter of 2010) to about 18.6 TWh in the same period of 2011 (over 9, 3 TWh in the second quarter of 2011, increase by about 12%). The reasons of the increase in sales are similar to those for the Distribution Segment and result from increased demand for electric energy as well as from acquisition of new electric energy consumers for the Group. The increase in electricity consumption was observed particularly in B and C tariff groups. the level of surrender in these groups was smaller than expected, which makes the positive effect of the adopted sales strategy. In G group, compared to the corresponding period of 2010, a slight decrease in the average energy consumption was observed, which resulted in smaller sales volume in this group, despite higher number of customers.

3.2.7. Other operations

The volume of heat sold by heat companies, coming from purchasing and production in own heating plants decreased by about 0.8 PJ, i.e. by over 12%, from approximately 6.4 PJ in the first half of 2010 (1.3 PJ in the second quarter of 2010) to 5.6 PJ in the first half of 2011 (1 PJ the second quarter of 2011). The decrease of operating parameters is associated with higher average ambient temperature in the first half of 2011 which affected lower demand for heat, as compared to corresponding period of 2010.

3.2.8. The Corporate Strategy update

On 28 April 2011, the Management Board and the Supervisory Board of TAURON Polska Energia adopted the "Corporate Strategy of TAURON Group for the years 2011-2015 with a perspective till the year 2020" which is an update of the strategy from 2008. The revised

Corporate Strategy is based on the pre-defined strategic priorities; the overarching strategic objective is to ensure continuous growth of return on investment for the benefit of the shareholders. A key direction for the strategy is to focus on growth in the areas of operations where the highest potential for achieving high rates of return on investments exists and on diversification of the generation portfolio. In addition, the objective of further improvement of the efficiency and building of effective organization has been sustained. The new strategic goal of the Group is to manage the exposure to the market and regulatory risks.

Due to the need to recover the generation capacity and the related investment expenditure, investment in generation assets (and potential acquisitions in this area) on the domestic market will be the priority for the Group. The total investment expenditure of the TAURON Group in the years 2011-2020 will amount to about PLN 44-45 billion. Within the generation portfolio, achievement of the new production capacity in different technologies is planned by 2020. The planned investment objective is to launch the generation capacity of 2,400 MW.

Within the verification of generation asset portfolio and reduction of the risks associated with exposure to CO_2, TAURON has decided on the need to increase the share of power held in the low-emission technologies. In 2020, the Group will hold up to 800 MW in wind and biogas based power generation. TAURON will conduct activities within preparation to the process of construction of the nuclear power plant (current report no. 25/2011 dated 28 April 2011).

3.2.9. Implementation of the investment programme

In the first half of 2011, activities associated with implementation of the investment programme have proceeded. Capital expenditure of the TAURON Capital Group in this period amounted to about PLN 789 million being higher by about 49% than the expenditure incurred in the corresponding period of 2010, which amounted to almost PLN 530 million. This is mainly due to intensification of strategic investment in the segments of Generation and Distribution.

The main investments during six months of 2011 comprise outlays for:

– construction of new power generation capacity (PLN 152 million),
– construction of installation for NOx emission reduction (PLN 90 million),
– construction of new service lines in the Distribution Segment (PLN 140 million),
– upgrading of the existing distribution networks (PLN 155 million).

In addition, expenditure was incurred to construct the underground technical infrastructure in the Mining Segment (PLN 50 million).

3.2.10. Concluding of contracts on the construction project of the gas and steam unit in Stalowa Wola

On 11 March 2011, a package of agreements on the construction project of the gas and steam unit in Stalowa Wola was signed, comprising: the Agreement on Operations of the Cogeneration Plant - Elektrociepłownia Stalowa Wola S.A., the long-term contract on electric energy supply, complex agreement on supply of gas fuel. This project involves the construction of the gas and steam unit to generate electric energy in highly-efficient congregation and heat under the form of water for municipal needs and technological process steam for the nearby industrial facilities (current report No. 9/2011 of 11 March 2011).

3.2.11. Activities aimed at acquiring of free allocations of CO_2 emission allowances

On 29 March 2011, the European Commission issued a document called: "Communication from the Commission, the Guidance document on the optional application of Article 10c of Directive 2003/87/EC" laying down rules for granting of free emission allowances for the eligible generation units. The key fragment of this Communication was to define the concept of „physically initiated" investment process which, in accordance with the expectations of the Polish government, would enable inclusion of the installations to be under development at the end of 2008, into the group of beneficiaries entitled to utilise free emission allowances in the period 2013-2020. Ultimately, it was adopted in Communication that „The investment process should be considered physically initiated no later than 31 December 2008, if it can be demonstrated that the investment decision was not influenced by the option of receiving free allocation of emission allowances." This means that the Member States must be able to prove that physical construction works began on the sites, and „it was visible" before the end of December 2008, or that a contract on construction of a power plant had been signed between the investor and contractor.

At the same time the Commission „shall adopt in this context that physically started construction works can also encompass preparatory work, however, always undertaken on the basis of explicit approval, if necessary, of the relevant national authority." As a result, the EU countries should provide the relevant document, issued in accordance with the national law, and in the absence of the official approval for preparatory work, the Commission allows for submission of other evidence of physical work commencement, however, they must convince them that the investment decision was not taken under the influence to obtain free allowance.

In the first half of 2011, the companies of the TAURON Capital Group of the Generation Segment participated in the activities aimed at obtaining free allowances. In February 2011, in response to an inquiry of the Group established by the Ministry of Economy to work on obtaining assignments, completed questionnaires were sent on the preparation of the National Investment Plan and the derogating proposal.

Upon submission of the application, the Commission will have 6 months to evaluate it. The Commission has the right to reject the application partly or as a whole. Apart from Poland, the following countries have the right to be granted a maximum of 70 percent of free allocation for CO_2 emission in 2013: Bulgaria, Cyprus, Czech Republic, Hungary, Estonia, Latvia, Lithuania, Malta and Romania.

3.2.12. Construction of a new cogeneration unit at EC Tychy – obtaining a loan from the Regional Fund for Environmental Protection and Water Management

On 29 March 2011, the Regional Fund for Environmental Protection and Water Management (WFOŚiGW) and Elektrociepłownia Tychy S.A. (EC Tychy) signed a preferential loan contract at PLN 30 million for the project involving reconstruction of the fluidized bed boiler and construction of installation of biomass-fuelled boilers. In Elektrociepłownia Tychy, the new power unit with heating - condensation turbine, of the nominal electric power (at condensing work) of 50 MWe and heat capacity of about 86 MWt shall be constructed. To enable operating of the existing unit BC-35 after the implementation of the new, stricter emission standards, modernisation of the existing fluidised bed boiler has been planned in order to adapt it to combustion of biomass.

3.2.13. Selection of technology for the new power unit in Elektrownia Blachownia

In the first half of 2011, analyses were continued on final selection of the technology for the new unit in Elektrownia Blachownia, belonging to the Południowy Koncern Energetyczny. The options under consideration included coal or gas fuel.

As a result, on 13 April 2011, the management boards of TAURON Polska Energia S.A., KGHM and PKE signed the agreement pursuant to which they had decided that further design work concerning construction of the 800-910 MW unit at the Elektrownia Blachownia Blachownia in Kędzierzyn-Koźle shall be conducted with the assumption of the choice of the gas fuel.

3.2.14. Withdrawal of Kompania Węglowa from Contract on the Joint Venture of 8 April 2011

On 10 April the Company received a letter from Kompania Węglowa concerning the Contract on the Joint Venture of 8 April 2011. Pertaining to this agreement, TAURON Polska Energia S. A. and Kompania Węglowa were committed to undertake actions aimed at contributing of the enterprise KWK „Bolesław Śmiały" by Kompania Węglowa to the special purpose vehicle, and then to contribute shares to this special purpose vehicle as well as all the shares owned by Kompania Węglowa in PKW to TAURON Polska Energia S. A., in exchange for contribution of new shares in the increased share capital of TAURON Polska Energia S.A., to be directed to Kompania Węglowa.

In the letter indicated above, the Management Board of Kompania Węglowa stated they did not accept the value of the organised part of the enterprise of Kompania Węglowa – Oddział KWK „Bolesław Śmiały" as well as the value of shares held by Kompania Węglowa S.A. in PKW, resulting from the performed valuation of assets. Furthermore, the Management Board of Kompania Węglowa stated that they had decided to withdraw from the Contract on the Joint Venture of 8 April 2011, with the consequent expiration of the Contract. Simultaneously, the Management Board of Kompania Węglowa expressed their readiness to enter into negotiations on a possibility to dispose of shares of PKW held by Kompania Węglowa (current report no. 36/2011 of 10 June 2011).

3.3. Significant events after 30 June 2011

3.3.1. Maintenance of the BBB rating for the Company

On 1 July 2011, the Fitch rating agency informed of their decision to sustain the rating for the Company in foreign and local currency at the BBB level, with stable perspective (current report no. 40/2011 of 1 July 2011).

3.3.2. Concluding of master agreement with ArcelorMittal Poland S.A.

On 25 July 2011 the master agreement was concluded between Elektrociepłownia EC Nowa and ArcelorMittal Poland S.A. (ArcelorMittal) covering the following scope: 1) sales of energy carriers by Elektrociepłownia EC Nowa to ArcelorMittal, such as: wind of blast furnace, electric energy, compressed air and heat, 2) purchase of gas fuel by Elektrociepłownia EC Nowa from ArcelorMittal, such as: blast furnace gas, coal gas and convector, 3) establishment of the principles of settlements between Elektrociepłownia EC Nowa and ArcelorMittal concerning the CO_2, emission, 4) implementation of investment by Elektrociepłownia EC Nowa involving modernisation of the OPG 430 boiler and construction of turbogenerator of 50 MW capacity (Investment) as well as specifying the conditions on achievement of return on investment resulting from the contract under consideration (current report no. 42/2011 of 25 July 2011).

3.3.3. Establishment of the company of CC Poland Plus sp. z o.o.

On 8 July 2011, the University of Science and Technology (Akademia Górniczo-Hutnicza)– the coordinator of the Poland Plus KIC Node, The Technical University of Silesia (Politechnika Śląska), The Jagiellonian University (Uniwersytet Jagielloński), The Technical University of Wroclaw (Politechnika Wrocławska), the Institute of Chemical Coal Processing (Instytut Chemicznej Przeróbki Węgla), the Central Mining Institute (Główny Instytut Górnictwa), the European company KIC InnoEnergy SE and TAURON Polska Energia S.A., signed the deed on formation of the company CC Poland Plus sp. z o.o., established to conduct research and coordinate activities in the area of the so-called clean coal technologies. The research is particularly important for the Polish power industry from the point of view of the more and more restrictive climate policy of the European Union. As a principle, CC Poland Plus shall act as the non-profit organisation and the generated income will be invested in the statutory activities. CC Poland Plus is one of the European KIC Nodes (Knowledge, and Innovation Community Nodes) – next to German, French, Spanish, Swedish and Belgian – created within the Knowledge and Information programme of InnoEnergy.

3.3.4. Purchase of shares of PEPKH company

On 26 July 2011, following prior approval of the Supervisory Board, the Company concluded the contract with PKE, concerning purchase of 700 shares of the PEPKH company, at par value of PLN 6,000.00 each, at the total price of PLN 42,170,261.00, including each share at PLN 60,243.23 as the benefit in exchange for partial fulfilment of the commitment of PKE to disburse the cash dividend to the Company as the shareholder, pursuant to the Resolution of the General Meeting of PKE no. 4/2011 of 26 May 2011.

3.4. Description of main risks and threat factors for the TAURON Group

Providing for implementation of the updated "Corporate strategy of the TAURON Polska Energia S.A. for the years 2011-2015, with the perspective till the year 2020", the Company manages business risks which occur in the operations of the whole TAURON Capital Group. The Risks management process is aimed at implementation of the adopted business objectives of the TAURON Capital Group as a part of the acceptable risk level adopted by the Company's Management Board.

Considering the above assumption, the Management Board of the Company, in view of the implemented "Corporate Risk Management Policy in the TAURON Group" , has continued its implementation in key subsidiary companies.

The Comprehensive Risk Management System covers significant risks which occur in the operations of the Company and the TAURON Capital Group. The nature of risks is defined in particular by specifying their significance level and probability of materialization. To achieve this goal, the System covers and organises all the resources of the TAURON Capital Group developing the infrastructure of corporate risk management (strategy, processes, authorisation, reporting, methodology and IT tools). The Risk Management System refers to all elements of the value chain implemented by the subsidiaries of the TAURON Capital Group, covering both the Company and all its subsidiaries. All the employees of TAURON Capital Group companies take part in the risk management process.

Assessment, as of the extent of the TAURON Capital Group exposure to the aforementioned risk factors and threats, takes into consideration their probability of occurrence and significance as well as adequacy of the applied risk management strategy. Order in which particular risks have been presented does not reflect the scale of the assessment.

Macroeconomic risk – macroeconomic situation of Poland, the European Union and the global economy has significant influence on the TAURON Capital Group operations and standing. Macroeconomic risks are connected mainly with the level of Polish GDP, inflation rate, exchange rate, interest rates, fiscal and monetary policy of the state as well as economic crisis, unemployment rate, liquidation of companies, reduction of housing development business and industrial investment in the region. Changes in economic situation may affect the operations (especially generation of electric energy and heat as well as sales volume), financial results and the TAURON Capital Group market position.

Political risk – operations of the TAURON Capital Group are exposed to changes in the national policy. Examples of this include regulations concerning prices of electric energy distribution and transfer as well as changes in financial policy. Due to the fact that the State Treasury is one of the shareholders of the Company, additional risk exists connected with the uncertainty of political majority and potential changes in the national energy and dividend policy which applies to companies with the State Treasury shareholding.

Risk of unstable legal system and the European Union regulations connected with the operations of the energy sector, including environment protection – the risk applies to all legal changes, in both Polish and the European Union regulations which are binding for the Company as well as to legislation environment uncertainty. Introduction of new regulations or amendments to the legal acts in force can directly or indirectly influence the TAURON Capital Group operations. A risk exists of introducing unfavourable and imprecise regulations and orders in many areas of law connected with the TAURON Capital Group operations. Changes in the European Union and national regulations affecting the broadly understood energy sector, the requirement to fulfil obligations resulting from new legal regulations and the related necessity to conduct operations based on new regulations, can cause growth of the enterprise operating expenses by increasing significant and unexpected costs, for example costs of generation of electric energy and heat, which can even lead to losing the license within the scope required for the operations carried out by the TAURON Capital Group. Moreover, environment protection regulations are becoming stricter, and adjustment to changes in this scope can also involve bearing significant costs. Non-compliance with the environmental protection regulations can lead to the necessity of periodical discontinuing or suspending of a specific operation. Permanent exclusion of certain technologies resulting from the implementation of the European Union regulations can limit the TAURON Capital Group production potential and it can weaken its negotiating position with financial institutions, simultaneously resulting in losing the market share.

Risk of non-compliance with the requirements of URE / requirements of UOKiK / IRIESD – a risk exists of recognising by URE that the OSD is not independent or does not treat entities on the market equally. URE can impose introducing of certain specific changes, among others in agreements with trading companies, in rules of cooperation adopted so far. There is a possibility to impose a fine on the TAURON Capital Group pursuant to the Act of 10 April 1997 on Energy Law. This risk is not related to tariff process.

In the area of competition and consumer protection law, a risk exists concerning implementation of processes related to the operations concentration strategies under non-compliance with the requirements of the Office of Competition and Consumer Protection (UOKiK). There is a risk of infringement of antimonopoly regulations by distribution companies which are subject to regulations concerning the ban on overusing the dominating position.

Risk of Capital Group organisation and corporate management – this type of risk is related to the holding structure of the TAURON Capital Group. There is a risk of ineffective cooperation between the TAURON Capital Group companies (horizontal dimension) as well as between subsidiaries and the parent company (vertical dimension). The structure of the TAURON Capital Group requires coordination of many operations within the Capital Group, therefore a risk exists of occurrence of difficulties in the reporting process, management processes and information management from/to subsidiary companies. Materialization of Risk of Capital Group organisation and corporate management may result in incomplete transposition of the parent company strategic objectives to subsidiary companies, prolonged period of decision execution and implementation of solutions, occurrence of incoherent interpretation of regulations, delays in decision making or lack of required decisions, failure to adjust to the changing market conditions or weakening of the market position of the TAURON Capital Group.

Competition risk – The TAURON Capital Group is exposed to a growing competition risk posed by new and hitherto players on the energy market. The risk is connected with the progressing liberalization of the energy market, especially with the planned release of electric energy prices for G group consumers and releasing heat prices, as well as with changes on the retail market and the consumers' right to change a provider. The TAURON Capital Group is exposed to the risk of losing its hitherto consumers on the retail market or the necessity to decrease the margin on sales of electric energy for its current consumers which influence the income of the sales company and the TAURON Capital Group financial result.

Risk of fund raising and financing service – the risk of lack of possibilities to raise funding for operating and investment needs or obtaining financing on conditions which are different from the adopted assumptions (financing costs are higher than benchmark costs, increased number of covenants). The risk may cause the lack of resources for projects included in the Corporate Strategy and in investment plans, and in extreme cases, for operations and financial services of the Company. Risk connected with inadequate financing strategy or incorrect financial servicing (implementation, timeliness or breach of conditions of financial agreements) can cause termination of financing agreements or deterioration of their conditions, simultaneously negatively influencing financial result of the Company and the TAURON Capital Group.

Risk connected with the termination of LTC – regulations of the Act on rules of covering costs incurred by producers in connection with an premature termination of long-term agreements (LTC) of electric energy and power supply enable the TAURON Capital Group to receive compensation of stranded costs. There is a risk of questioning by the President of the URE of the amounts due to cover stranded costs as well as of the obligation to return advance payments received on this account. On the basis of the Act of 29 June 2007 on the rules of covering costs generated by producers in connection with premature termination of sales contracts of electric energy and system services, the programme to cover stranded costs is classified as public aid. There is a risk of the European Commission to qualify the rules of utilising the resources of the programme as public aid which is in non-compliance with the Common Market. Such a qualification may imply the necessity to return the received aid with interest.

Environmental risk, including the risk of atmospheric conditions – there is a possibility to incur losses resulting from non-compliance with legal regulations, the way of implementing the European legislation into Polish legislation and administrative decisions, including the need to implement actions on the basis of parameters defined in the license, which can result in failure to obtain permissions/decisions or in exceeding of certain threshold parameters, or cause significant costs to fulfil requirements defined in the decisions. The risk is also connected with the possibility of occurrence of environmental damage and serious industrial failure which can lead to natural environment degradation, necessity to pay indemnities, risk of implementation of production tasks as well as local/regional inhabitants' protests. Moreover, the atmospheric conditions may influence the demand for electric energy and heat and may have negative impact on technical conditions of generation and distribution of electric energy and heat. Materialization of the risk can cause decrease of the TAURON Capital Group income as well as claims of consumers of electric energy and heat to pay damages or grant discounts.

Risk connected with the obligation to redeem CO_2 allowances – the risk is connected with emitting of CO_2 into the atmosphere in connection with operations of the TAURON Capital Group within the scope of electric energy and heat generation as well as the need to redeem a relevant number of CO_2 allowances by the TAURON Capital Group, corresponding to the actual generation of electric energy and heat. Failure to redeem or redemption of the wrong number of allowances may result in imposing a fine for each unit of unredeemed credit. Limiting of free allotments and the resulting significant increase of costs to purchase of the outstanding CO_2 allowances may result in decreasing of the planned sales profitability or in incomplete covering of these costs by the prices of electric energy sales. Inadequate distribution of free allowances among entities on the energy market in relation to the size of CO_2 emission as well as limited availability of allowances on the market may have adverse effects on the competitiveness of the Company and the TAURON Capital Group on the electric energy market.

Risk of approval of tariffs by the President of URE – the risk is connected with the process of approval of tariffs on electric energy, heat and distribution services by the President of URE. The main threat involves the risk of refusal to approve the tariff. Besides, the regulator may refuse to recognise investment expenditure in the development plan. The investment may also be implemented at higher cost than acceptable within the costs justified by URE and approved in the tariff. The risk also involves limited possibility to introduce changes in the tariff and obtaining of URE approval (e.g. occurrence of higher costs which were not foreseen at the stage of tariff calculation).

Property failure risk – the risk of occurrence of significant and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. Companies operating in the scope of mining, generation and distribution of electric energy and heat are particularly vulnerable to this risk. Materialization of this risk can be connected with the need to bear additional costs of grid and non-grid infrastructure overhaul, blackouts and disruptions in operations as well as with the need to offer discounts or pay fines.

Risk of unregulated legal status of the property utilised – the risk is connected with a possibility of occurrence of massive claims of land owners. The reason of this kind of risk may be the unregulated legal status of foundation of a building on the land without holding proprietary rights, changing law and its interpretation as well as the growing awareness of the society.

Volumetric risk – volumetric risk is related to the fluctuations of electric energy trade volume which depends of the quality or possibility of planning of sales / purchase, the main consequence of which is difference between the planned and actually achieved volume of supplies. The main factors of this risk include seasonable nature and changeability of customers' demand depending on atmospheric or economic conditions, competition operations or activity in acquisition of clients as well as technological conditions. Materialization of this risk may result in increased costs connected with closing open positions on the forward market and/or balancing market, on futures market and/or current market as well as in losing income and decrease of margin on sales of electric energy to consumers.

Human capital management – the risk of human capital management may occur due to inappropriate managing of the key resources of the enterprise, causing the potential loss or lack of specialised personnel. Occurrence of this risk may result in increased expenditure on remuneration enforced by the necessity to maintain attractive market conditions of employment as well as in high expenditure incurred due to the need to acquire and train new or current employees; it may also influence the increased number of complaints and increased level of customers' dissatisfaction.

3. 5. Employment in the TAURON Group

The average employment in the TAURON Capital Group in the first half of 2011 reached 27,730 FTEs in total. Dividing into the individual areas of activity of the TAURON Capital Group, the average employment in this period was as follows:

a) Mining Segment 6,071 FTEs,
b) Generation Segment 6,256 FTEs,
c) RES Segment 230 FTEs,
d) Distribution Segment 11,866 FTEs,
e) Trade Segment 1,618 FTEs,
f) "Other" Segment 1,689 FTEs.

4. ANALYSIS OF ASSETS AND FINANCIAL SITUATION OF THE CAPITAL GROUP

4.1. Financial situation of the TAURON Capital Group after the first half of 2011

4.1.1. Consolidated statement on comprehensive income

The table below presents selected items of the consolidated statement on comprehensive income of the TAURON Capital Group for the period of 6 months, ended on 30 June 2011 as well as comparative data for the period of 6 months ended on 30 June 2010. These items have been referred to in accordance with the interim condensed consolidated financial report compliant with the IFRS (International Financial Reporting Standards) for the period of 6 months ended on 30 June 2011, which includes presentation of the statements for the second quarter of 2011, compared to the second quarter of 2011.

Table no. 4. Selected items of the consolidated statement on total income of the TAURON Capital Group (against corresponding periods of the previous year)

Specification	1st half of 2011		1st half of 2010	
	Thousand PLN	% of total revenue on sales	Thousand PLN	% of total revenue on sales
Continuing operations				
Sales of goods for resale, finished goods and materials without elimination of excise	8 119 449	78.6%	5 181 501	71.4%
Excise tax	(225 527)	2.2%	(209 694)	2.9%
Sales of goods for resale, finished goods and materials	7 893 922	76.4%	4 971 807	68.5%
Rendering of services	2 416 965	23.4%	2 274 962	31.3%
Other income	20 257	0.2%	13 520	0.2%
Sales revenue	**10 331 144**	100%	**7 260 289**	100%
Cost of sales	(8 980 229)	86.9%	(5 996 628)	82.6%
Gross profit/(loss)	**1 350 915**	13.1%	**1 263 661**	17.4%
Other operating income	44 458	0.4%	52 643	0.7%
Cost of sales	(99 711)	1.0%	(109 214)	1.5%
General and administrative expenses	(308 572)	3.0%	(340 620)	4.7%
Other operating costs	(49 012)	0.5%	(83 719)	1.2%
Operating profit / (loss)	**938 078**	9.1%	**782 751**	10.8%

*Operating profit margin (%)**	*9.1%*		*10.8%*	
Finance revenue	54 821	0.5%	43 783	0.6%
Finance cost	(77 495)	0.8%	(105 076)	1.4%
Share in profit of the affiliates	(539)		-	
Gross profit / (loss)	**914 865**	8.9%	**721 458**	9.9%
*Gross profit margin (%)**	*8.9%*		*9.9%*	
Income tax	(186 918)	1.8%	(148 497)	2.0%
Net profit (loss) on continuing operations	**727 947**	7.0%	**572 961**	7.9%
*Net profit margin (%)**	*7.0%*		*7.9%*	
Profit (loss) on discontinuing operations				
Net Profit (loss) for the period	**727 947**	7.0%	**572 961**	7.9%
Other comprehensive income for the period following deduction of tax	**151**		**(6 388)**	
Total revenue for the period	**728 098**		**566 573**	
Profit attributable to:				
Shareholders of the parent company	704 033		481 767	
Non-controlling interests	23 914		91 194	
Total income attributable to:				
Shareholders of the parent company	704 184		476 337	
Non-controlling interests	23 914		90 236	
EBIT and EBITDA				
EBIT	938 078		782 751	
EBITDA	1 634 882		1 469 919	

** Margins of operating profits, gross profit and net profit for the first half of 2011 calculated against the corresponding to the level of sales revenue of the same period of the previous year (excluding the compulsory sales of the electric energy produced by power exchange resulting from the amendment to the Act of 10 April 1997: the Energy Law) would be similar to those reached in 2010, amounting to: 11.6%; 11.3%; 9.0%, respectively.*

In the first half of 2011 the TAURON Capital Group indicated sales revenue at a level of PLN 10,331.1 million, as compared to PLN 7,260.3 million in the first half of 2010, which represents an increase of over 42%. Such a high growth is associated with the obligation of conduct sales of the electric energy by the generators through power exchange - sales value makes about PLN 2,245.1 million (almost 22%). Taking this fact into account and bringing the data to comparability, the increase in revenue would reach 11.4 %. Considering the binding regulations, the implementation of electric energy sales was performed through open tender, using the Internet trade platform, on the regulated market and on the Power Exchange. In the corresponding period of 2010, almost all the volume of the generated electric energy was sold to the companies of the TAURON Capital Group – sales of electric energy from the Generation Sector was subject to exemption within consolidation of revenue of TAURON Capital Group .

Revenue on sales also covers revenue due to compensations related to terminated long-term contracts (hereinafter referred to as: LTC), which amounted to PLN 168.8 million in the first half of 2011 (PLN 85.3 million in the second quarter of 2011), being by over 23% lower than the revenue achieved in the corresponding period of 2010 (PLN 220.4 million, and PLN 146.8 million in the second quarter of 2010).

In the period of the first half of 2011, as compared to the corresponding period of 2010, the TAURON Capital Group reached higher revenue on sales in all operating segments. The highest dynamics of revenue increase was observed in the Segments of Mining (significant increase particularly in the second quarter of 2011), Generation and Trade. The increase of revenue was also noted in the electric energy distribution area.

Cost of sales in the first half of 2011 amounted to PLN 8,980.2 million, and it is higher by about 50% as compared to the same period of 2010. It results mainly from the increased costs of purchased electric energy, which is associated with the enforced "exchange obligation" (companies of the Trade Segment have to purchase energy on the market, during the first half of 2010, considerable part of the demand was satisfied by the companies of the Generation Segment).

As compared to the first half of 2010, costs of sales were lower (by almost 9%) as well as general administration costs (by over 9%), covering the (non-production) costs of assets depreciation, costs of consumption of materials and energy, costs of external services as well as costs of payroll and benefits for employees, within the scope they are used to implement managerial and administrative functions – effects of the implemented improvement of cost-effectiveness are visible.

The increase in revenue and lower dynamics of cost growth was reflected in improvement of EBIT (increase by PLN 155.3 million, about 20%) and EBITDA (by PLN 165.0 million, about 11%) indicators as well as net profit (increase by PLN 155.0 million, about 27%).

The net profit margin for the first half of 2011, under comparable conditions (without considering the obligatory sales of the generated electric energy through the power exchange) reached the level of 9.0%, i.e. higher than the level reached in the corresponding period of the previous year (7.9%).

In accordance with the presented consolidated statement of comprehensive income, the total income of the TAURON Capital Group in the first half of 2011, considering the net profit increased or decreased by the change in value of hedging instruments, currency exchange due to translation of foreign units, as well as other revenue after tax deduction, amounted to PLN 728.1 million as compared to PLN 566.6 million in the first half of 2010, which indicates increase by about PLN 161.5 million (28%). The total income attributable to shareholders of the parent company amounted to PLN 704.2 million, against PLN 476.3 million in the same period of 2010, the profit attributable to shareholders of the parent company reached PLN 704.0 million as compared to PLN 481.8 million, respectively.

4.1.2. Financial results according to areas of operations

The table below shows the results of the TAURON Capital Group divided into individual areas (segments) of operations in the first half of 2011 and the second quarter of 2011.

Data for individual segments do not cover exclusions due to consolidation.

Table no. 5. Results of the TAURON Capital Group divided into individual areas (segments) of operations (against corresponding periods of the previous year)

Specification (thousand PLN)	1st half of 2011	1st half of 2010	2nd quarter of 2011	2nd quarter of 2010
Coal mining				
Revenue on sales	**652 376**	519 952	**368 310**	220 056
Operating profit	**44 767**	4 885	**49 181**	-38 163
Amortisation and non-finance assets write-downs	**52 726**	55 563	**26 597**	28 828
EBITDA	**97 493**	60 448	**75 778**	-9 335
Generating electric energy and heat from conventional sources				
Revenue on sales	**3 180 047**	2 711 998	**1 499 403**	1 296 238
Operating profit	**377 206**	361 171	**167 697**	176 304
Amortisation and non-finance assets write-downs	**278 983**	271 432	**135 286**	133 881
EBITDA	**655 189**	632 603	**302 983**	310 185
Generating electric energy from renewable sources				
Revenue on sales	**93 132**	76 607	**41 489**	44 951
Operating profit	**55 911**	42 570	**21 791**	28 644
Amortisation and non-finance assets write-downs	**12 036**	10 153	**6 026**	4 757
EBITDA	**67 947**	52 723	**27 817**	33 401
Distribution of electric energy				
Revenue on sales	**2 310 276**	2 228 950	**1 120 759**	1 082 802
Operating profit	**337 557**	227 500	**170 155**	110 548
Amortisation and non-finance assets write-downs	**326 647**	321 678	**165 788**	159 176
EBITDA	**664 204**	549 178	**335 943**	269 724
Trade of energy and other products of the energy market				
Revenue on sales	**6 784 415**	5 840 053	**3 312 036**	2 745 669
Operating profit	**140 741**	165 759	**48 368**	65 841
Amortisation and non-finance assets write-downs	**5 272**	3 540	**3 107**	2 022
EBITDA	**146 013**	169 299	**51 475**	67 863
Other				
Revenue on sales	**317 564**	316 321	**108 810**	105 912
Operating profit	**21 910**	17 573	**-5 122**	-8 686
Amortisation and non-finance assets write-downs	**22 140**	24 802	**10 707**	13 021
EBITDA	**44 050**	42 375	**5 585**	4 335
Non-attributable items and exemptions	**(40 014)**	(36 707)	**(24 986)**	(27 783)
Total EBITDA	**1 634 882**	**1 469 919**	**774 595**	**648 390**

Coal mining

During the first half of 2011 the revenue on sales of the Mining Segment amounted to PLN 652.4 million and it was higher by over 25% as compared to the revenue reached in the first half of 2010 (about PLN 520.0 million).

In the second quarter of 2011, the total revenue on sales of the Mining Segment amounted to PLN 368.3 million which indicates increase by over 67% as compared to the corresponding period of 2010 when the sales of the Mining Segment reached the level of about PLN 220.1 million due to unfavourable mining and geological conditions.

EBIT of the segment during the 1st half of 2011 reached about PLN 44.8 million while the EBITDA reached PLN 97.5 million. Compared to the corresponding period of the previous year, EBIT reached PLN 4.9 million and EBITDA – PLN 60.4 million. EBIT of the segment in the 2nd quarter of 2011 amounted to PLN 49.2 million and EBITDA – to PLN 75.8 million. In the same quarter of the previous year, EBIT and EBITDA were negative and reached the value of PLN -38.2 million and PLN -9.3 million, respectively.

The significant growth of EBIT and EBITDA levels noted in the second quarter of 2011 (by PLN 87.3 million and PLN 85.1 million, respectively) is the consequence of improvement of the mining-geological conditions, which allowed for recovery of regular mining capacity, causing growth in production and sales of commercial coal.

Generating electric energy and heat from conventional sources

During the first half of 2011 the revenue on sales of the Generation Segment amounted to PLN 3,180.0 million and it was higher by over 17% as compared to the revenue reached in the first half of 2010 (about PLN 2,712.0 million).

In the second quarter of 2011, the total revenue on sales of the Generation Segment amounted to PLN 1,499.4 million which indicates increase by over 16% as compared to the 2nd quarter of 2010 (PLN 1,296.2 million). Increase in revenue results mainly from the growth in electric energy volume of sales, following the increased demand of domestic consumers as well as higher average sales price. Transactions concluded on the Power Exchange, particularly the SPOT transactions, had the highest impact on the increased revenue of the Generation Segment, owing to favourable trends in the scope of the offered prices.

On the other hand, the revenue on compensation of stranded costs resulting from termination of LTC was lower than in the 1st half of 2010 (1st half of 2011: PLN 168.8 million, 1st half of 2010: PLN 220.4 million), which is mainly attributed to the achievement of higher margin on electric energy than assumed.

EBIT of the segment in the first half of 2011 reached about PLN 377.2 million while EBITDA amounted to PLN 655.2 million, which means that the results were higher, as compared to the corresponding period of the previous year, by 4.4% and 3.6%, respectively (EBIT in the 1st half of 2010 reached PLN 361.2 million while EBITDA was at the level of PLN 632.6 million).

EBIT of the segment in the 2nd quarter of 2011 amounted to PLN 167.7 million while EBITDA reached PLN 303.0 million.

In the corresponding period of the previous year, EBIT amounted to PLN 176.3 million and EBITDA – to PLN 310.2 million. The slightly worse results of the second quarter of 2011 (decrease of EBIT level by almost 5% and EBITDA by over 2%) result mainly from increase of changeable costs of electric energy generation related to increased production of electric energy at units of lower capacity due to, among others, OSP enforcement.

Generating electric energy from renewable sources

During the 1st half of 2011 the revenue on sales of the RES Segment amounted to PLN 93.1 million and it was higher by about 22% as compared to the revenue reached in the first half of 2010 (about PLN 76.6 million).

In the 2nd quarter of 2011, the total revenue on sales in the RES segment amounted to PLN 41.5 million, indicating the decrease by almost 8% as compared to the 2nd quarter of 2010 when the segment gained the revenue at the level of about PLN 45.0 million. This situation is connected with the lower production of the "green" electric energy (and the consequent lower volume of sales) in the analysed quarter of 2011 affected by worse hydrological conditions than in the 2nd quarter of 2010. EBIT of the RES segment in the 1st half of 2011 reached about PLN 55.9 million while EBITDA amounted to almost PLN 68.0 million, being higher as compared to the corresponding period of the previous year - EBIT in the first half of 2010 reached about PLN 42.6 million while EBITDA amounted to about PLN 52.7 million. EBIT of the segment in the 2nd quarter of 2011 amounted to PLN 22.0 million while EBITDA – reached PLN 27.8 million, which means that, comparing to the corresponding period of the previous year, EBIT was by approximately 24% lower (the level reached in the previous year was PLN 28.6 million), while EBITDA was lower by almost 17% (the level of the 2nd quarter of 2010 was PLN 33.4 million). The drop in revenue, EBIT and EBITDA in the RES Segment is the consequence of the decline in production of electric energy, which is also reflected in the decrease of revenue on sales of property rights of certificates of origin (lower production results from unfavourable hydrological conditions which occurred in the 2nd quarter of 2011 – limited rainfall or short-term intensive rainfall of local character at ambient temperatures causing intensive evaporation considerably limited supply of rivers and reservoirs in rainfall water). The slump in sales level was partly compensated by higher sales prices. Additionally, recognising of revenue from sales of property rights of certificates of origin had positive impact on the result of the RES segment while in the same period of 2010 this revenue was not considered (this revenue was attributed to the Trade segment, through valuation of property rights acquired from production in hydroelectric plants of the company TAURON Sprzedaż, which were redeemed by this company due to sales of electric energy to end users). Following separation of the organised part of enterprise from TAURON Sprzedaż to deal with generation of electric energy from renewable sources (hydroelectric plants), and takeover of these assets by TAURON Ekoenergia, i.e. since the 4th quarter of 2010, the aforementioned revenue if attributable to the RES segment.

Distribution of electric energy

During the 1st half of 2011 revenue on sales in the Distribution segment amounted to PLN 2 ,310.3 million which indicates increase by almost 4% as compared to the same period of 2010. In the second quarter of 2011 the achieved revenue on sales was at the level of PLN 1,120.8 million, i.e. by 3.5% more than in the 2nd quarter of the previous year when the revenue reached PLN 1,082.8 million.

In the first half of 2011, EBIT of the segment amounted to PLN 337.6 million (in the second quarter of 2011 - PLN 170.2 million), as compared to PLN 227.5 million in the corresponding period of the previous year (in the 2nd quarter of 2010 – over PLN 110.5 million).

EBITDA of the Distribution Segment reached the level of PLN 664.2 million (in the second quarter of 2011 – PLN 335.9 million), which represents the value higher by PLN 115.0 million, i.e. by about 21% than the value reached in the 1st half of 2010 (as compared to the 2nd quarter of 2010 – by PLN 66.2 million, i.e. by almost 25%). The dominating factors contributing to the result achieved included: favourable dynamics of the volume of sales of distribution services as well as lower energy consumption for the needs of balancing differences.

Sales of energy and other products of the energy market

In the 1st half of 2011, the revenue on sales of the Trade Segment amounted to PLN 6,784.4 million, thus being higher by 16% than the revenue reached in the first half of 2010 (about PLN 5,840.0 million).

In the second quarter of 2011 , the total revenue on sales in the Trade segment reached PLN 3,312.0 million which indicates the growth by about 21%, as compared to the corresponding period of 2010 when the level of revenue on sales amounted to PLN 2,745.7 million. It is the result of increased demand for electric energy of the hitherto consumers, in particular in the tariff group B as well as C2x and C1x, and it can also be attributed to acquisition of new consumers of electric energy by the TAURON Capital Group within the separated contracts, particularly in tariff groups B and C2x.

EBIT of the segment in the 1st half of 2011 reached PLN 140.7 million (in the 2nd quarter of 2011 – PLN 48.4 million), while EBITDA amounted to PLN 146.1 million (in the second quarter of 2011 – PLN 51.5 million). In the corresponding period of the previous year, EBIT amounted to PLN 165.8 million (in the second quarter of 2010 – PLN 65.8 million), while EBITDA reached PLN 169.3 million (in the 2nd quarter of 2010 – almost PLN 67.9 million). The comparable (managerial) value of EBIT and EBITDA for the period of the 1st half of 2010 would have been lower by PLN 32.8 million – the valuation of property rights of certificates of origin acquired from RES production of TAURON Sprzedaż company, subject to redemption, had positive impact on the result the Trade Segment in this period. After separation of the generation segment of this company and merger with the company TAURON Ekoenergia (RES Segment), the revenue on sales of certificates of origin is attributable to the RES Segment. Consequently, the level of EBIT and EBITDA for the first half of 2011 is similar to the level reached in the first half of 2010.

Other activity

In the 1st half of 2011, the total revenue on sales in the Segment “Other” reached PLN 317.6 million, which means the growth by about 0.4%, as compared to the corresponding period of 2010. In the 2nd quarter of 2011, the revenue on sales at the level of PLN 108. 8 million was achieved, i.e. by about 3% more than in the second quarter of 2010 when the revenue amounted to PLN 105.9 million. The sales of products of Kopalnia Wapienia Czatkowice had predominant impact on the growth of revenue. In the heat generating companies of the Segment, slight decline of revenue occurred – in spite of considerable decrease of the volume of heat sold – the average prices of heat and heating power were higher than in the previous year.

In the 1st half of 2011, EBIT of the segment reached PLN 21.9 million (in the 2nd quarter it was at the level of PLN -5.1 million), while during the corresponding period of the previous year, it amounted to PLN 17.6 million (in the 2nd quarter of 2010 - PLN -8.7 million).

The level of EBITDA for the period of the 1st half of 2011 amounted to PLN 44.1 million (in the 2nd quarter of 2011 - PLN 5.6 million), which makes the value higher by PLN 1.7 million, i.e. by 4% than the value reached in the corresponding period of 2010 (in relation to the 2nd quarter of 2010, improvement by about PLN 1.3 million, i.e. by 29% occurred). The improved results can be attributed to the increase of highly profitable sales of the company Kopalnia Wapienia Czatkowice. In the heat companies, on the other hand, higher average prices of heat were achieved at simultaneous lower changeable costs of heat generation. Within the basic operations of the heat companies of the Segment “Other”, the transmission of heat remains to be the most profitable activity, however, the higher EBITDA in the 1st half of 2011 was mainly caused by the improved result on the heat trade, including also the 2nd quarter of 2011, as compared to the corresponding period of the previous year.

4.2. Status of assets

Consolidated statement on status of assets

The table below presents the Consolidated statement on the status of assets as of 30 June 2011 and 31 December 2010.

Table no. 6. Consolidated statement on the status of assets (comparison of the status as of 30 June 2011 and 31 December 2010)

Consolidated statement on the status of assets (in thousand PLN)	Status as of 30 June 2011	Status as of 31 December 2010
AKTYWA		
Fixed Assets		
Tangible fixed assets	17 600 406	17 524 936
Intangible fixed assets	866 286	970 530
Shares in affiliated companies and joint ventures recognised using the equity method	13 223	764
Other long-term financial assets	185 086	177 452
Other long-term non-financial assets	138 413	123 613
Deferred income tax assets	158 197	161 806
Total fixed assets	**18 961 611**	**18 959 101**
Current assets		

Inventories	388 935	408 560
Receivables due to income tax	14 991	74 749
Trade receivables and other receivables	2 422 059	2 273 145
Other short-term financial assets	9 745	28 193
Other short-term non-financial assets	226 633	208 158
Cash and cash equivalents	1 376 104	1 473 981
Total current assets	**4 438 467**	**4 466 786**
Fixed assets classified for trade	4 397	4 397
TOTAL ASSETS	**23 404 475**	**23 430 284**
LIABILITIES		
Equity attributable to shareholders of the parent company		
Share capital	8 762 747	15 772 945
Supplementary capital	7 412 882	475 088
Foreign Exchange differences due to translation of foreign entities	(120)	(271)
Retained earnings/ Accumulated losses	(1 018 094)	(1 542 937)
Non-controlling shares	479 419	507 246
Total equity	15 636 834	15 212 071
Long-term liabilities		
Loans, credits and debt securities	1 045 564	1 076 178
Liabilities due to leasing and lease contracts with purchase option	61 246	67 810
Long-term provisions and employee benefits	1 085 313	1 059 028
Long-term prepayments and governmental subsidies	637 279	644 522
Trade liabilities and other long-term financial liabilities	6 213	6 910
Provision for deferred income tax	1 280 221	1 215 615
Total long-term liabilities	4 115 836	4 070 063
Short-term liabilities		
Trade liabilities and other liabilities	1 479 792	1 629 723
Current portion of interest-bearing credits, loans and debt securities	195 849	325 027
Current portion of liabilities due to leasing and lease contracts with purchase option	17 786	23 452
Other short-term liabilities	686 263	752 819
Accruals and governmental subsidies	280 809	189 712
Liabilities due to income tax	76 310	68 672
Short-term provisions and employee benefits	914 996	1 158 745
Total short-term liabilities	3 351 805	4 148 150
Total liabilities	7 767 641	8 218 213
TOTAL LIABILITIES	**23 404 475**	**23 430 284**

As of 30 June 2011 and 31 December 2010, the fixed assets of the TAURON Capital Group amounted to PLN 18,961.6 million and PLN 18,959.1 million, respectively, constituting about 81% of total assets. Increase under item Shares in affiliated companies and joint ventures recognised using the equity method is associated with the establishment of the company EC Stalowa Wola – the special purpose vehicle for the needs of implementation of investment involving the construction of the gas and steam unit, the share capital of which was increased in March 2011.

The current assets of the TAURON Capital Group as of 30 June 2011, amounted to PLN 4,438.5 million, being by about 0.6% lower than as of 31 December 2010, when they reached the level of PLN 4,466.8 million. The lower status of current assets results mainly from the decreased status of inventories as well as decrease in other short-term financial assets, mainly due to termination of cash deposits in one of the subsidiaries of the TAURON Capital Group .

As of 30 June 2011 and 31 December 2010, the total equity of the TAURON Capital Group amounted to PLN 15,636.8 million and PLN 15,212.1 million, respectively, constituting 66.8% and 64.9%, respectively, of the equity and total liabilities.

Equity of minority shareholders (non-controlling shares) as of 30 June 2011 and 31 December 2010, reached, respectively, PLN 479.4 million and PLN 507.2 million. Decrease in the value of non-controlling shares is associated with the continuation of the process of repurchase of treasury shares by the subsidiaries of the TAURON Capital Group with the purpose of redemption. Increase in total equity was mainly caused by the net profit generated in the first half of 2011 at the amount of PLN 727.9 million. Change in the level of share capital from PLN 15,772.9 million as of 31 December 2010 to PLN 8,762.7 million as of 30 June 2011 is associated with the decrease in the share par value from PLN 9 to PLN 5 per share. The generated difference at the amount of PLN 7,010.2 million supplied the supplementary capital. Changes in item Retained earnings result from the higher value of net profit attributable to minority shareholders, allocation of the amount of about PLN 190.5 million for payment of dividend for the Company shareholders (i.e. value of net profit generated by the Company in 2010; in addition, the value of dividend was increased by PLN 72.4 million from the supplementary capital) as well as from the process of repurchase of non-controlling shares by the subsidiaries of the TAURON Capital Group with the purpose of their redemption (increase by about PLN 11.3 million).

The status of long-term liabilities and provisions during the period of six months ended on 30 June 2011 reached the level slightly higher than at the end of 2010, mainly due to increase of status of actuarial provisions.

Short-term liabilities decreased from PLN 4,148.2 million as of 31 December 2010 to PLN 3,651.8 million as of 30 June 2011, mainly due to the decrease in the level of trade liabilities and liabilities due to taxes, customs, insurance and other benefits. The balance of short-term bank credits, loans and debt securities amounted to PLN 195.8 million as of 30 June 2011, while the decrease of PLN 129.2 million, as compared to the balance as of 31 December 2010, recognised reclassification of liabilities from the long-term part.

As of the end of 2011, the level of net financial debts of the TAURON Capital Group reached PLN -55.7 million as compared to PLN 18.5 million as of the end of December 2010. The level of indebtedness of the TAURON Capital Group is lower than the status of cash and cash equivalents.

4.3. Cash Flows

Consolidated statement of Cash Flows

The following table illustrates the cash flows of the TAURON Capital Group for the period of six months ended on 30 June, 2011 and 2010, respectively.

Table no. 7. Cash Flows of the TAURON Capital Group (as compared to the corresponding period of the previous year)

Specification (in thousand PLN)	First half of 2011	Second half of 2010
Cash flows from operating activities		
Gross profit /(loss)	914 865	721 458
Adjustments	148 020	369 429
Net cash from operating activities	**1 062 885**	**1 090 887**
Cash flows from investment activities		
Sales of tangible fixed assets and intangible assets	19 786	3 147
Purchase of tangible fixed assets and intangible assets	(932 831)	(690 511)
Sales of other financial assets	25 065	7 820
Acquisition of shares in affiliated companies and joint ventures recognised using the equity method	(13 000)	-
Purchase of other financial assets	(14 634)	(50 156)
Dividends received	6 358	2 198
Interest received	27	162
Repayment of loans granted	25	30
Granting of loans	-	(9 000)
Other	-	2 972
Net cash from investment activities	**(909 204)**	**(733 338)**
Cash flows from financial activities		
Purchase of non-controlling treasury shares	(27 192)	-
Repayment of liabilities due to financial leasing	(14 920)	(18 568)
Cash inflows due to loans/credits	75 594	59 531
Repayment of loans/credits	(235 984)	(233 080)
Redemption of debt securities	-	(41 308)
Dividends paid to non-controlling shareholders	(10 885)	(2 287)
Interest paid	(28 199)	(55 110)
Other	(7 655)	(3 429)
Net cash from financial activities	**(249 241)**	**(294 251)**
Increase/(decrease) in net cash and cash equivalents	**(95 560)**	**63 298**
Net exchange differences	146	57
Cash opening balance	**1 471 660**	**972 655**
Cash closing balance, including	**1 376 100**	**1 035 953**
- of limited disposability	69 123	27 374

The balance of cash as of 30 June 2011 amounted to PLN 1,376.1 million and it was higher by PLN 340.1 million than at the end of the corresponding period of 2010.

During the first half of 2011, slight decrease in cash flows from operating activities was noted – by PLN 28.0 million, which is a combined result of increased level of gross profit and change in the status of provisions on the one hand, and decrease of status of liabilities, excluding credits, and increase of the status of other assets on the other hand.

Negative net cash flows from investment activities for the period of six months of 2011, ended on 30 June 2011, amounted to PLN 909.2 million, and they were lower by about PLN 175.9 million as compared to the period ended on 30 June 2010. The balance of cash flows from investment activities comprised mainly expenses incurred due to purchase of tangible fixed assets and intangible assets at the amount of PLN 932.8 million.

Negative net cash flows from financial activities for the period of six months of 2011, ended on 30 June 2011, amounted to PLN 249.2 million as compared to PLN 294.3 million in the period ended on 30 June 2010. The decrease of the level of net expenditures due to financial activities, as compared to the corresponding period of 2010, was mainly caused by lower interest (by about PLN 27 million), increased inflow due to loans/credits granted (by about 16.1 million) as well as by increased level of dividends paid to non-controlling shareholders (by about PLN 8.6 million).

4.4. Factors and events of significant impact on financial results, particularly events of unusual character

During the period under analysis, no factors or events of unusual nature occurred which could have significant impact on the financial results achieved.

4.5. Factors which, according to the opinion of the Issuer, may have impact on the results to be achieved within the perspective of at least the next six month' period

The Management Board of the Company believes that the results of the Company and the TAURON Capital Group will be affected mainly, as it happened in the past, by the following factors:

– the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of the TAURON Capital Group, situation of the European Union and the global economy;
– political environment, especially in Poland as well as on the European Union level;
– changes in the regulations of the energy sector, activities / decisions of the President of URE (Energy Regulatory Office);
– amendments to the Act of 10 April 1997 on Energy Law and other acts of law related to the requirement of public sales of electric energy by generators;
– stricter climate policy of the European Union;
– introduction of the support system of electric energy generation by high efficiency cogeneration in units fired with methane;
– electric energy prices on the wholesale market;
– sales prices of electric energy and coal as well as distribution tariffs, as factors influencing the level of income;
– prices of certificates of origin of energy from renewable sources and from congregations;
– prices of CO_2 emission allowances;
– prices of fossil fuels and other energy raw materials;
– availability and prices of bio fuels;
– demand for electric energy and heat;
– the process of application and approval of tariffs;
– seasonality and weather conditions;
– the amount of compensation for covering of the stranded costs related to termination of the LTC;
– potential failures of equipment, systems and networks belonging to the TAURON Capital Group.

4.6. Payment of dividend to the shareholders

On 6 May 2011, the Ordinary General Meeting of the Company adopted the resolution on distribution of risk for the financial year 2010, use of supplementary capital, allocating of amount for payment of dividend to the shareholders and on establishment of the date of dividend payment .

In accordance with the aforementioned resolution, the Ordinary General Meeting of the Company allocated the entire net profit for the financial year 2010 for payment of dividend to the shareholders of the Company, at the amount of PLN 190,477,439.61, and additionally, the supplementary capital of the Company was also used for payment of the dividend to the shareholders, through allocation of the amount of PLN 72,404,969.49, constituting part of funds allocated to the capital from the net profit for the financial year 2009.

The total amount allocated for payment of the dividend makes PLN 262,882,409.10 which means that the amount of dividend allocated for one share is PLN 0.15.

The total number of shares covered by the dividend is 1,752,549,394 of shares.

Simultaneously, the Ordinary General Meeting of the Company established the date of acquiring right to dividend payment for 30 June 2011 (day of dividend) and the date of payment of the dividend for 20 July 2011 (day of dividend payment) (current report no. 31/2011 of 6 May 2011).

4.7. Standpoint of the Management Board concerning a possibility to implement forecasts of results for the year as published earlier

TAURON Polska Energia S.A. did not publish any forecasts of financial results.

5. SHARES AND SHAREHOLDERS

5.1. Structure of the share capital

The share capital of the Company as of 30 June 2011 as well as on the day of generating of the report hereto, amounted to PLN 8,762,746,970 and it was divided into the total of 1,752,549,394 shares of AA and BB series at par value of PLN 5 each. The level of the subscribed capital paid in full amounted to PLN 8,762,746,970. Shares of AA series constitute the bearer shares while the shares of BB series constitute the ordinary registered shares. In accordance with the wording of the Articles of Association, the bearer shares can not be converted into registered shares. Each share authorises to submit one vote at the General Meeting of the Company.

Table no. 8. Structure of the Company share capital as of the day of submission of the report

Series of shares	Number of shares	Par value of shares
Series AA	1,589,438,762	PLN 5
Series BB	163,110,632	PLN 5

5.2. Reduction of the share capital and change of the par value of the Company shares

On 25 March 2011, the District Court Katowice-Wschód (Katowice East) in Katowice, Division no. 8 of the National Court Register, issued a decision on entering of reduction of the share capital of the Company through amendment to the Articles of Association by reducing the par value of shares, as adopted by the Extraordinary General Meeting of TAURON Polska Energia S.A. by Resolution No. 4 of 10 November 2010. Consequently, the Company's share capital was reduced by the amount of PLN 7,010,197,576.00, from the amount of PLN 15,772,944,546.00 to the amount of PLN 8,762,746,970.00 through reducing the par value of each share by PLN 4, i.e. from the amount of PLN 9 to the amount of PLN 5.

The reduction of the Company share capital was executed with the purpose of restructuring of the Company equity, through removal of discrepancies between the share capital and the supplementary capital as well as between the par value of shares and their market value.

5.3. Shareholders holding at least 5% of the total number of votes

The structure of shareholders holding at least 5% of the total number of votes at the General Meeting of the Company, either directly or indirectly, through subsidiaries, has not changed since the date of publication of the report of the TAURON Capital Group for the 1st quarter 2011, and as of 30 June 2011 as well as on the date of generating of the report hereto, and it looked as follows:

Table no. 9. Shareholders holding significant blocks of shares

Shareholders	Number of shares held	Percentage in the share capital	Number of votes held	Percentage in the total number of shares
The State Treasury*	526,883,897	30.06%	526,883,897	30.6%
KGHM**	182,110,566	10.39%	182,110,566	10.39%

*in accordance with the notification of the shareholder of 29 March 2011
**in accordance with the notification of the shareholder of 23 March 2011

Description of changes in proprietary structure of significant blocks of shares during the first half of 2011

- On 23 March 2011, the Company received notification from KGHM that the threshold of 10% of the total number of votes in the Company was exceeded due to the purchase of 71,000,00 shares of the Company by KGHM on 23 March 2011 from the Polish State Treasury. The transaction was executed in the accelerated book building process conducted by the State Treasury. Prior to the transaction KGHM owned 111,110,566 shares of the Company, representing 6.34% of its share capital, authorising to submit 111,110,566 votes at the General Meeting, which constituted 6.34% of total number of votes. Following the transaction, KGHM holds 182,110,566 shares of the Company, which makes 10.39% in its share capital, authorising to submit 182,110,566 votes at the General Meeting, which constitutes 10.39% of the total number of votes. In addition, on 24 March 2011, KGHM informed that they did not preclude further increase in share capital of the Company. The decision Is related to implementation of the KGHM Strategy for the years 2009-2018 within which diversification of income sources is foreseen as well as entering into the power sector (current reports no. 11/2011 of 23 March 2011 as well as 12/2011 of 24 March 2011) .
- On 29 March 2011, the Company received notification from the Ministry of the Treasury on the disposal of a significant block of shares of the Company by the State Treasury, resulting in the change in the number of votes held by the Treasury in the Company. On 23 March 2011, within the block transactions, 208,478,000 shares of the Company previously held by the Treasury were sold. The settlement of the block transactions took place on 28 March 2011. Before the transaction the State Treasury held the total of 735,361,897 shares of the Company authorising to submit the equal number of votes at the General Meeting of shareholders. These shares constituted 41.96% in the share capital and the same contribution to the total number of votes at the General Meeting of the Company. Currently, the State Treasury holds 526,883,897 shares of the Company authorising to submit the same number of votes at the General Meeting of shareholders. These shares represent 30.06% in the share capital and the same contribution to the total number of votes in the Company (current report no. 18/2011 of 29 March 2011 .

5.4. Specification of status of shares held by the members of the management and supervisory bodies

As of 30 June 2011 as well as on the date of generating of the report hereto, the proprietary status of shares of the Company TAURON Polska Energia S.A., or authorisation to the shares, held by the persons managing and supervising the Company was as follows:

Table no. 10. The proprietary status of the Company shares or authorisation to hold the shares – managing persons

Name and surname	Number of shares as of 11 May 2011 (publication of report for the 1st quarter of 2011)	Change in number of shares held	Number of shares on the date of generating of the report hereto
Dariusz Lubera	6,576	No change	6,576
Joanna Schmid	0	No change	0
Dariusz Stolarczyk	18,183	No change	18,183
Krzysztof Zamasz	935	No change	935
Krzysztof Zawadzki	21,454	No change	21,454

Table no. 11. The proprietary status of the Company shares or authorisation to hold the shares – supervising persons

Name and surname	Number of shares as of 11 May 2011 (publication of report for the 1st quarter of 2011)	Change in number of shares held	Number of shares on the date of generating of the report hereto
Antoni Tajduś	0	No change	0
Agnieszka Trzaskalska	0	No change	0
Leszek Koziorowski	0	No change	0
Jacek Kuciński	935	No change	935
Włodzimierz Luty	935	No change	935
Michał Michalewski	40,000	-2,500	37,500
Jacek Szyke	0	No change	0
Marek Ściążko	0	No change	0

Change in the proprietary status since the publication of the previous quarterly report

- On 3 June 2011, the Company received two notifications from the member of the Supervisory Board of the Company. The first notification referred to the disposal of 2,000 shares of the Company by the member of the Supervisory Board of the Company, at the price of PLN 6.63 per share. The transaction was conducted on 3 June 2011 on the regulated market within the regular trading session. The second notification referred to sales of the Company shares by a person closely related to the member of the Supervisory Board of the Company (current reports no. 34/2011 and 34K/2011 of 3 June 2011).
- On 20 June 2011 the Company received the notification from the member of the Supervisory Board of the Company. The notification referred to the disposal of 3,500 shares of the Company by the member of the Supervisory Board of the Company, at the price of PLN 6.70 per share. The transaction was conducted on 15 June 2011 on the regulated market within the regular trading session (current report no. 37/2011 of 20 June 2011).
- On 21 June 2011 the Company received two notifications from the member of the Supervisory Board of the Company under Article 160 of the Act of 29 July 2005 on trading in financial instruments. The first notification concerned the purchase of 3,000 the Company shares by the member of the Supervisory Board of the Company. Details concerning the transactions:

20 June 2011 – purchase of 1,500 shares at PLN 6.68 per share, 21 June 2011 – purchase of 1,500 shares at PLN 6.67 per share. The second notification referred to the purchase of the Company shares by a person closely related with the member of the Supervisory Board of the Company. All transactions were concluded on the regulated market within the regular trading session (current report no. 38/2011 of 21 June 2011).

6. OTHER RELEVANT INFORMATION AND EVENTS

6.1. Appointment of the Management Board of the Company for the new term

On 24 February 2011, the Supervisory Board of the Company passed a resolution on the appointment of the following persons for the third term of the Management Board of the Company: Mr. Dariusz Lubera (as the President of the Management Board), Ms. Joanna Schmid (as Vice President for Strategy and Business Development), Mr. Dariusz Stolarczyk (as Vice President of Corporate Matters), Mr. Krzysztof Zamasz (as Vice President for Commercial Matters), Mr. Krzysztof Zawadzki (as Vice-President for Economic and Financial Matters). Resolutions of the Supervisory Board to appoint the above persons to the Management Board of the Company entered into force on the day of their adoption, becoming effective from the date of Ordinary General Meeting approving the financial statements for the financial year 2010 (current report no. 8/2011 of 24 February 2011).

6.2. Appointment of the Supervisory Board of the Company for the new term

In connection with termination of the second common term of office of the Supervisory Board, on 6 May 2011, the following persons were appointed as members of the Supervisory Board of the Company:

– Representatives of the State Treasury, namely: Mr. Antoni Tajduś, Ms. Agnieszka Trzaskalska, Mr. Włodzimierz Luty, Mr. Marek Ściążko and Mr. Michał Michalewski were appointed under the personal authorities of the State Treasury, pursuant to § 23 item 1 point 3) of the Company Articles of Association (current report no. 27/2011 of 5 May 2011),
– Other members of the Supervisory Board, namely: Mr. Leszek Koziorowski, Mr. Jacek Kuciński and Mr. Jacek Szyke, were appointed by the resolution of the Ordinary General Assembly of the Company (current report no. 29/2011 of 6 May 2011).

6.3. Proceedings pending in the court, competent arbitration authority or public authority

During the reporting period, covering the first half of 2011 no proceedings were pending concerning liabilities and debts whose single or aggregate value exceeds 10% of the equity of TAURON Polska Energia S.A.

6.4. Information about transactions with related entities

All transactions with related entities are concluded on arm's length basis. Detailed information concerning transactions with related parties is presented in note No. 28 to the interim condensed consolidated financial statements for the period of 6 months ended on 30 June 2011.

6.5. Information on extended guarantees, credit or loan sureties

During the reporting period, covering the first half of 2011, neither the Company nor its subsidiaries have provided any sureties for a credit or loan, nor any guarantees – to a single entity or its subsidiary of the total value equivalent to at least 10% of the equity of TAURON Polska Energia S.A.

6.6. Other information which, according to the Issuer's opinion, is essential for the evaluation of the human resources, assets, financial situation, financial result and their changes, and which is essential to assess the possibility of fulfilment of obligations by the Capital Group of the Issuer

6.6.1. Cash pooling contract

In 2010 the Company implemented the cash pooling structure, focused mainly on provision of cash flow in the TAURON Capital Group at simultaneous limitation of costs of external short-term financing and maximising of financial revenues due to holding of cash surpluses. Owing to the launched cash pooling structure, the companies facing short-term cash deficits may utilise funds of companies recognising financial surpluses. The resources collected in cash pooling were actively managed by the Company, and the surpluses were invested in financial market instruments of the lowest risk.

In the first half of 2011 the Company extended the cash pooling contract, including the credit limit, which considerably improves the cash flow level and influences the reduction of the financial costs of the Company itself as well as companies of the TAURON Capital Group.

6.6.2. Macroeconomic situation

The TAURON Capital Group operates mainly within the territory of Poland, and therefore macroeconomic trends occurring in Poland are important. It can be observed that there is a positive correlation exists between the increase of demand for electric energy and economic growth; therefore the macroeconomic situation of the country is directly reflected in financial performance achieved by the TAURON Capital Group.

In the first half of 2011 the upward trend in demand for electric energy in National Power System continued, which resulted in an increase in electric energy sales by the TAURON Capital Group.

6.6.3. Ordinary General Meeting of the Company on 6 May 2011

On 6 May 2011 the Ordinary General Meeting of TAURON Polska Energia S.A. (hereinafter referred to as OGM) adopted, among others, resolutions on approval of financial statements of the Company and the TAURON Capital Group for 2010 as well as on approval of the reports of the Management Board on operations of the Company, and the report on operations of the Capital Group for the year 2010. Furthermore, the OGM decided on distribution of profit for the year 2010, utilisation of the supplementary capital, as well as determined the amount allocated for the payment of the dividend to the shareholders (PLN 262,882,409.10), established the day of dividend (30 June 2011) and the date of payment of the dividend (20 July 2011). The OGM acknowledged the fulfilment of duties by all the members of the Management Board and the Supervisory Board who were in office in 2010 as well as adopted the resolution on the number of members of the Supervisory Board. The OGM appointed three members of the Supervisory Board for the third term while the Minister of the State Treasury appointed five representatives, pursuant to § 23 item 1 point 3) of the Articles of Association.

Consequently, eight members were appointed to the Supervisory Board of the third common term (detailed information on this event is provided under section 1.5.1. of this report). The ZWZ also adopted the resolution on amendments to the Company Articles of Association as well as on setting of rules and level of remuneration of the members of the Supervisory Board of the Company.

6.6.4. Termination of long-term contracts

In connection with the termination of long term contracts (LTC) pursuant to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy, the generation companies who were previously parties to those contracts were granted the right to receive compensation for covering of the so-called stranded costs (generation company costs resulting from expenditure incurred by the generating company before

1 May 2004, on assets associated with the generation of electric energy, not covered by the revenue gained from sales of the generated electric energy, reserve capacity and system services on a competitive market after the premature termination of the long term contract). The aforementioned Act limits the total amount of funds that may be paid to all manufacturers for covering the stranded costs, discounted as of 1 January 2007, to the amount of PLN 11.6 billion.

6.6.5. Basic data on the generation companies of the TAURON Capital Group subject to the Act on LTC

Impact of compensations due to termination of LTC on the results achieved by the TAURON Capital Group was described in Note 25 to interim condensed consolidated financial statement compliant with the International Financial Reporting Standards for the 6 month period ended on 30 June 2011. For the period of six months, ended on 30 June 2011, the company of the Generation Segment - PKE, recognised income due to the compensation at the amount of PLN 168.8 million.

6.6.6. Market position

The TAURON Capital Group is one of the two largest utility companies in the country. It is the leader in terms of distribution and the second largest electric energy producer in Poland. Besides production and distribution of electric power, the core activity of the TAURON Group covers trade of electric energy, coal mining, heat generation as well as distribution and supply of heat.

6.6.7. Potential

The TAURON Capital Group is the key player in the energy sector and an important link in the system of Polish energy security. The TAURON Capital Group operates in the area equal to nearly one-fifth of the country territory. Corporate Strategy assumes systematic development of the company in Poland and abroad.

Within the entire chain of values, the TAURON Capital Group holds assets that cover the needs of its business to the major extent.

6.6.8. The National Allocation Plan on CO_2 Emission Allowances for the years 2008-2012

The National Allocation Plan for CO_2 emission allowances (NAP) in relation to the Community emission trading, is subject to notification to the European Commission. In view of the fact that the European Commission, on the occasion of the two previous settlement periods, has limited the amount allocated to Poland for allowances of CO_2 emission, in relation to the level proposed in the NAP, the granted limits constitute significant constraint for the electric power sector. For the reference period, which covers the years 2008-2012 (NAP II), Poland applied for the allowance of 284 million tonnes of CO_2. Pursuant to the decision of the European Commission, Poland was granted the annual average limit at the amount of 208.5 million tonnes. In accordance with the current NAP II, only 110.8 million tonnes of CO_2 are allocated for professional power plants while the CO_2 emitted under normal conditions is estimated at around 120 million tonnes.

6.6.9. Wholesale trade – prices of electric energy and CO_2 emission allowances on the Polish, Czech and German market

Since the beginning of 2011 until mid-June, electric energy prices for the Polish market were systematically rising. Average prices in January 2011 and February 2011 were at a similar level of about PLN 190/MW. In March the average price of the Base increased to over PLN 200/MW, jumping to PLN 205/MW already in the next month. The peak in prices occurred in May 2011 when the average price of RDN supply on TGE (Polish Power Exchange) reached over PLN 210.50/MWh. In June 2011 the spot prices were on average lower by over PLN 5/MWh, mainly due to low prices on the balancing market caused by the launch of testing phase of the new unit in Bełchatów.

The strong slumps of the prices of CO_2 emission allowances have also strongly affected the energy prices, mainly in futures contracts which, after significant growths since the beginning of the year were discounted by several percent in the second half of June 2011.

Similar situation occurred on the Czech and German market where, after the Fukushima accident and the German decision on suspending of operations of seven nuclear power plants, the spot price peak at the monthly average above €/MWh 56 was noted in May 2011. In June 2011 the prices dropped on average to €/MWh 52, mainly under the influence of the decrease in prices of CO_2 emission allowances as well as increased production of energy from renewable sources, under lower demand. The Czech and German markets were so well correlated that the average difference in prices did not exceed €/MWh 2.5 in the first half of 2011.

The consequence of the increase in prices, as long as until the end of May 2011, was the increase in variable costs associated with the sales of electric energy on the retail market. This resulted first of all from the increased short position of the portfolio and secondly from higher prices. Since mid-June 2011, the drop in prices caused the consequent decrease of the above mentioned costs.

Due to maintaining of a limited open position in the portfolio of electric energy the impact of the price slumps and jumps on the financial results of the TAURON Capital Group was insignificant. This guarantees the system of risk limits consistent with the adopted trade strategy, ensuring the stable level of performance of the TAURON Capital Group in the area of trade.

Prices of CO_2 emission allowances had strong impact on electric energy prices and behaviours of the producers. The increases of emission prices accelerated in mid-March 2011 after closure of the nuclear power plants in Germany and the decision on withdrawal from nuclear power generation till the year 2022. They soon exceeded €/t 17 for EUA DEC-11, and the forecasts even predicted €/t 20 until the end of the year. However, in mid-June 2011 the situation changed and the prices of allowances dropped to €/t12. The reason may be attributed to a number of coincidences, such as: introduction of considerable number of CER units of

NER300 projects for trading, adoption of the directive on energy effectiveness by the European Commission and veto of Poland on the project of increase of emission reduction over 20% until 2020.

6.6.10. Retail sales

In the 1st half of 2011, visible increase of demand for electric energy has been observed in the National Power System, due to increase in exports and growing demand of retail customers. The essential factor influencing the operations of the retail trade of electric energy is the increase of costs related to the obligation to redeem the certificates of origin from RES. This is due to the increased share of the purchased proprietary rights in relation to the replacement charges included in the planned cost. The market purchase price is higher than the discounted value of replacement fee by excise duty. It should be indicated that this tax is recovered at the moment of its redemption. Current market prices of proprietary rights are beneficial for the buyers, i.e. they are lower than the discounted cost of the replacement fee.

Higher purchase costs of electric energy arise from the higher sales volume and higher purchase price of energy. Unit cost of purchase is higher than planned mainly due to the high fluctuation in prices on the SPOT market caused by meteorological factors and the situation on the European energy market. The increase in energy prices was also influenced by considerable increase in prices on the futures energy market, which was reflected in purchase of quarterly and monthly contracts at prices higher than planned .

The Management Board of TAURON Polska S.A. is convinced that the information presented in this report describes the human resources, material and financial situation of the Company in a comprehensive manner, and confirms that there were no other incidents, undisclosed by the Company, which could be relevant for the assessment of the situation.

7. PRINCIPLES OF PREPARATION OF THE SEMI-ANNUAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT

The semi-annual condensed consolidated financial statement for the period of six months, ending on 30 June 2011, has been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (hereinafter referred to as: IFRS), in particular in compliance with the International Accounting Standard no. 34. IFRS include standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee

The semi-annual condensed consolidated financial statement for the period of six months, ending on 30 June 2011, has been prepared with the assumption of continuation of business operations by the TAURON Capital Group companies in the predictable future. As of the date of approval for publication of the financial report, no circumstances are recognised indicating any risk for business continuity of the companies of the TAURON Capital Group.

The accounting principles (policy) applied to generate the semi-annual consolidated financial statement have been presented in note 4 of the Semi-annual Consolidated Financial Statement for period of six months, ending on 30 June 2011.

Katowice, 10 August 2011

Signatures of the Management Board Members :

Dariusz Lubera – President of the Board ....

Joanna Schmid – Vice-President of the Board ....

Dariusz Stolarczyk – Vice-President of the Board ....

Krzysztof Zamasz – Vice-President of the Board ....

Krzysztof Zawadzki – Vice-President of the Board ....