

The TAURON Polska Energia S.A. Capital Group

**Interim condensed consolidated financial statements
prepared according to the International Financial Reporting Standards
for the 3-month period ended 31 March 2011**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2011

	Note	3-month period ended 31 March 2011 (<i>unaudited</i>)	3-month period ended 31 March 2010 (<i>unaudited</i>)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise	31	4 079 450	2 711 503
Excise		(106 307)	(105 549)
Sale of goods for resale, finished goods and materials		3 973 143	2 605 954
Rendering of services		1 315 110	1 181 008
Other income		10 822	7 371
Sales revenue		5 299 075	3 794 333
Cost of sales		(4 583 956)	(3 106 970)
Gross profit		715 119	687 363
Other operating income		19 346	31 761
Selling and distribution expenses		(49 157)	(52 512)
Administrative expenses		(146 521)	(144 596)
Other operating expenses		(27 792)	(45 970)
Operating profit		510 995	476 046
Finance income		22 479	26 239
Finance costs		(46 437)	(52 556)
Share in profit/(loss) of associate and joint venture recognised using the equity method	2	(297)	-
Profit before tax		486 740	449 729
Income tax expense	9	(98 769)	(90 142)
Net profit from continuing operations		387 971	359 587
Net profit for the period		387 971	359 587
Other comprehensive income:			
Change in the value of hedging instruments		-	(7 948)
Foreign exchange differences from translation of foreign entities		121	-
Income tax relating to other comprehensive income items		-	1 510
Other comprehensive income for the period, net of tax		121	(6 438)
Total comprehensive income for the period		388 092	353 149
Net profit for the period:			
Attributable to equity holders of the parent		382 471	291 813
Attributable to non-controlling interests		5 500	67 774
Total comprehensive income:			
Attributable to equity holders of the parent		382 592	286 341
Attributable to non-controlling interests		5 500	66 808
Earnings per share (in PLN):			
- basic, for profit for the period attributable to equity holders of the parent	17	0.22	0.19
- basic, for profit for the period from continuing operations attributable to equity holders of the parent		0.22	0.19
- diluted, for profit for the period attributable to equity holders of the parent		0.22	0.19
- diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.22	0.19

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

	Note	As at 31 March 2011 <i>(unaudited)</i>	As at 31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	13	17 402 446	17 524 936
Intangible assets	12	785 201	970 530
Investments in associates and joint ventures recognised using the equity method	2, 23	13 467	764
Other long-term financial assets	23, 31	193 679	177 452
Other long-term non-financial assets	31	147 024	123 613
Deferred tax asset	9	158 726	161 806
		18 700 543	18 959 101
Current assets			
Inventories	14	352 719	408 560
Corporate income tax receivable		65 922	74 749
Trade and other receivables	15, 23	2 483 396	2 273 145
Other current financial assets	23, 31	18 874	28 193
Other current non-financial assets	31	314 109	208 158
Cash and cash equivalents	10, 23	850 022	1 473 981
		4 085 042	4 466 786
Non-current assets classified as held for sale		4 397	4 397
TOTAL ASSETS		22 789 982	23 430 284

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011 – continued

	Note	As at 31 March 2011 <i>(unaudited)</i>	As at 31 December 2010
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	16	8 762 747	15 772 945
Reserve capital	16	7 485 286	475 088
Foreign exchange differences from translation of foreign entities		(150)	(271)
Retained earnings/Accumulated losses		(1 156 121)	(1 542 937)
		15 091 762	14 704 825
Non-controlling interests		485 227	507 246
Total equity		15 576 989	15 212 071
Non-current liabilities			
Interest-bearing loans and borrowings	21, 23	1 104 014	1 076 178
Finance lease and hire purchase commitments	23	64 167	67 810
Long-term provisions and employee benefits	18, 19	1 079 754	1 059 028
Long-term accruals and government grants	20	642 121	644 522
Trade payables and other financial long-term liabilities	23	8 709	6 910
Deferred tax liability	9	1 253 651	1 215 615
		4 152 416	4 070 063
Current liabilities			
Trade and other payables	23	1 087 509	1 629 723
Current portion of interest-bearing loans and borrowings	21, 23	215 307	325 027
Current portion of finance lease and hire purchase commitments	23	19 835	23 452
Other current liabilities	31	811 554	752 819
Accruals and government grants	20	205 778	189 712
Income tax payable		26 791	68 672
Short-term provisions and employee benefits	18, 19	693 803	1 158 745
		3 060 577	4 148 150
Total liabilities		7 212 993	8 218 213
TOTAL EQUITY AND LIABILITIES		22 789 982	23 430 284

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(in PLN thousand)

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

	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity	
	Note	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses			Total
As at 1 January 2011		15 772 945	475 088	-	(271)	(1 542 937)	14 704 825	507 246	15 212 071
Profit for the period		-	-	-	-	382 471	382 471	5 500	387 971
Other comprehensive income		-	-	-	121	-	121	-	121
Total comprehensive income for the period		-	-	-	121	382 471	382 592	5 500	388 092
Appropriation of prior year profits		-	-	-	-	-	-	-	-
Reduction of issued capital through reduced nominal value of shares	16	(7 010 198)	7 010 198	-	-	-	-	-	-
Mandatory squeeze-out	22	-	-	-	-	4 345	4 345	(27 519)	(23 174)
As at 31 March 2011 (unaudited)		8 762 747	7 485 286	-	(150)	(1 156 121)	15 091 762	485 227	15 576 989

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2010

	Equity attributable to the equity holders of the parent						Non-controlling interests	Total equity	
	Note	Share 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 (adjusted figures)		13 986 284	64 050	(766)	-	(2 191 002)	11 858 566	2 375 100	14 233 666
Profit for the period		-	-	-	-	291 813	291 813	67 774	359 587
Other comprehensive income		-	-	(5 472)	-	-	(5 472)	(966)	(6 438)
Total comprehensive income for the period		-	-	(5 472)	-	291 813	286 341	66 808	353 149
Appropriation of prior year profits		-	176 159	-	-	(176 159)	-	-	-
As at 31 March 2010 (unaudited)		13 986 284	240 209	(6 238)	-	(2 075 348)	12 144 907	2 441 908	14 586 815

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2011

	Note	3-month period ended 31 March 2011 <i>(unaudited)</i>	3-month period ended 31 March 2010 <i>(unaudited)</i>
Cash flows from operating activities			
Profit/(loss) before taxation		486 740	449 729
Adjustments for:			
Share in profit/(loss) of associate and joint venture recognised using the equity method		297	-
Depreciation and amortization		349 588	346 604
(Gain)/loss on foreign exchange differences		(308)	(2 430)
Interest and dividends, net		20 372	30 626
(Gain)/loss on investing activities		1 035	1 198
(Increase)/decrease in receivables		(214 271)	(284 957)
(Increase)/decrease in inventories		55 183	90 350
Increase/(decrease) in payables excluding loans and borrowings		(217 821)	(28 033)
Change in other non-current and current assets		111 446	165 305
Change in deferred income, government grants and accruals		7 825	(51 505)
Change in provisions		(471 640)	(449 511)
Income tax paid		(90 710)	(48 810)
Other		4	(7 991)
Net cash from operating activities		37 740	210 575
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		10 399	1 599
Purchase of property, plant and equipment and intangible assets		(509 788)	(318 329)
Proceeds from sale of other financial assets		9 125	4 496
Acquisition of shares in associates and joint ventures recognised using the equity method		(13 000)	(500)
Purchase of other financial assets		(14 529)	(85 581)
Interest received		-	134
Loans granted		15	-
Other		(1)	8
Net cash used in investing activities		(517 779)	(398 173)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2011 - continued

	Note	3-month period ended 31 March 2011 <i>(unaudited)</i>	3-month period ended 31 March 2010 <i>(unaudited)</i>
Cash flows from financing activities			
Acquisition of non-controlling interests		(24 185)	-
Payment of finance lease liabilities		(9 894)	(10 386)
Proceeds from loans		60 594	40 082
Repayment of loans		(152 215)	(84 553)
Dividends paid to non-controlling interests		(2)	(10)
Interest paid		(8 468)	(17 396)
Other		(7 624)	(465)
Net cash used in financing activities		(141 794)	(72 728)
Net increase/(decrease) in cash and cash equivalents		(621 833)	(260 326)
Net foreign exchange difference		338	(121)
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	849 827	712 329
restricted cash		87 164	18 399

EXPLANATORY NOTES

1. Corporate information

The TAURON Polska Energia S.A. Capital Group ("the Group", "the TAURON Group") is composed of TAURON Polska Energia S.A. ("parent", "Company") and its subsidiaries. The interim condensed consolidated financial statements of the Group cover the 3-month period ended 31 March 2011 and include comparative data for the 3-month period ended 31 March 2010 and as at 31 December 2010. The data for the 3-month period ended 31 March 2011 included in these interim condensed financial statements were not audited or reviewed by an independent auditor. The comparative data for the 3-month period ended 31 March 2010 included in these interim condensed consolidated financial statements were reviewed 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.

The TAURON Polska Energia S.A. Capital Group
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(in PLN thousand)

2. Composition of the Group

As at 31 March 2011, the TAURON Polska Energia S.A. Capital 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 31 March 2011	% held by TAURON in the entity's governing body	Holder of shares as at 31 March 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. Zawila 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	98.76%	TAURON Polska Energia S.A. – 98.76%	98.76%	TAURON Polska Energia S.A. – 98.76%
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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No	Name of the entity	Address	Principal business activities	% held by TAURON in the entity's share capital	Holder of shares as at 31 March 2011	% held by TAURON in the entity's governing body	Holder of shares as at 31 March 2011
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%	99.63%	PKE S.A. – 68.75%; TAURON Polska Energia S.A. – 31.25%
12	Przedsiębiorstwo Energetyki Ciepłej 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 Ciepłej 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 Ostrava, Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	TAURON Polska Energia S.A. - 100.00%	100.00%	TAURON Polska Energia S.A. - 100.00%
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.

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 agreements for the purchase of 200 of its own shares with a total nominal value of PLN 1,200 thousand from its shareholders: Katowicki Holding Węglowy S.A. and KWK Kazimierz Juliusz Sp. z o.o.

The purchase of shares for the purpose of their redemption using net profit took place on the basis of the resolution of the Extraordinary Shareholders' Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. dated 30 December 2010. Consideration for the shares was paid to both of the shareholders until the end of March 2011. On 8 April 2011 an application was filed with the District Court in Katowice for registration of the redemption of shares.

As a result, the direct share 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%), and the direct share of Południowy Koncern Energetyczny S.A. – from 70% to 87.50% (in the governing body – from 61.11% to 68.75%).

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 31 March 2011 is presented in the table below:

Non-current assets	4 173
Current assets	26 790
Non-current liabilities (-)	(69)
Current liabilities (-)	(3 965)
Total net assets	26 929
Share in net assets	13 467
Goodwill	-
Investment in joint venture	13 467
Share in revenue of joint venture	-
Share in profit/(loss) of joint venture	(297)

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 3-month period ended 31 March 2011 were authorized for issue on 10 May 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 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* – 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 *Income 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.

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

6. Changes in estimates

In the period ended 31 March 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. This concerns in particular production, distribution and sales of heat, distribution and sales of electricity to individual customers and sales of coal to individual customers for heating purposes.

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

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

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

The seasonality of other areas of Group operations is insignificant.

8. Segment information

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

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

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

- Mining Segment, which includes hard coal mining. The entity which operates in the Mining Segment of the TAURON Group is Południowy Koncern Węglowy S.A.,
- Generation Segment, which includes generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. The main types of fuel used by the Generation Segment are hard coal, biomass, coke-oven gas and blast-furnace gas. The following entities operate in the Generation Segment of the TAURON Group: Południowy Koncern Energetyczny S.A., Elektrownia Stalowa Wola S.A., Elektrociepłownia Tychy S.A. and Elektrociepłownia EC Nowa Sp. z o.o.,
- Renewable Sources of Energy Segment, which includes generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment. Entities which operate in the Renewable Sources of Energy Segment of the TAURON Group are TAURON Ekoenergia Sp. z o.o. and 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.

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(in PLN thousand)

3-month period ended 31 March 2011 or as at 31 March 2011 (<i>unaudited</i>)	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	131 504	1 476 346	151	330 924	3 158 719	201 431	-	5 299 075	-	5 299 075
Inter-segment sales	152 562	204 298	51 492	858 593	313 660	7 323	-	1 587 928	(1 587 928)	-
Segment revenue	284 066	1 680 644	51 643	1 189 517	3 472 379	208 754	-	6 887 003	(1 587 928)	5 299 075
Result										
Profit/(loss) of the segment	(4 414)	209 509	34 120	167 402	92 373	27 032	2 177	528 199	-	528 199
Unallocated expenses	-	-	-	-	-	-	(17 204)	(17 204)	-	(17 204)
Profit/(loss) from continuing operations before tax and net finance income (costs)	(4 414)	209 509	34 120	167 402	92 373	27 032	(15 027)	510 995	-	510 995
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	(297)	-	-	-	-	-	(297)	-	(297)
Net finance income (costs)	-	-	-	-	-	-	(23 958)	(23 958)	-	(23 958)
Profit/(loss) before income tax	(4 414)	209 212	34 120	167 402	92 373	27 032	(38 985)	486 740	-	486 740
Income tax expense	-	-	-	-	-	-	(98 769)	(98 769)	-	(98 769)
Net profit/(loss) for the period	(4 414)	209 212	34 120	167 402	92 373	27 032	(137 754)	387 971	-	387 971
Assets and liabilities										
Segment assets	1 074 494	9 522 320	664 695	7 567 494	2 695 843	821 503	-	22 346 349	-	22 346 349
Investments in associates and joint ventures recognised using the equity method	-	13 467	-	-	-	-	-	13 467	-	13 467
Unallocated assets	-	-	-	-	-	-	430 166	430 166	-	430 166
Total assets	1 074 494	9 535 787	664 695	7 567 494	2 695 843	821 503	430 166	22 789 982	-	22 789 982
Segment liabilities	452 506	1 195 805	21 649	1 725 521	963 811	109 640	-	4 468 932	-	4 468 932
Unallocated liabilities	-	-	-	-	-	-	2 744 061	2 744 061	-	2 744 061
Total liabilities	452 506	1 195 805	21 649	1 725 521	963 811	109 640	2 744 061	7 212 993	-	7 212 993
Other segment information										
Capital expenditure *	26 015	65 965	7 302	119 988	4 231	7 625	-	231 126	-	231 126
Depreciation/amortization	(26 036)	(142 327)	(6 010)	(161 654)	(2 165)	(11 483)	-	(349 675)	-	(349 675)
Impairment of non-financial assets	(93)	(370)	-	795	-	50	-	382	-	382

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

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3-month period ended 31 March 2010 (unaudited) or as at 31 December 2010	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	123 616	302 965	9 577	256 722	2 898 773	202 680	-	3 794 333	-	3 794 333
Inter-segment sales	176 280	1 112 795	22 079	889 426	195 611	7 729	-	2 403 920	(2 403 920)	-
Segment revenue	299 896	1 415 760	31 656	1 146 148	3 094 384	210 409	-	6 198 253	(2 403 920)	3 794 333
Result										
Profit/(loss) of the segment	43 048	184 867	13 926	116 952	99 918	26 259	6 594	491 564	-	491 564
Unallocated expenses	-	-	-	-	-	-	(15 518)	(15 518)	-	(15 518)
Profit/(loss) from continuing operations before tax and net finance income (costs)	43 048	184 867	13 926	116 952	99 918	26 259	(8 924)	476 046	-	476 046
Share in profit/(loss) of associate and joint venture recognised using the equity method	-	-	-	-	-	-	-	-	-	-
Net finance income (costs)	-	-	-	-	-	-	(26 317)	(26 317)	-	(26 317)
Profit/(loss) before income tax	43 048	184 867	13 926	116 952	99 918	26 259	(35 241)	449 729	-	449 729
Income tax expense	-	-	-	-	-	-	(90 142)	(90 142)	-	(90 142)
Net profit/(loss) for the period	43 048	184 867	13 926	116 952	99 918	26 259	(125 383)	359 587	-	359 587
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 *	25 798	39 274	8 646	89 073	3 962	3 275	-	170 028	-	170 028
Depreciation/amortization	(26 737)	(137 533)	(5 422)	(162 544)	(1 518)	(12 925)	-	(346 679)	-	(346 679)
Impairment of non-financial assets	2	(18)	26	42	-	1 144	-	1 196	-	1 196

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

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 first quarter of 2010 was PLN 12,556 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 Company decided to change the method of presentation of unallocated expenses and to include administrative expenses of the parent in this item. These expenses are incurred for the whole Group and are not directly attributable to any single operating segment. 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 revised method of presentation of unallocated expenses.

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 3-month period ended 31 March 2011 <i>(unaudited)</i>	For the 3-month period ended 31 March 2010 <i>(unaudited)</i>
Current income tax	(57 655)	(24 970)
Current income tax expense	(52 439)	(24 610)
Adjustments to current income tax from previous years	(5 216)	(360)
Deferred tax	(41 114)	(65 172)
Income tax in profit or loss	(98 769)	(90 142)
Income tax relating to other comprehensive income	-	1 510

Deferred income tax

Deferred income tax relates to the following:

	As at 31 March 2011 <i>(unaudited)</i>	As at 31 December 2010
Deferred tax liability		
- investment tax credits	55	102
- difference between tax base and carrying amount of fixed and intangible assets	1 545 816	1 545 106
- difference between tax base and carrying amount of other non-financial liabilities	1 302	-
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	274	558
- difference between tax base and carrying amount of financial assets available for sale	8 825	8 800
- difference between tax base and carrying amount of financial assets held to maturity	82	238
- difference between tax base and carrying amount of loans and receivables	4 051	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	95 073	69 601
- recognition of estimated revenue from sale of power distribution services	13 592	14 292
- difference between tax base and carrying amount of property rights arising from energy certificates	15 982	14 085
- compensation for termination of long-term contracts	91 745	86 103
- other	14 014	15 796
Deferred tax liability	1 790 909	1 756 415

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	As at 31 March 2011 (unaudited)	As at 31 December 2010
Deferred tax assets		
- difference between tax base and carrying amount of fixed and intangible assets	4 492	5 661
- difference between tax base and carrying amount of inventories	1 786	1 877
- difference between tax base and carrying amount of other non-financial assets	214	213
- power infrastructure received free of charge and connection fees obtained	87 779	88 085
- provisions	359 213	437 423
- difference between tax base and carrying amount of assets measured at fair value through profit or loss	249	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	3 562	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	119	-
- difference between tax base and carrying amount of financial liabilities measured at amortized cost	3 215	935
- difference between tax base and carrying amount of liabilities under guarantees, factoring and excluded from the scope of IAS 39	2 189	2 262
- accrued audit expenses and actuary's fees	18	107
- different timing of recognition of cost of sales for tax purposes	63 341	56 914
- other accrued expenses	10 007	5 597
- tax losses	145 467	47 340
- different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	-	31 920
- other	13 360	18 194
Deferred tax assets	695 984	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	158 726	161 806
Deferred tax liability	(1 253 651)	(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 31 March 2011 (unaudited)	As at 31 December 2010
Cash at bank and in hand	165 101	366 849
Short-term deposits (up to 3 months)	684 898	1 106 180
Other	23	952
Total cash and cash equivalents presented in the statement of financial position, of which:	850 022	1 473 981
- restricted cash	87 164	165 862
Bank overdraft	-	(2 464)
Foreign exchange and other differences	(195)	143
Total cash and cash equivalents presented in the statement of cash flows	849 827	1 471 660

Restricted cash consists mainly of cash held in the settlement account for trading in electricity at Towarowa Gielda Energii S.A. (Polish Power Exchange), amounting to PLN 68,453 thousand, and cash held in the special purpose account for trading in electricity at the POEE energy exchange, amounting to PLN 11,901 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.

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12. Intangible assets

Movements in the period from 1 January to 31 March 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	-	-	16	40	98 109	32 396	-	4 041	134 602
Transfer of intangible assets not made available for use	-	-	2 201	-	-	-	731	(2 932)	-
Sale, disposal	-	-	-	-	-	-	-	-	-
Reclassification	-	-	(6)	6	-	-	-	-	-
Liquidation	-	-	(319)	(6)	-	-	(9)	-	(334)
Received free of charge	-	-	26	-	-	-	-	-	26
Energy certificates generated internally	-	-	-	-	56 116	-	-	-	56 116
Cancellation of energy certificates	-	-	-	-	(368 271)	-	-	-	(368 271)
Transfers from assets under construction	-	-	36	-	-	-	90	-	126
Other movements	-	-	-	-	(50)	-	-	701	651
Closing balance	4 389	169 553	212 000	3 411	308 921	193 546	5 242	12 172	909 234
ACCUMULATED AMORTIZATION									
Opening balance	(2 913)	-	(109 559)	(1 247)	-	(22)	(1 596)	(450)	(115 787)
Amortization for the period	(142)	-	(7 946)	(129)	-	-	(143)	-	(8 360)
Decrease of impairment	-	-	-	-	-	22	-	-	22
Reclassification	-	-	2	(2)	-	-	-	-	-
Liquidation	-	-	84	1	-	-	7	-	92
Received free of charge	-	-	-	-	-	-	-	-	-
Transfers from assets under construction	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-
Closing balance	(3 055)	-	(117 419)	(1 377)	-	-	(1 732)	(450)	(124 033)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	1 476	169 553	100 487	2 124	523 017	161 128	2 834	9 911	970 530
NET CARRYING AMOUNT AT THE END OF THE PERIOD	1 334	169 553	94 581	2 034	308 921	193 546	3 510	11 722	785 201

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Movements in the period from 1 January to 31 March 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	132	83 936	-	-	3 262	87 433
Transfer of intangible assets not made available for use	-	-	2 579	-	-	-	219	(2 798)	-
Sale, disposal	-	-	-	-	(1 034)	-	-	-	(1 034)
Reclassification	-	-	(2)	-	-	-	2	-	-
Liquidation	-	-	(315)	(28)	-	-	-	-	(343)
Received free of charge	-	-	-	-	-	-	-	-	-
Energy certificates generated internally	-	-	-	-	65 323	-	-	-	65 323
Cancellation of energy certificates	-	-	-	-	(419 127)	-	-	-	(419 127)
Transfers from assets under construction	-	-	2	-	-	-	200	2 034	2 236
Other movements	-	-	-	-	(465)	-	-	-	(465)
Closing balance	4 104	169 553	189 896	3 138	210 518	52 701	4 390	9 764	644 064
ACCUMULATED AMORTIZATION									
Opening balance	(2 038)	-	(80 615)	(878)	-	-	(1 309)	(450)	(85 290)
Amortization for the period	(226)	-	(8 020)	(119)	-	-	(97)	-	(8 462)
Decrease of impairment	-	-	2	-	-	-	-	-	2
Reclassification	-	-	3	(1)	-	-	(2)	-	-
Liquidation	-	-	239	28	-	-	-	-	267
Received free of charge	-	-	-	-	-	-	-	-	-
Transfers from assets under construction	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-
Closing balance	(2 264)	-	(88 391)	(970)	-	-	(1 408)	(450)	(93 483)
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	1 840	169 553	101 505	2 168	210 518	52 701	2 982	9 314	550 581

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13. Property, plant and equipment

Movements in the period from 1 January to 31 March 2011 (unaudited)

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

The TAURON Polska Energia S.A. Capital Group
Interim condensed consolidated financial statements for the 3-month period ended 31 March 2011
(in PLN thousand)

Movements in the period from 1 January to 31 March 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	-	-	54	486	28	750	160 518	161 268
Transfer of assets under construction	554	239	64 906	48 341	1 453	5 672	121 165	(121 165)	-
Sale, disposal	(6)	(262)	(698)	(456)	(271)	(1)	(1 694)	(11)	(1 705)
Reclassification	-	-	14 255	(14 271)	-	16	-	-	-
Donations and free-of-charge transfers	-	(1)	(2)	(29)	-	-	(32)	-	(32)
Liquidation	-	(5)	(3 293)	(2 576)	(157)	(872)	(6 903)	-	(6 903)
Received free of charge	-	8 884	4 046	458	-	48	13 436	-	13 436
Received for use under rental, lease or similar agreements	-	-	-	-	890	-	890	-	890
Spare parts allocated to fixed assets	-	-	-	(290)	-	1 291	1 001	-	1 001
Overhaul expenses	-	-	-	176	-	-	176	(109)	67
Write-off of discontinued investments	-	-	-	-	-	-	-	(10)	(10)
Transfers to intangible assets	-	-	-	-	-	-	-	(2 236)	(2 236)
Items discovered	-	345	-	64	-	-	409	-	409
Items generated internally	-	-	-	-	-	-	-	4 306	4 306
Other movements	-	-	-	8 137	-	28	8 165	9	8 174
Closing balance	58 477	792 311	10 169 598	9 287 095	216 180	227 373	20 751 034	392 699	21 143 733
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	-	-	(155 020)	(167 957)	(7 894)	(7 346)	(338 217)	-	(338 217)
Increase of impairment	-	-	(36)	(151)	-	(9)	(196)	-	(196)
Decrease of impairment	7	24	1 001	274	6	23	1 335	99	1 434
Sale, disposal	-	-	95	365	199	1	660	-	660
Reclassification	-	-	(1 878)	1 607	-	-	(271)	271	-
Donations and free-of-charge transfers	-	-	-	29	-	-	29	-	29
Liquidation	-	-	2 664	2 014	149	448	5 275	-	5 275
Received free of charge	-	-	-	-	-	-	-	-	-
Transfers to intangible assets	-	-	-	-	-	-	-	-	-
Other movements	-	(4)	(20)	(78)	-	(28)	(130)	(75)	(205)
Closing balance	(860)	(1 045)	(1 908 797)	(1 938 061)	(71 967)	(104 140)	(4 024 870)	(10 845)	(4 035 715)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	56 880	782 046	8 334 781	7 473 323	149 352	123 934	16 920 316	340 257	17 260 573
NET CARRYING AMOUNT AT THE END OF THE PERIOD	57 617	791 266	8 260 801	7 349 034	144 213	123 233	16 726 164	381 854	17 108 018

14. Inventories

	As at 31 March 2011 (unaudited)	As at 31 December 2010
Historical cost		
Raw materials	240 896	294 712
Semi-finished goods and work-in-progress	78 178	87 409
Finished goods	8 078	11 195
Goods for resale	16	14
Property rights arising from energy certificates	30 627	15 626
Emission allowances	-	4 664
Total	357 795	413 620
Write-downs to net realizable value		
Raw materials	(4 780)	(4 578)
Semi-finished goods and work-in-progress	-	-
Finished goods	(296)	(277)
Goods for resale	-	-
Property rights arising from energy certificates	-	-
Emission allowances	-	(205)
Total	(5 076)	(5 060)
Net realizable value		
Raw materials	236 116	290 134
Semi-finished goods and work-in-progress	78 178	87 409
Finished goods	7 782	10 918
Goods for resale	16	14
Property rights arising from energy certificates	30 627	15 626
Emission allowances	-	4 459
Total	352 719	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 3-month period ended 31 March 2011 is presented in the table below.

Trade receivables

	As at 31 March 2011 (unaudited)	As at 31 December 2010
Value of item before allowance/write-down	1 735 404	1 684 000
Allowance/write-down	(117 316)	(116 063)
Value of item net of allowance (carrying amount)	1 618 088	1 567 937

16. Issued capital

Issued capital as at 31 March 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 31 March 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%

17. Earnings per share

In June 2010, the process of the reverse stock split came to an end. The number of shares was reduced 9 times, from 14,304,948,858 to 1,589,438,762. For comparability purposes, earnings per share for the 3-month period ended 31 March 2010 as presented in the statement of comprehensive income in these interim condensed financial statements was calculated for the

period on the assumption that the nominal value of one share was equal to PLN 9 and the weighted average number of shares was nine times smaller.

Earnings per share before the reverse split for the 3-month period ended 31 March 2010 amounted to PLN 0.02.

18. Employee benefits and provisions

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

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

Movement in provisions for employee benefits in the 3-month period ended 31 March 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	1 981	1 167	514	150	6 424	-	10 236
Actuarial gains and losses	(3 691)	(4 993)	(756)	91	(6 360)	-	(15 709)
Benefits paid	(2 531)	(19)	(509)	(238)	(6 751)	-	(10 048)
Past service costs	-	1 986	-	-	-	-	1 986
Interest expense	2 939	5 617	1 547	374	6 130	-	16 607
Recognition of provision for VRS	-	-	-	-	-	-	-
Reversal of provision for VRS	-	-	-	-	-	-	-
Closing balance	175 083	323 530	98 805	27 019	440 629	-	1 065 066
CURRENT	29 394	19 602	4 528	1 006	52 353	-	106 883
NON-CURRENT	145 689	303 928	94 277	26 013	388 276	-	958 183

In the 3-month period ended 31 March 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 6,045 thousand, EnergiaPro S.A. – PLN 7,771 thousand.

Południowy Koncern Energetyczny S.A. also continued the voluntary redundancy scheme that was implemented in 2010. In the 3-month period ended 31 March 2011, another 22 individuals joined the scheme. Based on this, a provision was recognized in the amount of PLN 2,035 thousand, while part of the provision amounting to PLN 231 thousand was reversed due to the resignation of 5 individuals from participation in the scheme. The related benefits paid out during the period amounted to PLN 2,689 thousand.

As at 31 March 2011, the following provisions were recognized for amounts payable under the voluntary redundancy schemes:

- PLN 14,659 thousand at ENION S.A.,
- PLN 2,905 thousand at EnergiaPro S.A.,
- PLN 16,945 thousand at Południowy Koncern Energetyczny S.A.

In the 3-month period ended 31 March 2010, the Group did not recognize any provisions for voluntary redundancy schemes. Such a scheme was implemented in June 2010.

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

The forecasted provisions for 2011 were prepared based on the previously calculated provisions as at 31 December 2010. The forecast was prepared based on the assumptions used for calculation of provisions as at 31 December 2010.

19. Provisions

19.1. Movements in provisions

Movement in provisions for the 3-month period ended 31 March 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	-	-	254	-	-	-	254
Recognition	2 845	-	191	27 422	306 781	3 615	340 854
Reversal	(231)	(16)	-	-	(9 318)	(77)	(9 642)
Utilization	(61)	(373)	-	-	(766 957)	(1 032)	(768 423)
Other movements	(803)	-	614	-	(1 408)	803	(794)
Closing balance	36 024	223	35 758	128 595	316 129	70 212	586 941
CURRENT	36 024	223	-	128 595	316 129	69 477	550 448
NON-CURRENT	-	-	35 758	-	-	735	36 493

Movement in provisions for the 3-month period ended 31 March 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	-	-	240	-	-	-	240
Recognition	252	-	8 106	-	287 365	1 777	297 500
Reversal	(156)	-	-	-	(10 478)	(1 003)	(11 637)
Utilization	(27)	-	-	-	(739 243)	(317)	(739 587)
Other movements	-	-	900	-	-	-	900
Closing balance	19 621	238	31 885	-	287 659	62 817	402 220
CURRENT	19 621	238	-	-	287 659	62 066	369 584
NON-CURRENT	-	-	31 885	-	-	751	32 636

19.2. Details of significant provisions

19.2.1 Provision for counterparty claims, court disputes, onerous contracts

19.2.1.1 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.

19.2.1.2 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.

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

Based on the requirements of the Geological and Mining Law, Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. recognize provisions for future decommissioning costs of their mining facilities. 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 31 March 2011, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,327 thousand, and the provision recognized by Południowy Koncern Węglowy S.A., including the Mine Decommissioning Fund, amounted to PLN 23,848 thousand.

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 31 March 2011, the provision amounted to PLN 8,583 thousand.

19.2.3 Provision for obligation to surrender energy certificates

Due to the sale of electricity to final users, the Group is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 31 March 2011, the provision recognized in this respect amounted to PLN 316,129 thousand.

19.2.4 Provision for gas emission related obligations

As a result of the purchase of greenhouse gas emission allowances by Elektrociepłownia EC Nowa Sp. z o.o., Południowy Koncern Energetyczny S.A. and Elektrociepłownia Tychy S.A., during the period under review those companies recognized a provision for the cost of surrendering those allowances for cancellation. As at 31 March 2011, the provision amounted to PLN 128,595 thousand.

19.2.5 Other provisions

19.2.5.1 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 31 March 2011, the provision amounted to PLN 20,438 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

19.2.5.2 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 31 March 2011 amounted to PLN 18,389 thousand.

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

20. Accruals

20.1. Deferred income and government grants

	As at 31 March 2011 <i>(unaudited)</i>	As at 31 December 2010
Deferred income		
Donations, fixed assets received free-of-charge	188 525	186 784
Non-government subsidies	14 045	14 125
Perpetual usufruct	560	572
Subsidies for the purchase of fixed assets	44 757	45 626
Connection fees	330 588	334 352
Other deferred income	2 279	12 245
Total, of which:	580 754	593 704
Non-current	539 228	540 789
Current	41 526	52 915
Government grants		
Forgiven loans from environmental funds	9 877	10 040
Other	97 299	98 333
Total, of which:	107 176	108 373
Non-current	102 893	103 733
Current	4 283	4 640

Government grants as presented in these interim condensed consolidated financial statements mainly include the value of forgiven loans granted by environmental funds as well as government grants for initial investments in hard coal mines. Part of loans from environmental funds is forgiven if the anticipated environmental benefits are achieved.

20.2. Accrued expenses

	As at 31 March 2011 (unaudited)	As at 31 December 2010
Unused holidays	35 070	22 301
Annual bonuses	80 976	99 301
Environmental protection fees	13 723	-
Additional excise tax	13 247	5 249
Other	16 953	5 306
Total, of which:	159 969	132 157
Non-current	-	-
Current	159 969	132 157

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

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

Loans taken out as at 31 March 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	442 445	442 445	74 480	116 537	173 215	53 723	24 468	22
EUR	floating	2 308	9 259	617	1 852	2 469	2 469	1 852	-
USD	floating	3 700	10 444	5 221	5 223	-	-	-	-
Total			462 148	80 318	123 612	175 684	56 192	26 320	22
Interest increasing carrying amount			463						
Total loans			462 611						

Loans taken out as at 31 December 2010

Currency	Interest rate	Value of loans as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	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	9 748	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 3-month periods ended 31 March 2011 and 31 March 2010.

The TAURON Polska Energia S.A. Capital Group
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(in PLN thousand)

	3-month period ended 31 March 2011 (<i>unaudited</i>)	3-month period ended 31 March 2010 (<i>unaudited</i>)
Opening balance	554 797	1 178 270
Movement in bank overdrafts	(2 464)	(13 506)
Movement in loans (excluding bank overdrafts):	(90 185)	(43 464)
Taken out	60 594	40 082
Repaid	(152 215)	(84 553)
Change in valuation	1 436	1 007
Closing balance	462 148	1 121 300

In the third quarter of 2010, EnergiaPro S.A. entered into an investment loan agreement for a total amount of PLN 100,000 thousand, maturing in the fourth quarter of 2014. During the 3-month period ended 31 March 2011, EnergiaPro S.A. received the second and final tranche of the investment loan, amounting to PLN 60,000 thousand.

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

Debentures issued as at 31 March 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 (<i>unaudited</i>)	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	10 914	845 796	-	-	-	-	845 796	-
Total debentures			10 914	845 796	-	-	-	-	845 796	-

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	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 31 March 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 146 thousand increase in the balance of issued debentures excluding accrued interest increasing the carrying amount of the liability, which took place in the 3-month period ended 31 March 2011, resulted from the measurement of the debentures at amortized cost.

As at 31 March 2010, the Group's liability under issued debentures was comprised of debentures issued by Południowy Koncern Energetyczny S.A. The PLN 400 thousand increase in the balance of issued debentures excluding accrued interest increasing the carrying amount of the liability, which took place in the 3-month period ended 31 March 2010, resulted from the measurement of the debentures at amortized cost.

22. 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 TAURON 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 33,650 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 31 March 2011.

Acquisition of non-controlling interests

The TAURON Polska Energia S.A. Capital 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., Elektrociepłownia Tychy S.A. and Przedsiębiorstwo Energetyki Ciepłej 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 quarter of 2011 by PLN 15,686 thousand, while retained earnings have increased by PLN 4,138 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.

23. Financial instruments

The fair values of the financial instruments held by the Group as at 31 March 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.

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

The TAURON Polska Energia S.A. Capital Group
Interim condensed consolidated financial statements for the 3-month period ended 31 March 2011
(in PLN thousand)

Categories and classes of financial assets	Carrying amount	
	As at 31 March 2011 (<i>unaudited</i>)	As at 31 December 2010
1 Assets at fair value through profit or loss	650	7 658
Shares in unlisted and listed companies (current)	557	553
Investment fund units	-	6 848
Derivative instruments	93	257
2 Financial assets available for sale	165 935	156 089
Shares in unlisted and listed companies (non-current)	160 529	148 514
Shares in unlisted and listed companies (current)	980	1 058
Investment fund units	2 926	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	-	-
4 Loans and receivables	2 529 364	2 315 043
Trade receivables	1 618 088	1 567 937
Deposits	38 455	35 493
Loans granted	476	240
Other	872 345	711 373
5 Financial assets excluded from the scope of IAS 39	13 467	764
Investments in associates and joint ventures recognised using the equity method	13 467	764
6 Derivative hedging instruments (assets)	-	-
7 Cash and cash equivalents	850 022	1 473 981

Categories and classes of financial liabilities	Carrying amount	
	As at 31 March 2011 (<i>unaudited</i>)	As at 31 December 2010
1 Financial liabilities at fair value through profit or loss	267	6 917
Derivative instruments	267	6 917
2 Financial liabilities measured at amortized cost	2 415 272	3 030 921
Preferential loans	244 924	243 323
Arm's length loans	217 687	309 411
Bank overdrafts	-	2 464
Issued debentures and other debt securities	856 710	846 007
Trade payables	795 487	945 457
Other financial liabilities	60 029	90 057
Commitments resulting from purchases of fixed and intangible assets	108 732	388 467
Salaries and wages	111 763	178 482
Insurance contracts	19 940	27 253
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	84 002	91 262
Obligations under finance leases and hire purchase contracts	84 002	91 262
4 Derivative hedging instruments (liabilities)	-	-

24. Financial risk management objectives and policies

The financial risk management objectives and policies did not change compared with 31 December 2010.

25. Capital management

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

	As at 31 March 2011 <i>(unaudited)</i>	As at 31 December 2010
Interest-bearing loans and borrowings	1 319 321	1 401 205
Trade and other payables, finance leases and hire purchase commitments	1 180 220	1 727 895
Less cash and cash equivalents	850 022	1 473 981
Net debt	1 649 519	1 655 119
Equity attributable to equity holders of the parent	15 091 762	14 704 825
Total capital	15 091 762	14 704 825
Capital and net debt	16 741 281	16 359 944
Leverage ratio	10%	10%

26. 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.

Antimonopoly proceedings

The Competition and Consumers Protection Office is conducting 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 balance of contingent liabilities arising from compensation for stranded costs did not change compared with 31 December 2010.

For the 3-month period ended 31 March 2011, Południowy Koncern Energetyczny S.A. recognized compensation revenue of PLN 73,495 thousand.

The TAURON Polska Energia S.A. Capital Group
Interim condensed consolidated financial statements for the 3-month period ended 31 March 2011
(in PLN thousand)

	3-month period ended 31 March 2011 <i>(unaudited)</i>	3-month period ended 31 March 2010 <i>(unaudited)</i>
Revenue from compensations for terminated long-term PPAs	73 495	73 615
Cash inflows generated from compensations concerning terminated long-term PPAs	43 802	69 714

Other contingent liabilities

	As at 31 March 2011	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	4 312	2 251
Liabilities arising from legal actions	2 400	2 400
Other contingent liabilities	1 743	2 195
Total contingent liabilities	11 777	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.

27. Assets pledged as security

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

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

Carrying amount of assets pledged as security for liabilities

	As at 31 March 2011 <i>(unaudited)</i>	As at 31 December 2010
Real estate	1 178 882	3 313 463
Plant and equipment	156 895	275 467
Motor vehicles	2 636	4 241
Assets under construction	224	224
Cash	52 634	63 772
Other financial and non-financial receivables	5 533	16 850
Total assets pledged as security for liabilities	1 396 804	3 674 017

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 2,134,322 thousand, plant and machinery – PLN 26,721 thousand, and other financial and non-financial receivables – PLN 15,001 thousand. The process of deleting mortgages relating to real estate of PLN 405,959 thousand included in the table above has not been completed as at 31 March 2011.

In addition to the collaterals listed above, the Group also uses other forms of security to secure payment of liabilities, of which the most significant ones as at 31 March 2011 related to loans taken

out by Południowy Koncern Energetyczny S.A. and included: assignment of receivables amounting to PLN 176,000 thousand, authorizations to bank accounts – PLN 236,000 thousand and blank promissory notes for PLN 246,000 thousand.

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.

28. Capital commitments

As at 31 March 2011, the Group has committed to incur expenditures for property, plant and equipment in the amount of PLN 1,567,477 thousand. As it was the case as at 31 December 2010, the largest item in this amount was represented by capital commitments relating to the restoration of power capacity at the Bielsko-Biała CHP Plant being part of Południowy Koncern Energetyczny S.A., amounting to PLN 345,700 thousand.

Capital commitments of the TAURON Polska Energia S.A. Capital 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.

29. Transactions with State Treasury companies

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

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

Revenues and costs

	3-month period ended 31 March 2011 <i>(unaudited)</i>	3-month period ended 31 March 2010 <i>(unaudited)</i>
Revenue	353 349	298 706
Costs*	(749 746)	(385 165)

* includes costs recognized in the statement of comprehensive income

Receivables and payables

	As at 31 March 2011 <i>(unaudited)</i>	As at 31 December 2010
Receivables	191 950	249 525
Payables	246 866	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 31 March 2010, i.e. before updating the list of State Treasury companies.

Among the State Treasury companies, the largest customers of the TAURON Polska Energia S.A. Capital Group during the 3-month period ended 31 March 2011 were PSE Operator S.A., Kompania Węglowa S.A. and KGHM Polska Miedź S.A., with revenue from these companies

accounting for 81% of total revenue from State Treasury companies. In the 3-month ended 31 March 2011, the largest costs, accounting for 83% of total costs incurred in transactions with State Treasury companies, were incurred by the Group in transactions with PSE Operator S.A. and Kompania Węglowa S.A.

In addition, the Group concludes significant transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. Due to the fact that this entity only deals with organization of stock exchange trading, a decision was taken not to treat the purchases and sales made through this entity as related party transactions. Comparative data for 2010 has been restated.

In the 3-month period ended 31 March 2010, the largest counterparties of the Group from among the State Treasury companies were PSE Operator S.A., Kompania Węglowa S.A. and KGHM Polska Miedź S.A.

30. Compensation of key management personnel

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

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the parent and of the subsidiaries for the 3-month period ended 31 March 2011 is presented in the table below.

	3-month period ended 31 March 2011 <i>(unaudited)</i>		Year ended 31 December 2010	
	Parent	Subsidiaries	Parent	Subsidiaries
Board of Directors	1 546	5 007	5 967	15 318
Short-term employee benefits (salaries and surcharges)	1 190	4 794	5 200	14 282
Jubilee bonuses	-	-	73	246
Post-employment benefits	62	-	41	-
Employment termination benefits	-	-	-	31
Other	294	213	653	759
Supervisory Board	162	932	329	2 872
Short-term employee benefits (salaries and surcharges)	162	910	329	2 691
Other	-	22	-	181
Total	1 708	5 939	6 296	18 190
Other key management personnel *	2 008	9 195	5 745	32 826
Short-term employee benefits (salaries and surcharges)	1 789	9 023	5 079	31 549
Jubilee bonuses	35	126	91	736
Post-employment benefits	-	-	-	61
Employment termination benefits	34	-	-	-
Other	150	46	575	480

31. Details of other significant changes in the reporting period

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

The increase in the volume of revenue from sale of goods for resale, finished goods and materials in the 3-month period ended 31 March 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 88% 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 included in consolidation.

At the same time, the aforementioned amendment resulted in the increase of the cost of sales for the 3-month period ended 31 March 2011.

31.2. 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 36,720 thousand, the new OZE unit at the Jaworzno III Power Plant – amounting to PLN 28,351 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 314,109 thousand as at 31 March 2011 mainly include input VAT receivables of PLN 94,704 thousand, costs of preparing production and costs of drilling tunnels in hard coal mines amounting to PLN 80,255 thousand, and prepayments for the Social Fund amounting to PLN 43,112 thousand.

31.3. Other long-term financial assets

The increase in other long-term financial assets of PLN 16,227 thousand is mainly due to the acquisition of shares in PEC Ruda Śląska sp. z o.o. with a value of PLN 10,001 thousand by Południowy Koncern Energetyczny S.A.

31.4. Other current financial assets

Other current financial assets amounting to PLN 18,874 thousand as at 31 March 2011 are mainly comprised of cash deposits made by Kopalnia Wapienia Czatkowice Sp. z o.o. for terms exceeding 3 months, amounting to PLN 13,347 thousand.

31.5. Other current liabilities

The change in the balance of other current liabilities amounting to PLN 58,735 thousand was mainly due to the decrease in taxation, customs duty, social security and other payables amounting to PLN 16,822 thousand, increase in the excess of Social Fund liabilities over Social Fund assets amounting to PLN 46,359 thousand and increase in the balance of prepayments for deliveries amounting to PLN 19,979 thousand.

32. Events after the balance sheet date

There were no events after the balance sheet date.

These interim condensed consolidated financial statements of the TAURON Polska Energia S.A. Capital Group prepared for the 3-month period ended 31 March 2011 in accordance with International Financial Reporting Standards 34 consist of 42 pages.

Katowice, 10 May 2011

Dariusz Lubera - President of the Board of Directors

Krzysztof Zawadzki - Vice-president of the Board of Directors