EXTENDED CONSOLIDATED INTERIM REPORT OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FIRST HALF OF 2012

KATOWICE, 23 AUGUST 2012

SELECTED FIGURES	PLN '000		EUR '000	
	2012 from 01.01.2012 to 30.06.2012	2011 from 01.01.2011 to 30.06.2011	2012 from 01.01.2012 to 30.06.2012	2011 from 01.01.2011 to 30.06.2011
Selected figures from condensed consolidated financial statements of TAURON Polska Energia S.A.Capital Group				
Sales	12 313 986	10 331 144	2 914 829	2 604 074
Operating profit	1 256 117	938 078	297 334	236 452
Profit before tax	1 140 665	914 865	270 005	230 601
Profit after tax	888 015	727 947	210 201	183 487
Net profit attributable to shareholders to the parent company	854 847	704 033	202 350	177 459
Net profit attributable to non-controlling interests	33 168	23 914	7 851	6 028
Other total income	(23 537)	151	(5 571)	38
Total comprehensive income	864 478	728 098	204 630	183 525
Total comprehensive income attributable to shareholders of the parent company	831 308	704 184	196 778	177 497
Total comprehensive income attributable to non-controlling interests	33 170	23 914	7 852	6 028
Earnings per share (in PLN/EUR) (basic and diluted)	0,49	0,40	0,12	0,10
Average weighted number of shares (in pieces) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	1 313 495	1 062 885	310 916	267 911
Net cash flows from investing activities	(1 584 668)	(909 204)	(375 105)	(229 174)
Net cash flows from financing activities	465 647	(249 241)	110 223	(62 824)
Movement in cash and cash equivalents, net	194 474	(95 560)	46 034	(24 087)
	As at 30.06.2012	**As at 31.12.2011**	**As at 30.06.2012**	**As at 31.12.2011**
Fixed assets	23 849 197	23 248 498	5 596 695	5 263 652
Current assets	5 105 776	5 156 082	1 198 173	1 167 380
Fixed assets held for sale	13 133	8 951	3 082	2 026
Total assets	28 968 106	28 413 531	6 797 950	6 433 058
Share capital	8 762 747	8 762 747	2 056 355	1 983 958
Equity attributable to shareholders of the parent company	15 964 308	15 677 721	3 746 347	3 549 565
Equity attributable to non-controlling interests	474 902	461 347	111 445	104 453
Total equity	16 439 210	16 139 068	3 857 792	3 654 018
Long-term payables	8 189 894	7 431 923	1 921 924	1 682 649
Current payables	4 339 002	4 842 540	1 018 234	1 096 391
Total payables	12 528 896	12 274 463	2 940 158	2 779 040
Selected figures from condensed financial statements of TAURON Polska Energia S.A.				
	PLN '000		**EUR '000**	
	2012 from 01.01.2012 to 30.06.2012	**2011 from 01.01.2011 to 30.06.2011**	**2012 from 01.01.2012 to 30.06.2012**	**2011 from 01.01.2011 to 30.06.2011**
Sales	4 839 919	4 225 974	1 145 651	1 065 201
Operating profit	24 775	45 845	5 864	11 556
Profit before tax	1 506 741	1 061 332	356 659	267 520
Profit after tax	1 461 970	1 048 873	346 061	264 380
Other total income	(40 141)	–	(9 502)	–
Total comprehensive income	1 421 829	1 048 873	336 559	264 380
Earnings per share (in PLN/EUR) (basic and diluted)	0,83	0,60	0,20	0,15

	PLN '000		EUR '000	
	2012 from 01.01.2012 to 30.06.2012	**2011 from 01.01.2011 to 30.06.2011**	**2012 from 01.01.2012 to 30.06.2012**	**2011 from 01.01.2011 to 30.06.2011**
Average weighted number of shares (in pieces) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Net cash flows from operating activities	(40 276)	(214 885)	(9 534)	(54 164)
Net cash flows from investing activities	48 407	513 006	11 458	129 309
Net cash flows from financing activities	527 640	(24 482)	124 897	(6 171)
Movement in cash and cash equivalents, net	535 771	273 639	126 821	68 974
	As at 30.06.2012	**As at 31.12.2011 (*transformed data*)**	**As at 30.06.2012**	**As at 31.12.2011 (*transformed data*)**
Fixed assets	22 853 627	21 382 042	5 363 065	4 841 071
Current assets	1 905 837	1 436 421	447 243	325 218
Total assets	24 759 464	22 818 463	5 810 308	5 166 289
Share capital	8 762 747	8 762 747	2 056 355	1 983 958
Total equity	18 214 200	17 336 787	4 274 329	3 925 192
Long-term payables	4 750 120	4 140 154	1 114 712	937 365
Current payables	1 795 144	1 341 522	421 267	303 732
Total payables	6 545 264	5 481 676	1 535 979	1 241 097

The above figures for the first half of 2012 and 2011 were translated into EUR in accordance with the following rules:

– particular items of the statement on financial standing – at an average exchange rate of the National Bank of Poland published on 29 June 2012 – 4.2613 PLN/EUR (as at 30 December 2011 – 4.4168 PLN/EUR)

– particular items of statement on comprehensive income and cash flow statement: at an exchange rate being an arithmetic mean of average exchange rates published by the National Bank of Poland on the last day of each month of the financial period from 1 January 2012 to 30 June 2012 – 4.2246 PLN/EUR (for the period from 1 January 2011 to 30 June 2011 – 3.9673 PLN/EUR).

INDEPENDENT AUDITORS' REVIEW REPORT
ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
TAURON POLSKA ENERGIA S.A.
CAPITAL GROUP
FOR THE FIRST HALF OF 2012

AUGUST 2012

Independent Auditors' Review Report on the Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2012

To the Shareholders and Supervisory Board of TAURON Polska Energia S.A.

1. We have reviewed the accompanying condensed consolidated financial statements of TAURON Polska Energia S.A. Capital Group ('the Group') where TAURON Polska Energia S.A. is the dominant entity ('the Company'), and is located in Katowice at ks. Piotra Ściegiennego Street 3, including the interim condensed consolidated statement of comprehensive income for the period from 1 January 2012 to 30 June 2012, the interim condensed consolidated statement of financial position as at 30 June 2012, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flow for the period from 1 January 2012 to 30 June 2012 and other explanatory notes ('the interim condensed consolidated financial statements').

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

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

4. The consolidated financial statements of the Group for the year ended 31 December 2011 were subject to our audit and we issued an opinion including an emphasis of matter on these consolidated financial statements, dated 6 March 2012. The emphasis of matter concerned the decision of the Energy Regulatory Office *(Urząd Regulacji Energetyki)* on the reimbursement of the received advance in relation to termination of the long-term electricity and power purchase agreements. The actual status of this issue is presented in point 6 of this review report.

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

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

6. Without qualifying our review report, we draw attention to the fact that as it was described in more details in note 26 of the explanatory notes to the attached interim condensed consolidated financial statements, a subsidiary of the Company, TAURON Wytwarzanie S.A. (formerly Południowy Koncern Energetyczny S.A, 'PKE'), is entitled to receive a compensation to cover the stranded costs incurred by the producers in relation to termination of long-term electricity and power purchase agreements that is based on the act dated 29 June 2007 (Journal of Law from 2007, no. 130, item 905, 'PPA Act'). Based on accounting policy on compensations resulting from the provisions of the PPA Act as well as its own estimates and assumptions, the Group recognizes revenue from the compensations since the year ended 31 December 2008. As described in mentioned above note, on 31 July 2009 the President of the Energy Regulatory Office *(Urząd Regulacji Energetyki)* issued a decision ordering to reimburse part of received advance for the year 2008 in the amount of 160 million zlotys ('the Decision'). The Management of TAURON Wytwarzanie S.A. did not agree with the Decision and lodged an appeal against it to the Court of Competition and Customer Protection *(Sąd Ochrony Konkurencji i Konsumentów)* in Warsaw ('the Court'). On 26 May 2010 the Court passed a judgment confirming the PKE's position in this respect. The President of the Energy Regulatory Office lodged an appeal against the above judgment, which was dismissed by the Court of Appeal in Warsaw on 25 April 2012. The President of the Energy Regulatory Office has right to file a cassation claim to the Supreme Court within two months from the judgment receipt date. As described in mentioned above note, as at the date of this review report a cassation claim was not filed to the Supreme Court. The Company's Management is convinced that the proceedings will result positively for the Group.

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

Key certified auditor

Artur Żwak
Certified auditor no. 9894

Warsaw, 13 August 2012

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

AUGUST 2012

STATEMENT

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

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

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

Management Board Members:

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

13 August 2012

date

STATEMENT

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

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

The Management Board Members:

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

13 August 2012
date

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

AUGUST 2012

TABLE OF CONTENTS:

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

	Note	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		9 454 865	8 119 449
Excise		(272 854)	(225 527)
Sale of goods for resale, finished goods and materials		9 182 011	7 893 922
Rendering of services		3 110 048	2 416 965
Other income		21 927	20 257
Sales revenue	**9**	**12 313 986**	**10 331 144**
Cost of sales	**9**	(10 484 941)	(8 929 150)
Gross profit		**1 829 045**	**1 401 994**
Other operating income		48 800	44 458
Selling and distribution expenses		(230 974)	(150 790)
Administrative expenses		(335 167)	(308 572)
Other operating expenses		(55 587)	(49 012)
Operating profit		**1 256 117**	**938 078**
Finance income		53 337	54 821
Finance costs	**31**	(168 118)	(77 495)
Share in profit/(loss) of associate and joint venture recognised using the equity method	**2**	(671)	(539)
Profit before tax		**1 140 665**	**914 865**
Income tax expense	**10**	(252 650)	(186 918)
Net profit from continuing operations		**888 015**	**727 947**
Net profit for the period		**888 015**	**727 947**
Other comprehensive income:			
Revaluation of financial assets available for sale	**17**	11 393	–
Change in the value of hedging instruments	**24, 17**	(40 141)	–
Foreign exchange differences from translation of foreign entities		(251)	151
Income tax relating to other comprehensive income items		5 462	–
Other comprehensive income for the period, net of tax		**(23 537)**	**151**
Total comprehensive income for the period		**864 478**	**728 098**
Net profit for the period:			
Attributable to equity holders of the parent		854 847	704 033
Attributable to non-controlling interests		33 168	23 914
Total comprehensive income:			
Attributable to equity holders of the parent		831 308	704 184
Attributable to non-controlling interests		33 170	23 914
Earnings per share (in PLN):			
– basic, for profit for the period attributable to equity holders of the parent		0.49	0.40
– basic, for profit for the period from continuing operations attributable to equity holders of the parent		0.49	0.40
– diluted, for profit for the period attributable to equity holders of the parent		0.49	0.40
– diluted, for profit for the period from continuing operations attributable to equity holders of the parent		0.49	0.40

Explanatory notes are an integral part of these interim condensed consolidated financial statements.

(in PLN thousand)

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

	Note	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	**14**	22 298 453	21 911 047
Intangible assets	**13**	1 015 259	988 950
Investments in associates and joint ventures recognised using the equity method	**2**	22 046	22 717
Other long-term financial assets	**22**	271 600	197 470
Other long-term non-financial assets	**31**	216 155	96 349
Deferred tax asset	**10**	25 684	31 965
		23 849 197	**23 248 498**
Current assets			
Current intangible assets	**13**	668 742	870 954
Inventories	**15**	532 534	574 790
Corporate income tax receivable	**10**	78 389	64 266
Trade and other receivables	**16, 22**	2 815 297	2 743 344
Other current financial assets	**22**	9 070	108 024
Other current non-financial assets		296 724	289 034
Cash and cash equivalents	**11, 22**	705 020	505 670
		5 105 776	**5 156 082**
Non-current assets classified as held for sale		**13 133**	**8 951**
TOTAL ASSETS		**28 968 106**	**28 413 531**

Explanatory notes are an integral part of these interim condensed consolidated financial statements.

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012 – CONTINUED

	Note	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	**17**	8 762 747	8 762 747
Reserve capital	**17**	7 953 021	7 412 882
Revaluation reserve from valuation of hedging instruments	**17, 24**	(32 514)	–
Revaluation reserve from valuation of available-for-sale financial assets	**17**	9 226	–
Foreign exchange differences from translation of foreign entities		(164)	87
Retained earnings/Accumulated losses	**17**	(728 008)	(497 995)
		15 964 308	**15 677 721**
Non-controlling interests		**474 902**	**461 347**
Total equity		**16 439 210**	**16 139 068**
Non-current liabilities			
Interest-bearing loans and borrowings	**22, 23**	4 883 367	4 251 944
Finance lease and hire purchase commitments	**22**	48 780	56 232
Long-term provisions and employee benefits	**18, 19**	1 194 265	1 202 840
Long-term accruals and government grants	**20**	630 731	642 549
Trade payables and other financial long-term liabilities	**22**	7 197	7 968
Deferred tax liability	**10**	1 425 554	1 270 390
		8 189 894	**7 431 923**
Current liabilities			
Trade and other payables	**22**	2 131 516	2 349 201
Current portion of interest-bearing loans and borrowings	**22, 23**	197 340	214 169
Current portion of finance lease and hire purchase commitments	**22**	14 701	14 761
Other current non-financial liabilities		796 374	644 910
Accruals and government grants	**20**	294 764	279 058
Income tax payable		45 975	163 437
Short-term provisions and employee benefits	**18, 19**	858 332	1 177 004
		4 339 002	**4 842 540**
Total liabilities		**12 528 896**	**12 274 463**
TOTAL EQUITY AND LIABILITIES		**28 968 106**	**28 413 531**

Explanatory notes are an integral part of these interim condensed consolidated financial statements.

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

	Note	Equity attributable to the equity holders of the parent							Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Revaluation reserve from valuation of available-for-sale financial assets	Foreign exchange differences from translation of foreign entities	Retained earnings/ Accumulated losses	Total		
As at 1 January 2012		**8 762 747**	**7 412 882**	–	–	**87**	**(497 995)**	**15 677 721**	**461 347**	**16 139 068**
Profit for the period		–	–	–	–	–	854 847	**854 847**	33 168	**888 015**
Other comprehensive income	**24**	–	–	(32 514)	9 226	(251)	–	**(23 539)**	2	**(23 537)**
Total comprehensive income for the period		–	–	**(32 514)**	**9 226**	**(251)**	**854 847**	**831 308**	**33 170**	**864 478**
Appropriation of prior year profits	**17**	–	540 139	–	–	–	(540 139)	–	–	–
Acquisition of non-controlling interests	**17, 21**	–	–	–	–	–	(231)	**(231)**	(784)	**(1 015)**
Change in non-controlling interests due to mergers	**17, 21**	–	–	–	–	–	(1 884)	**(1 884)**	1 884	–
Dividends	**17**	–	–	–	–	–	(543 290)	**(543 290)**	(16 870)	**(560 160)**
Mandatory squeeze-out	**21**	–	–	–	–	–	684	**684**	(3 845)	**(3 161)**
As at 30 June 2012 (*unaudited*)		**8 762 747**	**7 953 021**	**(32 514)**	**9 226**	**(164)**	**(728 008)**	**15 964 308**	**474 902**	**16 439 210**

Explanatory notes are an integral part of these interim condensed consolidated financial statements.

(in PLN thousand)

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

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

Explanatory notes are an integral part of these interim condensed consolidated financial statements.

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

	Note	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Cash flows from operating activities			
Profit/(loss) before taxation		1 140 665	914 865
Adjustments for:			
Share in profit/(loss) of associate and joint venture recognised using the equity method	**2**	671	539
Depreciation and amortization		813 788	697 832
(Gain)/loss on foreign exchange differences		(1 119)	(426)
Interest and dividens, net		107 233	25 180
(Gain)/loss on investing activities		21 784	12 205
(Increase)/decrease in receivables		(68 359)	(152 979)
(Increase)/decrease in inventories		40 473	16 750
Increase/(decrease) in payables excluding loans and borrowings		(366 280)	(342 376)
Change in other non-current and current assets		22 052	28 075
Change in deferred income, government grants and accruals		(6 238)	72 500
Change in provisions		(175 334)	(157 895)
Income tax paid		(216 050)	(51 306)
Other		209	(79)
Net cash from operating activities		**1 313 495**	**1 062 885**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		6 710	19 786
Purchase of property, plant and equipment and intangible assets		(1 613 621)	(932 831)
Proceeds from sale of bonds, treasury bills and other debt securities		102 506	–
Proceeds from sale of other financial assets		7 260	25 065
Purchase of other financial assets		(8 396)	(14 634)
Acquisition of shares in associates and joint ventures recognised using the equity method		–	(13 000)
Acquisition of subsidiary, net cash acquired		(5 613)	–
Dividends received		1 485	6 358
Loans granted	**2**	(75 000)	–
Interest received		1	27
Repayment of loans made		–	25
Net cash used in investing activities		**(1 584 668)**	**(909 204)**

Explanatory notes are an integral part of these interim condensed consolidated financial statements.

(in PLN thousand)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012 – CONTINUED

	Note	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Cash flows from financing activities			
Acquisition of non-controlling interests		(4 184)	(27 192)
Payment of finance lease liabilities		(7 853)	(14 920)
Proceeds from loans	**23**	549 000	75 594
Repayment of loans	**23**	(96 515)	(235 984)
Issue of debt securities	**23**	150 000	–
Dividends paid to non-controlling interests		(16 019)	(10 885)
Interest paid	**31**	(107 048)	(28 199)
Other		(1 734)	(7 655)
Net cash from (used in) financing activities		**465 647**	**(249 241)**
Net increase/(decrease) in cash and cash equivalents		**194 474**	**(95 560)**
Net foreign exchange difference		122	146
Cash and cash equivalents at the beginning of the period		**505 816**	**1 471 660**
Cash and cash equivalents at the end of the period, of which:	**11**	**700 290**	**1 376 100**
restricted cash		215 496	69 123

Explanatory notes are an integral part of these interim condensed consolidated financial statements.

EXPLANATORY NOTES

1. Corporate information

The TAURON Polska Energia S.A. Capital Group ("the Group", "the TAURON Group") is composed of TAURON Polska Energia S.A. ("parent", "Company") and its subsidiaries. The interim condensed consolidated financial statements of the Group cover the 6-month period ended 30 June 2012 and include comparative figures for the 6-month period ended 30 June 2011 and as at 31 December 2011. The data for the 6-month period ended 30 June 2012 included in these interim condensed consolidated financial statements and the comparative figures for the 6-month period ended 30 June 2011 were reviewed by an independent auditor. Comparative figures as at 31 December 2011 were audited by an independent auditor.

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

The parent was granted statistical number REGON 240524697.

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

The Group's principal business activities include:

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

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

(in PLN thousand)

2. Composition of the Group

As at 30 June 2012, TAURON Polska Energia S.A. held direct interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Direct interest of TAURON in the entity's share capital	Direct interest of TAURON in the entity's governing body
1.	TAURON Wytwarzanie S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	99.77%
2.	TAURON Dystrybucja S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.51%	99.51%
3.	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100.00%	100.00%
4.	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer services	100.00%	100.00%
5.	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	100.00%
6.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	100.00%	100.00%
7.	TAURON Ciepło S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	88.21%	89.06%
8.	TAURON Czech Energy s.r.o.	720 00 Ostrava; Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	100.00%
9.	TAURON Dystrybucja GZE S.A.	44-100 Gliwice; ul. Portowa 14a	Distribution of electricity	100.00%	100.00%
10.	TAURON Sprzedaż GZE Sp. z o.o.	44-100 Gliwice; ul. Barlickiego 2a	Sale of electricity	99.998%[1]	99.998%[1]
11.	TAURON Ekoenergia GZE Sp. z o.o.	44-100 Gliwice; ul. Barlickiego 2	Generation of electricity	100.00%	100.00%
12.	TAURON Serwis GZE Sp. z o.o.	44-100 Gliwice; ul. Myśliwska 6	Repair and maintenance of electrical machinery and equipment, electrical installations, construction of power lines	99.80%[2]	99.80%[2]
13.	TAURON Obsługa Klienta GZE Sp. z o.o.	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Customer services	100.00%	100.00%

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

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

(in PLN thousand)

As at 30 June 2012, TAURON Polska Energia S.A. held indirect interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 30 June 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 30 June 2012
1.	Kopalnia Wapienia Czatkowice Sp. z o.o. [1]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. – 100.00%	99.77%	TAURON Wytwarzanie S.A. – 100.00%
2.	Południowy Koncern Węglowy S.A. [1]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.85%	TAURON Wytwarzanie S.A. – 68.01%
3.	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
4.	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%

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

Joint venture

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

Elektrociepłownia Stalowa Wola S.A. as a joint venture has been accounted for using the equity method in the consolidated financial statements. TAURON Polska Energia S.A. holds an indirect interest amounting to 49.86% in the share capital of this company and 49.89% in its governing body through TAURON Wytwarzanie S.A.

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

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Non-current assets	181 961	40 423
Current assets	14 016	7 796
Non-current liabilities (-)	(124 498)	(255)
Current liabilities (-)	(27 262)	(2 403)
Total net assets	**44 217**	**45 561**
Share in net assets	**22 046**	**22 717**
Goodwill	–	–
Invetment in joint venture	**22 046**	**22 717**
Share in revenue of joint venture	63	146
Share in profit/(loss) of joint venture	**(671)**	**(1 046)**

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

- A syndicated loan agreement signed in order to provide funding for the implementation of an investment project involving construction and operation of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola together with auxiliary installations. The syndicated loan agreement means that the repayment of loan and interest will be deferred and subordinated to the repayment of amounts due to the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 152,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 62,000 thousand. The loan is to be fully repaid no later than by the end of 2032;
- The VAT loan agreement, which will provide funds for funding output VAT related to the costs of implementation of the investment project involving construction of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola, incurred at the stage of designing, constructing and making the investment available for use. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 20,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 13,000 thousand. The loan is to be repaid six months after the date of completion of the investment project.

3. Basis of preparation of interim condensed consolidated financial statements

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

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

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

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

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

These interim condensed consolidated financial statements for the 6-month period ended 30 June 2012 were authorized for issue on 13 August 2012.

4. Summary of significant accounting policies

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

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

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

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

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the European Union (EU) as at the date of authorization of these consolidated financial statements. In the next phases, the International Accounting Standards Board will deal with hedge accounting and impairment methodology. The application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. The Group will assess this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent view.
- Amendments to IAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 27 *Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these consolidated financial statements.
- IFRS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013. The most important amendment to IAS 19 from the Company's perspective is the liquidation of the "corridor approach" and the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income.
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012.
- IFRIC 20 *Stripping Cost of the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.

- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.
- *Improvements* to IFRSs (issued on May 2012) – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.

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

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

6. Changes in estimates

In the period ended 30 June 2012, there were no significant changes to the values or methodology of making estimates that would affect the current or future periods, other than those presented below or described in the following sections of these interim condensed consolidated financial statements.

Impairment tests

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

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

Deferred tax

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

7. Seasonality of operations

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

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

The level of sales of electricity to individual customers depends on the length of day, as a result of which sales of electricity in this group of customers are usually lower in spring and summertime and higher in autumn and wintertime. Sales of coal to individual customers are higher in autumn and wintertime. The seasonality of other areas of Group operations is insignificant.

8. Segment information

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

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

As of 1 January 2012, changes were made to presentation of segments which involved separating two new operating segments: the Heat Segment and the Customer Service Segment and amending the allocation of companies to the individual operating segments. These changes resulted mainly from merger processes carried out in 2011, changes to the business names of the companies and acquisition of companies from the GZE Group. Separation of new segments is the consequence of the Group's reorganization and the Board's monitoring of results separately at the level of the Heat and Customer Service segments. The allocation of companies to particular segments was changed as follows:

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

- Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. was allocated to the Sales Segment, while currently it represents other activities of the Group;

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

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

The Group's reporting format for the period from 1 January 2012 to 30 June 2012 and for the comparative period was based on the following operating segments:

- Mining Segment, comprising hard coal mining, which includes operations of Południowy Koncern Węglowy S.A.
- Generation Segment, which includes generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. The main types of fuel used by the Generation Segment are hard coal, biomass and coke-oven gas. The Generation Segment of the TAURON Group includes operations of TAURON Wytwarzanie S.A.
- Renewable Sources of Energy Segment, which includes generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment. Entities which operate in the Renewable Sources of Energy Segment of the TAURON Group are TAURON Ekoenergia Sp. z o.o., BELS INVESTMENT Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o., and TAURON Ekoenergia GZE Sp. z o.o.
- Sales Segment, which includes wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity. Entities which operate in that segment of the TAURON Group are TAURON Polska Energia S.A., TAURON Sprzedaż Sp. z o.o., TAURON Czech Energy s.r.o. and TAURON Sprzedaż GZE Sp. z o.o.
- Distribution Segment, including operations of TAURON Dystrybucja S.A., TAURON Dystrybucja GZE S.A. and TAURON Serwis GZE Sp. z o.o.
- Heat Segment, which includes distribution and sales of heat. The entity which operates in that segment is TAURON Ciepło S.A. In addition, the investment in Elektrociepłownia Stalowa Wola S.A., which is accounted for using the equity method in the consolidated financial statements, is also presented in this segment.
- Customer Service Segment, which mainly includes services to internal customers in respect of sales process services as well as in respect of financial and accounting services to selected Group companies. Entities which operate in that segment are TAURON Obsługa Klienta Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o.

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

The Group settles transactions between segments as if they were made between unrelated parties i.e. using current market prices.

Revenue from transactions between segments is eliminated on consolidation.

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

Segment assets do not include deferred tax, income tax receivable or financial assets, except for trade and other receivables and cash and cash equivalents, which do represent segment assets.

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

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

The Board of Directors separately monitors operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. The Group's financing (including finance costs and income) and income tax are monitored at the level of the Group and they are not allocated to segments.

(in PLN thousand)

6-month period ended 30 June 2012 or as at 30 June 2012 (*unaudited*)	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	277 318	2 459 597	11 083	1 048 739	7 870 435	515 385	13 629	117 800	–	**12 313 986**	–	**12 313 986**
Inter-segment sales	386 878	249 951	119 246	1 998 798	849 277	8 577	154 690	137 603	–	**3 905 020**	(3 905 020)	–
Segment revenue	**664 196**	**2 709 548**	**130 329**	**3 047 537**	**8 719 712**	**523 962**	**168 319**	**255 403**	–	**16 219 006**	**(3 905 020)**	**12 313 986**
Profit/(loss) of the segment	**78 208**	**225 741**	**82 226**	**576 866**	**244 471**	**66 565**	**19 551**	**20 616**	**(10 578)**	**1 303 666**	–	**1 303 666**
Unallocated expenses	–	–	–	–	–	–	–	–	(47 549)	**(47 549)**	–	**(47 549)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**78 208**	**225 741**	**82 226**	**576 866**	**244 471**	**66 565**	**19 551**	**20 616**	**(58 127)**	**1 256 117**	–	**1 256 117**
Share in profit/(loss) of associate and joint venture recognised using the equity method	–	–	–	–	–	(671)	–	–	–	**(671)**	–	**(671)**
Net finance income (costs)	–	–	–	–	–	–	–	–	(114 781)	**(114 781)**	–	**(114 781)**
Profit/(loss) before income tax	**78 208**	**225 741**	**82 226**	**576 866**	**244 471**	**65 894**	**19 551**	**20 616**	**(172 908)**	**1 140 665**	–	**1 140 665**
Income tax expense	–	–	–	–	–	–	–	–	(252 650)	**(252 650)**	–	**(252 650)**
Net profit/(loss) for the period	**78 208**	**225 741**	**82 226**	**576 866**	**244 471**	**65 894**	**19 551**	**20 616**	**(425 558)**	**888 015**	–	**888 015**
EBITDA	**129 812**	**485 756**	**103 006**	**1 005 106**	**252 326**	**100 780**	**26 589**	**24 782**	**(58 127)**	**2 070 030**	–	**2 070 030**
Assets and liabilities												
Segment assets	1 201 992	9 697 969	1 166 195	11 968 094	2 999 874	1 308 319	53 673	170 743	–	**28 566 859**	–	**28 566 859**
Investments in associates and joint ventures recognised using the equity method	–	–	–	–	–	22 046	–	–	–	**22 046**	–	**22 046**
Unallocated assets	–	–	–	–	–	–	–	–	379 201	**379 201**	–	**379 201**
Total assets	**1 201 992**	**9 697 969**	**1 166 195**	**11 968 094**	**2 999 874**	**1 330 365**	**53 673**	**170 743**	**379 201**	**28 968 106**	–	**28 968 106**
Segment liabilities	484 114	916 160	75 637	1 961 309	1 540 499	176 252	69 975	37 710	–	**5 261 656**	–	**5 261 656**
Unallocated liabilities	–	–	–	–	–	–	–	–	7 267 240	**7 267 240**	–	**7 267 240**
Total liabilities	**484 114**	**916 160**	**75 637**	**1 961 309**	**1 540 499**	**176 252**	**69 975**	**37 710**	**7 267 240**	**12 528 896**	–	**12 528 896**
Other segment information												
Capital expenditure*	53 240	424 922	38 145	586 641	28 033	94 002	4 166	1 537	–	**1 230 686**	–	**1 230 686**
Depreciation/amortization	(51 604)	(260 015)	(20 780)	(428 240)	(7 855)	(34 215)	(7 038)	(4 166)	–	**(813 913)**	–	**(813 913)**

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

(in PLN thousand)

6-month period ended 30 June 2011 (*unaudited*) or as at 31 December 2011	Mining	Generation	Renewable sources of energy	Distribution	Sales	Heat	Customer service	Other	Unallocated items	Total	Eliminations	Total operations
Revenue												
Sales to external customers	299 371	2 666 987	351	681 701	6 069 544	472 048	31 523	109 619	–	**10 331 144**	–	**10 331 144**
Inter-segment sales	353 005	271 802	92 781	1 628 575	584 081	23 666	94 618	109 817	–	**3 158 345**	(3 158 345)	–
Segment revenue	**652 376**	**2 938 789**	**93 132**	**2 310 276**	**6 653 625**	**495 714**	**126 141**	**219 436**	–	**13 489 489**	**(3 158 345)**	**10 331 144**
Profit/(loss) of the segment	**44 767**	**327 139**	**55 911**	**337 557**	**130 288**	**60 252**	**6 917**	**15 261**	**(4 589)**	**973 503**	–	**973 503**
Unallocated expenses	–	–	–	–	–	–	–	–	(35 425)	**(35 425)**	–	**(35 425)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**44 767**	**327 139**	**55 911**	**337 557**	**130 288**	**60 252**	**6 917**	**15 261**	**(40 014)**	**938 078**	–	**938 078**
Share in profit/(loss) of associate and joint venture recognised using the equity method	–	–	–	–	–	(539)	–	–	–	**(539)**	–	**(539)**
Net finance income (costs)	–	–	–	–	–	–	–	–	(22 674)	**(22 674)**	–	**(22 674)**
Profit/(loss) before income tax	**44 767**	**327 139**	**55 911**	**337 557**	**130 288**	**59 713**	**6 917**	**15 261**	**(62 688)**	**914 865**	–	**914 865**
Income tax expense	–	–	–	–	–	–	–	–	(186 918)	**(186 918)**	–	**(186 918)**
Net profit/(loss) for the period	**44 767**	**327 139**	**55 911**	**337 557**	**130 288**	**59 713**	**6 917**	**15 261**	**(249 606)**	**727 947**	–	**727 947**
EBITDA	**97 507**	**589 131**	**67 947**	**664 923**	**133 929**	**95 471**	**8 002**	**19 229**	**(40 014)**	**1 636 125**	–	**1 636 125**
Assets and liabilities												
Segment assets	1 143 534	9 692 185	977 464	11 922 893	2 672 154	1 351 415	67 078	172 161	–	**27 998 884**	–	**27 998 884**
Investments in associates and joint ventures recognised using the equity method	–	–	–	–	–	22 717	–	–	–	**22 717**	–	**22 717**
Unallocated assets	–	–	–	–	–	–	–	–	391 930	**391 930**	–	**391 930**
Total assets	**1 143 534**	**9 692 185**	**977 464**	**11 922 893**	**2 672 154**	**1 374 132**	**67 078**	**172 161**	**391 930**	**28 413 531**	–	**28 413 531**
Segment liabilities	484 548	1 506 481	46 701	2 204 346	1 626 603	251 479	78 449	31 276	–	**6 229 883**	–	**6 229 883**
Unallocated liabilities	–	–	–	–	–	–	–	–	6 044 580	**6 044 580**	–	**6 044 580**
Total liabilities	**484 548**	**1 506 481**	**46 701**	**2 204 346**	**1 626 603**	**251 479**	**78 449**	**31 276**	**6 044 580**	**12 274 463**	–	**12 274 463**
Other segment information												
Capital expenditure*	50 622	294 344	17 454	369 292	6 071	42 632	5 098	3 123	–	**788 636**	–	**788 636**
Depreciation/amortization	(52 740)	(261 992)	(12 036)	(327 366)	(3 641)	(35 219)	(1 085)	(3 968)	–	**(698 047)**	–	**(698 047)**

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

(in PLN thousand)

9. Revenues and costs

The figures for the 6-month period ended 30 June 2012 also include revenues and costs of the companies acquired as a result of the purchase of the GZE S.A. Group, which are consolidated as of the date of acquisition i.e. 13 December 2011.

9.1. Sales revenue

	For the 6-month period ended 30 June 2012 (*unaudited*)	For the 6-month period ended 30 June 2011 (*unaudited*)
Revenue from sale of goods for resale, finished goods and materials, of which:	**9 182 011**	**7 893 922**
Electricity	7 909 820	6 831 645
Heat energy	356 921	330 357
Property rights arising from energy certificates	117 179	93 872
Greenhouse gas emission allowances	84 458	29 513
Compensation for termination of PPAs	276 611	168 770
Coal	261 227	280 496
Furnace blast	77 268	77 438
Compressed air	37 936	34 036
Milling products	21 037	13 166
Other goods for resale, finished goods and materials	39 554	34 629
Rendering of services, of which:	**3 110 048**	**2 416 965**
Distribution and trade services	2 909 706	2 286 410
Connection fees	73 847	52 140
Maintenance of road lighting	50 701	36 789
Charges for illegal electricity consumption	8 829	5 841
Other services	66 965	35 785
Other revenue, of which:	**21 927**	**20 257**
Rental income	21 927	20 257
Total sales revenue	**12 313 986**	**10 331 144**

9.2. Costs by type

	For the 6-month period ended 30 June 2012 (*unaudited*)	For the 6-month period ended 30 June 2011 (*unaudited*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(813 913)	(698 047)
Impairment of property, plant and equipment and intangible assets	92 048	1 467
Materials and energy	(1 303 754)	(1 358 855)
Maitenance and repair services	(105 127)	(116 216)
Distribution services	(804 939)	(636 012)
Other external services	(372 497)	(326 449)
Taxes and charges	(321 188)	(380 391)
Employee benefits expense	(1 367 540)	(1 218 995)
Inventory write-downs	1 138	(224)
Allowance for doubtful debts	(22 795)	(20 200)
Other	(43 934)	(41 994)
Total costs by type	**(5 062 501)**	**(4 795 916)**
Change in inventories, prepayments, accruals and deferred income	(32 762)	(4 482)
Cost of goods produced for internal purposes	205 156	163 720
Selling and distribution expenses	230 974	150 790
Administrative expenses	335 167	308 572
Cost of goods for resale and materials sold	(6 160 975)	(4 751 834)
Cost of sales	**(10 484 941)**	**(8 929 150)**

(in PLN thousand)

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

10. Income tax

10.1. Tax expense in the statement of comprehensive income

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

	For the 6-month period ended 30 June 2012 (*unaudited*)	For the 6-month period ended 30 June 2011 (*unaudited*)
Current income tax	**(85 848)**	**(118 705)**
Current income tax expense	(84 916)	(117 774)
Adjustments to current income tax from previous years	(932)	(931)
Deferred tax	**(166 802)**	**(68 213)**
Income tax in profit or loss	**(252 650)**	**(186 918)**
Income tax relating to other comprehensive income	**5 462**	**–**

(in PLN thousand)

10.2. Deferred income tax

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	1 744 369	1 730 720
– difference between tax base and carrying amount of assets measured at fair value through profit or loss	3 933	1 147
– difference between tax base and carrying amount of financial assets available for sale	10 188	8 025
– difference between tax base and carrying amount of financial assets held to maturity	120	120
– difference between tax base and carrying amount of loans and receivables	2 808	4 222
– difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	98	98
– different timing of recognition of sales revenue for tax purposes	59 716	108 010
– recognition of estimated revenue from sale of power distribution services	2 623	4 912
– difference between tax base and carrying amount of property rights arising from energy certificates	80 740	63 750
– compensation for termination of long-term contracts	101 082	93 859
– other	29 249	29 782
Deferred tax liability	**2 034 926**	**2 044 645**
Deferred tax liability recognized in profit or loss	**2 032 761**	**2 044 645**
Deferred tax liability recognized in other comprehensive income	**2 165**	–
Deferred tax assets		
– difference between tax base and carrying amount of fixed and intangible assets	1 872	1 770
– difference between tax base and carrying amount of inventories	4 298	4 568
– power infrastructure received free of charge and received connection fees	87 902	86 115
– provisions	440 556	504 018
– difference between tax base and carrying amount of assets measued at fair value through profit or loss	1 729	1 620
– difference between tax base and carrying amount of financial assets available for sale	671	900
– difference between tax base and carrying amount of loans and receivables	27 021	25 569
– difference between tax base and carrying amount of financial assets excluded from the scope of IAS 39	1 790	2 097
– difference between tax base and carrying amount of financial liabilities measured at fair value through profit or loss	2 474	114
– difference between tax base and carrying amount of financial liabilities measured at amortized cost	3 599	3 552
– valuation of hedging instruments	7 552	–
– different timing of recognition of cost of sales for tax purposes	24 400	70 806
– other accrued expenses	19 094	19 460
– tax losses	463	6 272
– different timing of recognition of revenue from sales of greenhouse gas emission allowances for tax purposes	–	61 182
– other	11 635	18 177
Deferred tax assets	**635 056**	**806 220**
Deferred tax assets recognized in profit or loss	**627 429**	**806 220**
Deferred tax assets recognized in other comprehensive income	**7 627**	–

After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:

Deferred tax asset	**25 684**	**31 965**
Deferred tax liability	**(1 425 554)**	**(1 270 390)**

(in PLN thousand)

10.3. Tax Capital Group

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

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

As at 30 June 2012, the Tax Capital Group had an overpayment in respect of the corporate income tax for the first 6 months of 2012 amounting to PLN 72,412 thousand, which has been presented as income tax receivable in the consolidated financial statements.

11. Cash and cash equivalents

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

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

	As at 30 June 2012 (*unaudited*)	**As at 31 December 2011**
Cash at bank and in hand	288 568	264 082
Short-term deposits (up to 3 months)	415 780	200 456
Other	672	41 132
Total cash and cash equivalents presented in the statement of financial position, of which:	**705 020**	**505 670**
– restricted cash	215 496	176 241
Bank overdraft	(4 755)	–
Foreign exchange and other differences	25	146
Total cash and cash equivalents presented in the statement of cash flows	**700 290**	**505 816**

Restricted cash consists mainly of cash held in the parent's settlement account used for trading in electricity at Towarowa Giełda Energii S.A. (Polish Power Exchange), amounting to PLN 172,963 thousand.

12. Dividends paid and proposed

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

On 6 May 2011, the Ordinary General Shareholders' Meeting resolved to distribute an amount of PLN 262,882 thousand for dividends to the Company's shareholders, which gave PLN 0.15 per share. This amount was composed of the Company's net profit for 2010 in the amount of PLN 190,478 thousand and utilization of the Company's reserve capital of PLN 72,404 thousand, which represented part of the Company's net profit for 2009 allocated to the reserve capital.

(in PLN thousand)

13. Intangible assets

13.1. Non-current intangible assets

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

	Development expenses	Goodwill	Software, concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	**4 389**	**726 369**	**275 852**	**97 495**	**34 769**	**13 831**	**1 152 705**
Direct purchase	–	–	117	–	–	24 058	**24 175**
Transfer of intangible assets not made available for use	–	–	12 600	–	2 175	(14 775)	–
Reclassification	–	–	144	–	(144)	–	–
Liquidation	(565)	–	(1 314)	–	(3)	–	**(1 882)**
Received free of charge	–	–	–	–	191	–	**191**
Transfers from assets under construction	–	–	10 979	–	–	267	**11 246**
Other movements	–	–	57	64	–	8	**129**
Foreign exchange differences from translation of foreign entities	–	–	–	–	–	(18)	**(18)**
Closing balance	**3 824**	**726 369**	**298 435**	**97 559**	**36 988**	**23 371**	**1 186 546**
ACCUMULATED AMORTIZATION							
Opening balance	**(3 482)**	–	**(142 744)**	**(15 166)**	**(2 363)**	–	**(163 755)**
Amortization for the period	(177)	–	(23 503)	–	(788)	–	**(24 468)**
Decrease of impairment	–	–	–	15 166	–	–	**15 166**
Reclassification	–	–	(99)	–	99	–	–
Liquidation	565	–	1 261	–	–	–	**1 826**
Other movements	–	–	(56)	–	–	–	**(56)**
Closing balance	**(3 094)**	–	**(165 141)**	–	**(3 052)**	–	**(171 287)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**907**	**726 369**	**133 108**	**82 329**	**32 406**	**13 831**	**988 950**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**730**	**726 369**	**133 294**	**97 559**	**33 936**	**23 371**	**1 015 259**

In the 6-month period ended 30 June 2012, significant purchases of intangible assets by the Group were related to SAP and Oracle licenses and a support system for purchases' organization.

(in PLN thousand)

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

	Development expenses	Goodwill	Software, concessions, patents, licenses and similar items	Greenhouse gas emission allowances	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST							
Opening balance	**4 389**	**169 553**	**213 417**	**59 977**	**4 430**	**10 362**	**462 128**
Direct purchase	–	–	109	10 801	–	12 727	**23 637**
Transfer of intangible assets not made available for use	–	–	8 700	–	1 554	(10 254)	–
Sale, disposal	–	–	–	(6 052)	–	–	**(6 052)**
Reclassification	–	–	–	–	–	–	–
Liquidation	–	–	(1 527)	–	(9)	–	**(1 536)**
Received free of charge	–	–	–	–	40	–	**40**
Transfers from assets under construction	–	–	43	–	90	751	**884**
Other movements	–	–	–	–	–	(282)	**(282)**
Closing balance	**4 389**	**169 553**	**220 742**	**64 726**	**6 105**	**13 304**	**478 819**
ACCUMULATED AMORTIZATION							
Opening balance	**(2 913)**	–	**(110 806)**	**(22)**	**(1 596)**	**(450)**	**(115 787)**
Amortization for the period	(284)	–	(17 194)	–	(321)	–	**(17 799)**
Decrease of impairment	–	–	–	22	–	–	**22**
Reclassification	–	–	–	–	–	–	–
Liquidation	–	–	1 288	–	9	–	**1 297**
Closing balance	**(3 197)**	–	**(126 712)**	–	**(1 908)**	**(450)**	**(132 267)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**1 476**	**169 553**	**102 611**	**59 955**	**2 834**	**9 912**	**346 341**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**1 192**	**169 553**	**94 030**	**64 726**	**4 197**	**12 854**	**346 552**

13.2. Current intangible assets

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

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**774 942**	**187 126**	**962 068**
Direct purchase	490 790	54 448	**545 238**
Energy certificates generated internally	177 726	–	**177 726**
Cancellation of energy certificates	(794 097)	–	**(794 097)**
Cancellation of emission allowances	–	(221 235)	**(221 235)**
Other movements	(877)	(81)	**(958)**
Closing balance	**648 484**	**20 258**	**668 742**
ACCUMULATED AMORTIZATION			
Opening balance	**(91 114)**	–	**(91 114)**
Increase of impairment	–	–	–
Decrease of impairment	91 114	–	**91 114**
Closing balance	–	–	–
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**683 828**	**187 126**	**870 954**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**648 484**	**20 258**	**668 742**

(in PLN thousand)

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

	Energy certificates	Greenhouse gas emission allowances	Current intangible assets, total
COST			
Opening balance	**523 017**	**101 173**	**624 190**
Direct purchase	191 267	45 157	**236 424**
Energy certificates generated internally	133 198	–	**133 198**
Cancellation of energy certificates	(369 314)	–	**(369 314)**
Cancellation of emission allowances	–	(104 728)	**(104 728)**
Other movements	(36)	–	**(36)**
Closing balance	**478 132**	**41 602**	**519 734**
ACCUMULATED AMORTIZATION			
Opening balance	–	–	–
Increase of impairment	–	–	–
Decrease of impairment	–	–	–
Closing balance	–	–	–
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**523 017**	**101 173**	**624 190**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**478 132**	**41 602**	**519 734**

13.3. Impairment tests

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

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

- The adopted development track of wholesale prices of electricity for the years 2012–2021, taking into account, among others, the impact of the balance between the supply and demand of electricity on the market, fuel costs and costs of purchase of CO_2 allowances;
- Emission caps for 2012 for the particular CGUs according to NAP II, for the period 2013–2020 in accordance with the derogation notice sent by the Polish government to the European Commission;
- The volumes of green and red energy production arising from production capacities along with the track of prices for particular energy certificates;
- The receipt of compensations for early termination of long-term PPAs by eligible generators according to financial models valid at testing dates;
- Regulated income of distribution companies ensuring coverage of reasonable costs and a reasonable return on capital employed. The level of the return depends on the so-called Regulatory Value of Assets;
- The adopted development track of retail electricity prices based on wholesale black energy prices, taking into account excise cost, cost of the obligation to surrender energy certificates for cancellation and an appropriate level of margin;
- Sales volumes taking into account the rise in GDP as well as growing market competition;
- Tariff income of heat generation companies ensuring coverage of reasonable costs and a reasonable return on capital employed;
- Maintenance of the existing non-current assets' production capacities as a result of restoration investments;
- The level of the weighted average cost of capital (WACC) used in calculations ranging from 8.08% to 13.24% at nominal value before tax during the projection period.

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

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

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

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

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

(in PLN thousand)

14. Property, plant and equipment

Property, plant and equipment for the period from 1 January to 30 June 2012 (*unaudited*)

	Land	Perpetual usufruct	Buildings, premises and constructions	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST									
Opening balance	**64 425**	**835 641**	**13 779 889**	**11 171 774**	**335 761**	**237 107**	**26 424 597**	**1 628 070**	**28 052 667**
Direct purchase	–	–	–	7	–	13	**20**	1 137 353	**1 137 373**
Transfer of assets under construction	1 831	878	349 913	370 831	4 629	16 426	**744 508**	(744 508)	–
Sale, disposal	(8)	(585)	(806)	(2 074)	(3 975)	(51)	**(7 499)**	(26)	**(7 525)**
Reclassification	–	–	(101)	120	–	(19)	–	–	–
Donations and free-of-charge transfers	–	(504)	(4 547)	(372)	–	(529)	**(5 952)**	–	**(5 952)**
Liquidation	(7)	–	(20 000)	(66 182)	(497)	(2 120)	**(88 806)**	–	**(88 806)**
Received free of charge	–	3	9 648	342	–	–	**9 993**	–	**9 993**
Received for use under rental, lease or similar agreements	–	–	–	–	913	–	**913**	–	**913**
Spare parts allocated to fixed assets	–	–	–	2 552	–	–	**2 552**	–	**2 552**
Overhaul expenses	–	–	500	22 650	–	–	**23 150**	24 578	**47 728**
Write-off of discontinued investments	–	–	–	–	–	–	–	(183)	**(183)**
Transfers to intangible assets	–	–	–	–	–	–	–	(11 246)	**(11 246)**
Items discovered	–	9	22	51	–	9	**91**	–	**91**
Items generated internally	–	–	–	–	–	–	–	20 497	**20 497**
Transfers to assets held for sale	(69)	(1 293)	(2 955)	(212)	(60)	(362)	**(4 951)**	(201)	**(5 152)**
Other movements	–	12	(121)	(1 326)	–	–	**(1 435)**	724	**(711)**
Foreign exchange differences from translation of foreign entities	–	–	–	(6)	–	–	**(6)**	–	**(6)**
Closing balance	**66 172**	**834 161**	**14 111 442**	**11 498 155**	**336 771**	**250 474**	**27 097 175**	**2 055 058**	**29 152 233**
ACCUMULATED DEPRECIATION									
Opening balance	**(645)**	**(771)**	**(2 905 171)**	**(2 987 379)**	**(126 895)**	**(115 663)**	**(6 136 524)**	**(5 096)**	**(6 141 620)**
Depreciation for the period	–	–	(369 450)	(379 892)	(23 561)	(16 542)	**(789 445)**	–	**(789 445)**
Increase of impairment	(812)	(13 010)	(690)	(661)	–	(49)	**(15 222)**	–	**(15 222)**
Decrease of impairrment	–	199	160	115	3	3	**480**	–	**480**
Sale, disposal	–	–	239	1 320	3 101	46	**4 706**	–	**4 706**
Reclassification	–	–	14	(28)	–	14	–	–	–
Donations and free-of-charge transfers	–	–	4 049	372	–	529	**4 950**	–	**4 950**
Liquidation	–	–	14 109	64 364	496	1 855	**80 824**	–	**80 824**
Transfers to assets held for sale	–	–	427	197	57	291	**972**	–	**972**
Other movements	–	–	(207)	2 559	(30)	(1 351)	**971**	(398)	**573**
Foreign exchange differences from translation of foreign entities	–	–	–	2	–	–	**2**	–	**2**
Closing balance	**(1 457)**	**(13 582)**	**(3 256 520)**	**(3 299 031)**	**(146 829)**	**(130 867)**	**(6 848 286)**	**(5 494)**	**(6 853 780)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**63 780**	**834 870**	**10 874 718**	**8 184 395**	**208 866**	**121 444**	**20 288 073**	**1 622 974**	**21 911 047**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**64 715**	**820 579**	**10 854 922**	**8 199 124**	**189 942**	**119 607**	**20 248 889**	**2 049 564**	**22 298 453**

(in PLN thousand)

Property, plant and equipment for the period from 1 January to 30 June 2011 (*unaudited*)

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

In the 6-month period ended 30 June 2012, the Group made a purchase of property, plant and equipment amounting to PLN 1,137,353 thousand, which mainly included:

- Purchases made by companies from the Distribution Segment at an amount of PLN 581,582 thousand, related to the construction and restoration of power grid assets,
- Purchases made by TAURON Wytwarzanie S.A. at an amount of PLN 369,333 thousand, related to the construction of new production capacities and modernization of the existing generation units. The largest capital expenditures were incurred for the following investment projects carried out by TAURON Wytwarzanie S.A.:
  - Restoration of production capacities in TAURON Wytwarzanie S.A. – the Bielsko Biała CHP Plant, PLN 135,384 thousand,
  - Construction of RES generation unit in TAURON Wytwarzanie S.A. – the Jaworzno III Power Plant, PLN 74,807 thousand,
  - Modernization of primary equipment of unit No. 4 in TAURON Wytwarzanie S.A. – the Jaworzno III Power Plant, PLN 32,820 thousand.
- Purchases made by TAURON Ciepło S.A. at an amount of PLN 79,682 thousand, of which the largest amount – PLN 35,880 thousand – related to reconstruction of a fluidized bed combustor in the Tychy CHP Plant.

Impairment tests

Due to the existence of certain circumstances in the Group companies' environment which may result in the decrease of the value in use of property, plant and equipment compared with their carrying amounts, an impairment test was performed for property, plant and equipment at the balance sheet date.

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

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

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

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

On 30 March 2012, the Halemba Power Plant ended its operations. The assets of the decommissioned power plant have been presented in accordance with IAS 16.79(c) as items of property, plant and equipment, due to the fact that the criteria for classifying them as assets held for sale under IFRS 5 had not been met at the balance sheet date. The value of the Halemba Power Plant's property, plant and equipment at the balance sheet date was reduced to PLN 17,940 thousand, representing the estimated residual value of these assets. The impairment loss of PLN 14,603 thousand was charged to the operating costs.

(in PLN thousand)

15. Inventories

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Historical cost		
Raw materials	382 837	443 660
Semi-finished goods and work-in-progress	92 465	97 213
Finished goods	24 878	8 118
Goods for resale	820	2 329
Property rights arising from energy certificates	35 929	29 099
Total	**536 929**	**580 419**
Write-downs to net realizable value		
Raw materials	(3 038)	(4 273)
Semi-finished goods and work-in-progress	–	–
Finished goods	–	–
Goods for resale	–	–
Property rights arising from energy certificates	(1 357)	(1 356)
Total	**(4 395)**	**(5 629)**
Net realizable value		
Raw materials	379 799	439 387
Semi-finished goods and work-in-progress	92 465	97 213
Finished goods	24 878	8 118
Goods for resale	820	2 329
Property rights arising from energy certificates	34 572	27 743
Total	**532 534**	**574 790**

16. Trade and other receivables

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

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

	Trade receivables – the current portion	Other current receivables	Total
Accounts receivable (without allowance for doubtful debts)	2 143 563	860 554	**3 004 117**
Allowance for doubtful debts	(108 696)	(80 124)	**(188 820)**
Net value	**2 034 867**	**780 430**	**2 815 297**

Trade and other receivables as at 31 December 2011

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

Trade receivables as at 30 June 2012 amounted to PLN 2,035,515 thousand, of which the current portion was PLN 2,034,867 thousand and the non-current portion was PLN 648 thousand. As at 31 December 2011, trade receivables amounted to PLN 1,881,992 thousand, of which the current portion was PLN 1,881,143 thousand and the non-current portion was PLN 849 thousand.

Other current receivables as at 30 June 2012 amounted to PLN 780,430 thousand, the largest item of which was a receivable from compensation for termination of long-term PPAs of PLN 532,009 thousand. As at 31 December 2011, other current receivables of PLN 862,201 thousand included a receivable from compensation for termination of long-term PPAs amounting to PLN 493,993 thousand.

(in PLN thousand)

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

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

17. Equity

17.1. Issued capital

Issued capital as at 30 June 2012 *(unaudited)*

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

As at 30 June 2012, the value of issued capital, the number of shares and nominal value per share have not changed since 31 December 2011.

Shareholding structure as at 30 June 2012 *(unaudited, to the best knowledge of the Company)*

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

To the Company's best knowledge, the shareholding structure as at 30 June 2012 did not change in comparison to 31 December 2011.

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

During the 6-month period ended 30 June 2012, reserve capital increased by 540,139 thousand as a result of the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 24 April 2012 on the allocation of the said amount of PLN 540,139 thousand from the net profit for 2011 to the reserve capital.

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

- allocation of the amount of PLN 540,139 thousand from TAURON Polska Energia S.A.'s net profit for 2011 to the reserve capital,
- allocation of the amount of PLN 543,290 thousand from TAURON Polska Energia S.A.'s net profit for 2011 for the payment of dividend,
- net profit for the period attributable to the equity holders of the parent of PLN 854,847 thousand,
- re-acquisition of non-controlling interests – increase of retained earnings by PLN 684 thousand,
- acquisition of non-controlling interests – decrease of retained earnings by PLN 231 thousand,
- change in non-controlling interests as a result of mergers – decrease of retained earnings by PLN 1,884 thousand.

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

(in PLN thousand)

17.3. Revaluation reserve from valuation of financial instruments

Revaluation reserve from valuation of hedging instruments

The revaluation reserve from valuation of hedging instruments results from the valuation of Interest Rate Swaps used to hedge the interest rate risk arising from issued debentures, as discussed in detail in Note 24. At the balance sheet date, the Group recognized an amount of PLN 40,141 thousand in the revaluation reserve from valuation of hedging instruments, which represented a liability from the valuation of IRSs at the balance sheet date amounting to PLN 39,749 thousand, adjusted for the portion of valuation relating to accrued interest on debentures at the balance sheet date amounting to PLN 392 thousand that was taken to profit or loss, net of the deferred tax.

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

As at 30 June 2012, the subsidiary TAURON Sprzedaż GZE Sp. z o.o., as a result of the remeasurement of its shares in Towarowa Giełda Energii S.A. to market value, increased their carrying amount from PLN 1,107 thousand to PLN 12,500 thousand i.e. by PLN 11,393 thousand. Gains on the remeasurement were recognized in the revaluation reserve from the valuation of available-for-sale financial assets net of the deferred tax. At the date of these interim condensed consolidated financial statements, the afore-mentioned shares in Towarowa Giełda Energii S.A. have been sold.

18. Provisions for employee benefits

18.1. Provisions for employee benefits and jubilee bonuses

Movement in provisions for employee benefits in the 6-month period ended 30 June 2012 *(unaudited)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**192 074**	**418 096**	**119 368**	**39 624**	**484 643**	**1 253 805**
Current service costs	4 253	2 519	1 042	297	13 996	**22 107**
Actuarial gains and losses	(2 556)	10 243	(433)	(218)	(5 925)	**1 111**
Benefits paid	(9 065)	(16 351)	(903)	(716)	(19 322)	**(46 357)**
Past service costs	–	4 152	–	–	–	**4 152**
Interest expense	6 391	12 595	3 402	1 087	13 480	**36 955**
Reversal	(1 757)	(565)	(152)	–	(2 494)	**(4 968)**
Other movements	(16 652)	(7 636)	(2 268)	–	(30 115)	**(56 671)**
Closing balance	**172 688**	**423 053**	**120 056**	**40 074**	**454 263**	**1 210 134**
CURRENT	**25 675**	**23 331**	**5 357**	**1 763**	**53 592**	**109 718**
NON-CURRENT	**147 013**	**399 722**	**114 699**	**38 311**	**400 671**	**1 100 416**

Due to the fact that some employees of the TAURON Group companies left them under voluntary redundancy schemes (as discussed in detail in Note 18.2), in the first 6 months of 2012 actuarial provisions totaling PLN 4,968 thousand were reversed. In addition, actuarial provisions relating to those employees who were covered by the scheme but whose employment contracts had not yet been terminated, totaling PLN 56,671 thousand, were transferred to provisions for voluntary redundancy schemes.

(in PLN thousand)

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

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**183 009**	**351 573**	**105 955**	**33 526**	**468 688**	**1 142 751**
Current service costs	4 387	2 407	1 089	864	13 147	**21 894**
Actuarial gains and losses	3 307	(156)	(841)	402	(10 635)	**(7 923)**
Benefits paid	(10 944)	(9 116)	(1 183)	(661)	(16 142)	**(38 046)**
Past service costs	–	3 968	–	–	–	**3 968**
Interest expense	6 341	11 239	3 182	1 131	12 487	**34 380**
Closing balance	**186 100**	**359 915**	**108 202**	**35 262**	**467 545**	**1 157 024**
CURRENT	**34 822**	**20 179**	**5 026**	**1 299**	**54 346**	**115 672**
NON-CURRENT	**151 278**	**339 736**	**103 176**	**33 963**	**413 199**	**1 041 352**

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

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

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

18.2. Provisions for payments due to termination of employment contracts

Movement in provisions for voluntary redundancy schemes in the 6-month period ended 30 June 2012 (*unaudited*)

	Voluntary redundancy schemes			
	TAURON Wytwarzanie S.A.	TAURON Dystrybucja S.A.	TAURON Serwis GZE Sp. z o.o.	Total
Opening balance	**5 719**	**29 336**	**217**	**35 272**
Recognition	43 633	4 532	–	**48 165**
Reversal	(2 330)	–	–	**(2 330)**
Utilization	(4 547)	(10 932)	(217)	**(15 696)**
Other movements	56 671	–	–	**56 671**
Closing balance	**99 146**	**22 936**	–	**122 082**
SHORT-TERM PROVISIONS	**75 952**	**22 936**	–	**98 888**
LONG-TERM PROVISIONS	**23 194**	–	–	**23 194**

(in PLN thousand)

Movement in provisions for voluntary redundancy schemes in the 6-month period ended 30 June 2011 (*unaudited*)

	Voluntary redundancy schemes		
	TAURON Wytwarzanie S.A. (formerly: Południowy Koncern Energetyczny S.A. and Elektrownia Stalowa Wola S.A.)	**TAURON Dystrybucja S.A. (formerly: ENION S.A. and EnergiaPro S.A.)**	**Total**
Opening balance	**18 950**	**31 380**	**50 330**
Recognition	9 621	24 078	**33 699**
Reversal	(442)	–	**(442)**
Utilization	(9 790)	(23 425)	**(33 215)**
Other movements	–	–	–
Closing balance	**18 339**	**32 033**	**50 372**
SHORT-TERM PROVISIONS	**18 339**	**32 033**	**50 372**
LONG-TERM PROVISIONS	–	–	–

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

- On 28 March 2012, an Employment Cost Reduction Agreement was signed in TAURON Wytwarzanie S.A. From its effective date up to 30 June 2012, 98 individuals took advantage of this Agreement. A provision was recognized due to the planned redundancy of 1,155 employees in the period from 1 July 2012 to 30 June 2014 and due to the leaves of 10 employees ending with termination of their employment contracts in the period up to 31 December 2017. In the 6-month period ended 30 June 2012:
  - a provision was recognized for future payments under the VRS to the remaining employees who took advantage of the Agreement, at an amount of PLN 43,633 thousand;
  - part of the provisions for future employee benefits were transferred to the provision for VRS in the portion relating to those employees who were covered by the scheme, at the total amount of PLN 56,671 thousand;
  - a provision of PLN 1,793 thousand was reversed.

  The balance of the provision as at 30 June 2012 amounted to PLN 98,511 thousand. Some individuals received payments on termination of contracts under VRS in the amount of PLN 12,758 thousand, which were directly charged to the costs of the Group for the reporting period.

  As at 30 June 2012, TAURON Wytwarzanie S.A. also has a provision for costs arising from the Agreement on decommissioning of the Halemba Power Plant, amounting to PLN 635 thousand. In the 6-month period ended 30 June 2012, benefits of PLN 4,547 thousand were paid out of the provision recognized as at 1 January 2012, and part of the provision amounting to PLN 537 thousand was reversed due to resignation of several employees.
- In TAURON Dystrybucja S.A., the schemes implemented in 2011 were continued in the 6-month period ended 30 June 2012. During the reporting period, the company recognized a provision of PLN 4,532 thousand. Under voluntary redundancy schemes, employment contracts were terminated with 116 employees, with a total of PLN 8,175 thousand being paid in respect of one-off severance payments out of the provision recognized in 2011. Furthermore, in 2012 the company continues to make payments to the individuals who left it in 2011 taking advantage of the schemes that were terminated on 30 December 2011 and acquired the rights to such payments after receiving an unemployment allowance for a period not exceeding 6 months (Pre-retirement Redundancy Scheme). The amount of benefits paid under that scheme is PLN 2,757 thousand.
- In TAURON Serwis GZE Sp. z o.o., all benefits arising from the provision recognized as at 31 December 2011 (PLN 217 thousand) were paid.
- In addition, in the 6-month period ended 30 June 2012, TAURON Ciepło S.A. incurred costs of PLN 1,862 thousand under a voluntary redundancy scheme. All the benefits payable under the scheme were paid by the company. As at 30 June 2012, the company did not recognize a provision for the voluntary redundancy scheme.

(in PLN thousand)

19. Provisions

19.1. Movements in provisions

Movement in provisions for the 6-month period ended 30 June 2012 ***(unaudited)***

	Provision for counterparty claims, court disputes, onerous contracts, disputes with employees	Provision for restructuring	Provision for restoration of land and dismantling and removal of fixed assets	Provision for gas emission obligations	Provision for obligation to surrender energy certificates	Provision for use of real estate under power generation facilities without contract and other provisions	Provisions, total
Opening balance	**43 149**	**944**	**69 850**	**187 132**	**703 449**	**86 241**	**1 090 765**
Discount rate adjustment	–	–	535	–	–	–	**535**
Recognition	2 568	–	826	54 762	707 275	12 310	**777 741**
Reversal	(1 963)	(179)	–	–	–	(2 700)	**(4 842)**
Utilization	(1 237)	–	–	(221 096)	(917 965)	(4 728)	**(1 145 026)**
Other movements	–	(765)	1 871	–	(646)	748	**1 208**
Closing balance	**42 517**	**–**	**73 082**	**20 798**	**492 113**	**91 871**	**720 381**
CURRENT	**42 517**	**–**	**3 250**	**20 798**	**492 113**	**91 048**	**649 726**
NON-CURRENT	**–**	**–**	**69 832**	**–**	**–**	**823**	**70 655**

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

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

19.2. Details of significant provisions

19.2.1. Provision for counterparty claims, court disputes, onerous contracts

Provision for proceedings before the Competition and Consumers Protection Office

The Competition and Consumers Protection Office conducts antimonopoly proceedings against TAURON Dystrybucja S.A. in respect of the alleged abuse of dominant position on the electricity distribution market. The company appealed against the decisions of the Competition and Consumers Protection Office. The provision recognized by the company in this respect as at 30 June 2012 amounted to PLN 11,576 thousand and did not change compared with the balance as at 31 December 2011.

Provision for claims of ArcelorMittal Poland S.A.

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

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

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

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

Due to legal obligation arising from the Geological and Mining Law, Południowy Koncern Węglowy S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. recognize provisions for future decommissioning costs of their mining facilities. As at 30 June 2012, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,794 thousand, and the provision recognized by Południowy Koncern Węglowy S.A., including the Mine Decommissioning Fund, amounted to PLN 28,097 thousand. As at 31 December 2011, the provision recognized by Kopalnia Wapienia Czatkowice Sp. z o.o. amounted to PLN 3,591 thousand, and the provision recognized by Południowy Koncern Węglowy S.A. amounted to PLN 25,691 thousand.

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

The Renewable Sources of Energy segment entities recognized a provision for the costs of dismantling wind farms after the completion of their usage at an amount of PLN 13,973 thousand. As at 31 December 2011, the provision amounted to PLN 13,610 thousand.

Due to the legal obligation to dismantle and remove fixed assets after the period of their usage, TAURON Wytwarzanie S.A. recognized a provision for the estimated future costs necessary to discharge this obligation, amounting to PLN 9,218 thousand. As at 31 December 2011, the provision amounted to PLN 8,958 thousand.

19.2.3. Provision for obligation to surrender energy certificates

Due to the sale of electricity to final users, the Group is required to surrender for cancellation a certain amount of certificates of electricity generated using renewable sources, gas-fired plants and cogeneration. As at 30 June 2012, the provision recognized in this respect amounted to PLN 492,113 thousand.

19.2.4. Provision for gas emission related obligations

A provision for obligations arising from gas emission is recognized despite the fact that on the Group level there is no deficiency of gas emission allowances compared to actual emission. Provision is recognized with respect to Certified Emission Reductions (CERs), which were exchanged for EUA, and which in accordance with the accounting policy are surrendered for cancellation firstly.

In exchange transactions EUAs for CERs the revenue is recognized on the operating activities and consequently the provision for obligation to surrender CERs is recognized in the same amount.

As at 30 June 2012, the provision recognized in this respect amounted to PLN 20,798 thousand.

19.2.5. Other provisions

Provision for use of land without a contract

The Group companies recognize provisions for all claims reported by the owners of the real estate on which distribution systems and heat installations are located. As at 30 June 2012, the provision amounted to PLN 52,053 thousand, and as at 31 December 2011 it amounted to PLN 42,466 thousand. The companies do not recognize provisions for unreported potential claims from owners of land with an unregulated status.

Provision for real estate tax

Due to pending tax proceedings, and taking into consideration the verdict of the Constitutional Tribunal of 13 September 2011 as well as the current case law, Południowy Koncern Węglowy S.A. recognized a provision for the real estate tax on structures located in underground workings. The provision including interest for late payments amounted to PLN 2,417 thousand as at 30 June 2012 and PLN 2,036 thousand as at 31 December 2011.

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

(in PLN thousand)

20. Accruals

20.1. Deferred income and government grants

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Deferred income		
Donations, fixed assets received free-of-charge	205 834	204 535
Non-government subsidies	1 942	299
Subsidies for the purchase of fixed assets	58 937	57 944
Connection fees	303 426	314 204
Other deferred income	7 421	7 704
Total, of which:	**577 560**	**584 686**
Non-current	526 608	536 499
Current	50 952	48 187
Government grants		
Forgiven loans from environmental funds	9 618	8 987
Other deferred government grants	100 436	104 849
Total, of which:	**110 054**	**113 836**
Non-current	104 123	106 050
Current	5 931	7 786

Other deferred government grants comprise mainly government grants received by Południowy Koncern Węglowy S.A. for initial investments in coal mines, amounting to PLN 38,194 thousand, and the remeasurement of preferential loans received by TAURON Wytwarzanie S.A. to market value, amounting to PLN 41,209 thousand.

20.2. Accrued expenses

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Unused holidays	58 067	26 025
Bonuses	156 180	180 289
Environmental protection charges	2 202	1 268
Excise tax accrued	12 321	8 162
Other	9 111	7 341
Total, of which:	**237 881**	**223 085**
Non-current	–	–
Current	237 881	223 085

21. Business combinations and acquisition of non-controlling interests

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

- On 30 April 2012, merger of TAURON Ciepło S.A. (acquirer) with: Elektrociepłownia Tychy S.A. (acquiree), Elektrociepłownia EC Nowa Sp. z o.o. (acquiree) and Energetyka Cieplna w Kamiennej Górze Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. The share capital of TAURON Ciepło S.A. was increased from PLN 444,664 thousand to PLN 865,937 thousand, i.e. by PLN 421,273 thousand. As a result of the merger, non-controlling interests increased by PLN 1,884 thousand, with a simultaneous decrease of retained earnings by the same amount.
- On 12 June 2012, merger of the parent, TAURON Polska Energia S.A. (acquirer) and a subsidiary, Górnośląski Zakład Elektroenergetyczny S.A. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. As a result of the buyout of the shares of Górnośląski Zakład Elektroenergetyczny S.A., since 16 April 2012 TAURON Polska Energia S.A. has been a holder of 100% of shares in the share capital of Górnośląski Zakład Elektroenergetyczny S.A. The buyout of non-controlling interests for a price of PLN 1,015 thousand resulted in the decrease of non-controlling interests by PLN 784 thousand and the decrease of retained earnings by PLN 231 thousand. Due to the fact that TAURON Polska Energia S.A. held 100% of shares

(in PLN thousand)

in the share capital of the acquired company, the merger was conducted under Article 515 Clause 1 of the Code of Commercial Companies, without increasing the acquirer's share capital.

- On 1 June 2012, merger of TAURON Ekoenergia Sp. z o.o. (acquirer) and Lipniki Sp. z o.o. (acquiree) was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected without increasing the share capital and without any amendments to the Articles of Association. The acquirer was the sole shareholder of the acquired company. The merger had no impact on the consolidated financial statements.

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

As a result of the squeeze-outs of own shares for redemption purposes continued in the TAURON Group, the value of non-controlling interests in TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. decreased by PLN 3,845 thousand, while retained earnings increased by PLN 684 thousand.

22. Financial instruments

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

The fair values of the financial instruments held by the Group as at 30 June 2012 and 31 December 2011 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 30 June 2012 and 31 December 2011 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
1 Assets at fair value through profit or loss	**3 181**	**100 225**
Shares in unlisted and listed companies (current)	2 586	716
Investment fund units	–	2
Bonds, T-bills and other debt securities	–	99 507
Derivative hedging instruments (assets)	595	–
2 Financial assets available for sale	**167 650**	**170 223**
Shares in unlisted and listed companies (non-current)	157 330	161 286
Shares in unlisted and listed companies (current)	5 889	4 588
Investment fund units	2 181	2 124
Bonds, T-bills and other debt securities	2 250	2 225
3 Financial assets held to maturity	–	–
4 Loans and receivables	**2 925 136**	**2 778 390**
Trade receivables	2 035 515	1 881 992
Loans granted	75 000	–
Deposits	25 403	25 250
Other financial receivables	789 218	871 148
5 Financial assets excluded from the scope of IAS 39	**22 046**	**22 717**
Investments in associates and joint ventures recognised using the equity method	22 046	22 717
6 Cash and cash equivalents	**705 020**	**505 670**
Total financial assets, including in the statement of financial position:	**3 823 033**	**3 577 225**
Non-current assets	**293 646**	**220 187**
Investments in associates and joint ventures recognized using the equity method	22 046	22 717
Other long-term financial assets	271 600	197 470
Current assets	**3 529 387**	**3 357 038**
Trade and other receivables	2 815 297	2 743 344
Other current financial assets	9 070	108 024
Cash and cash equivalents	705 020	505 670

(in PLN thousand)

Categories and classes of financial liabilities	Carrying amount	
	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
1 Financial liabilities at fair value through profit or loss	**347**	**80**
Derivatives	347	80
2 Financial liabilities measured at amortized cost	**7 179 324**	**6 823 202**
Preferential loans	162 463	176 966
Arm's length loans	611 887	141 973
Bank overdrafts	4 755	–
Issued debentures and other debt securities	4 301 602	4 147 174
Trade payables	1 075 270	1 471 434
Other financial liabilities	611 441	71 744
Commitments resulting from purchases of fixed and intangible assets	293 869	630 295
Salaries and wages	104 828	148 393
Insurance contracts	13 209	35 223
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**63 481**	**70 993**
Obligations under finance leases and hire purchase contracts	63 481	70 993
4 Derivative hedging instruments (liabilities)	**39 749**	**–**
Total financial liabilities, including in the statement of financial position:	**7 282 901**	**6 894 275**
Long-term liabilities	**4 939 344**	**4 316 144**
Interest-bearing loans and borrowings	4 883 367	4 251 944
Finance lease and hire purchase commitments	48 780	56 232
Trade payables and other financial long-term liabilities	7 197	7 968
Short-term liabilities	**2 343 557**	**2 578 131**
Trade and other payables	2 131 516	2 349 201
Current portion of interest-bearing loans and borrowings	197 340	214 169
Current portion of finance lease and hire purchase commitments	14 701	14 761

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

Assets at fair value through profit or loss

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

Loans and receivables

Loans granted include two long-term loans granted to Elektrociepłownia Stalowa Wola S.A. for a total amount of PLN 75,000 thousand, as discussed in detail in Note 2.

The balance of other loans and receivables as at 30 June 2012 is mainly comprised of receivables from termination of long-term PPAs amounting to PLN 532,009 thousand (as at 31 December 2011: PLN 493,993 thousand). Trade and other financial receivables are described in detail in Note 16.

Financial liabilities measured at amortized cost

Arm's length loans mainly include a loan from the European Investment Bank for an amount of PLN 510,704 thousand, as described in detail in Note 23.1.

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

Other financial liabilities mainly consist of the dividend liability of PLN 545,180 thousand.

Hedging derivative instruments (liabilities)

Hedging derivative instruments of PLN 39,749 thousand include valuation of derivatives entered into in order to hedge against the interest rate risk arising from issued debentures, as discussed in detail in Note 24.

(in PLN thousand)

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

23.1. Loans and borrowings

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

Loans taken out as at 30 June 2012 *(unaudited)*

Currency	Interest rate	Value of loans as at the balance sheet date *(unaudited)*		of which principal amount maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	250 294	250 294	37 479	100 484	46 281	19 229	16 610	30 211
	fixed	520 852	520 852	644	52 611	52 503	52 308	104 615	258 171
Total PLN		**771 146**	**771 146**	**38 123**	**153 095**	**98 784**	**71 537**	**121 225**	**288 382**
EUR	floating	1 590	6 775	875	1 748	2 622	1 530	–	–
Total			**777 921**	**38 998**	**154 843**	**101 406**	**73 067**	**121 225**	**288 382**
Interest increasing carrying amount			1 184						
Total loans			**779 105**						

Loans taken out as at 31 December 2011

Currency	Interest rate	Value of loans as at the balance sheet date		of which principal amount maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	297 859	297 859	32 909	164 609	52 503	30 776	8 062	9 000
	fixed	12 055	12 055	493	1 507	1 903	1 359	2 717	4 076
Total PLN		**309 914**	**309 914**	**33 402**	**166 116**	**54 406**	**32 135**	**10 779**	**13 076**
EUR	floating	1 898	8 381	906	2 039	2 718	2 718	–	–
USD	floating	17	59	–	59	–	–	–	–
Total			**318 354**	**34 308**	**168 214**	**57 124**	**34 853**	**10 779**	**13 076**
Interest increasing carrying amount			585						
Total loans			**318 939**						

Presented below are movements in loans, excluding interest increasing their carrying amount, for the 6-month periods ended 30 June 2012 and 30 June 2011.

	6-month period ended 30 June 2012 *(unaudited)*	6-month period ended 30 June 2011 *(unaudited)*
Opening balance	**318 354**	**554 797**
Movement in bank overdrafts	**4 755**	**(2 464)**
Movement in loans (excluding bank overdrafts):	**454 812**	**(157 522)**
Taken out	549 000	75 594
Repaid	(96 515)	(235 984)
Change in valuation	2 327	2 868
Closing balance	**777 921**	**394 811**

During the 6-month period ended 30 June 2012, the Company received funds under two loans from the European Investment Bank with a total value of PLN 510,000 thousand, based on the agreement dated 24 October 2011.

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

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

(in PLN thousand)

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

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

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

At the balance sheet date, the balance of the loan from the European Investment Bank amounted to PLN 510,704 thousand, including accrued interest of PLN 1,168 thousand.

On 3 July 2012, the Company entered into another loan agreement with the European Investment Bank for total funding of PLN 900,000 thousand, as discussed in detail in Note 32.

23.2. Debentures and other securities issued

As at 30 June 2012, the Group's liability under issued debentures amounted to PLN 4,301,602 thousand. This liability arose as a result of the parent's issue of debentures in the following tranches:

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

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

The Company hedged a portion of interest-related cash flows resulting from issued debentures by entering into interest rate swaps (IRS), as discussed in detail in Note 24.

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 30 June 2012, none of these covenants has been breached.

The tables below present the balances of the Group's liability under issued debentures together with accrued interest as at 30 June 2012 and 31 December 2011.

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

Tranche	Interest rate	Currency	As at the balance sheet date		of which principal amount maturing within (after the balance sheet date)					
			Interest accrued	Principal at amortised cost	Less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
Tranche A	floating	PLN	281	846 339	–	–	–	–	846 339	–
Tranche B	floating	PLN	4 659	449 041	–	–	–	150 000	299 041	–
Tranche C	floating	PLN	9 432	2 991 850	–	–	–	–	2 991 850	–
Total debentures			**14 372**	**4 287 230**	–	–	–	**150 000**	**4 137 230**	–

(in PLN thousand)

Debentures issued as at 31 December 2011

Tranche	Interest rate	Currency	As at the balance sheet date		of which principal amount maturing within (after the balance sheet date)					
			Interest accrued	Principal at amortised cost	Less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	Over 5 years
Tranche A	floating	PLN	412	846 106	–	–	–	–	846 106	–
Tranche B	floating	PLN	968	298 920	–	–	–	–	298 920	–
Tranche C	floating	PLN	9 682	2 991 086	–	–	–	–	2 991 086	–
Total debentures			**11 062**	**4 136 112**	–	–	–	–	**4 136 112**	–

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

24. Financial risk management objectives and policies

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

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

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

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

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

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

Hedge accounting

As at 30 June 2012, the Group was a party to hedging transactions covered by the policy for specific risk management in the area of finance. In accordance with the decision of the Financial Risk Management Committee dated 30 January 2012, in March 2012 the parent hedged against the interest rate risk arising from debentures issued under the Debentures Issue Program by entering into an interest rate swap (IRS) for a period of 5 years. This transaction was entered into due to variability of the expected future cash flows from interest payments resulting from the issue of debentures in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

The Group applies hedge accounting to the above-mentioned transactions. At the balance sheet date, as a result of valuation of hedging instruments (IRS) the Group recognized a liability of PLN 39,749 thousand, which was taken to the revaluation reserve. In the 6-month period ended 30 June 2012, the Group earned revenue from IRS transactions of PLN 2,343 thousand, of which PLN 1,951 thousand is the amount received from realization of the hedge and relates to interest payments realized by the Group, while the amount of PLN 392 thousand is the portion of valuation relating to accrued interest on debentures as at the balance sheet date that has been transferred from the revaluation reserve. In the consolidated statement of comprehensive income, the above-mentioned revenue from IRS transactions reduced finance costs arising from interest on issued debentures. In the statement of cash flows, the amount received by the Group from realization of the hedge reduced the expenditure related to interest paid on debentures, which has been presented under cash flows from financing activities.

(in PLN thousand)

25. Capital management

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

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Interest-bearing loans and borrowings	5 080 707	4 466 113
Trade and other payables, finance leases and hire purchase commitments	2 202 194	2 428 162
Less cash and cash equivalents	705 020	505 670
Net debt	**6 577 881**	**6 388 605**
Equity attributable to equity holders of the parent	15 964 308	15 677 721
Total capital	**15 964 308**	**15 677 721**
Capital and net debt	**22 542 189**	**22 066 326**
Leverage ratio	29%	29%

26. Contingent liabilities and contingent assets

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

TAURON Sprzedaż GZE Sp. z o.o.

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

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

In the administrative proceedings for approval of the tariff for 2012, on 7 March 2012 the President of URE issued a decision refusing approval of the electricity tariff. TAURON Sprzedaż GZE Sp. z o.o. filed an appeal from the Decision of the President of URE refusing approval of the electricity tariff for 2012 with the Court for Competition and Consumers Protection. The President of URE submitted a reply to the company's appeal. At the date of authorization of these interim condensed consolidated financial statements, the case is still pending.

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

TAURON Ciepło S.A.

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

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

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

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

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

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

TAURON Wytwarzanie S.A.

In connection with Południowy Koncern Energetyczny S.A. (currently: TAURON Wytwarzanie S.A.) failing to fulfill in 2006 its obligation to purchase or generate a specified quantity of electricity in cogeneration with heat, the President of the Energy Regulatory Office did not recognize the company's arguments and imposed a cash penalty on it in the amount of PLN 6,136 thousand. The company lodged an appeal against this decision with the Regional Court, which passed a judgment reversing URE's decision. The President of URE lodged an appeal against the judgment of the Regional Court. The proceedings are still pending as at the date of these interim condensed consolidated financial statements.

In addition, the Energy Regulatory Office challenged the fulfillment by TAURON Wytwarzanie S.A. of the obligation to sell a minimum of 15% of generated electricity on power exchange markets or on a regulated market, as well as the obligation to sell the remaining part of electricity in a manner ensuring equal and public access to such energy for the year 2010. The case has not yet been resolved and is still at the stage of administrative proceedings at the date of these interim condensed consolidated financial statements. The company's Management believe that the probability of an unfavorable outcome of this case is low, hence no provision has been recognized for this matter. Based on sales assumptions and forecasts, TAURON Wytwarzanie S.A. does not expect any problems with fulfilling the said obligation in 2012.

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

In the letter dated 26 July 2011, the President of the Competition and Consumers Protection Office (UOKiK) notified TAURON Sprzedaż Sp. z o.o. about instituting administrative proceedings with regard to the company's alleged use of practices violating collective consumers' interests. In the letter dated 16 September 2011, the company's attorney applied for conducting the said proceedings in the direction of issuing a decision imposing on the company a requirement to fulfill an obligation to discontinue activities violating collective consumers' interests and to take steps preventing continued existence of the alleged violations. On 14 November 2011, the President of the Competition and Consumers Protection Office accepted the obligation of TAURON Sprzedaż Sp. z o.o. and imposed on it a requirement to fulfill the obligation, while setting the deadline for its fulfillment at 1 June 2012 and the deadline for submitting a report on the fulfillment of the obligation at 30 June 2012. The company fulfilled its obligation within the required deadline and on 29 June 2012 submitted the relevant report to UOKiK.

Claims of Huta Łaziska S.A.

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

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

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

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

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

Compensation for stranded costs

As a result of the Act of 29 June 2007 on the Principles for Covering Costs Incurred by Electricity Generators due to Early Termination of Long-term Power Purchase Agreements (Journal of Laws of 2007, No. 130, item 905 – "the PPA Act") coming into effect, TAURON Wytwarzanie S.A. volunteered to join the program of early termination of long-term power purchase agreements ("PPAs") by signing an agreement to terminate such contracts. The signing of such an agreement provides a basis for electricity generators to receive funds to cover their expenses that are not covered by the income derived from the sale of generated electricity, reserve capacity and system-related services on a competitive market after early termination of PPAs, resulting from the expenditures incurred by such companies for assets related to electricity generation up to 1 May 2004. Under the PPA Act, the maximum amount of stranded costs and the amounts used in the calculation of annual adjustments to stranded costs were established for each electricity generator. After termination of PPAs, beginning from 2008 the Company receives quarterly cash advances based on the submitted request. Annual adjustments will be subsequently made to stranded costs throughout the so-called adjustment period, lasting until the expiry of the longest long-term agreement of a given company. The final adjustment to stranded costs will be made in the year following the year in which the adjustment period of the given company ceases.

In accordance with the adopted accounting policy, TAURON Wytwarzanie S.A. recognized, based on the developed financial model, compensation revenue amounting to PLN 1,528,789 thousand for the period 2008–2011 and PLN 276,611 thousand for the 6-month period ended 30 June 2012.

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

- for 2008:

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

  As a result of appeal proceedings based on the judgments of: the Regional Court in Warsaw the Court for Competition and Consumers Protection dated 26 May 2010 and of the Court of Appeal in Warsaw dated 25 April 2012, which modified the President of URE's decision, the company received an adjustment to stranded costs for 2008 from Zarządca Rozliczeń S.A. in Warsaw amounting to PLN 158,842 thousand. Though the case has been resolved and the judgments are final, the President of URE still has the right to lodge a cassation appeal with the Supreme Court within two months of the date of serving a copy of the judgment together with reasons for the judgment to the complaining party. According to the information held by the Company as at the date of these financial statements, no cassation appeal has been filed by the President of URE. The President of URE received a sentence of the Court of Appeal on 19 July 2012, with the right to lodge a cassation appeal by 19 September 2012.

  Due to the fact that the Company has been continuously applying the policy for measurement and recognition of stranded costs adopted in 2008, under which they are recognized as revenue in the financial year for which they are due, at an amount including the expected annual adjustment and the expected effect of the final adjustment, regardless of the date on which compensation is actually received, the judgment did not directly affect the results of the Company or of the TAURON Group.

- for 2009:

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

(in PLN thousand)

- for 2010:

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

- for 2011:

  Under the decision dated 31 July 2012, the President of URE determined the amount of the positive annual adjustment to stranded costs of TAURON Wytwarzanie S.A. for 2011 at an amount of PLN 211,677 thousand, which is consistent with the amount applied for by the Company and does not affect the results of the TAURON Group. Under the decision the Zarządca Rozliczeń S.A. is obliged to return the amount by 30 September 2012.

Revenues and proceeds from compensations for terminated PPAs

	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Revenue from compensations for terminated long-term PPAs	276 611	168 770
Cash inflows generated from compensations concerning terminated long-term PPAs	238 595	85 292

Other contingent liabilities

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Suretyship for the repayment of loan	200	2 408
Liabilities arising from bank guarantees	1 898	1 898
Liabilities arising from legal actions	2 797	2 797
Other contingent liabilities	3 258	2 863
Total contingent liabilities	**8 153**	**9 966**

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

27. Assets pledged as security

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

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

Carrying amount of assets pledged as security for liabilities

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Real estate	716 192	730 416
Plant and equipment	53 132	136 201
Motor vehicles	1 405	2 439
Assets under construction	1	75
Cash	3 189	663
Other financial and non-financial receivables	122	5 771
Total assets pledged as security for liabilities	**774 041**	**875 565**

The decrease of the carrying amount of plant and machinery pledged as security for liabilities in the 6-month period ended 30 June 2012 is due to the repayment of a loan by Południowy Koncern Węglowy S.A. at the end of 2011 which was mainly secured by a registered pledge on fixed assets with carrying amount of PLN 42,349 thousand as at 31 December 2011. Due to the repayment of the loan in the 1st quarter of 2012, the company deleted registered pledges on plant and machinery.

In addition to the collaterals listed above, the Group also uses other forms of security to secure payment of liabilities, of which the most significant ones as at 30 June 2012 related to loans taken out by TAURON Wytwarzanie S.A. and included: assignment of receivables amounting to PLN 44,000 thousand, authorizations to bank accounts – PLN 84,000 thousand and blank promissory notes for PLN 132,977 thousand. Loans taken out by TAURON Dystrybucja S.A. were secured by granting authorizations to dispose of the funds in borrowers' bank accounts up to the balance of the outstanding loan plus interest and other amounts due to the bank – a total of PLN 79,448 thousand as at 30 June 2012. In order to secure proper performance of the contract and of the agreements signed by the company, including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for a total amount of PLN 77,911 thousand). Elektrociepłownia Tychy S.A. (currently TAURON Ciepło S.A.) issued a blank promissory note for an amount of PLN 92,383 thousand to secure the sale and leaseback agreement signed in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate and plant and machinery (in the table above) and authorization to dispose of bank accounts.

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

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

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

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

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

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

28. Capital commitments

As at 30 June 2012, the Group has committed to incur expenditures for property, plant and equipment in the amount of PLN 1,772,600 thousand. The largest items included:

- the capital commitment of PLN 142,283 thousand relating to boiler accommodation in the Jaworzno III Power Plant, being the property of TAURON Wytwarzanie S.A., to reduce emission of greenhouse gases,
- the capital commitment of TAURON Dystrybucja S.A. amounting to PLN 83,900 thousand and relating to the reconstruction of the Groszowice-Hermanowice high-voltage transmission line including construction of optical fiber,
- the capital commitment of PLN 67,900 thousand relating to the restoration of production capacity in the Bielsko-Biała CHP Plant, being part of TAURON Wytwarzanie S.A.

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

(in PLN 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

	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Revenue	1 087 188	758 063
Costs*	(1 827 774)	(1 506 271)

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

Receivables and payables

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Receivables	289 381	469 020
Payables	401 313	571 740

Among the State Treasury companies, the following were the largest clients of the TAURON Polska Energia S.A. Group during the 6-month period ended 30 June 2012: KGHM Polska Miedź S.A., PKP Energetyka S.A., Kompania Węglowa S.A. and PSE Operator S.A. Total sales to these counterparties accounted for 75% of revenue from transactions with State Treasury companies.

The largest purchase transactions were made by the Group with PSE Operator S.A. and Kompania Węglowa S.A. Purchases from these counterparties accounted for 74% of the value of purchases from State Treasury companies during the 6-month period ended 30 June 2012.

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

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

(in PLN thousand)

30. Compensation of key management personnel

The amount of compensation and other benefits of the Board of Directors, Supervisory Boards and other key management personnel of the parent and of the subsidiaries for the 6-month period ended 30 June 2012 is presented in the table below.

	6-month period ended 30 June 2012 (*unaudited*)		6-month period ended 30 June 2011 (*unaudited*)	
	Parent	**Subsidiaries**	**Parent**	**Subsidiaries**
Board of Directors	**4 099**	**10 923**	**5 057**	**12 285**
Short-term employee benefits (salaries and surcharges)	3 605	10 512	4 424	10 759
Jubilee bonuses	–	28	–	–
Post-employment benefits	–	167	83	360
Employment termination benefits	–	59	–	–
Other	494	157	550	1 166
Supervisory Board	**468**	**637**	**344**	**1 144**
Short-term employee benefits (salaries and surcharges)	468	588	344	1 096
Other	–	49	–	48
Total	**4 567**	**11 560**	**5 401**	**13 429**
Other key management personnel	**4 833**	**21 904**	**3 477**	**16 585**
Short-term employee benefits (salaries and surcharges)	4 333	21 342	3 116	15 889
Jubilee bonuses	–	361	35	294
Post-employment benefits	84	28	–	–
Employment termination benefits	–	48	34	305
Other	416	125	292	97

31. Details of other significant changes in the reporting period

Finance costs

The PLN 90,623 thousand increase in finance costs in the 6-month period ended 30 June 2012 compared with the comparative period is mainly due to interest expense on debentures issued by the parent in December 2011 and January 2012, as described in Note 22. Interest expense on the issued debentures for the 6-month period ended 30 June 2012 amounted to PLN 123,341 thousand, and for the 6-month period ended 30 June 2011 PLN 21,277 thousand.

In the 6-month period ended 30 June 2012, total interest paid by the Group on loans, debt securities and finance leases amounted to PLN 141,364 thousand. Borrowing costs capitalized in the cost of assets for the current period are presented by the Group in the consolidated statement of cash flows as expenditures incurred for purchase of property, plant and equipment and intangible assets.

Other long-term non-financial assets

The PLN 119,806 thousand increase in other long-term non-financial assets is mainly due to the prepayment of PLN 126,402 thousand paid by MEGAWAT MARSZEWO Sp. z o.o., the constructor of the Marszewo wind farm with a capacity of 82 MW. The amount of the prepayment accounts for 20% of the value of the contract.

32. Events after the balance sheet date

Agreement for prospecting work and extraction of shale hydrocarbons

On 4 July 2012, Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and TAURON Polska Energia S.A. (Parties to the Agreement) signed an agreement for prospecting and extraction of shale hydrocarbons.

Under the Agreement, the Parties will collaborate in prospecting, evaluation and extraction of hydrocarbons in geological formations covered by PGNiG's license for prospecting and evaluation of oil and gas deposits in the Wejherowo area ("the Wejherowo license"). Under the Wejherowo license, close collaboration will cover an area of approx. 160 square kilometers ("Collaboration Area"). In addition, the Agreement envisages preferences for the Parties regarding possible collaboration in the remaining area of the Wejherowo license (except where PGNiG has decided to carry out prospecting, evaluation or extraction of hydrocarbons on its own and except for the area in which PGNiG has already been conducting prospecting work in the Opalino and Lubocino districts). The Agreement provides for cooperation based on the target structure of a limited partnership, which will extract hydrocarbons after successful prospecting. The Parties expect to transfer the license for extraction of hydrocarbons to this company after it has been obtained by PGNiG. Each of the Parties will participate in the control of the implementation of the project, in particular by being a member of the operating committee appointed specifically for this purpose.

The estimated expenditure for prospecting, evaluation and extraction in the first three pad locations (Kochanowo, Częstkowo and Tępcz) within the Collaboration Area amounts to PLN 1,720,000 thousand. The detailed terms of collaboration, including: the detailed budget and timetable of the project, the Parties' shares in the financing of the expenditures arising from the agreed budget, shares in profits derived from the project and the basis of their responsibility, including contractual penalties, in the event of a non-fulfillment, in particular by PGNiG, of certain obligations under the Agreement, will be determined by the Parties within four months of the date of signing the Agreement. If no such detailed arrangements are made, each Party will have the right to terminate the Agreement. If the Parties do not acquire all the required corporate consents within three months of making such arrangements, or if the consents required for concentration are not obtained by 30 December 2012, the Agreement shall expire.

Loan agreement with the European Investment Bank

On 3 July 2012, TAURON Polska Energia S.A. signed a loan agreement with the European Investment Bank for a total funding of PLN 900,000 thousand.

The funds obtained under this loan are to be used for investments in power grids – for the implementation of a 5-year investment program relating to modernization and development of the power grids of TAURON Dystrybucja S.A. in Southern Poland. The total cost of the project is approx. PLN 2,000,000 thousand. The first tranche of the loan of PLN 450,000 thousand was drawn in July 2012. The remaining amount will be utilized as needed. The maximum period for the repayment of the funding is 12 years from the date of payment of the first tranche of the loan.

This is the third agreement between TAURON Polska Energia S.A. and the European Investment Bank. Previously – in October 2011 – the Company signed two loan agreements for a total amount of PLN 510,000 thousand, for the implementation of two investment projects in TAURON Wytwarzanie S.A.

Katowice, 13 August 2012

Dariusz Lubera	– President	....
Joanna Schmid	– Vice President	....
Dariusz Stolarczyk	– Vice President	....
Krzysztof Zamasz	– Vice President	....
Krzysztof Zawadzki	– Vice President	....

INDEPENDENT AUDITORS' REVIEW REPORT
ON THE INTERIM CONDENSED FINANCIAL STATEMENTS OF
TAURON POLSKA ENERGIA S.A.
FOR THE FIRST HALF OF 2012

AUGUST 2012

Independent Auditors' Review Report on the Interim Condensed Financial Statements for the 6-month period ended 30 June 2012

To the Shareholders and Supervisory Board of TAURON Polska Energia S.A.

1. We have reviewed the accompanying condensed financial statements of TAURON Polska Energia S.A. ('the Company') located in Katowice at ks. Piotra Ściegiennego Street 3 including the interim condensed statement of comprehensive income for the period from 1 January 2012 to 30 June 2012, the interim condensed statement of financial position as at 30 June 2012, the interim condensed statement of changes in equity, the interim condensed statement of cash flow for the period from 1 January 2012 to 30 June 2012 and other explanatory notes ('the interim condensed financial statements').

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

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

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

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

Key certified auditor

Artur Żwak
Certified auditor no. 9894

Warsaw, 13 August 2012

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

TAURON POLSKA ENERGIA S.A.

INTERIM CONDENSED FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS
FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

AUGUST 2012

TABLE OF CONTENTS:

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

	Note	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Continuing operations			
Sale of goods for resale, finished goods and materials without elimination of excise		4 822 520	4 220 685
Excise		(5 496)	(8 344)
Sale of goods for resale, finished goods and materials		4 817 024	4 212 341
Rendering of services		22 887	13 633
Other income		8	–
Sales revenue	**9**	**4 839 919**	**4 225 974**
Cost of sales	**9**	(4 752 936)	(4 132 485)
Gross profit		**86 983**	**93 489**
Other operating income		491	72
Selling and distribution expenses		(11 547)	(9 221)
Administrative expenses		(50 015)	(38 035)
Other operating expenses		(1 137)	(460)
Operating profit		**24 775**	**45 845**
Dividends	**7**	1 550 613	1 009 580
Finance income		83 109	49 889
Finance costs	**28**	(151 756)	(43 982)
Profit before tax		**1 506 741**	**1 061 332**
Income tax	**10**	(44 771)	(12 459)
Net profit from continuing operations		**1 461 970**	**1 048 873**
Net profit for the period		**1 461 970**	**1 048 873**
Other comprehensive income:			
Change in the value of hedging instruments		(40 141)	–
Income tax expense relating to other comprehensive income items		–	–
Other comprehensive income for the period, net of tax	**23**	(40 141)	–
Total comprehensive income for the period		**1 421 829**	**1 048 873**
Earnings per share (in PLN)			
– basic, for profit for the period		0.83	0.60
– basic, for profit from continuing operations for the period		0.83	0.60
– diluted, for profit for the period		0.83	0.60
– diluted, for profit from continuing operations for the period		0.83	0.60

Explanatory notes are an integral part of these interim condensed financial statements.

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
ASSETS			
Non-current assets			
Property, plant and equipment		18 411	11 611
Intangible assets	**13**	30 179	15 487
Shares in unlisted and listed companies	**14**	20 179 625	20 179 545
Bonds, T-bills and other debt securities	**22**	2 549 940	1 137 040
Other long-term receivables	**17**	75 000	–
Other long-term non-financial assets		472	830
Deferred tax asset	**10**	–	37 529
		22 853 627	**21 382 042**
Current assets			
Current intangible assets	**13**	16 818	33 120
Inventories	**15**	3 275	41 028
Corporate income tax receivables	**10**	74 488	852
Trade and other receivables	**16, 22**	1 175 346	1 062 438
Bonds, T-bills and other debt securities	**22**	14 411	13 003
Other financial assets	**22**	595	–
Cash and cash equivalents	**11**	617 360	281 852
Other current non-financial assets		3 544	4 128
		1 905 837	**1 436 421**
Non-current assets classified as held for sale		–	–
TOTAL ASSETS		**24 759 464**	**22 818 463**

Explanatory notes are an integral part of these interim condensed financial statements.

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012 – CONTINUED

	Note	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
EQUITY AND LIABILITIES			
Equity			
Issued capital	**18**	8 762 747	8 762 747
Reserve capital	**18**	7 953 021	7 412 882
Revaluation reserve from valuation of hedging instruments	**23**	(40 141)	–
Retained earnings/Accumulated losses	**18**	1 538 573	1 161 158
Total equity		**18 214 200**	**17 336 787**
Non-current liabilities			
Interest-bearing loans and borrowings	**20, 22**	4 745 800	4 136 112
Finance lease and hire purchase commitments	**22**	737	990
Long-term provisions and employee benefits		3 583	3 052
		4 750 120	**4 140 154**
Current liabilities			
Trade and other payables	**22**	1 179 592	326 206
Current portion of interest-bearing loans and borrowings	**20, 22**	444 371	719 380
Income tax payable		–	33 687
Current portion of finance lease and hire purchase commitments	**22**	534	627
Other current non-financial liabilities		97 684	85 695
Accruals and government grants		8 204	8 223
Short-term provisions and employee benefits	**19**	64 759	167 704
		1 795 144	**1 341 522**
Total liabilities		**6 545 264**	**5 481 676**
TOTAL EQUITY AND LIABILITIES		**24 759 464**	**22 818 463**

Explanatory notes are an integral part of these interim condensed financial statements.

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2012 (*restated figures*)		**8 762 747**	**7 412 882**	–	**1 161 158**	**17 336 787**
Profit for the period		–	–	–	1 461 970	**1 461 970**
Other comprehensive income	**23**	–	–	(40 141)	–	**(40 141)**
Total comprehensive income for the period		–	–	**(40 141)**	**1 461 970**	**1 421 829**
Appropriation of prior year profits	**18**	–	540 139	–	(540 139)	–
Dividend	**18**	–	–	–	(543 290)	**(543 290)**
Accounting for merger with GZE S.A.	**18**	–	–	–	(1 126)	**(1 126)**
As at 30 June 2012 (*unaudited*)		**8 762 747**	**7 953 021**	**(40 141)**	**1 538 573**	**18 214 200**

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

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

Explanatory notes are an integral part of these interim condensed financial statements.

(in PLN thousand)

INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2012

	Note	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Cash flows from operating activities			
Profit/(loss) before taxation		1 506 741	1 061 332
Adjustments for:			
Depreciation and amortization		6 163	2 343
(Gain)/loss on foreign exchange differences		(94)	(55)
Interest and dividends, net		(1 478 315)	(1 014 399)
(Gain)/loss on investing activities		329	664
(Increase)/decrease in receivables		(257 553)	(689)
(Increase)/decrease in inventories		37 753	(421)
Increase/(decrease) in payables excluding loans and borrowings		273 206	(316 479)
Change in other non-current and current assets		17 244	15 391
Change in deferred income, government grants and accruals		(19)	(591)
Change in provisions		(102 414)	44 921
Income tax paid		(43 317)	(6 902)
Net cash used in operating activities		**(40 276)**	**(214 885)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		188	55
Purchase of property, plant and equipment and intangible assets		(11 620)	(1 996)
Purchase of shares		(261 911)	–
Purchase of bonds, T-bills and other debt securities	**22**	(1 772 999)	(61 300)
Redemption of debentures	**22**	370 099	
Loans granted	**16, 17**	(217 003)	168 000
Repayment of loans granted	**16**	342 012	(168 000)
Dividends received		1 550 613	550 550
Interest received		49 971	25 697
Other		(943)	–
Net cash generated from investing activities		**48 407**	**513 006**
Cash flows from financing activities			
Proceeds from loans taken out	**20**	510 000	–
Issue of debt securities	**20**	150 000	–
Payment of finance lease liabilities		(316)	(473)
Interest paid	**31**	(130 302)	(21 406)
Commission paid		(1 742)	(2 603)
Net cash generated from (used in) financing activities		**527 640**	**(24 482)**
Net increase/(decrease) in cash and cash equivalents		**535 771**	**273 639**
Net foreign exchange difference		94	57
Cash and cash equivalents at the beginning of the period		**(115 048)**	**85 574**
Cash and cash equivalents at the end of the period, of which:	**11**	**420 723**	**359 213**
restricted cash		201 000	59 724

Explanatory notes are an integral part of these interim condensed financial statements.

EXPLANATORY NOTES

1. General information

These interim condensed financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna ("the Company") with its registered office in Katowice at ul. ks. Piotra Ściegiennego 3, whose shares are in public trading.

The interim condensed financial statements of the Company cover the 6-month period ended 30 June 2012 and include comparative figures for the 6-month period ended 30 June 2011 and as at 31 December 2011.

The figures for the period ended 30 June 2012 as well as comparative figures for the period ended 30 June 2011, as included in these interim condensed financial statements, were reviewed by an independent auditor. Comparative figures as at 31 December 2011 were audited by an independent auditor.

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

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

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

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

- Activities of head offices and holdings, excluding financial holdings – PKD 70.10 Z,
- Trading in electricity – PKD 35.14 Z.
- Trading in coal and biomass – PKD 46.71.Z.

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

2. Basis of preparation of interim condensed financial statements

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

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

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

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

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

These interim condensed financial statements for the 6-month period ended 30 June 2012 were authorized for issue on 13 August 2012.

The Company also prepared interim condensed consolidated financial statements for the 6-month period ended 30 June 2012, which were authorized for issue by the Board of Directors on 13 August 2012.

These interim condensed financial statements are part of a consolidated report which also includes the interim condensed consolidated financial statements for the 6-month period ended 30 June 2012.

3. Summary of significant accounting policies

The accounting policies applied while preparing the interim condensed financial statements are consistent with those applied in preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2011, except for application of the following amendment to the standard effective for annual periods beginning on 1 January 2012:

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

(in PLN thousand)

In connection with the Company's merger with its subsidiary, which took place in the first half of 2012, we additionally present the accounting policy for accounting for such transactions.

Acquisitions and mergers and are in principle regulated by IFRS 3 *Business combinations*. However, transactions between entities under joint control are excluded from the scope of this standard. Legal merger of a subsidiary with its parent is a transaction under joint control. IFRSs do not specifically refer to accounting for such transactions – legal mergers of entities under joint control are excluded from the scope of IFRS 3 and are not regulated in other standards.

The Company uses the pooling of interest method for accounting for mergers of entities under joint control. The underlying assumption in this method is that the merging entities were controlled by the same shareholder both before and after the transaction and, therefore, the financial statements reflect the continuity of joint control and do not reflect any change of the value of net assets to fair value (or recognition of new assets) or valuation of goodwill, as in fact none of the merging entities is acquired. Therefore, the financial statements are prepared as if the merging entities had always been merged.

In accounting for a business combination using the pooling of interests method, the following items are eliminated:

- share capital of the acquiree,
- intercompany receivables and payables as well as other similar settlements between merging companies,
- revenues and costs of business transactions made during the period for which the financial statements are prepared, which took place between merging companies before their merger,
- gains or losses from business transactions made between merging companies before their merger, included in the values of assets and liabilities subject to merger.

In accounting for the merger, the Company uses consolidated financial statements as a source of the value of assets and liabilities of the acquired subsidiary. The value of shares held by the acquired company in subsidiaries has been determined by reference to the value of net assets of these entities in the consolidated financial statements as well as the goodwill relating to the given subsidiary.

The difference between the book value of the net assets recognized in the statement of financial position of the acquirer as a result of the merger and the value of the investment previously recognized in the accounting records of the acquirer is recognized in the acquirer's equity.

The merger of TAURON Polska Energia S.A. with Górnośląski Zakład Elektroenergetyczny S.A. dated 12 June 2012 has been accounted for using the pooling of interests method, which means that the financial statements of the acquiree were aggregated as of 13 December 2011, i.e. the date on which TAURON Polska Energia S.A. acquired control over Górnośląski Zakład Elektroenergetyczny S.A.

The statement of financial position as at 31 December 2011 after restatement due to the merger is presented below:

	As at 31 December 2011 (*authorized figures*)	Change due to merger with subsidiary	As at 31 December 2011 (*adjusted figures*)
Assets			
Non-current assets			
Property, plant and equipment	11 591	20	**11 611**
Intangible assets	15 487	–	**15 487**
Shares in unlisted and listed companies	21 028 076	(848 531)	**20 179 545**
Bonds, T-bills and other debt securities	1 137 040	–	**1 137 040**
Other long-term non-financial assets	830	–	**830**
Deferred tax asset	37 204	325	**37 529**
	22 230 228	**(848 186)**	**21 382 042**
Current assets			
Current intangible assets	33 120	–	**33 120**
Inventories	41 028	–	**41 028**
Corporate income tax receivables	–	852	**852**
Trade and other receivables	991 977	70 461	**1 062 438**
Bonds, T-bills and other debt securities	13 003	–	**13 003**
Cash and cash equivalents	258 038	23 814	**281 852**
Other current non-financial assets	3 581	547	**4 128**
	1 340 747	**95 674**	**1 436 421**
Non-current assets classified as held for sale	–	–	–
TOTAL ASSETS	**23 570 975**	**(752 512)**	**22 818 463**

(in PLN thousand)

	As at 31 December 2011 (*authorized figures*)	Change due to merger with subsidiary	As at 31 December 2011 (*adjusted figures*)
Equity and liabilities			
Equity			
Issued capital	8 762 747	–	**8 762 747**
Reserve capital	7 412 882	–	**7 412 882**
Retained earnings/Accumulated losses	1 168 599	(7 441)	**1 161 158**
Total equity	**17 344 228**	**(7 441)**	**17 336 787**
Non-current liabilities			
Interest-bearing loans and borrowings	4 136 112	–	**4 136 112**
Finance lease and hire purchase commitments	990	–	**990**
Long-term provisions and employee benefits	3 052	–	**3 052**
	4 140 154	–	**4 140 154**
Current liabilities			
Trade and other payables	325 928	278	**326 206**
Current portion of interest-bearing loans and borrowings	1 468 066	(748 686)	**719 380**
Income tax payable	33 687	–	**33 687**
Current portion of finance lease and hire purchase commitments	627	–	**627**
Other current non-financial liabilities	84 778	917	**85 695**
Accruals and government grants	8 175	48	**8 223**
Short-term provisions and employee benefits	165 332	2 372	**167 704**
	2 086 593	**(745 071)**	**1 341 522**
Total liabilities	**6 226 747**	**(745 071)**	**5 481 676**
TOTAL EQUITY AND LIABILITIES	**23 570 975**	**(752 512)**	**22 818 463**

Disclosures concerning the parent's merger with its subsidiary are included in Note 21.

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

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

- Phase 1 of IFRS 9 *Financial Instruments: Classification and Measurement* – applicable to annual periods beginning on or after 1 January 2015 – not endorsed by the EU as at the date of authorization of these financial statements. In the next phases, IASB will deal with hedge accounting and impairment methodology. The application of Phase 1 of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets. The Company will assess this impact in correspondence with the other phases of the project once they have been issued, in order to provide a consistent view,
- Amendments to IAS 12 *Income Taxes: Recovery of Underlying Assets* – applicable to annual periods beginning on or after 1 January 2012 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on or after 1 July 2011 – not endorsed by the EU until the date of authorization of these financial statements,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,

- IAS 27 *Consolidated and Separate Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 19 *Employee Benefits* – applicable to annual periods beginning on or after 1 January 2013. The most important amendment to IAS 19 from the Company's perspective is the liquidation of the "corridor approach" and the requirement to recognize actuarial gains and losses retrospectively in other comprehensive income,
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on or after 1 July 2012,
- IFRIC 20 *Stripping Cost of the Production Phase of a Surface Mine* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on or after 1 January 2014 – not endorsed by the EU as at the date of authorization of these financial statements,
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements,
- Improvements to IFRSs (issued in May 2012) – are applicable to annual periods beginning on or after 1 January 2013 – not endorsed by the EU as at the date of authorization of these financial statements.

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

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

5. Changes in estimates

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

Deferred tax

Due to the tax loss incurred in the 6-month period ended 30 June 2012 and tax losses anticipated for the Company in the years 2012–2014, a valuation allowance of PLN 20,852 thousand was recognized for the deferred tax asset of PLN 28,317 thousand, which resulted in the reduction of the net profit by PLN 13,225 thousand and the reduction of the deferred tax included in other comprehensive income in the amount of PLN 7,627 thousand.

The forecasts for the Tax Capital Group (TCG) to which the Company belongs provide for taxable profits in 2012 and in subsequent years; therefore, the deferred tax will be realized at the level of the TCG.

Tests for impairment of the value of shares in unlisted and listed companies

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the projected economic slow-down, the Company conducted a test for the impairment of the value of shares included in non-current assets.

The test has been conducted based on the present value of estimated cash flows from operations of significant companies, based on detailed projections for 2012–2021 and the estimated residual value. The level of the weighted average cost of capital (WACC) during the projection period as used in the calculations is between 8.63%–12.86% at nominal value before tax.

Based on test results, there is no need to recognize any impairment losses against the value of the assets held.

(in PLN thousand)

6. Shares in related entities

As at 30 June 2012, TAURON Polska Energia S.A. held direct interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Direct interest of TAURON in the entity's share capital	Direct interest of TAURON in the entity's governing body
1.	TAURON Wytwarzanie S.A.	40-389 Katowice; ul. Lwowska 23	Generation, transmission and distribution of electricity and heat	99.72%	99.77%
2.	TAURON Dystrybucja S.A.	30-390 Kraków; ul. Zawiła 65 L	Distribution of electricity	99.51%	99.51%
3.	TAURON Sprzedaż Sp. z o.o.	30-417 Kraków; ul. Łagiewnicka 60	Sale of electricity	100.00%	100.00%
4.	TAURON Obsługa Klienta Sp. z o.o.	53-128 Wrocław; ul. Sudecka 95-97	Customer services	100.00%	100.00%
5.	TAURON Ekoenergia Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity, trading in electricity	100.00%	100.00%
6.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	40-389 Katowice; ul. Lwowska 23	Trading in electricity	100.00%	100.00%
7.	TAURON Ciepło S.A.	40-126 Katowice; ul. Grażyńskiego 49	Heat production and distribution	88.21%	89.06%
8.	TAURON Czech Energy s.r.o.	720 00 Ostrava; Na Rovince 879/C Czech Republic	Trading in electricity	100.00%	100.00%
9.	TAURON Dystrybucja GZE S.A.	44-100 Gliwice; ul. Portowa 14a	Distribution of electricity	100.00%	100.00%
10.	TAURON Sprzedaż GZE Sp. z o.o.	44-100 Gliwice; ul. Barlickiego 2a	Trading in electricity	99.998%[1]	99.998%[1]
11.	TAURON Ekoenergia GZE Sp. z o.o.	44-100 Gliwice; ul. Barlickiego 2	Generation of electricity	100.00%	100.00%
12.	TAURON Serwis GZE Sp. z o.o.	44-100 Gliwice; ul. Myśliwska 6	Repair and maintenance of electrical machinery and equipment, electrical installations, construction of power lines	99.80%[2]	99.80%[2]
13.	TAURON Obsługa Klienta GZE Sp. z o.o.	44-100 Gliwice; ul. Wybrzeże Armii Krajowej 19b	Customer services	100.00%	100.00%

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

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

(in PLN thousand)

As at 30 June 2012, TAURON Polska Energia S.A. held indirect interests in the following significant subsidiaries:

No.	Name of the entity	Address	Principal business activities	Indirect interest of TAURON in the entity's share capital	Holder of shares as at 30 June 2012	Indirect interest of TAURON in the entity's governing body	Holder of shares as at 30 June 2012
1.	Kopalnia Wapienia Czatkowice Sp. z o.o.[1]	32-063 Krzeszowice 3; os. Czatkowice 248	Quarrying, crushing and breaking of limestone, quarrying of stone for construction industry	99.72%	TAURON Wytwarzanie S.A. – 100.00%	99.77%	TAURON Wytwarzanie S.A. – 100.00%
2.	Południowy Koncern Węglowy S.A.[1]	43-600 Jaworzno; ul. Grunwaldzka 37	Hard coal mining	52.33%	TAURON Wytwarzanie S.A. – 52.48%	67.85%	TAURON Wytwarzanie S.A. – 68.01%
3.	BELS INVESTMENT Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%
4.	MEGAWAT MARSZEWO Sp. z o.o.	58-500 Jelenia Góra; ul. Obrońców Pokoju 2B	Generation of electricity	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%	100.00%	TAURON Ekoenergia Sp. z o.o. – 100.00%

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

Movements in the balances of shares in the period ended 30 June 2012 have been described in detail in Note 14.

7. Seasonality of operations

The Company's operations in the area of trading in electricity are not seasonal in nature, hence the Company's results in this area show no significant fluctuations during the year.

As a result of the Company's holding activities, its finance income may show significant fluctuations due to dividend revenue, which is recognized at the date of the resolution on the payment of dividend, unless the resolution indicates a different date for establishing the right to the dividend.

In 2012, resolutions on the appropriation of the subsidiaries' profits for 2011 and allocation of prior year profits to dividend payments were taken in the 2nd quarter of 2012. In the 6-month period ended 30 June 2012, the Company received dividends from subsidiaries in the amount of PLN 1,550,613 thousand, including PLN 270,042 thousand of dividends from subsidiaries received by Górnośląski Zakład Elektroenergetyczny S.A. prior to merger with the Company.

In 2011, resolutions on the appropriation of the subsidiaries' profits for 2010 and allocation of prior year profits to dividend payments were also taken in the 2nd quarter of 2011. Revenue from dividends for the 6-month period ended 30 June 2011 amounted to PLN 1,009,580 thousand.

8. Segment information

The Company's operations are presented in the following two segments: the "Sales" segment and the "Holding activity" segment.

Segment assets in the "Holding activity" segment comprise:

- shares in subsidiaries;
- debentures acquired from subsidiaries;
- cash pool loan receivables including the cash pool deposit;
- receivables from other loans granted to affiliates.

Segment liabilities in the "Holding activity" segment comprise:

- debentures issued by the Company together with the liability resulting from the valuation of hedging instruments related to the debentures issued;
- loans obtained from the European Investment Bank for the implementation of investments in subsidiaries;
- liabilities arising from loans received under the cash pool service.

The "Holding activity" segment includes intercompany debtors and creditors related to income tax settlements of the companies comprising the Tax Capital Group.

Finance income and costs comprise dividend income and net interest income and costs generated and incurred by the Company due to the Group's central financing model.

Unallocated expenses include the Company's administrative expenses, as they are incurred for the whole Group and are not directly attributable to operating segments.

(in PLN thousand)

6-month period ended 30 June 2012 or as at 30 June 2012 (*unaudited*)	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 169 364	–	–	**1 169 364**
Sales within the Group	3 670 555	–	–	**3 670 555**
Segment revenue	**4 839 919**	–	–	**4 839 919**
Profit/(loss) of the segment	**74 790**	–	–	**74 790**
Unallocated expenses	–	–	(50 015)	**(50 015)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**74 790**	–	**(50 015)**	**24 775**
Net finance income/(costs)	–	1 477 426	4 540	**1 481 966**
Profit/(loss) before income tax	**74 790**	**1 477 426**	**(45 475)**	**1 506 741**
Income tax expense	–	–	(44 771)	**(44 771)**
Net profit/(loss) for the period	**74 790**	**1 477 426**	**(90 246)**	**1 461 970**
EBITDA	**80 953**	–	**(50 015)**	**30 938**
Assets and liabilities				
Segment assets	1 275 044	23 409 337	–	**24 684 381**
Unallocated assets	–	–	75 083	**75 083**
Total assets	**1 275 044**	**23 409 337**	**75 083**	**24 759 464**
Segment liabilities	695 683	5 299 550	–	**5 995 233**
Unallocated liabilities	–	–	550 031	**550 031**
Total liabilities	**695 683**	**5 299 550**	**550 031**	**6 545 264**
Other segment information				
Capital expenditure*	27 963	–	–	**27 963**
Depreciation/amortization	(6 163)	–	–	**(6 163)**

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

In the 6-month period ended 30 June 2012, the Company's sales revenue from its key client, amounting to PLN 2,995,645 thousand, accounted for 62% of the Company's total revenue in the "Sales" segment.

In the period ended 30 June 2011, the Company's sales revenue from its key client, amounting to PLN 2,814,169 thousand, accounted for 67% of the Company's total revenue in the "Sales" segment.

(in PLN thousand)

6-month period ended 30 June 2011 (*unaudited*) or as at 31 December 2011 (*adjusted figures*)	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	819 103	–	–	**819 103**
Sales within the Group	3 406 871	–	–	**3 406 871**
Segment revenue	**4 225 974**	–	–	**4 225 974**
Profit/(loss) of the segment	**83 880**	–	–	**83 880**
Unallocated expenses	–	–	(38 035)	**(38 035)**
Profit/(loss) from continuing operations before tax and net finance income (costs)	**83 880**	–	**(38 035)**	**45 845**
Net finance income (costs)	–	1 010 770	4 717	**1 015 487**
Profit/(loss) before income tax	**83 880**	**1 010 770**	**(33 318)**	**1 061 332**
Income tax expense	–	–	(12 459)	**(12 459)**
Net profit/(loss) for the period	**83 880**	**1 010 770**	**(45 777)**	**1 048 873**
EBITDA	**86 223**	–	**(38 035)**	**48 188**
Assets and liabilities				
Segment assets	1 144 398	21 455 243	–	**22 599 641**
Unallocated assets	–	–	218 822	**218 822**
Total assets	**1 144 398**	**21 455 243**	**218 822**	**22 818 463**
Segment liabilities	582 581	4 860 992	–	**5 443 573**
Unallocated liabilities	–	–	38 103	**38 103**
Total liabilities	**582 581**	**4 860 992**	**38 103**	**5 481 676**
Other segment information				
Capital expenditure*	5 980	–	–	**5 980**
Depreciation/amortization	(2 343)	–	–	**(2 343)**

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

9. Revenues and costs

9.1. Sales revenue

	For the 6-month period ended 30 June 2012 (*unaudited*)	For the 6-month period ended 30 June 2011 (*unaudited*)
Sale of goods for resale, finished goods and materials, of which:	**4 817 024**	**4 212 341**
Electricity	4 601 186	4 158 318
Property rights arising from energy certificates	81 256	239
Emission allowances	134 132	50 127
Other	450	3 657
Rendering of services, of which:	**22 887**	**13 633**
Trading income	16 757	9 145
Other	6 130	4 488
Other income, of which:	**8**	–
Rental income	8	–
Total sales revenue	**4 839 919**	**4 225 974**

Starting from 2012, the Company acts as an agent in transactions of purchase of biomass and coal for the Group companies in the Generation Segment. The Company purchases raw materials from external companies as well as from the TAURON Group companies, whereas all of the sales are made to the Group companies from the Generation Segment. The Company recognizes revenue only from agency services – organization of supplies.

(in PLN thousand)

In the 6-month period ended 30 June 2012, the value of raw materials purchased and simultaneously sold as a result of the above-mentioned transactions was PLN 271,848 thousand, while revenue recognized by the Company on agency services amounted to PLN 3,465 thousand.

9.2. Costs by type

	For the 6-month period ended 30 June 2012 (*unaudited*)	For the 6-month period ended 30 June 2011 (*unaudited*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(6 163)	(2 343)
Impairment of property, plant and equipment and intangible assets	10 399	–
Materials and energy	(805)	(533)
Consultancy services	(3 722)	(5 714)
Distribution services	(1 054)	(412)
Other external services	(7 245)	(5 651)
Taxes and charges	(6 765)	(6 734)
Employee benefits expense	(32 924)	(28 679)
Inventory write-downs	(245)	(473)
Impairment loss on trade receivables	239	–
Advertising costs	(10 216)	(6 356)
Other	(1 734)	(810)
Total costs by type	**(60 235)**	**(57 705)**
Change in inventories, prepayments, accruals and deferred income	(631)	2 527
Cost of goods produced for internal purposes	–	143
Selling and distribution expenses	11 547	9 221
Administrative expenses	50 015	38 035
Cost of goods for resale and materials sold	(4 753 632)	(4 124 706)
Cost of sales	**(4 752 936)**	**(4 132 485)**

The increase in depreciation expense in the 6-month period ended 30 June 2012 in relation to the comparative period results mainly from the full write-off of low-cost items of property, plant and equipment acquired in the 1st quarter of 2012.

The reversal of the write-down recognized against property rights included in intangible assets had no effect on the result for 2012, as simultaneously the Company reversed the provision for cancellation of energy certificates. In accordance with the accounting policy, the portion of the provision covered by energy certificates is recognized at the value of the certificates held, which means that recognition of a write-down resulted in the reduction of the cost of recognition of the provision in 2011 and the method of accounting for it in 2012. In the 1st quarter of 2012, energy certificates covered by the impairment write-down were surrendered for cancellation, as a result of which the impairment write-down recognized in 2011 in the amount of PLN 10,399 thousand was utilized.

The increase in administrative expenses in the 6-month period ended 30 June 2012 compared to the 6-month period ended 30 June 2011 mainly results from the increase in depreciation expense (as described above) and advertising expenses.

(in PLN thousand)

10. Income tax

10.1. Tax expense in the statement of comprehensive income

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

	For the 6-month period ended 30 June 2012 (*unaudited*)	For the 6-month period ended 30 June 2011 (*unaudited*)
Current income tax	(7 242)	(20 968)
Deferred tax	(37 529)	8 509
Income tax included in profit or loss	**(44 771)**	**(12 459)**
Income tax relating to other comprehensive income	–	–

Current income tax expense for the 6-month period ended 30 June 2012, amounting to PLN 7,242 thousand, results from the dividend tax of PLN 4,201 thousand, the income tax of the acquiree, GZE S.A., for the period up to the date of merger with the Company, amounting to PLN 2,777 thousand, and corrections of the Company's income tax for 2011, amounting to PLN 264 thousand.

10.2. Deferred income tax

Deferred income tax results from the following items:

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	1 633	1 211
– difference between tax base and carrying amount of financial assets	5 665	628
– different timing of recognition of sales revenue for tax purposes	167	–
– other	–	37
Deferred tax liability	**7 465**	**1 876**

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
Deferred tax assets		
– provisions for the obligation to surrender energy certificates	11 800	31 323
– other provisions	2 271	2 534
– difference between tax base and carrying amount of fixed and intangible assets	359	2 150
– difference between tax base and carrying amount of financial liabilities	5 634	2 734
– valuation of hedging instruments	7 552	–
– other accrued expenses	590	597
– difference between tax base and carrying amount of financial assets	64	67
– difference between tax base and carrying amount of inventories	47	–
Deferred tax assets, of which:	**28 317**	**39 405**
Deferred tax assets recognized in profit or loss	20 690	39 405
Deferred tax assets recognized in other comprehensive income	7 627	–
Net deferred tax asset	**20 852**	**37 529**
Valuation allowance	**(20 852)**	–
Deferred tax in the statement of financial position	–	**37 529**

10.3. Tax Capital Group

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

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible for paying monthly advances in respect of the corporate income tax of the Tax Capital Group, in accordance with the provisions of the Corporate Income Tax Act.

(in PLN thousand)

The share of each company of the Tax Capital Group in the monthly advance for the corporate income tax is determined based on the percentage share of the tax base reported by the given company in the tax base reported by the Tax Capital Group, excluding the companies reporting tax losses. Where the final amount of a given company's share is lower than the initial amount transferred by that company to the Company Representing the Tax Capital Group, the latter returns the difference to that company immediately.

As at 30 June 2012, the Tax Capital Group had an overpayment in respect of the corporate income tax amounting to PLN 72,412 thousand, which is presented in the Company's financial statements as income tax receivable. At the same time, the Company had a liability to the subsidiaries making up the Tax Capital Group in respect of income tax overpayment amounting to PLN 71,246 thousand, which has been presented in the statement of financial position under trade and other payables.

11. Cash and cash equivalents

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

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
Cash at bank and in hand	244 276	216 838
Short-term deposits (up to 3 months)	373 084	24 013
Cash in transit	–	41 001
Total cash and cash equivalents presented in the statement of financial position, of which:	**617 360**	**281 852**
restricted cash	201 000	162 214
Cash pool	(196 618)	(396 976)
Foreign exchange and other differences	(19)	76
Total cash and cash equivalents presented in the statement of cash flows	**420 723**	**(115 048)**

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

Restricted cash mainly consists of cash held in the settlement account for trading in electricity at Towarowa Giełda Energii S.A., amounting to PLN 172,963 thousand, cash held in special purpose accounts for trading on the Internet Based Electricity Trading Platform (POEE) of PLN 6,291 thousand as well as on the European Energy Exchange (EEX) and European Climate Exchange (ICE) of PLN 16,836 thousand.

The details of cash pool balances are presented in Note 20.2.

12. Dividends paid and proposed

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

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 PLN 0.15 per share. This amount was 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 represented part of the Company's net profit for 2009 allocated to the reserve capital.

(in PLN thousand)

13. Intangible assets

13.1. Non-current intangible assets

Non-current intangible assets for the 6-month period ended 30 June 2012 *(unaudited)*

	Software	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	**18 175**	**724**	**620**	**19 519**
Direct purchase	–	–	16 972	**16 972**
Allocation of intangible assets not made available for use	8 653	4	(8 657)	–
Closing balance	**26 828**	**728**	**8 935**	**36 491**
ACCUMULATED AMORTIZATION				
Opening balance	**(3 620)**	**(412)**	–	**(4 032)**
Amortization for the period	(2 211)	(69)	–	**(2 280)**
Closing balance	**(5 831)**	**(481)**	–	**(6 312)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**14 555**	**312**	**620**	**15 487**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**20 997**	**247**	**8 935**	**30 179**

In the 1st half of 2012, the Company made available for use software and licenses with a total value of PLN 8,653 thousand; the value of licenses and software not made available for use until 30 June 2012 is PLN 7,134 thousand.

The most significant purchases included licenses relating to SAP, Oracle and a support system for purchases' organization. They are to be used by the Company for its internal purposes as well as to make them available for use by the TAURON Group companies as part of consolidation of license agreements. Future benefits will be generated by way of earning revenue from granting sublicenses or from the right to use the software.

Non-current intangible assets for the 6-month period ended 30 June 2011 *(unaudited)*

	Software	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST				
Opening balance	**8 044**	**617**	**505**	**9 166**
Direct purchase	–	–	2 559	**2 559**
Allocation of intangible assets not made available for use	1 438	46	(1 484)	–
Liquidation	(42)	–	–	**(42)**
Closing balance	**9 440**	**663**	**1 580**	**11 683**
ACCUMULATED AMORTIZATION				
Opening balance	**(1 583)**	**(261)**	–	**(1 844)**
Amortization for the period	(827)	(80)	–	**(907)**
Liquidation	32	–	–	**32**
Closing balance	**(2 378)**	**(341)**	–	**(2 719)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**6 461**	**356**	**505**	**7 322**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**7 062**	**322**	**1 580**	**8 964**

(in PLN thousand)

13.2. Current intangible assets

Current intangible assets for the 6-month period ended 30 June 2012 *(unaudited)*

	Energy certificates
COST	
Opening balance	**43 519**
Direct purchase	21 213
Cancellation of energy certificates	(47 914)
Closing balance	**16 818**
ACCUMULATED AMORTIZATION	
Opening balance	**(10 399)**
Decrease of impairment allowance	10 399
Closing balance	–
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**33 120**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**16 818**

Current intangible assets for the 6-month period ended 30 June 2011 *(unaudited)*

	Energy certificates
COST	
Opening balance	**9 773**
Direct purchase	10 293
Cancellation of energy certificates	(7 638)
Closing balance	**12 428**
ACCUMULATED AMORTIZATION	
Opening balance	–
Decrease of impairment allowance	–
Closing balance	–
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**9 773**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**12 428**

(in PLN thousand)

14. Shares in unlisted and listed companies

Movements in the balance of long-term investments in the period from 1 January to 30 June 2012 *(unaudited)*

No.	Company	Opening balance (*authorized figures*)	Movement resulting from merger with GZE S.A.	Opening balance (*restated figures*)	Increases	Decreases	Closing balance
1.	TAURON Wytwarzanie S.A.	8 118 182	–	**8 118 182**	–	–	**8 118 182**
2.	TAURON Dystrybucja S.A.	5 914 201	–	**5 914 201**	–	–	**5 914 201**
3.	TAURON Obsługa Klienta Sp. z o.o.	26 308	–	**26 308**	–	–	**26 308**
4.	TAURON Ekoenergia Sp. z o.o.	897 069	–	**897 069**	931	–	**898 000**
5.	TAURON Ciepło S.A.	507 880	–	**507 880**	265 234	–	**773 114**
6.	Elektrociepłownia EC Nowa Sp. z o.o.	217 413	–	**217 413**	–	(217 413)	–
7.	Elektrociepłownia Tychy S.A.	40 862	–	**40 862**	–	(40 862)	–
8.	Energetyka Cieplna w Kamiennej Górze Sp. z o.o.	6 959	–	**6 959**	–	(6 959)	–
9.	TAURON Sprzedaż Sp. z o.o.	613 505	–	**613 505**	–	–	**613 505**
10.	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	49 056	–	**49 056**	–	–	**49 056**
11.	TAURON Ekoserwis Sp. z o.o. (former Zespół Elektrowni Wodnych Rożnów Sp. z o.o.)	931	–	**931**	–	(931)	–
12.	TAURON Czech Energy s.r.o.	4 223	–	**4 223**	–	–	**4 223**
13.	Górnośląski Zakład Elektroenergetyczny S.A.	4 631 455	(4 631 455)	–	1 127	(1 127)	–
14.	TAURON Dystrybucja GZE S.A.	–	3 544 322	**3 544 322**	–	–	**3 544 322**
15.	TAURON Serwis GZE Sp. z o.o.	–	26 390	**26 390**	–	–	**26 390**
16.	TAURON Sprzedaż GZE Sp. z o.o.	–	142 796	**142 796**	–	–	**142 796**
17.	TAURON Ekonenergia GZE Sp. z o.o.	–	50 762	**50 762**	–	–	**50 762**
18.	TAURON Obsługa Klienta GZE Sp. z o.o.	–	13 707	**13 707**	–	–	**13 707**
19.	TAURON Wytwarzanie GZE Sp. z o.o.	–	4 935	**4 935**	–	–	**4 935**
20.	CONCORDE INVESTISSEMENT S.A.	–	12	**12**	–	–	**12**
21.	CC Poland Plus Sp. z o.o.	12	–	**12**	–	–	**12**
22.	Energopower Sp. z o.o.	5	–	**5**	20	–	**25**
23.	Enpower Service Sp. z o.o.	5	–	**5**	20	–	**25**
24.	Enpower Sp. z o.o.	5	–	**5**	20	–	**25**
25.	Poen Sp. z o.o.	5	–	**5**	20	–	**25**
	Total	**21 028 076**	**(848 531)**	**20 179 545**	**267 372**	**(267 292)**	**20 179 625**

Movements in the balance of long-term investments which took place in the first 6 months of 2012 were mainly due to the reorganization of the Group and resulted from mergers of the companies owned by TAURON Polska Energia S.A.

The most significant movements in the balance of long-term investments for the period ended 30 June 2012 were due to the following events:

Merger of TAURON Polska Energia S.A. with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A.

On 12 June 2012, the District Court in Katowice registered the merger of TAURON Polska Energia S.A. with its subsidiary, Górnośląski Zakład Elektroenergetyczny S.A. The merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a transfer of all of the assets of Górnośląski Zakład Elektroenergetyczny S.A. to its sole owner i.e. TAURON Polska Energia S.A.

As a result of the merger, the Company acquired shares in listed below significant companies that were previously owned by Górnośląski Zakład Elektroenergetyczny S.A.:

- TAURON Dystrybucja GZE S.A.,
- TAURON Serwis GZE Sp. z o.o.,
- TAURON Sprzedaż GZE Sp. z o.o.,
- TAURON Ekoenergia GZE Sp. z o.o.,
- TAURON Obsługa Klienta GZE Sp. z o.o.,
- TAURON Wytwarzanie GZE Sp. z o.o.

The merger and the method of accounting for it are described in detail in Notes 3 and 21.

Merger of subsidiaries from the Heat Segment

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

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

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

TAURON Polska Energia S.A. reclassified the book value of investments in the following companies: Elektrociepłownia Tychy S.A. (PLN 40,862 thousand), Elektrociepłownia EC Nowa Sp. z o.o. (PLN 217,413 thousand) and EC w Kamiennej Górze Sp. z o.o. (PLN 6,959 thousand) to the value of the investment in TAURON Ciepło S.A.

Merger of the subsidiary TAURON Ekoenergia Sp. z o.o. with Lipniki Sp. z o.o.

On 1 June 2012, merger of TAURON Ekoenergia Sp. z o.o. and Lipniki Sp. z o.o. was entered in the Register of Entrepreneurs of the National Court Register. This merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies by way of a take-over of all of the assets of the acquired company, Lipniki Sp. z o.o., by the acquirer, TAURON Ekoenergia Sp. z o.o. The merger was effected without increasing the share capital and without any amendments to the Articles of Association. The acquirer was the sole shareholder of the acquired company. Consequently, as at 30 June 2012, TAURON Polska Energia S.A. only held shares in the acquirer i.e. TAURON Ekoenergia Sp. z o.o.

Increase of the share capital of TAURON Ekoenergia Sp. z o.o.

On 18 April 2012, the District Court for Wrocław–Fabryczna in Wrocław entered the increase of the share capital of TAURON Ekoenergia Sp. z o.o. from PLN 536,070 thousand to PLN 537,733 thousand, i.e. by PLN 1,663 thousand. The share capital was increased as a result of making an in-kind contribution by TAURON Polska Energia S.A. in the form of 100% of shares in ZEW Rożnów Sp. z o.o. (now: TAURON Ekoserwis Sp. z o.o.) in order to cover new shares in the share capital. The agreement for the transfer of the contribution in kind was signed on 4 April 2012.

TAURON Polska Energia S.A. reclassified the book value of its shares in ZEW Rożnów Sp. z o.o. (now: TAURON Ekoserwis Sp. z o.o.) of PLN 931 thousand to the value of shares in TAURON Ekoenergia Sp. z o.o.

In the 6-month period ended 30 June 2011, there was no change in the value of the Company's long-term investments. The only significant event was the division of TAURON Obsługa Klienta Sp. z o.o. by way of taking over of part of its assets representing an organized part of the enterprise by TAURON Sprzedaż Sp. z o.o. As a result of the above, the value of shares held in TAURON Sprzedaż Sp. z o.o. increased by PLN 318,707 thousand and the value of the investment in TAURON Obsługa Klienta Sp. z o.o. decreased accordingly.

(in PLN thousand)

15. Inventories

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Historical cost		
Property rights arising from energy certificates	3 015	39 396
Goods for resale	98	1 451
Materials	407	181
Total	**3 520**	**41 028**
Write-downs to net realizable value		
Property rights arising from energy certificates	(245)	–
Total	**(245)**	–
Net realizable value		
Property rights arising from energy certificates	2 770	39 396
Goods for resale	98	1 451
Materials	407	181
Total	**3 275**	**41 028**

The decrease of the value of inventories is mainly due to the sale of 138,900 property rights related to renewable energy certificates with a value of PLN 39,396 thousand to TAURON Sprzedaż Sp. z o.o. on 4 January 2012.

16. Trade and other receivables

As at 30 June 2012, the balance of trade and other receivables amounted to PLN 1,175,346 thousand and included:

- trade receivables amounting to PLN 911,914 thousand,
- loan to the affiliate TAURON Sprzedaż GZE Sp. z o.o. amounting to PLN 50,000 thousand,
- cash pool loans amounting to PLN 181,247 thousand;
- other financial receivables amounting to PLN 32,185 thousand, where the largest item was collaterals amounting to PLN 23,863 thousand.

In the 6-month period ended 30 June 2012, two loans granted to TAURON Wytwarzanie S.A. under loan agreements signed in December 2011 were repaid. They were related to the transaction of purchase of CO_2 allowances from TAURON Wytwarzanie S.A. with a commitment to sell them back, and amounted to PLN 180,009 thousand and PLN 142,003 thousand. The amount of PLN 142,003 thousand was transferred to the company in 2012, while the amount of PLN 180,009 thousand was transferred to it in 2011.

In the 6-month period ended 30 June 2012, part of the loan granted to TAURON Sprzedaż GZE Sp. z o.o. and the loan granted to TAURON Ekoenergia GZE Sp. z o.o. in the total amount of PLN 20,000 thousand were repaid.

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

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

(in PLN thousand)

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

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down							
Trade and other financial receivables	934 201	5 904	3 652	–	–	342	**944 099**
Cash Pool	181 247	–	–	–	–	–	**181 247**
Other loans	50 000	–	–	–	–	–	**50 000**
Total	**1 165 448**	**5 904**	**3 652**	–	–	**342**	**1 175 346**
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	–	–	–
Cash Pool	–	–	–	–	–	–	–
Other loans	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	934 201	5 904	3 652	–	–	342	**944 099**
Cash Pool	181 247	–	–	–	–	–	**181 247**
Other loans	50 000	–	–	–	–	–	**50 000**
Total	**1 165 448**	**5 904**	**3 652**	–	–	**342**	**1 175 346**

Trade and other receivables as at 31 December 2011 *(adjusted figures)*

	Not past due	Past due					Total (*adjusted figures*)
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Value of item before allowance/write-down							
Trade and other financial receivables	756 338	–	–	–	6	306	**756 650**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	250 438	–	–	–	–	–	**250 438**
Total	**1 062 432**	–	–	–	**6**	**306**	**1 062 744**
Allowance/write-down							
Trade and other financial receivables	–	–	–	–	–	(306)	**(306)**
Cash Pool	–	–	–	–	–	–	–
Other loans	–	–	–	–	–	–	–
Total	–	–	–	–	–	**(306)**	**(306)**
Value of item net of allowance (carrying amount)							
Trade and other financial receivables	756 338	–	–	–	6	–	**756 344**
Cash Pool	55 656	–	–	–	–	–	**55 656**
Other loans	250 438	–	–	–	–	–	**250 438**
Total	**1 062 432**	–	–	–	**6**	–	**1 062 438**

Related party transactions and balances are presented in Note 27.

(in PLN thousand)

17. Other long-term receivables

Other long-term receivables of PLN 75,000 thousand include two loans granted to Elektrociepłownia Stalowa Wola S.A., a company set up on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. These loans result from the following two agreements concluded on 20 June 2012 between PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A. in order to meet the conditions necessary for granting funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank:

- A syndicated loan agreement signed in order to provide funding for the implementation of an investment project involving construction and operation of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola together with auxiliary installations. The syndicated loan agreement means that the repayment of loan and interest will be deferred and subordinated to the repayment of amounts due to the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 152,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 62,000 thousand. The loan is to be fully repaid no later than by the end of 2032;
- The VAT loan agreement, which will provide funds for funding output VAT related to the costs of implementation of the investment project involving construction of a gas and steam power unit with a capacity of approx. 400 MWe and 240 MWt in Stalowa Wola, incurred at the stage of designing, constructing and making the investment available for use. Based on contractual provisions, the maximum amount of the loan granted by TAURON Polska Energia S.A. is PLN 20,000 thousand. At the balance sheet date, the amount of funds transferred under the loan was PLN 13,000 thousand. The loan is to be repaid six months after the date of completion of the investment project.

18. Equity

18.1. Issued capital

Issued capital as at 30 June 2012 *(unaudited)*

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

As at 30 June 2012, the value of issued capital, the number of shares and nominal value per share have not changed since 31 December 2011.

18.2. Shareholders with significant interest

Shareholding structure as at 30 June 2012 *(unaudited, to the best knowledge of the Company)*

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

The shareholding structure, according to the best knowledge of the Company, as at 30 June 2012 did not change in comparison to 31 December 2011.

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

During the 6-month period ended 30 June 2012, reserve capital increased by 540,139 thousand as a result of the resolution of the Ordinary General Shareholders' Meeting of TAURON Polska Energia S.A. dated 24 April 2012 on the allocation of the said amount of PLN 540,139 thousand from the net profit for 2011 to the reserve capital.

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

- allocation of the amount of PLN 540,139 thousand from the Company's net profit for 2011 to the reserve capital,
- allocation of the amount of PLN 543,290 thousand from the Company's net profit for 2011 for the payment of dividend,
- the net profit for the period of PLN 1,461,970 thousand,
- accounting for the Company's merger with its subsidiary Górnośląski Zakład Elektroenergetyczny S.A. – decrease in retained earnings by the amount of PLN 1,126 thousand.

19. Provisions

Provision for the obligation to surrender energy certificates

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

As at 30 June 2012, short-term provision for the obligation to surrender energy certificates for cancellation amounted to PLN 62,108 thousand.

As at 31 December 2011, the Company recognized a short-term provision of PLN 164,856 thousand for the obligation to surrender energy certificates for cancellation.

The provision recognized at the 2011 year-end was utilized in the 1st quarter of 2012 up to the amount of PLN 164,556 thousand and exceeded the costs of fulfilling the obligation by PLN 300 thousand. In 2012, the Company surrendered energy certificates with a value of PLN 37,515 thousand for cancellation and paid a compensation fee of PLN 126,978 thousand as well as cancellation fees of PLN 63 thousand.

Provision for real estate tax

As at 30 June 2012, the provision for real estate tax, acquired as a result of merger with Górnośląski Zakład Elektroenergetyczny S.A., amounted to PLN 1,411 thousand. As at 31 December 2011, the value of the provision was PLN 1,606 thousand.

Provision for compensation payments to the employees of GZE

The provision for compensation payments to employees was recognized due to the privatization of Górnośląski Zakład Elektroenergetyczny S.A. Compensation payments for shares are due under the Employee, Social and Trade Union Guarantee Package of 17 November 2000 as well as under Agreement No. 1 of 13 December 2000 on the principles of making compensation payments. Compensation payments were made based on the Compensation Payments Allocation Regulations dated 26 April 2001 with subsequent amendments and the decision on payments dated 30 September 2003. The condition underlying a compensation payment was the sale of all of the shares held by the eligible individual to the majority shareholder. Such payments (in the form of donations) were made successively in 2003–2009. A provision was recognized for compensation payments. As at 30 June 2012, the provision for outstanding compensation payments amounted to PLN 765 thousand and its balance did not change compared to 31 December 2011.

(in PLN thousand)

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

As at 30 June 2012, the Company's liabilities under loans taken out and issued debentures related to:

- debentures issued under the debentures issue program with a total value of PLN 4,301,602 thousand;
- loans taken out from affiliates under the "Agreement for the Provision of Cash Pool Services" in the total amount of PLN 377,865 thousand;
- a loan from the European Investment Bank of PLN 510,704 thousand.

Interest-bearing loans and borrowings, including issued debentures, as at 30 June 2012 and 31 December 2011 are presented in the table below.

Interest-bearing loans and borrowings, including issued debentures

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
Non-current portion of loans and borrowings, including issued debentures:		
Issued debentures	4 287 230	4 136 112
Loan received from the European Investment Bank	458 570	–
Total	**4 745 800**	**4 136 112**
Current portion of loans and borrowings, including issued debentures:		
Issued debentures	14 372	11 062
Cash pool loans received, including accrued interest	377 865	452 632
Liabilities arising from acquisition of long-term investments	–	255 686
Loan received from the European Investment Bank	52 134	–
Total	**444 371**	**719 380**

20.1. Debentures issued

As at 30 June 2012, the Company's liability under issued debentures amounted to PLN 4,301,602 thousand. This liability arose as a result of issue of debentures in the following tranches:

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

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

The Company hedged a portion of interest-related cash flows resulting from issued debentures by entering into interest rate swaps (IRS), as discussed in detail in Note 23.1.

The agreements signed by the Company with banks include covenants which are commonly used in such transactions. As at 30 June 2012, none of these covenants has been breached.

The tables below present the balances of the Company's liability under issued debentures, together with accrued interest, as at 30 June 2012 and 31 December 2011.

(in PLN thousand)

Debentures as at 30 June 2012 *(unaudited)*

	Interest rate	Currency	As at balance sheet date		of which principal amount 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
Tranche A	floating	PLN	281	846 339	–	–	–	–	846 339	–
Tranche B	floating	PLN	4 659	449 041	–	–	–	150 000	299 041	–
Tranche C	floating	PLN	9 432	2 991 850	–	–	–	–	2 991 850	–
Total debentures			**14 372**	**4 287 230**	**–**	**–**	**–**	**150 000**	**4 137 230**	**–**

Debentures as at 31 December 2011

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

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

20.2. Cash pool

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

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Loans granted under cash pool agreement	180 240	55 549
Interest receivable on loans granted under cash pool agreement	1 007	107
Total	**181 247**	**55 656**

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011
Loans received under cash pool agreement	376 309	451 086
Interest payable on loans received under cash pool agreement	1 556	1 546
Total	**377 865**	**452 632**
Balance of cash pool	**196 618**	**396 976**

In January 2012, the companies acquired as a result of the purchase of GZE S.A. joined the Agreement for the Provision of Cash Pool Services. The Company's liability to these companies as at 30 June 2012 amounted to PLN 206,578 thousand, and receivables amounted to PLN 42,928 thousand.

Surplus cash acquired by the Company under the cash pool agreement is invested in bank accounts.

Under the cash pool agreement the Company may use external funding amounting to PLN 300,000 thousand.

20.3. Loans from the European Investment Bank

TAURON Polska Energia S.A. acquired two loans from the European Investment Bank, for a total amount of PLN 510,000 thousand. The respective loan agreements were signed on 24 October 2011 and the funds were transferred in the 1st quarter of 2012.

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

- PLN 300,000 thousand is to be used for the conversion and transfer for use of a high efficiency cogeneration unit with the accompanying infrastructure in the Bielsko-Biała CHP Plant. Those funds will be used by the TAURON Group to replace the current unit with a unit of a higher efficiency amounting to 50 MWe and 182 MWt. Construction of this unit started in August 2010 and will last until mid 2013;
- PLN 210,000 thousand is to be used for the construction and start-up of a new 50 MWe and 45 MWt biomass boiler in the Jaworzno III Power Plant, which is planned to be made available for use in 2012, and the repair of a steam turbine.

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

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

At the balance sheet date, the balance of the loan amounted to PLN 510,704 thousand, including accrued interest of PLN 1,168 thousand.

In addition, on 3 July 2012, the Company entered into another loan agreement with the European Investment Bank for total funding of PLN 900,000 thousand, as discussed in detail in Note 29.

21. Business combinations

On 12 June 2012, the District Court Katowice–Wschód in Katowice, 8th Economic Department of the National Court Register entered the merger of TAURON Polska Energia S.A. and Górnośląski Zakład Elektroenergetyczny S.A. (GZE) in the Register of Entrepreneurs of the National Court Register. The merger was effected under Article 492 Clause 1 Item 1 of the Code of Commercial Companies, i.e. by way of a transfer of all of the assets of Górnośląski Zakład Elektroenergetyczny S.A. as the acquiree to TAURON Polska Energia S.A. as the acquirer. The purpose of the merger is to align the structure of the TAURON Group in accordance with the assumptions of the “Corporate Strategy of the TAURON Group for 2011–2015 with an Outlook up to 2020”, which provides for consolidation of the TAURON Group companies. As a result of the buy-out of the shares of Górnośląski Zakład Elektroenergetyczny S.A. conducted before the merger, since 16 April 2012 TAURON Polska Energia S.A. has been a holder of 100% of shares in the share capital of Górnośląski Zakład Elektroenergetyczny S.A.

The Company selected the pooling of interest method to account for the merger of the parent with its subsidiary, as discussed in detail in Note 3. The application of the pooling of interest method means that the financial statements of Górnośląski Zakład Elektroenergetyczny S.A. were aggregated with the financial statements of TAURON Polska Energia S.A. as of the date on which the Company acquired control over GZE, i.e. as of 13 December 2011.

Net assets of Górnośląski Zakład Elektroenergetyczny S.A. as at 13 December 2011 are presented in the table below.

(in PLN thousand)

	Net assets of GZE S.A. as at 13 December 2011
Assets	
Non-current assets	
Property, plant and equipment	20
Shares in unlisted and listed companies	3 782 924
Deferred tax asset	325
	3 783 269
Current assets	
Corporate income tax receivable	(532)
Trade and other receivables	450
Deposits	746 279
Other current non-financial assets	1 094
Other current financial assets	70 000
Cash and cash equivalents	196 264
Other balances arising from restatements (assets)	1 415
	1 014 970
TOTAL ASSETS	**4 798 239**
Current liabilities	
Trade and other payables	172 402
Other current non-financial liabilities	341
Accruals and government grants	121
Short-term provisions and employee benefits	3 553
TOTAL LIABILITIES	**176 417**
NET ASSETS	**4 621 822**

As a result of the Company's merger with its subsidiary, net assets of the acquired company with a total value of PLN 4,621,822 thousand were recognized as at the date of acquisition of control i.e. 13 December 2011. In accordance with the adopted accounting policy, the Company accounts for the merger using the consolidated financial statements as a source of the value of assets and liabilities in the acquired subsidiary, and the value of the acquiree's shares in subsidiaries is determined based on the value of net assets of these entities in the consolidated financial statements and the value of goodwill relating to the given subsidiary. Consequently, the total value of shares of Górnośląski Zakład Elektroenergetyczny S.A. in subsidiaries that has been recognized in the Company's financial statements is PLN 3,782,924 thousand. At the same time, the previous investment in Górnośląski Zakład Elektroenergetyczny S.A. with a value of PLN 4,631,455 thousand as at 13 December 2011 was derecognized.

The difference between the book value of net assets recognized as a result of the merger and the value of the investment in GZE that had been previously recognized in the accounting records of TAURON Polska Energia S.A., amounting to PLN 9,633 thousand, was posted to retained earnings, causing a reduction of the retained earnings. As at 31 December 2011, movement in retained earnings resulting from merger with GZE, after taking into account GZE's profit for the period from the date of acquisition of control to 31 December 2011 of PLN 2,192 thousand, amounted to PLN 7,441 thousand, as presented in Note 3.

(in PLN thousand)

22. Financial instruments

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

The fair values of the financial instruments held by the Company as at 30 June 2012 and 31 December 2011 did not significantly differ from their values presented in the financial statements for the particular periods, due to the following reasons:

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

The carrying amounts and fair values of the particular classes and categories of financial instruments as at 30 June 2012 and 31 December 2011 are presented in the tables below.

Categories and classes of financial assets	Carrying amount	
	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
1 Assets at fair value through profit or loss	**595**	**–**
Derivatives	595	–
2 Financial assets available for sale	**5 059**	**12 869**
Shares in unlisted and listed companies (non-current)	5 059	12 869
3 Financial assets held to maturity	**–**	**–**
4 Loans and receivables	**3 814 697**	**2 212 481**
Trade receivables	911 914	743 191
Bonds, T-bills and other debt securities	2 564 351	1 150 043
Loans granted (Cash pool)	181 247	55 656
Other loans granted	125 000	250 438
Other	32 185	13 153
5 Financial assets excluded from the scope of IAS 39	**20 174 566**	**20 166 676**
Shares in subsidiaries	20 174 566	20 166 676
6 Cash and cash equivalents	**617 360**	**281 852**
Total financial assets, including in the statement of financial position:	**24 612 277**	**22 673 878**
Non-current assets	**22 804 565**	**21 316 585**
Shares in unlisted and listed companies	20 179 625	20 179 545
Bonds, T-bills and other debt securities	2 549 940	1 137 040
Other long-term receivables	75 000	–
Current assets	**1 807 712**	**1 357 293**
Trade and other receivables	1 175 346	1 062 438
Bonds, T-bills and other debt securities	14 411	13 003
Cash and cash equivalents	617 360	281 852
Other financial assets	595	–

(in PLN thousand)

Categories and classes of financial liabilities	Carrying amount	
	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
1 Financial liabilities at fair value through profit or loss	**347**	**80**
Derivatives	347	80
2 Financial liabilities measured at amortized cost	**6 329 667**	**5 181 618**
Arm's length loans:	888 569	708 318
Cash pool liabilities	377 865	452 632
Loan received from the European Investment Bank	510 704	–
Liabilities arising from acquisition of long-term investments	–	255 686
Issued debentures	4 301 602	4 147 174
Trade payables	493 422	312 062
Other financial liabilities	618 044	6 237
Commitments resulting from purchases of fixed and intangible assets	25 695	5 594
Salaries and wages	2 335	2 233
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39	**1 271**	**1 617**
Obligations under finance leases and hire purchase contracts	1 271	1 617
4 Hedging instruments (relating to liabilities)	**39 749**	–
Total financial liabilities, including in the statement of financial position:	**6 371 034**	**5 183 315**
Long-term liabilities	**4 746 537**	**4 137 102**
Interest-bearing loans and borrowings	4 745 800	4 136 112
Finance lease and hire purchase commitments	737	990
Short-term liabilities	**1 624 497**	**1 046 213**
Trade and other payables	1 179 592	326 206
Current portion of interest-bearing loans and borrowings	444 371	719 380
Current portion of finance lease and hire purchase commitments	534	627

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

Bonds, treasury bills and other debt securities

Bonds, treasury bills and other debt securities in the category of loans and receivables, amounting to PLN 2,564,351 thousand, include debentures issued by subsidiaries that were purchased by the Company.

The change of the balance in the 6-month period ended 30 June 2012 in relation to the comparative period is due to the Company's acquisition of debentures issued by the subsidiaries for a total amount of PLN 1,770,000 thousand, redemption of debentures for a total amount of PLN 367,100 thousand as well as the increase of accrued interest by a total amount of PLN 11,408 thousand.

Cash pool loans granted and cash pool loan liabilities

The Company has a receivable resulting from loans granted and a liability resulting from loans received under the cash pool service agreement, as discussed in detail in Note 20.2.

Other loans granted

Under loans granted the Company presented short-term loan receivables of PLN 50,000 thousand due from TAURON Sprzedaż GZE Sp. z o.o.

Additionally, the Company granted two long-term loans to Elektrociepłownia Stalowa Wola S.A. for a total amount of PLN 75,000 thousand, as discussed in detail in Note 17.

Trade and other receivables

Trade and other receivables have been discussed in detail in Note 16.

Financial assets excluded from the scope of IAS 39

Financial assets excluded from the scope of IAS 39, amounting to PLN 20,174,566 thousand, include shares held by the Company in subsidiaries, as discussed in detail in Note 14.

Financial assets available for sale

Financial assets available for sale, amounting to PLN 5,059 thousand, mainly include shares in TAURON Wytwarzanie GZE Sp. z o.o. amounting to PLN 4,934 thousand, which were acquired as a result of the Company's merger with Górnośląski Zakład Elektroenergetyczny S.A. in June 2012.

In April 2012, Energetyka Cieplna w Kamiennej Górze Sp. z o.o. was acquired by TAURON Ciepło S.A. by way of merger, as a result of which the previous value of the investment in Energetyka Cieplna w Kamiennej Górze Sp. z o.o. of PLN 6,959 thousand increased the value of the investment in the shares of the subsidiary TAURON Ciepło S.A., as discussed in detail in Note 14.

In April 2012, TAURON Polska Energia S.A. made a contribution in kind to the subsidiary TAURON Ekoenergia Sp. z o.o. in the form of shares in ZEW Rożnów Sp. z o.o. (now: TAURON Ekoserwis Sp. z o.o.) with a value of PLN 931 thousand, as a result of which the value of the investment in the shares of this company increased the value of the investment in TAURON Ekoenergia Sp. z o.o., as discussed in detail in Note 14.

Loan from the European Investment Bank

The loan received from the European Investment Bank, amounting to PLN 510,704 thousand, has been described in detail in Note 20.3.

Liability arising from purchase of long-term investment

In the 1^{st} quarter of 2012, the Company paid the liability arising from the purchase of long-term investments together with accrued interest, which consisted of Vattenfall AB's debt towards GZE S.A. and its subsidiaries that had been taken over by the Company as part of the purchase of GZE S.A.'s shares.

Issued debentures

The increase of liabilities under issued debentures is due to the new issue of debentures with a nominal value of PLN 150,000 thousand on 30 January 2012 as part of tranche B, as discussed in detail in Note 20.1.

Other financial liabilities

Other financial liabilities consists mainly of dividend payable amounted to PLN 543,350 thousand and liability towards the subsidiaries making up the Tax Capital Group in respect of an income tax overpayment amounting to PLN 71,246 thousand, as discussed in detail in Note 10.3.

Hedging derivative instruments (relating to liabilities)

Hedging derivative instruments amounting to PLN 39,749 thousand include valuation of derivative instruments entered into in order to hedge the interest rate risk arising from issued debentures, as discussed in detail in Note 23.1.

23. Capital management and financial risk management

23.1. Financial risk management

On 10 May 2011, the Company's Board of Directors passed a resolution implementing a policy for specific risk management in the area of finance in the TAURON Polska Energia S.A. Capital Group, which defines the strategy for management of specific risk in the area of finance, i.e. the currency and interest rate risk. This policy has also introduced the principles of hedge accounting in the Group which define the principles and types of hedge accounting and the accounting treatment of hedging instruments and hedged items to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting policies relate to the cash flow risk and do not include fair value risk due to its low significance for the Group. The policy for specific risk management in the area of finance has been described in detail in Note 24 of the Additional Explanatory Notes to the Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2012.

Hedge accounting

As at 30 June 2012, the Company was a party to hedging transactions covered by the policy for specific risk management in the area of finance. In accordance with the decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged against the interest rate risk arising from debentures issued under the Debentures Issue Program by entering into an interest rate swap (IRS) for a period of 5 years. This transaction was entered into due to variability of the expected future cash flows from interest payments resulting from the issue of debentures in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows.

The Company applies hedge accounting to the above-mentioned transactions. At the balance sheet date, as a result of valuation of hedging instruments (IRS) the Company recognized a liability of PLN 39,749 thousand, which was posted to the revaluation reserve. In the 6-month period ended 30 June 2012, the Company earned revenue from IRS transactions of PLN 2,343 thousand, of which PLN 1,951 thousand is the amount received from realization of the hedge and relates to interest payments realized by the Company, while the amount of

(in PLN thousand)

PLN 392 thousand is the portion of valuation relating to accrued interest on debentures as at the balance sheet date that has been transferred from the revaluation reserve. In the statement of comprehensive income, the above-mentioned revenue from IRS transactions reduced finance costs arising from interest on issued debentures. In the statement of cash flows, the amount received by the Company from realization of the hedge reduced the expenditure related to interest paid on debentures, which has been presented under cash flows from financing activities.

23.2. Capital management

Capital management takes place at the level of the TAURON Polska Energia S.A. Capital Group and has been described in Note 25 of the Additional Explanatory Notes to the Interim Condensed Consolidated Financial Statements for the 6-month period ended 30 June 2012.

24. Contingent liabilities

Contingent liabilities of the Company arise from collaterals and guarantees granted to subsidiaries. As at 30 June 2012, the Company's contingent liabilities were as follows:

Type of contingent liability	Currency	As at 30 June 2012 (*unaudited*)		Company in respect of which contingent liability has been granted	Beneficiary
		Value in foreign currency	Value in domestic currency		
blank promissory note	PLN		40 000	TAURON Wytwarzanie S.A.	Voivodship Fund for Environmental Protection and Water Management in Katowice
blank promissory note	PLN		30 000	TAURON Ciepło S.A.	Voivodship Fund for Environmental Protection and Water Management in Katowice
declaration to provide financial support	PLN		200 000	TAURON Wytwarzanie S.A.	TAURON Wytwarzanie S.A.
guarantee	EUR	500	2 131	TAURON Czech Energy s.r.o.	CEZ a.s.
collateral for bank guarantee	PLN		202	TAURON Serwis GZE Sp. z o.o.	Nordea Bank Polska S.A.

The following changes took place in the 6-month period ended 30 June 2012:

- The agreement signed by TAURON Polska Energia S.A. on 25 February 2011, concerning declaration to provide a financial support in the amount of PLN 87,040 thousand to the subsidiary Elektrociepłownia Tychy S.A. in order to cover the costs of the project relating to “Construction of a biomass power plant and modernization of the fluidized OF-135 boiler in Elektrociepłownia Tychy S.A.”, expired in February 2012.
- The agreement signed by TAURON Polska Energia S.A. in January 2011, concerning a guarantee for a blank promissory note issued by the subsidiary Elektrownia Stalowa Wola S.A., currently TAURON Wytwarzanie S.A., for the benefit of Polskie Sieci Elektroenergetyczne Operator S.A., for an amount of PLN 4,000 thousand, was terminated in the 1st quarter of 2012.
- The guarantee granted in favor of TAURON Czech Energy s.r.o. for an amount of CZK 20,000 thousand, for the benefit of UniCredit Bank Czech Republik a.s., expired in June 2012.

Claims of Huta Łaziska S.A.

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

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

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

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

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

25. Assets pledged as security

Under the debentures issue program the Company provided a declaration of submission to enforcement:

- up to the amount of PLN 1,560,000 thousand – valid until 31 December 2016,
- up to the amount of PLN 6,900,000 thousand – valid until 31 December 2018 (as at 31 December 2011 up to PLN 3,600,000 thousand – the increase of this amount by PLN 3,300,000 thousand is due to the signing of another agreement under which the value of the program of issue of TAURON Polska Energia S.A.'s debentures was increased by PLN 2,750,000 thousand, up to the total amount of PLN 7,050,000 thousand, as discussed in detail in Note 20.1.).

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

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

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

Liabilities secured on the assets of TAURON Polska Energia S.A. include lease agreements, which are secured by pledges on the vehicles leased by the Company. The carrying amount of vehicles leased by the Company amounted to PLN 1,405 thousand as at 30 June 2012 and PLN 2,039 thousand as at 31 December 2011.

26. Capital commitments

The Company's capital commitments as at 30 June 2012 amounted to PLN 661 thousand and resulted from the agreement for the implementation of the electronic WorkFlow system relating to purchase invoices and development of the functionalities of the ERP system used by the Company.

Capital commitments as at 31 December 2011 resulted from the same source as those as at 30 June 2012 and amounted to PLN 768 thousand.

(in PLN thousand)

27. Related party disclosures

27.1. Transactions with related companies and State Treasury companies

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

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

Revenues and expenses

	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Revenue from related companies, of which:	**5 562 923**	**4 444 687**
Revenue from operating activities	3 942 404	3 406 871
Dividends	1 550 613	1 008 705
Finance income	69 906	29 111
Revenue from State Treasury companies	**563 297**	**475 033**
Costs from related companies, of which:	**(433 853)**	**(362 292)**
Costs of operating activities	(418 871)	(341 188)
Finance costs	(14 982)	(21 104)
Costs from State Treasury companies	**(361 752)**	**(92 158)**

Receivables and payables

	As at 30 June 2012 (*unaudited*)	As at 31 December 2011 (*adjusted figures*)
Loans granted to related companies and receivables from related companies, of which:	**3 547 046**	**1 999 896**
Trade receivables	676 448	543 759
Debentures	2 564 351	1 150 043
Loans granted under cash pool agreement	181 247	55 656
Other loans	125 000	250 438
Receivables from State Treasury companies	**129 228**	**141 658**
Payables to related companies, of which:	**581 132**	**845 087**
Trade payables	133 637	136 769
Loans received under cash pool agreement	377 865	452 632
Liability arising from overpayment of income tax	69 630	–
Liabilities arising from acquisition of long-term investments	–	255 686
Payables to State Treasury companies	**132 678**	**10 867**

Among the State Treasury companies, the largest contractors of TAURON Polska Energia S.A. in the 6-month period ended 30 June 2012 as regards sales revenue included KGHM Polska Miedź S.A., PKP Energetyka S.A. and Kompania Węglowa S.A. Revenue from those companies accounted for 75% of total revenue from transactions with State Treasury companies.

The largest costs were incurred as a result of transactions with PGE Polska Grupa Energetyczna S.A., Zespół Elektrowni Pątnów Adamów Konin S.A., PSE Operator S.A. and Kompania Węglowa S.A., which accounted for 90% of total costs incurred as a result of purchases from State Treasury companies.

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

(in PLN thousand)

27.2. Compensation of key management personnel

The amount of compensation and other benefits of the Board of Directors, Supervisory Board and other key management personnel of the Company for the 6-month period ended 30 June 2012 is presented in the table below.

	6-month period ended 30 June 2012 (*unaudited*)	6-month period ended 30 June 2011 (*unaudited*)
Board of Directors	**4 099**	**5 057**
Short-term employee benefits (salaries and surcharges)	3 605	4 424
Other	494	633
Supervisory Board	**468**	**344**
Short-term employee benefits (salaries and surcharges)	468	344
Total	**4 567**	**5 401**
Other members of key management personnel	**4 833**	**3 477**
Short-term employee benefits (salaries and surcharges)	4 333	3 116
Post-employment benefits	84	–
Other	416	361

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

28. Details of other significant changes in the reporting period

Finance costs

The PLN 107,774 thousand increase in finance costs in the 6-month period ended 30 June 2012 compared with the comparative period is mainly due to interest expense on debentures issued in December 2011 and January 2012, as described in Note 20.1. Interest expense on the debentures issued in the 6-month period ended 30 June 2012 amounted to PLN 123,341 thousand, and for the 6-month period ended 30 June 2011 PLN 21,277 thousand.

29. Events after the balance sheet date

Agreement for prospecting work and extraction of shale hydrocarbons

On 4 July 2012, Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and TAURON Polska Energia S.A. (Parties) signed an agreement for prospecting and extraction of shale hydrocarbons.

Under this agreement, the Parties will collaborate in prospecting, evaluation and extraction of hydrocarbons in geological formations covered by PGNiG's license for prospecting and evaluation of oil and gas deposits in the Wejherowo area ("the Wejherowo license"). Under the Wejherowo license, close collaboration will cover an area of approx. 160 square kilometers ("Collaboration Area"). In addition, the Agreement envisages preferences for the Parties regarding possible collaboration in the remaining area of the Wejherowo license (except where PGNiG has decided to carry out prospecting, evaluation or extraction of hydrocarbons on its own and except for the area in which PGNiG has already been conducting prospecting work in the Opalino and Lubocino districts). The Agreement provides for cooperation based on the target structure of a limited partnership, which will extract hydrocarbons after successful prospecting. The Parties expect to transfer the license for extraction of hydrocarbons to this company after it has been obtained by PGNiG. Each of the Parties will participate in the control of the implementation of the project, in particular by being a member of the operating committee appointed specifically for this purpose.

The estimated expenditure for prospecting, evaluation and extraction in the first three pad locations (Kochanowo, Częstkowo and Tępcz) within the Collaboration Area amounts to PLN 1,720,000 thousand. The detailed terms of collaboration, including: the detailed budget and timetable of the project, the Parties' shares in the financing of the expenditures arising from the agreed budget, shares in profits derived from the project and the basis of their responsibility, including contractual penalties, in the event of a non-fulfillment, in particular by PGNiG, of certain obligations under the Agreement, will be determined by the Parties within four months of the date of signing the Agreement. If no such detailed arrangements are made, each Party will have the right to terminate the Agreement. If the Parties do not acquire all the required corporate consents within three months of making such arrangements, or if the consents required for concentration are not obtained by 30 December 2012, the Agreement shall expire.

Loan agreement with the European Investment Bank

On 3 July 2012, TAURON Polska Energia S.A. signed a loan agreement with the European Investment Bank for a total funding of PLN 900,000 thousand.

The funds obtained under this loan are to be used for investments in power grids – for the implementation of a 5-year investment program relating to modernization and development of the power grids of TAURON Dystrybucja S.A. in Southern Poland. The total cost of the project is approx. PLN 2,000,000 thousand. The first tranche of the loan of PLN 450,000 thousand was drawn in July 2012. The remaining amount will be utilized as needed. The maximum period for the repayment of the funding is 12 years from the date of payment of the first tranche of the loan.

This is the third agreement between TAURON Polska Energia S.A. and the European Investment Bank. Previously – in October 2011 – the Company signed two loan agreements for a total amount of PLN 510,000 thousand, for the implementation of two investment projects in TAURON Wytwarzanie S.A.

Katowice, 13 August 2012

Dariusz Lubera	– President	....
Joanna Schmid	– Vice President	....
Dariusz Stolarczyk	– Vice President	....
Krzysztof Zamasz	– Vice President	....
Krzysztof Zawadzki	– Vice President	....

MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP IN THE FIRST HALF OF 2012

AUGUST 2012

TABLE OF CONTENTS:

1. ORGANISATION OF TAURON CAPITAL GROUP

1.1. Basic Information on TAURON Capital Group

Key companies of TAURON Capital Group, besides the parent company, TAURON Polska Energia S.A. (hereinafter referred to as the Company or TAURON) also include 17 subsidiaries subject to consolidation and indicated in item 1.3 hereof.

Moreover, TAURON Capital Group consists of 24 other subsidiaries as well as 13 affiliates with the capital interest between 50%–20% and 30 companies with the capital interest below 20%. It should be mentioned that the value of shares in these companies constitutes about 0.5% of assets of TAURON Capital Group.

The parent company, TAURON Polska Energia Spółka Akcyjna, was established on 6 December 2006 under the implementation of the *Programme for Power Engineering.* The founders of the Company included: The State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław, ENION S.A., with its seat in Kraków and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola. The Company was registered in the National Court Register on 8 January 2007 under the name of enterprise: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007. The company does not have any branches (plants).

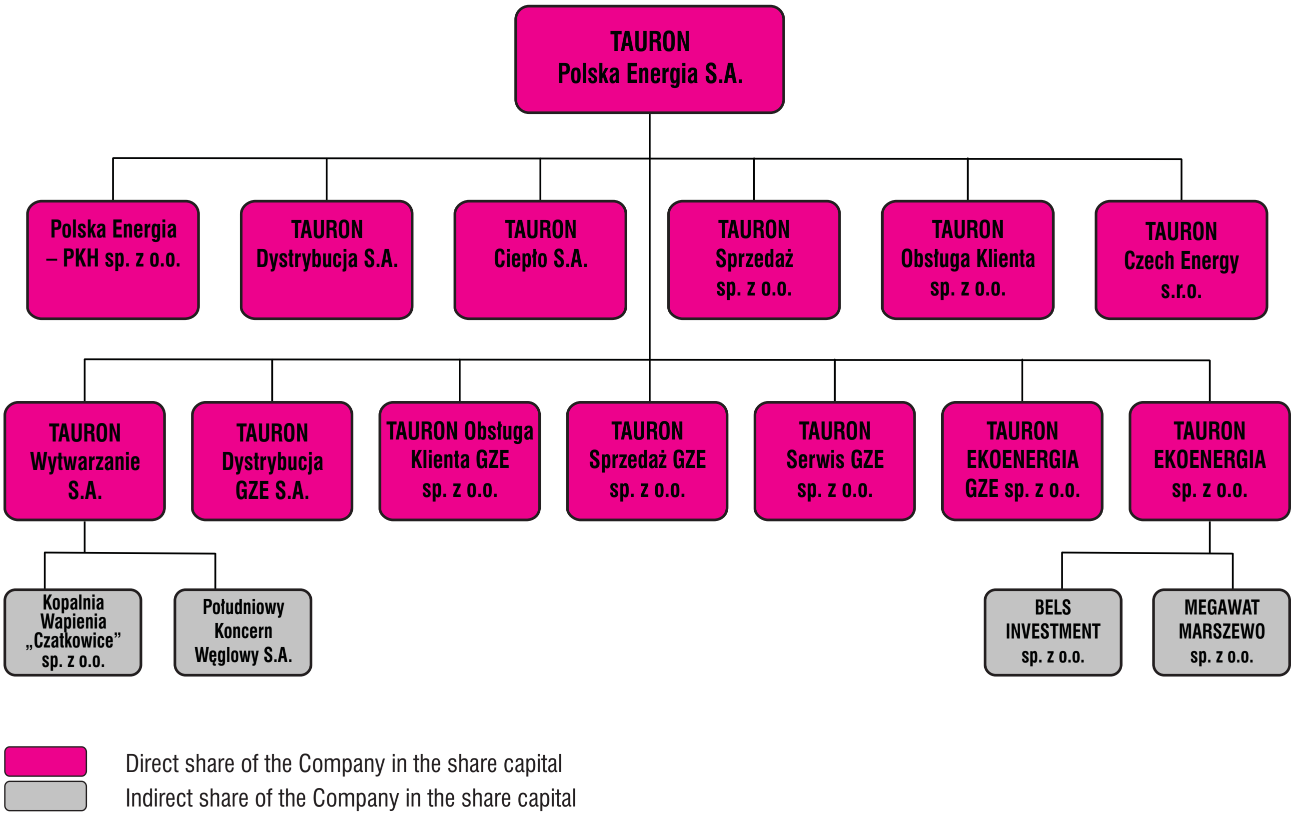
Among the companies of TAURON Capital Group subject to consolidation, the most important subsidiaries include:

1) TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) – dealing with generation of power from conventional sources and biomass co-burning,
2) TAURON Dystrybucja S.A. (TAURON Dystrybucja) and TAURON Dystrybucja GZE S.A. (TAURON Dystrybucja GZE) – providing electric energy distribution services,
3) TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA) and TAURON Ekoenergia GZE sp. z o.o. (TAURON Ekoenergia GZE) – dealing with generation of power from renewable sources,
4) TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) – dealing with supply of electric energy to retail customers,
5) TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) and TAURON Obsługa Klienta GZE sp. z o.o. (TAURON Obsługa Klienta GZE) – dealing with customer service,
6) TAURON Ciepło S.A. (TAURON Ciepło) – dealing with heat generation, distribution and sales,
7) Południowy Koncern Węglowy S.A. (PKW) – dealing with hard coal mining.

1.2. Structure of TAURON Capital Group

The chart below presents the structure of TAURON Capital Group, considering the companies subject to consolidation, as of 30 June 2012 and as of the day of this report.

Figure No. 1 Structure of TAURON Capital Group, according to the status as of 30 June 2012 and as of the date of this report



1.3. Entities subject to consolidation

As of 30 June 2012, within the TAURON Capital Group, financial statements of following subsidiaries were subject to consolidation with the financial statement of the Company, by applying the full consolidation method:

1. TAURON Wytwarzanie S.A. (TAURON Wytwarzanie),
2. TAURON Dystrybucja S.A. (TAURON Dystrybucja),
3. TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż),
4. TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta),
5. TAURON Ciepło S.A. (TAURON Ciepło),
6. TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA),
7. TAURON Czech Energy s.r.o. (TAURON Czech Energy),
8. Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH),
9. Południowy Koncern Węglowy S.A. (PKW),
10. Kopalnia Wapienia Czatkowice sp. z o.o. (KW Czatkowice),
11. BELS INVESTMENT sp. z o.o. (BELS INVESTMENT),
12. MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO),
13. TAURON Dystrybucja GZE S.A. (TAURON Dystrybucja GZE),

14. TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE),
15. TAURON Serwis GZE sp. z o.o. (TAURON Serwis GZE),
16. TAURON Ekoenergia GZE sp. z o.o. (TAURON Ekoenergia GZE),
17. TAURON Obsługa Klienta GZE sp. z o.o. (TAURON Obsługa Klienta GZE).

TAURON Capital Group also holds a project under joint-venture – Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola), accounted for by equity method.

1.4. Effects of changes in the structure of TAURON Capital Group

In the first half of 2012, processes involving transformations within the TAURON Capital Group were continued. In the framework of the projects conducted, among others:

– the number in entities operating in the Heat Business Area was decreased (merger of three entities with TAURON Ciepło company),
– exploitation operations in the Renewable Energy Sources (RES) Business Area were re-arranged,
– Stage I of the Programme of acquisition and integration of the assets of Górnośląski Zakład Elektroenergetyczny S.A. (GZE) was completed through incorporation of GZE company to TAURON.

Below, effects of changes in the structure of TAURON Capital Group are presented, including those occurring due to merger of business entities, takeover or sales of TAURON Capital Group entities, long-term investments, demerger, restructuring and discontinuation of operations.

Contributing the shares of TAURON Ekoserwis sp. z o.o. by TAURON[1] to TAURON EKOENERGIA

On 4 April 2012 TAURON and its single-person subsidiary – TAURON EKOENERGIA signed the agreement concerning the contribution of all 22,000 shares of the company TAURON Ekoserwis sp. z o.o., at the par value of PLN 50 each and the aggregate nominal value of PLN 1,100 thousand, constituting 100% of the company shares, to TAURON EKOENERGIA by TAURON, as the contribution in kind, in exchange for the shares in the increased share capital of TAURON EKOENERGIA.

The aforementioned activity resulted from the adopted *Strategy for the Development of Renewable Energy Sources Area in TAURON Group for 2011–2015, with estimates up to the year 2020* and its objective was to streamline the exploitation operations in the RES Business Area.

Merger of TAURON Ciepło with the companies: Elektrociepłownia Tychy S.A., Elektrociepłownia EC Nowa sp. z o.o. and Energetyka Cieplna w Kamiennej Górze sp. z o.o.

On 30 April 2012 the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register issued its decision on having incorporated the merger of the following companies to the register of entrepreneurs of the National Court Register: TAURON Ciepło (the acquiring company) and Elektrociepłownia Tychy S.A. (EC Tychy), Elektrociepłownia EC Nowa sp. z o.o. (EC Nowa) and Energetyka Cieplna w Kamiennej Górze sp. z o.o. (EC Kamienna Góra) (the acquired companies). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, *the Code of Commercial Companies*, i.e. through assignment of the total assets of the acquired companies to the acquiring company in exchange for the shares which were issued by TAURON Ciepło to the shareholders/shareholders of EC Tychy, EC Nowa and EC Kamienna Góra. The exchange ratio was established in such a way that:

– one share of EC Tychy corresponds to 1,364 shares of TAURON Ciepło,
– one share of EC Nowa corresponds to 60,170 shares of TAURON Ciepło,
– one share of EC Kamienna Góra corresponds to 88,837 shares of TAURON Ciepło.

Accordingly, the share capital of TAURON Ciepło was increased from the amount of PLN 444,664 thousand to PLN 865,937 thousand, i.e. by PLN 421,273 thousand.

Consequently, as of 30 June 2012, TAURON held solely the shares in the acquiring company – TAURON Ciepło.

Merger of TAURON EKOENERGIA with Lipniki company

On 1 June 2012, the District Court for Wrocław–Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued its decision on having incorporated the merger of the following companies to the register of entrepreneurs of the National Court Register: TAURON EKOENERGIA (the acquiring company) and Lipniki sp. z o.o. (Lipniki) (the acquired company). The merger was executed pursuant to

[1] *On 5 June 2012, the District Court for Kraków–Śródmieście registered the change of enterprise name of the company Zespół Elektrowni Wodnych Rożnów sp. z o.o. to TAURON Ekoserwis sp. z o.o. in the National Court Register.*

art. 492 § 1 item 1 of the Act of 15 September 2002, *the Code of Commercial Companies*, i.e. through assignment of the total assets of the acquired companies to the acquiring company. The merger was performed without increase of the share capital and without amendment to the company Articles of Association. The only shareholder of the acquired company was the acquiring company.

Consequently, as of 30 June 2012, TAURON held solely the shares in the acquiring company – TAURON EKOENERGIA.

The aforementioned activity resulted from the adopted *Strategy for the Development of Renewable Energy Sources Area in TAURON Group for 2011–2015, with estimates up to the year 2020* and its objective was to streamline the exploitation operations in the RES Business Area.

Merger of TAURON with the GZE subsidiary

On 12 June 2012 the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register issued its decision on having incorporated the merger of the following companies to the register of entrepreneurs of the National Court Register: TAURON (the acquiring company) and GZE (the acquired company). The merger was executed pursuant to art. 492 § 1 item 1 of the Act of 15 September 2002, *the Code of Commercial Companies*, i.e. through assignment of the total assets of the acquired company to the acquiring company.

On 16 April 2012, TAURON became the sole shareholder of GZE company, in connection with finalising the buyback of GZE company shares, held by the minority shareholders, implemented in accordance with art. 418 of the Act 15 September 2002, *the Code of Commercial Companies*. Within the framework of the aforementioned process TAURON bought 307 shares of the company GZE S.A., becoming the owner of the total of 1,250,000 shares of this company. Accordingly, the share of TAURON in the share capital and in the votes at the General Meeting of GZE S.A. was increased from 99.98% to 100%.

Considering the fact that the acquiring company held 100% of interest in the share capital of the acquired company, the merger was performed under art. 515 §1 of *the Code of Commercial Companies,* i.e. without increase of the share capital of the acquiring company and under art. 516 § 6 of *the Code of Commercial Companies,* i.e. according to the so-called simplified procedure, namely, without the Merger Plan having been submitted to examination by the chartered accountant. The conditions of the merger were specified in the Merger Plan adopted by the Extraordinary General Meeting of TAURON on 6 June 2012, and the resolution on the merger was disclosed to the public in current report No. 29/2012 of 6 June 2012.

Following the merger, TAURON has directly taken over the stocks and shares in the following significant companies, formerly held by GZE:

- TAURON Dystrybucja GZE S.A.,
- TAURON Serwis GZE sp. z o.o.,
- TAURON Sprzedaż GZE sp. z o.o.,
- TAURON Ekoenergia GZE sp. z o.o.,
- TAURON Obsługa Klienta GZE sp. z o.o.,
- TAURON Wytwarzanie GZE sp. z o.o.

The objective of the merger was to streamline the structure of TAURON Capital Group in accordance with the assumptions of the Corporate Strategy which stipulates consolidation of TAURON Capital Group companies.

The Company informed about registration of the merger of TAURON with the GZE subsidiary in current report No. 31/2012 of 14 June 2012.

2. INFORMATION CONCERNING THE PARENT COMPANY

2.1. Composition of the Management Board and the Supervisory Board

Composition of the Management Board as of 30 June 2012 and as of the date of this report

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

In the period covered by this report, no changes in the composition of the Management Board of the Company took place.

Composition of the Supervisory Board as of 30 June 2012 and as of the date of this report

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

Changes in the Supervisory Board composition

Pursuant to personal authority of the State Treasury arising from § 23 section 1 item 3 of the Company Articles of Association, as of 11 January 2012, the Member of the Supervisory Board, Michał Michalewski, was dismissed by the State Treasury, who had been appointed to the Supervisory Board as its Member on 6 October 2008.

The Company informed of this event in the current report No. 3/2012 of 12 January 2012.

At the same time, as of 11 January 2012, Rafał Wardziński was appointed as the Member of the Supervisory Board for the Third Joint Term, pursuant to the personal authority of the State Treasury arising from § 23 section 1 item 3 of the Company Articles of Association.

The Company informed of this event in the current report No. 4/2012 of 12 January 2012.

On 2 February 2012, the Supervisory Board introduced changes within the scope of the function of Vice Chairman of the Supervisory Board, electing Rafał Wardziński as the Vice Chairman of the Supervisory Board, to replace Agnieszka Trzaskalska, hitherto acting in this capacity.

2.2. Shares and Shareholders

2.2.1. Structure of the share capital

As of 30 June 2012 and as of the day of this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and was divided into 1,752,549,394 shares at par value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

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

The structure of shareholders holding at least 5% of the total number of votes at the General Meeting of the Company, either directly or indirectly, through their subsidiaries, has not changed since the date of presentation of the report of TAURON Capital Group for the first quarter of 2012 and, as of the date of this report, i.e. 30 June 2012, it was as follows:

Table No. 1 Shareholders holding large blocks of shares directly or indirectly

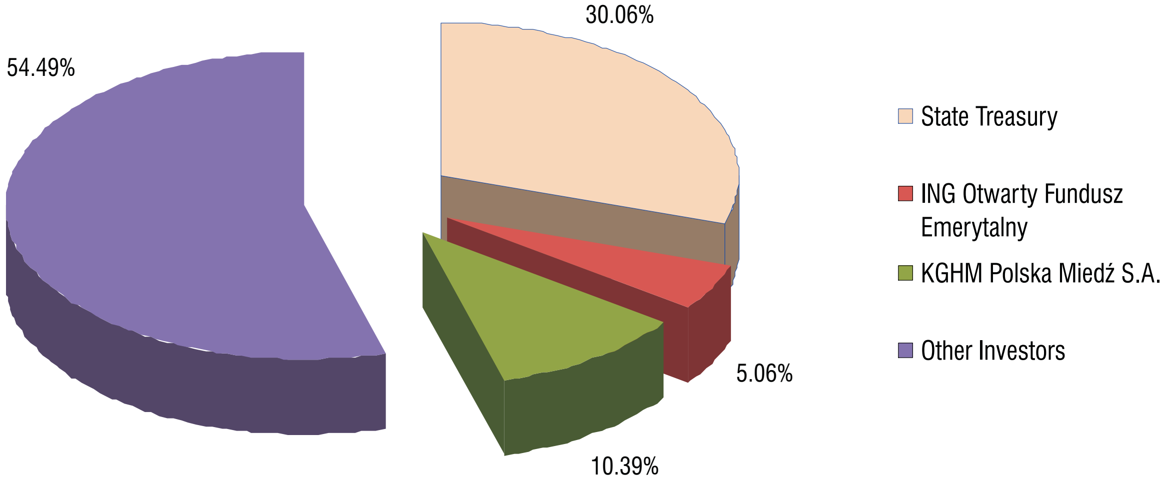
Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest in the general number of votes
State Treasury*	526,883,897	30.06%	526,883,897	30.06%
KGHM Polska Miedź S.A.**	182,110,566	10.39%	182,110,566	10.39%
ING Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

** In accordance with the shareholder's notification of 29 March 2011*

*** In accordance with the shareholder's notification of 23 March 2011*

**** In accordance with the shareholder's notification of 28 December 2011*

Figure No. 2 Shareholding structure as of 30 June 2012 and as of the date of this report



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

As of 30 June 2012 and as of the day of this report, the status of holding TAURON Polska Energia S.A. Company shares, or rights to the shares, by persons managing and supervising the Company was as follows:

Table No. 2 Proprietary status of the Company shares, or rights to the shares – managing persons

Name and surname	Number of shares as of 10 May 2012 (publication of the report for Q1 2012)	Change in number of shares held	Number of shares as of the date of the report
Dariusz Lubera	6,576	no change	6,576
Joanna Schmid	0	no change	0
Dariusz Stolarczyk	42,611	no change	42,611
Krzysztof Zamasz	935	no change	935
Krzysztof Zawadzki	27,337	no change	27,337

no change – lack of any changes

Table No. 3 Proprietary status of the Company shares, or rights to the shares – supervisory persons

Name and surname	Number of shares as of 10 May 2012 (publication of the report for Q1 2012)	Change in number of shares held	Number of shares as of the date of the report
Antoni Tajduś	0	no change	0
Rafał Wardziński	0	no change	0
Leszek Koziorowski	0	no change	0
Jacek Kuciński	935	no change	935
Włodzimierz Luty	935	no change	935
Jacek Szyke	0	no change	0
Marek Ściążko	0	no change	0
Agnieszka Trzaskalska	0	no change	0

no change – lack of any changes

2.3. Subject and scope of business operations

The main subject of the Company operations covers:

1) Operations of central companies (head offices) and holdings, excluding financial holdings (PKD 70.10 Z),
2) Electric energy trading (PKD 35.14 Z),
3) Wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z).

On 7 May 2012 the District Court for Katowice–Wschód in Katowice, 8th Commercial Department of the National Court Register entered the amendment to the Articles of Association in the register of entrepreneurs of the National Court Register, as adopted by the Ordinary General Meeting of the Company under Resolution No. 23 of 24 April 2012, concerning the amendment to the Articles of Association within the material change of the scope of the Company's operations. The amendments involved extension of the scope of activities by including crude petroleum and natural gas extraction, support activities for exploitation of deposits of these fuels, support activities for other mining and quarrying, manufacture and processing of refined petroleum products, manufacture of gas fuel and making test geological and engineering drilling and excavations. On 30 June 2012 the Supervisory Board of the Company, acting pursuant to § 20 section 1 item 12 of the Company Articles of Association, adopted the uniform text of the Articles of Association of TAURON Polska Energia S.A., considering the aforementioned amendments to the Articles of Association.

The Company informed about registration of the amendments to the Articles of Association and adoption of the uniform text of the Articles of Association in current reports No. 22/2012 of 8 May 2012 and 33/2012 of 30 June 2012.

As the parent entity TAURON holds the consolidating and governing function in the TAURON Capital Group.

Besides the governing function, the basic operations of the Company involve wholesale electric energy trading in the territory of the Republic of Poland, based on the concession on electric energy trading (OEE/508/18516/W/2/2008/MZn), issued by the President of the Energy Regulatory Office (ERU) for the period from 1 June 2008 until 31 May 2018.

The wholesale trading of electric energy focuses mainly on securing the purchasing and sales position of the TAURON Capital Group entities, and on sales of electric energy to end customers, directly by TAURON Company.

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

The Company is involved in energy trading, i.e. purchase and sales of energy on the wholesale market in Poland and abroad. The activities are conducted on the spot market and forward market, both in financial contracts and in contracts with physical delivery. TAURON actively participates in auctions of the cross-border exchange of energy transmission capacity on the Polish-Czech and Polish-German border, managed by the CAO auction office. The trade on the German market mainly takes place through the EEX exchange in the scope of trading the financial instruments of futures type, besides, transactions on the OTC market are also concluded (OTC-over the counter market). On the Czech market, through its subsidiary – TAURON Czech Energy, the Company operates on the Prague Power Exchange Central Europe a.s., comprising the markets of the Czech Republic, Slovakia and Hungary, as well as on the OTE a.s. exchange.

It should be indicated that the competence of the Company involves management of certificates of origin for the needs of the TAURON Capital Group, which constitute confirmation that electric energy was generated from renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas. This activity is based on active controlling of demand for certificates of origin in TAURON Capital Group and on purchase and sales of these units, in relation to companies of Generation Business Area, as well as companies selling electric energy to end consumers, consequently, being subject to the obligation to redeem certificates of origin. The activities on the market of proprietary rights are also conducted by TAURON in order to fulfil the obligation to redeem certificates of origin due to energy sales to end consumers.

The Company also serves as the competence centre in the area of CO_2 emission allowances for the companies of the TAURON Capital Group and the external customers. Since January 2011, the so-called Installation Group has been operating in the area of CO_2 emission allowances, administered by TAURON. The aim of establishment of the Installation Group was to provide for common settlement of emission allowances within installations belonging to the TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, based on increasing the effectiveness and efficiency as well as optimising the exploitation costs of available resources of the entities included in the TAURON Capital Group. Parallel to centralisation of this function in TAURON, the Company is in charge of settlement of CO_2 emission allowances of companies, cost-effective management of the allowances granted, provision of the subsidiaries' emission needs, support in negotiating the future emission allowances limits as well as introducing the companies into the new EU ETS (the European Union Emission Trading System) conditions after 2012. Implementing the above goals in the area of CO_2 emission allowances trading, the Company actively participates in the Paris exchange BlueNext as well as in the European Climate Exchange in London, EEX exchange in Leipzig and the European OTC market.

In addition, TAURON also acts as the Scheduling Coordinator for the companies of TAURON Capital Group and for external customers. Trade balancing is carried out on the basis of the transmission Agreement of 21 August 2008 concluded with the Transmission System Operator (TSO) – the PSE Operator company. At the turn of 2010 and 2011, the Company extended its capacity of the Scheduling Coordinator in favour of companies of TAURON Capital Group of the Generation Business Area. In accordance with the Instruction on Transmission Grid Operation and Maintenance, the Company currently holds exclusive trade and technical capacity in scheduling coordination, it is responsible for optimisation of generation, i.e. selection of generation units for performance as well as efficient distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, from various perspectives. Within the services provided to the Generation Business Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the TSO and the Distribution System Operator (DSO).

In accordance with the adopted business model, TAURON fulfils the governing function in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group. Since 1 January 2012 the Company, centralising the production fuel procurement, has been acting in the field of purchase and sales of biomass and provision of continuous supplies for the needs of the generating units included in TAURON Wytwarzanie. As of 1 June 2012 the operating activity has been extended in the scope of purchase of fuels and provision of continuous supplies by adding coal. Through consolidation of fuel procurement, competence in the area of gas fuel trading has also been successively built. On 27 April 2012 TAURON obtained the relevant concession for gas fuel trading on the territory of the country and on 9 July 2012, the Company applied to the President of ERO for approval of the Tariff for TAURON gas fuel.

3. BUSINESS OPERATIONS OF TAURON CAPITAL GROUP

3.1. The core business areas of TAURON Capital Group

TAURON Capital Group is a vertically integrated power utility holding the leading position in generation, distribution and supply of electric energy in Poland and in Central and Eastern Europe.

TAURON Capital Group conducts its operations in the following Core Business Areas (hereinafter also referred to as Segments):

Mining, comprising mainly mining, preparation and sales of hard coal in Poland, the activity which is provided by PKW.

Generation, comprising mainly generating of electric energy and heat from conventional sources, as well as generating of electric energy and heat using biomass co-burning, the activity which is provided by TAURON Wytwarzanie.

Renewable Energy Sources (RES), comprising generating electric energy from renewable sources (excluding generation of electric energy using biomass co-burning allocated in the Generation Business Area), as well as TAURON Capital Group projects in the area of energy generating from other renewable energy sources. These activities are carried out by: TAURON EKOENERGIA (including the acquired Lipniki company), BELS INVESTMENT and MEGAWAT MARSZEWO as well as TAURON Ekoenergia GZE.

Distribution, covering distribution of electric energy using distribution grids located in southern Poland, the activity which is provided by TAURON Dystrybucja, TAURON Dystrybucja GZE and TAURON Serwis GZE.

Sales, comprising sales of electric energy to end customers and wholesale trading of electric energy, as well as trading and management of fuels, CO_2 emission allowances and the proprietary rights arising from the certificates of origin. Operations in this area are carried out by the companies: TAURON, TAURON Sprzedaż, TAURON Czech Energy and TAURON Sprzedaż GZE.

Customer Service, covering mainly services provided to internal client (companies of TAURON Capital Group), in the scope of service related to the sales process and the financial-accounting process of selected companies of TAURON Capital Group. Within this area, TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE operate. Until the end of 2011, TAURON Obsługa Klienta was assigned to the Sales Business Area.

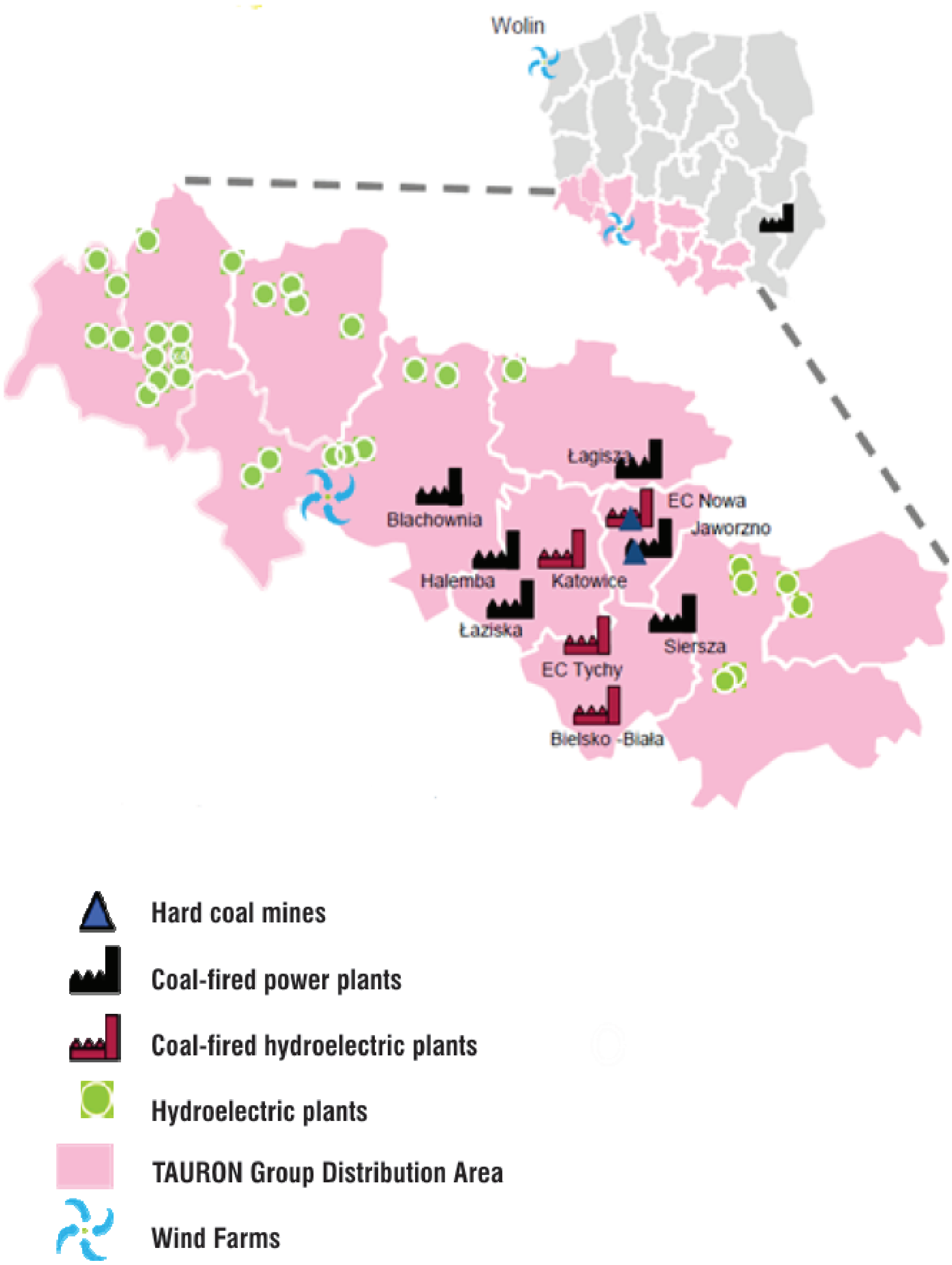
Heat, covering generation, distribution and sales of heat and other utilities, within which TAURON Ciepło operates (following the merger with the companies: EC Tychy, EC Nowa and EC Kamienna Góra). Until the end of 2011, the companies EC Tychy and EC Nowa were assigned to the Generation Business Area, while operations of TAURON Ciepło, until the end of 2011, constituted a part of other Group activities.

Other, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbents for installations of flue gas desulphurization using the wet method and for the use in the fluidized bed boilers (activity provided by the company KW Czatkowice). The company dealing with trading of electric energy and derivative products, i.e. PEPKH is also assigned to this Business Area.

TAURON Capital Group conducts its operations and acquires its revenues mainly from supply and distribution of electric energy, electric energy and heat generation and sales of hard coal.

The map below shows the location of key assets of TAURON Capital Group as well as areas within which the companies of TAURON Capital Group (TAURON Dystrybucja, TAURON Dystrybucja GZE) have been appointed as DSO.

Figure No. 3 Location of key assets of TAURON Capital Group



3.2. Significant events and achievements of TAURON Capital Group influencing its operations

The most important events of significant impact on operations of TAURON Capital Group, which occurred during the first half of 2012 are as follows:

Exceeding the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and PSE Operator

On 5 January 2012 the Company received data from PSE Operator concerning transmission services provided in favour of the companies of TAURON Capital Group, enabling clearing with PSE Operator for December 2011. The net value of turnover generated during the last twelve months between the companies of TAURON Group and PSE Operator reached about PLN 1,758 million (including: PLN 1,508 million of costs for the companies of TAURON Capital Group, and about PLN 250 million of income items), accordingly, the value of turnover has reached the material amount. Turnover of the highest value, i.e. about PLN 636.6 million net, was generated under the agreement of 15 January 2008, concluded between ENION S.A. (currently TAURON Dystrybucja S.A.) and PSE Operator.

The Company informed of this event in current report No. 1/2012 of 5 January 2012.

Signing the Annex to the Agreement for electricity supply of 11 March 2011

On 14 March 2012 the annex was signed to agreement for electricity supply, concluded on 11 March 2011 between TAURON, PGNiG Energia S.A. EC Stalowa Wola. The Agreement refers to the project called *Construction of a CCGT unit at Stalowa Wola* carried out in cooperation between TAURON and PGNiG, and its subject is the long-term supply of electricity generated at the CCGT unit at EC Stalowa Wola to TAURON and PGNiG Energia S.A. Under the annex concluded, PGNiG joined the Agreement as a party thereto. As a consequence, PGNiG and PGNiG Energia jointly exercise the rights they are entitled to under the Agreement, as joint creditors, bearing joint liability towards EC Stalowa Wola for obligations resulting from the Agreement.

The Company informed of this event in the current report No. 8/2012 of 14 March 2012.

Activity on the European exchange

In March 2012 TAURON commenced its activity on the ICE Futures Europe – ECX in London in the scope of CO_2 emission allowances trading on the forward market. Moreover, also in March 2012, TAURON expanded its activity on the EEX exchange by entering the CO_2 emission allowances market. In the first half of 2012 TAURON commenced its active participation in EEX in the scope of electric energy trading on the financial market, which shall allow for generating additional margin on *prop trading*. On 20 June 2012 TAURON acquired access to the European Community Transaction Log which replaced the previous national registers of the Member States covered by EU ETS.

Concluding of Agreement with GDF Suez Trading

On 3 April 2012 the framework agreement was concluded between TAURON and GDF Suez Trading (the parent company of GDF Suez Group), the subject of which is the settlement of any transactions to be concluded between the parties in connection with the purchase, sales, supply and consumption of electric energy, including options related to purchase, sales, supply and consumption of electric energy. The agreement has been concluded for indefinite period of time. The scope and terms of the Agreement with GDF Suez Trading are identical to the subject and terms of the Agreement concluded on 30 November 2011 between TAURON and Electrabel NV/SA belonging to GDF Suez Group (current report No. 58/2011 of 30 November 2011). Execution of the Agreement is the result of organizational changes in the GDF Suez Group, the target of which is to concentrate operations in the scope of electric energy trading in GDF Suez Trading.

The Company informed of this event in current report No. 14/2012 of 3 April 2012.

Amendment to the Company Articles of Association

On 24 April 2012 the Ordinary General Meeting of the Company adopted the resolution on amendment to the Company Articles of Association in the scope of significant amendments to the Company's scope of operations. Detailed information on the extension of the hitherto subject of operations by new kinds of activities is included in item 2.3 hereof.

The Company informed of this event in current report No. 17/2012 of 24 April 2012.

Payment of dividend by the Company

On 24 April 2012 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2011 and defined the amount allocated for payment of the dividend for shareholders, the dividend record day and the dividend payment day. Detailed information on the payment of dividend is included in item 4.6 hereof.

The Company informed of this event in current report No. 18/2012 of 24 April 2012.

Dismissal of the ERO President's appeal concerning determination of annual adjustment of stranded costs for 2008

On 25 April 2012 the Court of Appeal in Warsaw issued a decision (Decision) dismissing the appeal made by the President of ERO against the decision of the District Court in Warsaw – Court for Competition and Consumer Protection (CCCP) of 26 May 2010, concerning determination of the amount of annual adjustment of stranded costs due to TAURON Wytwarzanie S.A. for the year 2008, in connection with the early termination of long-term contracts for electricity and power supply (the so-called LTC compensation). As a consequence, TAURON Wytwarzanie obtained the return in the amount of PLN 158.84 million from Zarządca Rozliczeń S.A. (Settlement Manager). The Decision did not have direct impact on financial results of TAURON Wytwarzanie and TAURON Capital Group. The Decision is legally binding, however, the President of ERO is entitled to a cassation appeal before the Supreme Court.

The Company informed of this event in current report No. 19/2012 of 25 April 2012.

Signing the agreement between EC Stalowa Wola and Abener Energia S.A., the general contractor of the CCGT unit at Stalowa Wola

On 26 April 2012, the agreement between EC Stalowa Wola and the Spanish company Abener Energia S.A., the general contractor of the CCGT unit at Stalowa Wola was signed, concerning the implementation of the investment project involving construction of the CCGT unit at Stalowa Wola. The scope of the agreement covers the design, supply, installation, commissioning and start-up of the 400 MW CCGT unit, including installations and auxiliary facilities and the long-term service of the gas turbine. The value of the contract amounts to PLN 1.57 billion net.

The project on construction and exploitation of the gas-fired power and heating plant is implemented by PGNiG Group and TAURON Capital Group, through the EC Stalowa Wola special purpose vehicle, in which each of the partners holds 50% shares.

Obtaining the concession for gas fuel trading

In accordance with the decision of the President of ERO, on 27 April 2012 TAURON obtained the concession for gas fuel trading for the period from 4 May 2012 to 4 May 2022. On 9 July 2012, the motion was submitted to ERO for approval of the Tariff for TAURON gas fuels in the scope of gas fuel trading.

Detailed information on the submitted motion for approval of the Tariff for gas fuels is included in item 3.5 hereof.

Incorporation of EC Tychy, EC Nowa and EC Kamienna Góra by TAURON Ciepło

On 30 April 2012, the merger of the following companies was registered in the register of entrepreneurs of the National Court Register: TAURON Ciepło (the acquiring company) and: EC Tychy, EC Nowa and EC Kamienna Góra (the acquired companies).

Detailed information on the aforementioned incorporation is included in item 1.4 hereof.

Incorporation of Lipniki by TAURON EKOENERGIA

On 1 June 2012 the District Court for Wrocław–Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued its decision on registration of the merger of the companies TAURON EKOENERGIA (acquiring company) and Lipniki (acquired company).

Detailed information on the aforementioned incorporation is included in item 1.4 hereof.

Incorporation of GZE by TAURON

On 12 June 2012, the District Court for Katowice–East in Katowice, 8th Commercial Department of the National Court Register issued its decision on registration of the merger of TAURON company (acquiring company) and GZE company (acquired company).

Detailed information on the aforementioned incorporation is included in item 1.4 hereof.

Granting the loans for implementation of the investment project

On 20 June 2012, TAURON concluded agreements on granting two loans to EC Stalowa Wola at total amount of PLN 172 million. The funds are to be allocated for implementation of the investment project co-financed in cooperation with PGNiG, involving the construction of the CCGT unit of the capacity of approx. 400 MW_e and 240 MW_t under the *project finance* formula.

Increasing the value of the bond issue programme

On 29 June 2012 the agreement was signed, on the basis of which the value of bond issue programme was increased by tranche D and tranche E, at the value of PLN 2,475 million and PLN 275 million respectively, i.e. to the total amount of PLN 7,050 million. The funds to be obtained from the issue of tranche D and tranche E bonds will be allocated for financing of investment projects and general corporate expenses in the TAURON Capital Group.

The Company informed of this event in current report No. 32/2012 of 29 June 2012.

Biomass and coal trading

Since 1 January 2012 TAURON launched the biomass trading and since 1 June 2012 – the coal trading. In May 2012 TAURON concluded 15 trilateral agreements, pursuant to which it has entered into the rights and obligations of TAURON Wytwarzanie, arising from the agreements on coal sales, formerly concluded by TAURON Wytwarzanie with coal suppliers (coal trading companies, coal mines and other suppliers). Moreover, within the process of implementation of the centralised fuel trading model in TAURON Capital Group, assuming, on the one hand, acquiring by TAURON from the subsidiaries, the competence to purchase coal and coal slime from suppliers – coal trading companies, coal mines and other entities dealing with coal trading, and then reselling those fuels by TAURON to TAURON Group companies, in particular to TAURON Wytwarzanie S.A., on 5 June 2012 the agreement was concluded between TAURON as the Seller and TAURON Wytwarzanie as the Buyer, the subject of which is the settlement of terms and conditions of sales by TAURON to the Buyer of coal acquired from various sources of hard coal for power engineering purposes, to be used at power plants and combined heat and power plants belonging to TAURON Wytwarzanie. The Agreement was concluded for indefinite period of time – the estimated net value of the Agreement over the first year of its effective period (i.e. 12 subsequent months starting from 1 June 2012) amounts to approximately

PLN 2.4 billion. The value of the agreement over the five-year period may be significantly different than five times the aforementioned annual value due to, among others, expected results of fuel trading centralization. TAURON adopted the value of 10% of equity as the criterion to recognise the agreement as material. TAURON expects that actions related to fuel trading centralization will strengthen TAURON's negotiating position in long-term perspective and yield measurable profits in the area of optimization of fuel purchase cost due to concentration of their total volume in TAURON.

The Company informed of this event in current report No. 28/2012 of 5 June 2012.

Other

Information on significant events after 30 June 2012 until the date of publication of this report is included in item 3.5 hereof.

3.3. Implementation of strategic investment

In 2012, the following strategic investment projects were continued in TAURON Capital Group:

1) construction of CCGT unit, including the heat generation component at Stalowa Wola – the investment is implemented with participation of the strategic partner – PGNiG. On 15 April 2010 the Implementation Agreement was signed between TAURON, PGNiG, PGNiG Energia S.A. and Elektrownia Stalowa Wola which stipulates, in particular, the rules of preparation and execution of the investment process. As a result of the concluded tender procedure, the Abener Energia S.A. company was selected as the general contractor. In accordance with the offer submitted, the new unit will have the capacity of 400 MW_e and 240 MW_t. Delivery of the project is scheduled in 2015;
2) construction of 50 MW_e and 182 MW_t power unit, adjusted to electric energy and heat generation within the area of Zespół Elektrociepłowni Bielsko-Biała (ZEC in Bielsko-Biała) belonging to TAURON Wytwarzanie. The purpose of the investment is to replace the exploited and low-performance generation units with the unit of high performance, complying with all environmental protection requirements concerning emissions of NO_x, SO_2 and dust. Delivery of the investment is planned in mid-2013;
3) construction of 40 MW wind farm in Wicko. As a result of the tender procedure concluded in June 2012, the consortium of companies Aldesa Nowa Energia sp. z o.o. from Kraków and Aldesa Construcciones S.A. from Madrid was selected as the general contractor. Delivery of the investment is scheduled in 2013;
4) construction of 82 MW wind farm in Marszewo. On 19 January 2012 the Agreement with the General Contractor of the 82 MW wind farm was signed – the consortium of companies Iberdrola Engineering and Construction Poland, and Iberdrola Y Construccion. In 2012 the construction site was handed over to the Contractor. Development of the geological and technical documentation and the detailed design was completed. Commissioning is planned in 2014;
5) construction of 135 MW_e / 90 MW_t CCGT unit at Elektrociepłownia Katowice. In January 2012, the tender for the above mentioned investment was announced. In May 2012 the draft Terms of Reference were sent to 11 eligible contractors. Delivery of the project is scheduled in 2016;
6) construction of 50 MW_e / 45 MW_t co-generating biomass-fuelled unit at Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. The investment is under implementation. Completion of construction works is scheduled at the end of 2012;
7) modernisation of one of the boilers of 20 MW_e capacity in Elektrownia Stalowa Wola belonging to TAURON Wytwarzanie, in order to adjust it to biomass burning. This investment project is under implementation and completion of construction works is scheduled in the 4th quarter of 2012;
8) construction of a new 50 MW_e / 86 MW_t co-generation unit at TAURON Ciepło (formerly EC Tychy) and modernisation of the existing unit in order to adjust it to biomass burning. The two-stage tender procedure is in progress in order to select the contractor of the new block. Construction and assembly works of the biomass boiler and the biomass feeding installation are also on-going. The completion of the project in the scope of the boiler reconstruction is planned at the end of 2012, and in the scope of the new co-generation block – at the end of 2015;
9) construction of a 910 MW unit with supercritical parameters at Elektrownia Jaworzno III belonging to TAURON Wytwarzanie. On 28 February 2012 invitations to submit offers were sent, including the Terms of Reference under the tender procedure aimed at selection of the contractor. The invitations were sent to 5 bidders participating in the procedure. Completion of this investment project is planned in 2018;
10) construction of installation for flue gas de-nitrification in 6 blocks at Elektrownia Jaworzno III and 4 blocks at Elektrownia Łaziska belonging to TAURON Wytwarzanie. This investment will enable to reduce the NO_x emission in these units to the levels to be binding in Poland starting from 2018. Modernisation of blocks No. 2 and 4 at Jaworzno was completed. Construction of flue gas de-nitrification at block No.12 at Łaziska was implemented, including the common part for all blocks. The construction works are to be conducted until 2016;
11) construction of a 850 MW CCGT unit at Elektrownia Blachownia – within the actions undertaken by the Company and TAURON Wytwarzanie in the scope of the project on reconstruction of generation capacity at Elektrownia Blachownia, with participation of

the strategic partner KGHM. On 14 June 2012 all the required documents were sent to the European Commission, thus completing the pre-notification procedure concerning the approval of capital concentration and establishment of the special purpose vehicle (SPV). On 23 July 2012 the approval was granted by the European Commission. The detailed information on the aforementioned decision is included in item 3.5 hereof. Commissioning of the project is planned in 2017.

3.4. Information on agreements concluded by companies of TAURON Capital Group

3.4.1. Material transactions with the affiliated entities under conditions other than arm's length basis

All the transactions with the affiliates are concluded on arm's length basis. The detailed information on transactions with affiliated entities has been provided in note 29 to the consolidated financial statement of TAURON Polska Energia S.A. Capital Group, compliant with the International Standards of Financial Reporting, for the period of 6 months ended on 30 June 2012.

3.4.2. Information on guarantees, loans or credit sureties granted

During the reporting period, covering the first half of 2012, neither the Company nor its subsidiaries have granted any loan or credit sureties or guaranties – jointly to one entity or this entity's subsidiary, at the aggregate value equivalent to the value of at least 10% of TAURON Polska Energia S.A. equity.

3.5. Significant events after 30 June 2012

Loan facility agreement with the European Investment Bank (EIB)

On 3 July 2012, TAURON signed the loan facility agreement with EIB at the total amount of financing at the level of PLN 900 million. EIB will co-finance the implementation of the five-year investment programme, aimed at strengthening, modernisation and extension of electric energy grids of TAURON Dystrybucja company, located in the southern Poland.

On 16 July 2012, TAURON acquired funds from the loan facility under discussion, at the level of PLN 450 million. The remaining amount will be used in accordance with the investment needs. The maximum period of financing repayment is 12 years following the date of disbursement of the first tranche of the loan.

Concluding the framework agreement on the Exploration for and Extraction of Shale Gas

On 4 July 2012 the Company signed a framework Agreement on the exploration for and extraction of shale gas. The parties to the Agreement include: TAURON, PGNiG, ENEA, KGHM and PGE. The subject of cooperation of the Parties under the Agreement will be the exploration, evaluation and extraction of shale gas in geological formations covered by the concessions granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG. With respect to the Wejherowo Concession, the close cooperation will involve an area of approximately 160 km^2. Moreover, the Agreement also provides for preferential treatment of the Parties with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG on its own engages in exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino).

The Agreement provides for cooperation based on the targeted structure of a limited partnership which, following the successful exploration, will extract shale gas. The Parties foresee the assignment of the concession for the extraction of shale gas to such limited partnership after it has been obtained by PGNiG. Each of the Parties will have participation ensured in control over the implementation of the project, in particular, through participation in the operating committee established for this purpose. The estimated expenditure on exploration, evaluation and extraction in the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are foreseen at the amount of PLN 1.72 billion. Details concerning the terms of cooperation, including the detailed project budget and timeline, the shares of the Parties in financing the expenditures arising from the budget agreed, shares in the project profits and the principles of responsibility, including contractual penalties in the case of failure to fulfil, in particular by PGNiG, certain obligations resulting from the Agreement, will be determined by the Parties within four months following the date of concluding the Agreement. Should such specific arrangements not be forthcoming, the Agreement may be terminated by each of the Parties. In the case if, within three months following such arrangements, the Parties have not received all of the required corporate approvals, or in case if, by 30 December 2012, the required antimonopoly clearances have not been received, the Agreement will expire.

The Company informed of this event in current report No. 34/2012 of 4 July 2012.

Submission of the motion for approval of the Tariff for TAURON Polska Energia gas fuel

In connection with the decision obtained on the concession for gas fuel trading, on 9 July 2012, the motion was submitted to the President of ERO for approval of the Tariff for TAURON gas fuels in the scope of gas fuel trading. Holding the Tariff for gas fuel will enable sales of the gas fuel to the companies of TAURON Capital Group. Moreover, considering the liberalisation process of the gas trading market, TAURON is planning its active participation in offering and sales of gas to the industrial end consumer and on the wholesale gas markets.

Submission of the motion is also planned concerning, as a first step, obtaining the promise of concession for natural gas trading, and following the fulfilment of the formal requirements, obtaining the concession for natural gas trading abroad. Holding the concession, TAURON will obtain a possibility for purchase/sales of gas fuel on other gas markets. Such a possibility will supplement the operations started in the scope of gas fuel trading on the domestic market, based on the concession held for gas fuel trading. The gas fuel acquired in such a way will be sold to the companies of TAURON Capital Group to cover the needs and processes associated with the electric energy production. Furthermore, it will also allow for diversification of the purchase portfolio in terms of the number of suppliers, and the average purchase price of the gas fuel, which will consequently result in providing the reliability of supplies to the TAURON Capital Group companies, at the possibly lowest price of the gas fuel.

Concluding the agreements in the scope of coal sales for TAURON Ciepło

In July 2012 TAURON concluded 6 trilateral and quadrilateral agreements, pursuant to which it has entered into the rights and obligations of TAURON Ciepło, arising from the agreements on coal sales, formerly concluded by TAURON Ciepło with coal suppliers (coal trading companies, coal mines and other suppliers).

On 2 August 2012, TAURON concluded the agreement on coal sales with TAURON Ciepło, effective as of 1 August 2012, for indefinite period of time.

Obtaining the approval for concentration of TAURON Wytwarzanie and KGHM

On 23 July 2012 the decision of the European Union was obtained, granting the approval for concentration of the capital of TAURON Wytwarzanie and KGHM, namely, the establishment of the joint venture in order to construct the gas and steam block at Elektrownia Blachownia. In accordance with the agreement, each of the Partners will take over 50% of shares in the SPV assigned for implementation of the project involving the construction of the new block.

The cooperation between KGHM and TAURON in this area started in April 2009 by signing the letter of intent on construction of the electricity generation source on the premises of Elektrownia Blachownia belonging to TAURON Wytwarzanie, when the construction of the unit based on coal fuel was assumed. Considering the requirement of diversification of the generation portfolio arising from the market conditions and the Corporate Strategy, as well as on the basis of the performed analysis of benefits resulting from the change of the project variant from “coal” to “gas”, in April 2011, the decision was taken on eligibility for further design works, assuming the “gas option”. The aim of the investment project is the replacement of the generation capacity in TAURON Wytwarzanie, simultaneously maintaining the hitherto position of the company on the electric energy market.

The positive decision of the Commission opened the way forward to further actions, i.e. establishment of the special purpose vehicle to manage the construction process of the new project. In accordance with the assumptions, the project involving the construction of the new block will be funded from own funds of the partners and from external sources – the facility drawn by the new SPV.

Decision of the ERO President concerning determination of annual adjustment of stranded costs for 2011

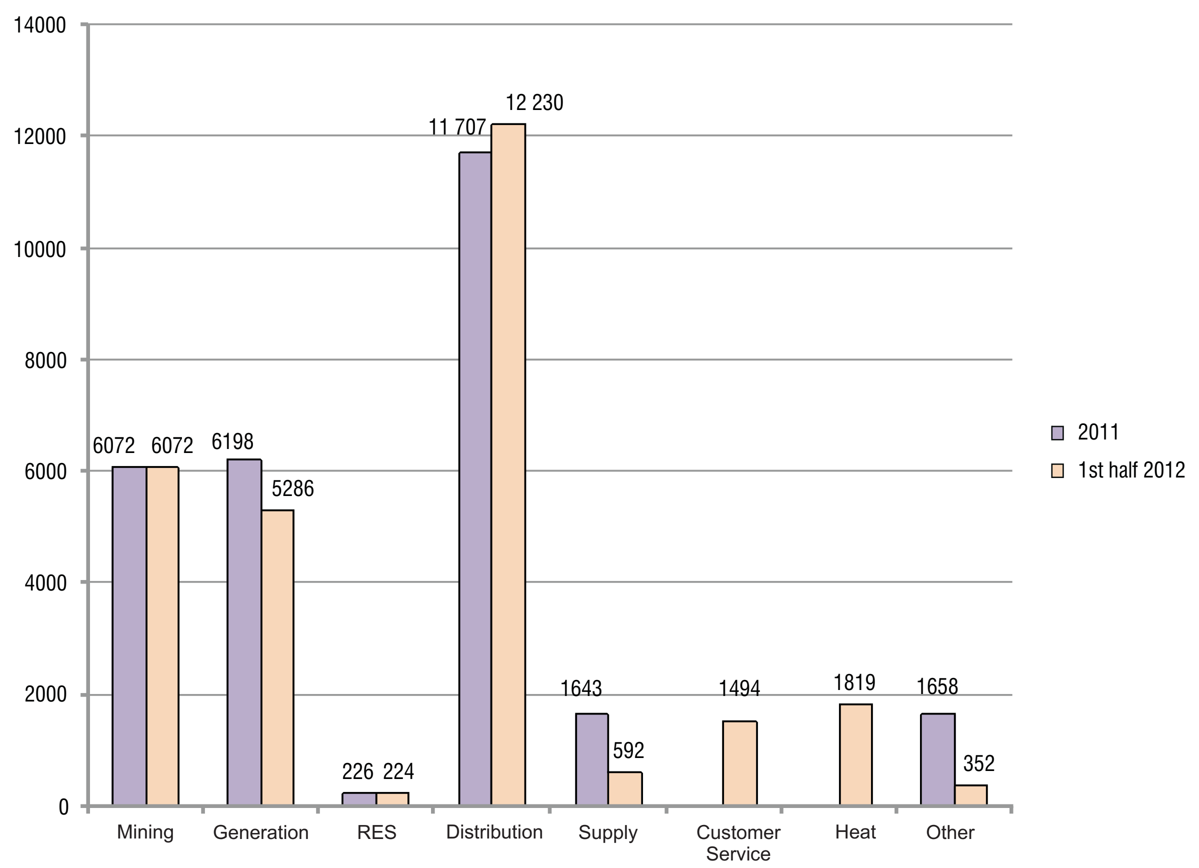
On 7 August 2012 the decision of the President of URE was received by the TAURON Wytwarzanie company, issued on 31 July 2012, concerning the positive value of the annual adjustment of stranded costs for 2011, at the level of PLN 211,676,638. The total value of stranded costs received within the programme of covering the stranded costs for 2011 amounted to PLN 377.6 million, whereas the amount of PLN 166 million was already disbursed as quarterly advance payments. The settlements covered by the decision are compliant with the Company estimates.

3.6. Employment in TAURON Group

The total average employment in TAURON Capital Group in the first half of 2012 reached 28,069 FTEs, while in 2011 it reached 27,504 FTEs.

The average employment in TAURON Capital Group in FTEs (rounded up to the full FTE), in 2011 and in the first half of 2012, divided into individual Areas of operations, is presented in the figure below.

Figure No. 4 Average employment in TAURON Capital Group in FTEs in 2011 and the first half of 2012 divided into the areas of operations*



** In connection with acquisition of GZE shares, the average employment for the year 2011 was calculated taking into consideration the takeover of GZE companies as of 13 December 2011*

As of 30 June 2012, 27,844 persons were employed in the companies of TAURON Capital Group. The decrease in employment by 499 persons was noted, as compared to the employment status as of 31 December 2011, reaching 28,343 persons.

Changes in employment in individual Business Areas in the first half of 2012, as compared to the average employment in 2011, result, among others from the implemented Voluntary Redundancy Programmes in the Segments of Distribution, Generation and Heat, from mobility of employees among individual Segments of TAURON Capital Group, and from acquiring the GZE companies. The average employment in GZE companies in 2011 was calculated from the date they had been acquired, i.e. 13 December 2011 and it made 84 FTEs, while in the period of the first half of 2012 it has reached 1,624 FTEs, which results in the increase of the aggregate average employment in TAURON Capital Group in this period.

Separation of two new Segments of operations in 2012: Customer Service and Heat, affected the changes in levels of average employment in the other Segments. In the first half of 2012 the Heat Business Area consisted of the companies which, in 2011, were included in Generation Business Area (EC Nowa and EC Tychy – incorporated into TAURON Ciepło since 30 April 2012 and in Other Business area (TAURON Ciepło). On the other hand, the Customer Service Business Area consists of the companies which were assigned to the Trade Business Area in 2011 (TAURON Obsługa Klienta and TAURON Obsługa Klienta GZE).

3.7. Description of the main threats and risk factors for TAURON Capital Group, associated with the remaining months of the financial year

Taking care for implementation of the Corporate Strategy, the Company manages business risks occurring in operations of the whole TAURON Capital Group. The business risks management process is aimed at implementation of the adopted business objectives of the TAURON Capital Group as a part of the acceptable risk level adopted by the Company's Management Board.

The Comprehensive Risk Management System operating in the Company, covers significant risks which occur in the activities of TAURON Capital Group. The risks identified are defined, in particular, by determining their significance level and probability of materialization. In such a way, the system involves and arranges all the resources of TAURON Capital Group, by developing the infrastructure of corporate risk management (strategy, processes, authorisation, reporting, methodology and IT tools). The Risk Management System covers all elements of the value chain of TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process.

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

Macroeconomic risk – is associated, in particular, with the level of the Gross Domestic Product (GDP), level of the interest rates, currency exchange rates, fiscal and monetary policy of the state, unemployment rate and level of investment. The macroeconomic risk factors may materially affect the financial results and the market position of the Company, especially through the level of production of electric energy and heat as well as energy distribution and sales volume, availability and cost of acquisition of financial instruments.

Political risk – is connected with the manner and type of the state intervention in the whole economy and in its individual sectors. The political risk factors may have significant impact on the conditions and legal framework of the Company operations, in particular, through changes in the energy or financial policy of the state.

Risk of unstable legal system and the European Union regulations connected with the performance of the energy sector, including the environment protection – the risk applies to legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse effect on operations of TAURON Capital Group and its financial situation through increase of the enterprise performance costs or loss of concessions within the scope required for the operations performed.

Risk of non-compliance with the requirements of ERO/requirements of the Office for Competition and Consumers Protection (UOKiK) and the Instruction of transmission grid operation and maintenance (IRIESD) – the risk is associated with the capacity of the aforementioned bodies to challenge the adequacy of the operations carried out by TAURON Capital Group in the scope of independence and equal treatment of entities on the market, compliance with the anti-monopoly regulations and abuse of the dominating position. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through imposing the financial penalties.

Risk of Capital Group organisation and corporate management – risk connected with ineffective cooperation between the Group companies, within the reporting process, management processes and information management. The risk factors many have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete implementation of the Capital Group strategic objectives or the extended period of their accomplishment.

Competition risk – connected with the progressing liberalization of the energy market, especially with the planned release of electric energy prices for G group consumers and releasing the heat prices, as well as in connection with changes on the retail market and the consumers' right to change a provider. The risk factors many have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through decrease of the margin achieved on the electric energy sales or losing its hitherto consumers.

Risk of fund raising and financing service – this risk is associated with the possibilities to raise funding for operating and investment needs or the costs of acquiring the funds. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.

Risk connected with the termination of LTC – the risk of challenging by the President of ERO of the amounts due to cover stranded costs as well as of the requirement to return the advance payments received on that account. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, including its financial situation or results of its activities through the possibility of the European Commission challenging the rules of utilising the resources of the programme as the public aid which is in non-compliance with the common market, and the consequent necessity to return the received aid with interest.

Environmental risk, including the risk associated with the atmospheric conditions – consists in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to incur significant costs of compliance, pay indemnities, or a potential of threat to implementation of production tasks.

Risk connected with the obligation to redeem CO_2 allowances – the risk is connected with emitting of CO_2 to the atmosphere as well as the need to redeem a relevant number of CO_2 allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial situation or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability.

Risk of approval of tariffs by the President of ERO – the risk is connected with the failure of the President of ERO to approve the requested tariffs concerning the products offered and services provided, limited possibility to introduce amendments to the tariffs approved before and the refusal to recognise investment expenditure in the development plan, or in their part which shall not cover the actual costs of their generation. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations and decreased profitability.

Property failure risk – the risk of occurrence of significant and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through the need to incur additional costs of grid and non-grid infrastructure repairs, blackouts and disruptions in operations as well as with the need to pay discounts or fines.

Risk of fixed assets management – the risk associated with the lack of possibility to use the fixed assets due to its ineffective management causing its poor technical condition, inadequate costs of fixed assets insurance resulting from its underestimation or overestimation, as well as the costs of holding redundant assets.

Risk of occurrence of natural hazards or unfavourable geological and mining conditions – the risk connected with hazards to accomplishment of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as water and fire conditions.

Risk of atmospheric conditions, climatic changes connected with maintenance of the wind farms – the risk associated with instability of atmospheric conditions affecting the volume of electric energy production. In the case of decrease or exceeding the wind speed beyond the range established, it is necessary to turn off the turbines, both for maintenance and for safety reasons. In the winter season the phenomenon of icing of the wind blades of the wind mill may occur, forcing its standstill.

Risk of purchase of energy fuels – the risk connected with significant and/or unexpected changes in prices of coal and other fuels. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, including those connected with the need to fulfil the requirements of production process and the legal requirements concerning maintenance of relevant fuel reserves, or imposing a fine in case of failure to fulfil these conditions.

Risk of the process of contract awarding/procurement process of supplies/services – the risk is associated with a possibility of significant growth of prices of supplies/services provided by contractors, or their decreased availability. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs, extension of the process of preparation and conducting the procedure, awarding the contract unfavourable for the Company or delay in implementation of an investment project.

Risk of unregulated legal status of the property utilised – the risk is connected with a possibility of occurrence of massive claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased operational costs or interruption of business continuity due to undermining of the legal status and claims of the third parties.

Risk of loss of the status of the Tax Capital Group (TCG) – the risk is associated with a possibility to lose this status by PGK due to the failure to comply with the statutory requirements. Various interests of individual participants, incomplete information, lack of legal regulations, may lead to risk materialisation, which will result in the lack of possibility to take advantage of tax optimisation processes within TCG.

Volumetric risk – risk related to volatility of electric energy trade volume. The volumetric risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through increased costs connected with closing of open positions on the day-ahead forward market and/or balancing market, on futures market and/or spot market as well as loss of income and decrease of margin on sales of electric energy to consumers.

Risk of price volatility – the risk associated with the uncertainty in the scope of development of electric energy prices, prices of CO_2 emission allowances and proprietary rights arising from certificates of origin. The fluctuations of prices may materially affect the financial result of TAURON Capital Group.

Risk of human capital management – the risk is associated with the management of human capital as the key resource of the enterprise. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the loss or lack of specialised personnel, as well as increased expenditure on remuneration and high expenditure incurred due to acquiring and training of new or current employees.

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

4.1. Principles of compiling the semi-annual condensed consolidated financial statements

The interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2012 was compiled in accordance the International Financial Reporting Standards (IFRS), approved by the UE, in particular, in compliance with the International Accounting Standard No. 34.

IFRS cover standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee.

The interim condensed consolidated financial statement for the period of 6 months, ended on 30 June 2012 was compiled with the assumption of continuation of business operations by the TAURON Capital Group companies in the predictable future. As of the date of approval of this financial report for publication, no circumstances are recognised, indicating any risk for business continuity of the TAURON Capital Group companies.

The accounting principles (policy) applied to generate the semi-annual condensed consolidated financial statement have been provided in note 4 to the interim condensed consolidated financial statement of TAURON Polska Energia S.A. Capital Group, compliant with the International Standards of Financial Reporting, for the period of 6 months, ended on 30 June 2012.

4.2. Financial situation of TAURON Capital Group following the first half of 2012

Sales structure according to core business areas

The table below shows the volumes and structure of sales of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for the period of the first half of 2012, and for the second quarter of 2012, compared to the corresponding periods of 2011.

Table No. 4 Volumes and structure of sales of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations (compared to the corresponding periods of the previous year)

Specification	unit	H1 2012	H1 2011	Change	Q2 2012	Q2 2011	Change
Sales of coal by Mining Segment	M Mg	**2.46**	2.57	-4.3%	**1.31**	1.43	-8.4%
Supply of electricity and heat by Generation Segment	TWh	**9.89**	12.34	-19.8%	**4.62**	5.86	-21.2%
	PJ	**6.11**	5.86	4.3%	**1.17**	1.26	-7.1%
Supply of electricity generated in hydroelectric power plants and wind farms by RES Segment	TWh	**0.28**	0.20	40.0%	**0.14**	0.09	55.6%
Electricity distribution services provided by Distribution Area	TWh	**24.18**	19.20	26.0%	**11.48**	9.31	23.3%
Retail supply of electricity by Supply Segment	TWh	**22.54**	18.37	22.7%	**10.75**	9.13	17.7%
Sales of heat purchased and generated by Heat Segment	PJ	**7.85**	7.53	4.2%	**1.40**	1.45	-3.4%

Coal mining

The basic activity conducted by TAURON Capital Group within the Mining Business Area covers mining, preparation and sales of hard coal. Through PKW, the TAURON Capital Group directly owns and runs Zakład Górniczy Sobieski and Zakład Górniczy Janina.

In the first half of 2012, PKW produced in total about 2.57 M t of commercial coal, i.e. slightly less (by about 1%) than in the corresponding period of 2011 when the production of commercial coal reached about 2.6 M t.

In the second quarter of 2012, the level of coal production reached about 1.36 M t and it was by about 5.6% lower than in the second quarter of 2011 when PKW had intensified the output, making up for the losses caused by more difficult mining and geological conditions occurring in the previous periods.

The volume of coal sales in the first half of 2012 reached almost 2.5 M t (over 1.3 M t in the second quarter of 2012), which means the decrease by approx. 4.3% as compared to the corresponding period of 2011, when the volume of sales reached almost 2.6 M t (approx. 1.4 M t in the second quarter of 2011). In the period under analysis, the mining and geological conditions allowed for unconstrained mining exploitation, however, in relation to the corresponding period of 2011, the coal mining was a little less intensive, which is reflected in the lower level of production and sales of commercial coal.

Generation

The basic activity of the Generation Business area within TAURON Capital Group comprises generation of electric energy and heat in 9 power plants and co-generation plants (installations simultaneously generating electric power and useful heat), coal-fired or using biomass co-burning. The total installed capacity of the generation units of the Generation Area at the end of June 2012 reached 5,159 MW_e of electric energy, which makes 13.9% of the national generation capacity and 2,444 MW_t of heat.

In the first half of 2012, the Generation Area produced about 8.8 TWh of net electric energy (including about 0.35 TWh from biomass), which makes about 19% less than in the corresponding period of 2011 when the production of net electric energy reached 10.8 TWh (including 0.27 TWh from biomass). Lower production of net electric energy results from current availability of the blocks as well as from market conditions (generation costs covering the purchase of CO_2 emission allowances, in relation to prices of electric energy). The performance was additionally limited due to commissioning of the new unit of Elektrownia Bełchatów.

Sales of electric energy from own production at a lower level allowed for optimum allocation of production among individual generation units, which was reflected in the more favourable level of achieved unit variable costs of electric energy generation. Sales of electric energy from own production, including energy purchased for trading purposes in the first half of 2012 reached over 9.89 TWh, which means the decrease by 19.8%, in relation to the corresponding period of 2011.

Sales of heat by the Generation Area in the first half of 2012 reached about 6.1 PJ, (under production at the level of approx. 6.7 PJ and, in relation to production and sales in the corresponding period of 2011, amounting to approx. 5.9 PJ (under production of approx. 6.4 PJ), it was higher by about 4.3%, which is the consequence of different weather conditions occurring in the first half of 2012, increasing the heat demand (much colder and longer winter).

RES

The basic activity conducted by TAURON Capital Group in the RES Area comprises generation of electric energy from renewable sources in hydroelectric plants and wind farms as well as managing the TAURON Group Projects in the area of energy generation from renewable energy sources. In RES Area 35 hydroelectric plants of total achievable capacity of 132.7 MW_e operate as well as two wind farms of the total achievable capacity of 60.75 MW_e, which makes 3.5% of the total installed capacity of TAURON Capital Group.

In the first half of 2012, the RES Area generated and sold 0.28 TWh of electric energy, as compared to 0.20 TWh in the corresponding period of the previous year, which means the increase of production by over 40% in relation to the level reached in the first half of 2011. The increased production and sales was possible mainly due to acquisition of wind farms Lipniki and Wolin in 2011. The favourable hydro-meteorological conditions provided for obtaining slightly higher production of electric energy in hydroelectric plants, as compared to the corresponding period of the previous year.

Distribution

TAURON Capital Group is the largest electricity distributor in Poland, both in terms of volume of the electric energy supplied and revenue gained from distribution activity. The Distribution Area exploits distribution grids of considerable range, located in the southern part of Poland.

The volume of electric energy transmitted to almost 5.3 million consumers by the companies of Distribution Business Area of the TAURON Capital Group increased by approx. 5 TWh, i.e. by 26%, from approx. 19.2 TWh in the first half of 2011 (9.3 TWh in the second quarter of 2011) to 24.2 TWh in the first half of 2012 (11.5 TWh in the second quarter of 2012), which was associated with the takeover of GZE distribution area. Bringing the results to comparability, without considering the GZE company volume, the electric energy supply in the first half of 2012, as compared to the corresponding period of 2011, has shown upward tendency, due to the increased demand of Group A and B consumers. In the first half of 2012, increased volume of export supplies and supplies to the neighbouring DSO was noted.

Supply

The Supply Business Area comprises activities focused on sales of electric energy and the wholesale trading of electric energy and other products of the energy market. Operations in the area of sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading cover mainly wholesale trade of electric energy, trade and management of CO_2 emission allowances and the proprietary rights arising from the certificates of origin.

The volume of retail sales of electric energy by the companies of Supply Business Area of the TAURON Capital Group increased by approx. 4.2 TWh YoY, i.e. by 23%, from approx. 18.4 TWh in the first half of 2011 (approx. 9.1 TWh in the second quarter of 2011) to over 22.5 TWh in the same period of 2012 (almost 10.8 TWh in the second quarter of 2012). The increased volume of sales can be mainly attributed to takeover of GZE sales area. Bringing the results to comparability, without considering the GZE company volume, the upward tendency of energy sales has been maintained. The increased supply volume was caused by acquiring new clients, increased energy consumption by the strategic clients of TAURON Capital Group, provided mainly directly by TAURON and industrial consumers at medium voltage.

Heat

The Heat Business Area covers operations involving generation, distribution and sales of heat and other utilities.

In the first half of 2012 sales of heat generated and purchased by the company of this Business Areas amounted to 7.85 PJ in relation to 7.53 PJ in the first half of 2011. The growth in the volume of sales occurred due to acquisition of new consumers as well as the increased demand for heat due to weather conditions in the first quarter of 2012 (lower ambient temperature than in the first quarter of 2011). During the period of 2012 under analysis, the co-generation plants of the segment generated and sold about 0.27 TWh of electric energy, i.e. slightly less than in the first half of 2011, which results from reconstruction of BC-35 Boiler at the Tychy Generation Plant.

Analysis of financial situation

In the table below, the analysis of financial situation of TAURON Capital Group for the first half of 2012 is presented.

Table No. 5 Structure of the semi-annual condensed consolidated statement on financial situation

Consolidated statement on financial situation	Status as of 30 June 2012	Status as of 31 December 2011
ASSETS		
Fixed Assets	**82%**	82%
Current assets	**18%**	18%
Fixed assets permanently classified for trade	0.05%	0.03%
TOTAL ASSETS	**100%**	100%
LIABILITIES		
Equity attributable to shareholders of the parent company	55%	55%
Non-controlling shares	2%	2%
Total equity	**57%**	57%
Long-term liabilities	28%	26%
Short-term liabilities	15%	17%
Total liabilities	**43%**	43%
TOTAL LIABILITIES	**100%**	100%
Financial liabilities	**5,144,188**	4,537,106
Net financial liabilities	**4,439,168**	4,031,436
Ratio net debt/EBITDA	**1.47**	1.33
Current liquidity ratio	**1.18**	1.06

In the structure of assets as of 30 June 2012 the fixed assets constitute about 82% of the total assets, which does not divert from the structure reached as of 31 December 2011. Analogically, the share of current assets did not change as of 30 June 2012, constituting 18% of the total assets.

In the structure of liabilities as of 30 June 2012 the liabilities still make about 43% of the total liabilities, among which, at the end of June 2012, the long-term liabilities make 28%, the short-term liabilities make 15%, which means slight change in the structure of debt as compared to the end of 2011 when the shares of liabilities, was, respectively: 26% and 17%. In relation to 2011, in 2012 the increase in net financial liabilities was noted, which resulted in the growth of ratio net debt to EBITDA – to the level of 1.47 (the ratio expressed in relation to EBITDA for 2011). The ratio of current liquidity increased to the level of 1.18. The liquidity of the Company is not at risk – the indicators are maintained at the safe level.

Consolidated statement on comprehensive income

The table below presents the selected items of the consolidated statement on comprehensive income of TAURON Capital Group for the period of 6 months, ended on 30 June 2012, as well as comparative data for the period of 6 months ended on 30 June 2011. These items are referred to in accordance with the interim condensed consolidated financial report of TAURON Polska Energia S.A. Capital Group, compliant with the International Financial Reporting Standards for the period of 6 months ended on 30 June 2012.

Table No. 6 Semi-annual condensed consolidated statement on comprehensive income

Statement on comprehensive income	H1 2012		H1 2011		Dynamics (2012/2011)
	in thousand PLN	% of total revenue on sales	in thousand PLN	% of total revenue on sales	
Continuing operations					
Revenue on sales of products, goods and materials without excluding the excise	9,454,865	76.8%	8,119,449	78.6%	116.4%
Excise tax	-272,854	2.2%	-225,527	2.2%	121.0%
Revenue on sales of goods, products and materials	9,182,011	74.6%	7,893,922	76.4%	116.3%
Revenue on sales of services	3,110,048	25.3%	2,416,965	23.4%	128.7%
Other revenue	21,927	0.2%	20,257	0.2%	108.2%
Revenue on sales	**12,313,986**	100.0%	**10,331,144**	100.0%	119.2%
Own cost of sales	-10,484,941	85.1%	-8,929,150	86.4%	117.4%
Gross profit (loss) on sales	**1,829,045**	14.9%	**1,401,994**	13.6%	130.5%
Other operating revenue	48,800	0.4%	44,458	0.4%	109.8%
Costs of sales	-230,974	1.9%	-150,790	1.5%	153.2%
Overheads	-335,167	2.7%	-308,572	3.0%	108.6%
Other Operating Expenses	-55,587	0.5%	-49,012	0.5%	113.4%
Operating profit (loss)	**1,256,117**	10.2%	**938,078**	9.1%	133.9%
Operating profit margin (%)	**10.2%**		**9.1%**		112.3%
Financial revenue	53,337	0.4%	54,821	0.5%	97.3%
Financial expenses	-168,118	1.4%	-77,495	0.8%	216.9%
Share in the profit (loss) of an affiliated entity and joint venture recognised by equity method	-671	0.0%	-539	0.0%	124.5%
Gross profit (loss)	**1,140,665**	9.3%	**914,865**	8.9%	124.7%
Gross profit margin (%)	**9.3%**		**8.9%**		104.5%
Income Tax	-252,650	2.1%	-186,918	1.8%	135.2%
Net profit (loss) on continuing operations	**888,015**	7.2%	**727,947**	7.0%	122.0%
Net profit margin (%)	**7.2%**		**7.0%**		102.9%
Net profit (loss) on discontinued operations					
Net profit (loss) for the financial year	**888,015**	7.2%	**727,947**	7.0%	122.0%
Other comprehensive income for the financial year including deduction of tax	-23,537		151		
Total income for the financial year	**864,478**	**7.0%**	**728,098**	7.0%	118.7%
Profit attributable to:					
Shareholders of the parent company	854,847	6.9%	704,033	6.8%	121.4%
Non-controlling interests	33,168	0.3%	23,914	0.2%	138.7%
Total income attributable to:					
Shareholders of the parent company	831,308	6.8%	704,184	6.8%	118.1%
Non-controlling interests	33,170	0.3%	23,914	0.2%	138.7%
EBIT and EBITDA					
EBIT	1,256,117	10.2%	938,078	9.1%	133.9%
EBITDA	2,070,030	16.8%	1,636,125	15.8%	126.5%

In the first half of 2012 TAURON Group recognised revenue on sales at the level of about PLN 12,313,986 thousand, as compared to PLN 10,331,144 thousand in the first half of 2011, which means the increase by about 19%. Such a high increase is mainly associated with the additional sales of electric energy and distribution service to 1.1 million new end consumers of the companies TAURON Sprzedaż GZE and TAURON Dystrybucja GZE. The increased number of clients of the Distribution and Sales Business Areas, as compared to the status at the end of the first half of 2011, reaching about 28%, has been directly converted to the increase in revenue on sales to the end consumers (by about 30%) and revenue on distribution of energy to the end consumers (by about 32%).

The revenue on sales also covers the revenue due to compensations related to the terminated LTC which reached PLN 276,611 thousand in the first half of 2012 (PLN 155,489 thousand in the second quarter of 2012), being higher by 64% than the revenue amounting to PLN 168,770 thousand, acquired in the corresponding period of 2011 (PLN 95,274 thousand in the second quarter of 2011), which is the result of lower result on compensations due to, among others, lower revenue on electric energy sales and higher unit costs of generation.

In the first half of 2012, as compared to the corresponding period of 2011, TAURON Capital Group reached higher revenue on sales in all operating segments, excluding the Generation Segment. The highest dynamics of revenue growth was observed in the segments comprising the GZE companies acquired at the end of 2011, i.e. the segments of Distribution, Sales, RES and Customer Service. In each of these segments, dynamics over 30% was achieved.

The own cost of sales in the first half of 2012 amounted to PLN 10,484,941 thousand, and it is by about 17% higher, as compared to the corresponding period of 2011. It results mainly from the increase of the variable and fixed costs of the companies included in the segments of Distribution, Sales, RES and Customer Service, acquired in 2011.

Costs of sales and overhead costs, covering costs (besides production) of assets depreciation, consumption of materials and energy, external services, as well as costs of remuneration and employees' benefits, in the scope they are used to implement the managerial and administrative functions, stayed at the level higher by 23% in the first half of 2012, in relation to the first half of 2011. This growth mainly results from recognising the costs of GZE companies, acquired at the end of 2011. Without recognising the costs of GZE companies, and after reclassification of costs of customer service, previously recognised as own costs of services provided, these costs reached the level lower by 6%, which is the effects of the programme cost effectiveness improvement, under implementation.

The growth of revenue and lower dynamics of cost increase is reflected in the improvement of the EBIT ratio (increase by PLN 318,039 thousand, i.e. about 33.9%) and EBITDA ratio (by PLN 433,905 million, i.e. 26.5%) and the net profit (increase by PLN 160,068 thousand, i.e. 22.0%).

The net profit margin for the first half of 2012 stays at the level of 7.2%, which means the level comparable to that reached in the comparable period of the previous year (7%).

In accordance with the consolidated statement of comprehensive income presented herein, the total aggregate income of TAURON Capital Group, considering the net profit increased or decreased by the change in value of hedging instruments, currency translation differences arising from conversion of the foreign unit and other revenue after tax deduction, in the first half of 2012 reached PLN 864,478 thousand, as compared to PLN 728,098 thousand in the first half of 2011, which means the increase by about PLN 136,380 thousand (18.7%). The total income attributable to shareholders of the parent company reached about PLN 831,308 thousand as compared to PLN 704,184 thousand in the same period of 2011, the profit attributable to shareholders of the parent company reached the level of PLN 854,847 thousand, as compared to PLN 704,033 thousand, gained in the same period of 2011.

4.3. Status of assets

Consolidated statement on financial situation

In the table below, consolidated statement on the financial situation as of 30 June 2012 is presented, in relation to 31 December 2011.

Table No. 7 Semi-annual condensed consolidated statement on financial situation (data in thousand PLN)

Statement on financial situation	Status as of 30 June 2012	Status as of 31 December 2011
ASSETS		
Fixed Assets	**23,849,197**	**23,248,498**
Tangible fixed assets	22,298,453	21,911,047
Intangible assets	1,015,259	988,950
Shares in affiliated companies and joint ventures recognised applying the equity method	22,046	22,717
Other long-term financial assets	271,600	197,470
Other long-term non-financial assets	216,155	96,349
Deferred Income tax assets	25,684	31,965
Current assets	**5,105,776**	**5,156,082**
Short-term intangible assets	668,742	870,954
Inventory	532,534	574,790
Receivables due to income tax	78,389	64,266
Trade receivables and other receivables	2,815,297	2,743,344
Other short-term financial assets	9,070	108,024
Other short-term non-financial assets	296,724	289,034
Cash and equivalents	705,020	505,670
Fixed assets classified for trade	**13,133**	**8,951**
TOTAL ASSETS	**28,968,106**	**28,413,531**

Statement on financial situation	Status as of 30 June 2012	Status as of 31 December 2011
LIABILITIES		
Equity	**16,439,210**	**16,139,068**
Equity attributable to shareholders of the parent company	**15,964,308**	**15,677,721**
Share capital	8,762,747	8,762,747
Supplementary capital	7,953,021	7,412,882
Hedging tools revaluation reserve	-32,514	0
Revaluation reserve on financial assets held of sale	9,226	0
Foreign Exchange differences due to translation of foreign units	-164	87
Retained profits/Uncovered losses	-728,008	-497,995
Non-controlling shares	**474,902**	**461,347**
Long-term liabilities	**8,189,894**	**7,431,923**
Loans, credits and debt securities	4,883,367	4,251,944
Liabilities due to leasing and lease contracts with purchase option	48,780	56,232
Long-term provisions and employee benefits	1,194,265	1,202,840
Long-term prepayments and governmental subsidies	630,731	642,549
Trade liabilities and other financial long-term liabilities	7,197	7,968
Provision due to deferred income tax	1,425,554	1,270,390
Short-term liabilities	**4,339,002**	**4,842,540**
Trade liabilities and other liabilities	2,131,516	2,349,201
Current portion of interest-bearing credits, loans and debt securities	197,340	214,169
Current portion of liabilities due to leasing and lease contracts with purchase option	14,701	14,761
Other short-term liabilities	796,374	644,910
Accruals and governmental subsidies	294,764	279,058
Liabilities due to income tax	45,975	163,437
Short-term provisions and employee benefits	858,332	1,177,004
TOTAL LIABILITIES	**28,968,106**	**28,413,531**

As of 30 June 2012, the balance sheet total of TAURON Capital Group was higher by about 2% in relation to the status as of 31 December 2011. At the end of June 2012, the fixed assets of TAURON Capital Group were higher by about 2.6%, whereas their substantial part, i.e. tangible fixed assets and intangible assets increased by 1.8%, which is the result of implementation of investment in generation and distribution assets. This is accompanied by the assets replacement ratio, reaching about 1.5, calculated as capital expenditure of the first half of 2012 against the depreciation and amortisation for the same period. The largest relative growth refers to other long-term non-financial assets, including mainly prepayments for tangible fixed assets.

The Current assets of TAURON Capital Group, according to the status as of 30 June 2012, reached the level of 99% of the status as of 31 December 2011, mainly due to decrease of the level of short-term intangible assets (certificates of origin of electric energy) and the increase of the level of cash (increase of the value of short-term deposits up to 3 months).

As of 30 June 2012 and as of 31 December 2011, the total equity, as the dominating source of financing of TAURON Capital Group assets, reached PLN 16,439,210 thousand and PLN 16,139,068 thousand, respectively, which constitutes about 57% of total liabilities in both cases. The share capital was not changed in the first half of 2012, whereas the level of the supplementary capital increased due to profit distribution for 2011.

The change in status of long-term liabilities in the first half of 2012 results mainly from the higher level of indebtedness due to bank credits, loans and securities. As of 30 June 2012, the value of liabilities due to the issue of bonds (including the interest accrued) amounted to PLN 4,301,603 thousand, which makes the value higher than the status at the end of 2011 by about PLN 154,400 thousand. The total value of the bond programme amounts to PLN 7,050,000 thousand. As of the balance sheet moment, the long-term financial liabilities cover the amounts of PLN 300,000 thousand and PLN 210,000 thousand of the loans raised from EIB, allocated for financing, respectively: the reconstruction and commissioning of the high-performance coal-fired block in co-generation, with the accompanying infrastructure in Zespół Elektrociepłowni in Bielsko-Biała (TAURON Wytwarzanie) and construction and commissioning of the new biomass-burning boiler of 50 MW_e and 45 MW_t at Elektrownia Jaworzno III (TAURON Wytwarzanie). After the balance sheet day, the subsequent facility agreement was signed with the EIB, at the level of PLN 900,000 thousand.

The short-term liabilities decreased by PLN 503,538 thousand (-10.4%) against the status as of 31 December 2011, mainly in connection with the decrease of trade liabilities, liabilities due to income tax and provisions, in total by PLN 653,819 thousand (among others, due to the use of provisions related to the obligation to present certificates for redemption by companies of the Sales Segment and the provision for costs of redemption of gas emission rights of the generation companies). The balance of short-term bank credits, loans and debt securities as of 30 June 2012 amounted to PLN 197,340 thousand, which means the slight decrease against the status as of 31 December 2011 (by PLN 16,829 thousand).

4.4. Cash Flows

Statement of Cash Flow

In the table below, the semi-annual condensed statement of cash flows is presented, for the first half of 2012, in relation to the first half of 2011.

Table No. 8 Semi-annual Statement of Cash Flow (data in thousand PLN)

Statement of Cash Flows	H1 ended on 30 June 2012	H1 ended on 30 June 2011
Cash flows from operating activities		
Gross profit (loss)	1,140,665	914,865
Adjustments	172,830	148,020
Net cash from operating activities	**1,313,495**	**1,062,885**
Cash flows from investment activities		
Sales of tangible fixed assets and intangible assets	6,710	19,786
Purchase of tangible fixed assets and intangible assets	-1,613,621	-932,831
Sales of other financial assets	109,766	25,065
Purchase of other financial assets	-14,009	-14,634
Acquisition of shares in affiliated companies and joint ventures recognised applying the equity method	0	-13,000
Dividend received	1,485	6,358
Granting of loans	-75,000	0
Interest received	1	27
Repayment of loans granted	0	25
Net cash from investment activities	**-1,584,668**	**-909,204**
Cash flows from financial activities		
Purchase of non-controlling interest	-4,184	-27,192
Repayment of liabilities due to financial leasing	-7,853	-14,920
Cash inflows due to loans/credits	549,000	75,594
Repayment of loans/credits	-96,515	-235,984
Issue of debt securities	150,000	0
Dividends paid to minority shareholders	-16,019	-10,885
Interest paid	-107,048	-28,199
Other	-1,734	-7,655
Net cash from financial activities	**465,647**	**-249,241**
Increase/(decrease) in net cash and cash equivalents	**194,474**	**-95,560**
Net exchange differences	122	146
Cash opening balance	**505,816**	**1,471,660**
Cash closing balance	**700,290**	**1,376,100**

Total cash flows from operating, investment and financial activity of TAURON Group for the first half of 2012 reached PLN 194,474 thousand, as compared to PLN -95,560 thousand for the first half of 2011. The change in value was mainly influenced by improved operating results and by the significantly higher expenses on acquisition of tangible fixed assets and intangible assets, partly financed by additional inflows due to the loans and credits drawn and issue of bonds.

The increase of the value of cash flows on operating activity in the first half of 2012, as compared to the first half of 2011 by PLN 250,610 thousand is the consequence of the higher result on operating activity, after deduction of depreciation and considering the payment of income tax. Adjustments bringing the accrual-based result to the cash-based result are comparable in both periods analysed.

Negative net cash flows on investment activity for the first half of 2012 result from the increased capital expenditure.

Positive net cash flows on financial activity for the first half of 2012 result mainly from the issue of bonds at the amount of PLN 150,000 thousand and the inflows from the EIB loans at the total amount of PLN 510,000 thousand.

Cash flows reached by TAURON Capital Group in the first half of 2012 correspond to the correct situation relevant for the developing enterprise: the operating cash stream is positive, the investment stream is negative and the financial stream is positive. It means that the investment expenses exceed operating inflows, therefore, acquisition of external financing sources is necessary for further development of TAURON Capital Group and for implementation of its investment plans.

4.5. Financial results according to core business areas

The table below shows the results of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for the first half of 2012 and the second quarter of 2012, as compared to the analogical periods of 2011. The data for individual Business Areas do not include consolidation exclusions.

Table No. 9 Results of TAURON Capital Group, divided into individual Core Business Areas (Segments) of operations for the first half and the second quarter of 2012 and 2011

Specification (thousand PLN)	H1 2012	H1 2011	Dynamics (2012/2011)	Q 2 2012	Q 2 2011	Dynamics (2012/2011)
Coal mining						
Revenue on sales	664,196	652,376	101.8%	357,215	368,310	97.0%
Operating profit	78,208	44,767	174.7%	55,461	49,181	112.8%
Amortisation	51,604	52,740	97.8%	25,949	26,704	97.2%
EBITDA	129,812	97,507	133.1%	81,410	75,885	107.3%
Generating electric energy and heat from conventional sources						
Revenue on sales	2,709,548	2,938,789	92.2%	1,240,138	1,400,652	88.5%
Operating profit	225,741	327,139	69.0%	104,302	153,365	68.0%
Amortisation	260,015	261,992	99.2%	127,367	128,065	99.5%
EBITDA	485,756	589,131	82.5%	231,669	281,430	82.3%
Generation of electric energy and heat from renewable sources						
Revenue on sales	130,329	93,132	139.9%	63,686	41,489	153.5%
Operating profit	82,226	55,911	147.1%	38,987	21,791	178.9%
Amortisation	20,780	12,036	172.6%	10,407	6,026	172.7%
EBITDA	103,006	67,947	151.6%	49,394	27,817	177.6%
Distribution of electric energy						
Revenue on sales	3,047,537	2,310,276	131.9%	1,485,137	1,120,759	132.5%
Operating profit	576,866	337,557	170.9%	345,830	170,155	203.2%
Amortisation	428,240	327,366	130.8%	214,176	165,712	129.2%
EBITDA	1,005,106	664,923	151.2%	560,006	335,867	166.7%
Sales of energy and other products of the energy market						
Revenue on sales	8,719,712	6,653,625	131.1%	4,215,129	3,265,661	129.1%
Operating profit	244,471	130,288	187.6%	148,092	45,677	324.2%
Amortisation	7,855	3,641	215.7%	2,972	2,024	146.8%
EBITDA	252,326	133,929	188.4%	151,064	47,701	316.7%
Customer Service						
Revenue on sales	168,319	126,141	133.4%	84,473	47,663	177.2%
Operating profit	19,551	6,917	282.7%	9,475	942	1005.8%
Amortisation	7,038	1,085	648.7%	3,568	576	619.4%
EBITDA	26,589	8,002	332.3%	13,043	1,518	859.2%
Heat						
Revenue on sales	523,962	495,714	105.7%	182,026	177,084	102.8%
Operating profit	66,565	60,252	110.5%	6,715	1,902	353.0%
Amortisation	34,215	35,219	97.1%	17,406	17,255	100.9%
EBITDA	100,780	95,471	105.6%	24,121	19,157	125.9%
Other						
Revenue on sales	255,403	219,436	116.4%	143,720	108,195	132.8%
Operating profit	20,616	15,261	135.1%	11,782	9,057	130.1%
Amortisation	4,166	3,968	104.9%	2,093	2,010	104.1%
EBITDA	24,782	19,229	128.9%	13,875	11,067	125.4%
Non-attributable items and exemptions						
Revenue on sales	-3,905,020	-3,158,345	123.6%	-1,912,391	-1,570,417	121.8%
Operating profit	-58,127	-40,014	145.3%	-29,804	-24,987	119.3%
Amortisation	0	0	–	0	0	–
EBITDA	-58,127	-40,014	145.3%	-29,804	-24,987	119.3%
Total EBITDA	**2,070,030**	**1,636,125**	**126.5%**	**1,094,778**	**775,455**	**141.2%**

Coal mining

In the first half of 2012 the revenue on sales of the Mining Business Area were slightly lower (by approx. 1.8%), as compared to the revenue reached in the first half of 2011, mainly due to the increase of the average sales price of coal (increase in prices of medium and thick assortments took place in the second half of 2011, in the first half of 2012, the level of prices was maintained). In the second quarter of 2012 the revenue on sales reached the level of 97% obtained in the corresponding period of 2011 when mining and production of coal was intensified due to making up for the losses after a period of more difficult mining and geological conditions.

EBIT of the Segment in the first half of 2012 was higher by approx. PLN 33,441 thousand (74.7%) in relation to the analogical period of the previous year and EBITDA was by approx. PLN 32,305 thousand (33.1%) higher. Besides the increased coal prices, the result on other operations had positive impact – caused mainly by the lower level of provisions in the scope of other operating activity.

Generation of electric energy and heat from conventional sources

In the first half of 2012 the revenue on sales in the Generation Segment decreased as compared to the first half of 2011, which results from the lower volume of electric energy sales (reasons are described in item 4.2 hereof). The decreased revenue, related to the lower sales volume, is partly compensated by the higher sales price of electric energy. Higher revenue on heat sales achieved in the first half of 2012 results from the lower ambient temperatures in February this year, and the increase in heat prices arising from the new tariff for heat introduced at the end of 2011.

In the first half of 2012, the increase of unit variable costs was noted, mainly due to the rise in prices of coal and heating oil. Moreover, rise in unit costs of biofuel was noted, as a result of the increased prices of individual types of biofuel as well as the growth of the compulsory share of the more expensive agro biomass.

The results achieved were negatively affected by the lower sales volume of electric energy from own production, higher unit generation costs, mainly due to the increased fuel costs, and increased fixed costs (the growth mainly arises from the provision established for costs of severance payment for employees leaving the company due to the on-going restructuring).

The factors which have positively influenced the results reached include the higher electric energy sales price, higher result on transactions of replacement of CO_2 emission rights – transactions involving the replacement of EUA emission allowances (European Union Allowances) by the CER (Certified Emission Reduction) and higher revenue on compensations to cover stranded costs due to termination of LTC (increase by PLN 107,841 thousand). This was mainly attributable to the change of result set in accordance with the provisions of the Act of 29 June 2007 on *principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy,* i.e. excluding of revenue-cost streamline related to activities other than production and sales of electric energy and Regulatory System Services (RUS). The mechanism for calculating and disbursement of funds to cover the stranded costs occurring in connection with termination of LTC assumes that in case of deterioration of market conditions, the amount of compensation will grow (with the limitation of the maximum ceiling), and in case if the result is better than forecasted, the level of compensation will decrease. Therefore, this mechanism has a certain neutralising impact on potential negative market events. Year 2012 is the last year of participation of the company TAURON Wytwarzanie in the programme of compensation of stranded costs.

Within the transactions involving replacement of CO_2 emission rights, the company of the Generation Segment sold the EUA emission allowances, granted within KPRUII (National Plan of Allowances Distribution), to the Company, simultaneously repurchasing the units of certified emission CER/ERU (Emission Reduction Unit). In the second settlement period (2008–2012), the Polish legislation permits individual installations included in the Community system of CO_2 emission trading to cover 10% of the emission by the CER units. The value of these units on the European markets is lower than the value of EUA emission allowances, and the difference in price allows the companies participating in the emission trading system to gain profit.

Generation of electric energy and heat from renewable sources

In the first half of 2012, the revenue on sales in the RES Segment increased as compared to the corresponding period of 2011, which was mainly affected by the increase in electric energy sales volume and the proprietary rights. The operating result EBIT and EBITDA result of RES Business Area reached higher level than in 2011. The revenue and result of this Business Area is mainly affected by the production volume of electric energy. The increase in this volume in relation to the comparable period of 2011 was significantly influenced by energy production in the wind farms of TAURON Ekoenergia and TAURON Ekoenergia GZE; the production of hydroelectric plants was also higher.

The higher sales price of electric energy and proprietary rights had positive impact on results of the RES Area, as compared to 2011, while the negative results were mainly related to higher fixed costs (the growth results mainly from additional costs connected with exploitation and maintenance of wind farms).

Distribution of electric energy

In the first half of 2012, as compared to the first half of 2011, the Distribution Segment of electric energy reached the increase in revenue by about 32%, the increase of results at the operating level by about 71%, and EBITDA result by about 51%. The improvement of EBIT result in the first half of 2012, in relation to the corresponding period of 2011, was mainly determined by acquisition of the companies of the distribution area of GZE, which did not belong to TAURON Group in the first half of 2011. EBIT of the first half of 2012 has also increased YoY against the result of the year 2011 brought to comparability. The following factors had positive impact on the results reached:

- increased volume of sales of distribution services – growth of electric energy consumption by end consumers of A and B groups, and simultaneous decrease of consumption by G group consumers,
- increased sales price of distribution services – application of the tariff adopted for the year 2012 and favourable changes in the sales structure provided for the growth of the average fee for distribution services by about 4% YoY,
- increased connection fees due to acquisition of new consumers, mainly in Wrocław area,
- increase of other revenue associated with distribution activities – increase of revenue due to fees for exceeding the load, in connection with the low temperatures in January and February 2012 and inadequate adjustment of contractual load by the consumers,
- Significantly lower costs of payroll and benefits, in particular, due to implementation of restructuring activities in TAURON Dystrybucja, using the programme of voluntary resignations, which contributed to decrease of the employment level by 682 persons.

On the other hand, the following factors had adverse effect:

- increase of the unit cost of energy purchase to cover the balancing difference – the costs of energy expressed per unit of the distribution service sold and the unit cost of energy purchase increased due to the growth of supply volume while maintaining the comparable level of grid losses index,
- increase of fixed costs (apart from labour costs) – higher costs of amortisation and tax on grid assets, higher costs of customer service and higher costs of tree skidding.

Sales of energy and other products of the energy market

In the first half of 2012, Sales Segment reached revenue on sales at the level higher by 31% YoY, mainly due to the growth of sales volume of electric energy and the higher sales price.

The result at EBIT operating level and the EBITDA result in the first half of 2012 reached much higher level than in the first half of 2011 (increase by about 88%), which was mainly determined by acquisition of the company TAURON Sprzedaż GZE, which did not belong to TAURON Capital Group in the first half of 2011. EBIT of the first half of 2012 has also increased YoY against the result of the year 2011 brought to comparability. The following factors affected the results reached:

- the increased volume of energy sales – business clients for 2012 and higher energy consumption by industrial clients (TAURON Sprzedaż), under simultaneous loss of clients during 2011 as a result of increased prices for business clients,
- increased energy sales prices – the increase of tariff prices introduced for business clients and individual clients since 2012, including the significant growth of prices for G group clients, new contracts concluded at higher prices than in 2011 due to the growing energy purchase prices,
- decrease of the unit cost of the obligation to redeem proprietary rights (PM) – PM cost and substitution fee expressed per 1 MWh of energy sold decreased due to the significant reduction of purchase price of the “red” certificates of energy origin.

On the other hand, the increased energy purchase cost had adverse impact on the result of the Segment – the average purchase price was established at the level higher by 2.5% than in the first half of 2011, which makes the value higher than the increase of the average energy sales price which reached 1.5%.

Customer Service

In the first half of 2012, as compared to the first half of 2011, the Customer Service Segment reached the increase in revenue by about 33%, and the three-fold increase of results at the operating level by about and EBITDA result. The improvement of EBIT result in the first half of 2012, in relation to the corresponding period of 2011, was mainly determined by acquisition of the company TAURON Obsługa Klienta GZE, which did not belong to TAURON Group in the first half of 2011. EBIT of the first half of 2012 has also increased YoY against the result of the year 2011 brought to comparability, which was influenced by the following reasons of the change in the level of revenues and costs:

- increase of the revenue due to the customer service – mainly as a result of additional agreements in the scope of customer service,
- decrease of other revenue on sales – decrease in sales of IT services, which is related to partial exclusion of this process from TAURON Obsługa Klienta GZE and leaving it within the structure of Vattenfall AB (the excluded processes involve IT services for entities beyond TAURON Capital Group),
- increase in costs of the services provided – correlated with the growing revenue established based on the calculation using the method “cost +”; the correlation is not fully maintained in case of TAURON Obsługa Klienta GZE, where the change in the scope and structure of service sales took place.

Heat

In the first half of 2012, the revenue on sales in the Heat Segment increased as compared to the corresponding period of 2011 which was mainly affected by the following factors:

- increase in the volume of the heat transmitted (resulting from the increased demand of consumers in connection with the lower external temperatures in the first quarter of 2012),
- increased volume of compressed air production (arising from the higher demand of the main consumer – ArcelorMittal Poland S.A.),
- increased prices of the utilities supplied – electric energy, heat, wind of blast furnace and compressed air, and the increased revenue on sales of proprietary rights.

The aforementioned factors influenced the improvement of the operating EBIT result of the Business Area, accompanied by lower fixed costs, reached, among others, due to the cost effectiveness improvement programmes under implementation.

Revenue on other operations

In the first half of 2012, the revenue on sales in the Other Segment increased by over 16%, as compared to the corresponding period of 2011, while the operating result noted the increase by about 35%. The activities of the PEPKH company had the main positive impact on the results achieved: obtaining the increased trading volume on the SPOT market, as a result of the favourable circumstances, i.e. high supply of transmission capacity in the cross-border exchange and the high level of supply and demand on the domestic and international market.

KW Czatkowice, reached higher level of extraction and sales of stone and other products, due to the current market situation (in relation to 2011, downturn on the market of minerals occurred, particularly in the first quarter of 2012). Notwithstanding the visible improvement in sales, losses incurred in the first quarter of 2012 were not compensated, mainly due to activities of the competition and the expected decrease in mineral prices by about 25–30% in relation to the prices of the previous year.

4.6. Payment of dividend to the shareholders

On 24 April 2012 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2011 and defined the amount allocated for payment of the dividend for shareholders, the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary General Meeting allocated the amount PLN 543,290,312.14 for payment of the dividend for shareholders from the net profit for the financial year 2011, which means that the amount of the dividend per share reached PLN 0.31, and the total number of shares covered by the dividend was 1,752,549,394. Simultaneously, the General Meeting defined the dividend record day for 2 July 2012 (day of dividend) and the date of the dividend payment for 20 July 2012 (day of dividend payment).

The Company informed of this event in current report No. 18/2012 of 24 April 2012.

4.7. Factors which will have impact on the results to be achieved within the perspective of at least the next half a year

Results of operations of TAURON Capital Group will be affected mainly, as it happened in the past, by the following factors:

- the macroeconomic situation, especially in Poland, as well as the economic situation of the area of operations of the TAURON Capital Group, situation of the EU and the global economy, including changes in interest rates and currency exchange rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statements on financial situation,
- the political environment, especially in Poland as well as on the EU level, including the standpoints and decisions of public administration institutions and bodies, for example: UOKIK, ERO and the European Commission,
- situation in electric energy sector, including competition behaviour on the energy market,
- changes in regulations of the energy sector,
- changes in the legal environment, including: tax law, commercial and energy law,
- prices of electric energy and fuel as well as distribution tariffs, as factors influencing the level of revenue and costs,
- number of CO_2 emission allowances allocated on complimentary basis after 2012, and prices of the allowances acquired,
- geological and mining conditions,
- demand for electric energy and other products of energy market,
- level of compensation for covering the stranded costs related to termination of the LTC,
- decrease of revenue from operating provision,
- environmental protection requirements,

- scientific and technical progress,
- seasonality and weather conditions,
- potential failures of equipment, installations and grids owned by TAURON Capital Group.

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

The Company TAURON Polska Energia S.A. did not publish any forecasts of financial results for 2012.

5. OTHER SIGNIFICANT INFORMATION AND EVENTS

5.1. Proceedings pending before the court, competent arbitration authority or public authority body

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the equity of the Company.

5.2. Other information which is essential for the evaluation of the human resources, assets, financial situation, financial result and their changes, and which is essential to assess the possibility to fulfil the obligations by the TAURON Capital Group

Electric energy trading

The average weighted price of electric energy on the Balancing Market in the first half of 2012 was by about PLN 30 lower than in the corresponding period of 2011. Due to the fact that the prices on the Balancing Market are correlated with the prices on the wholesale markets, the prices on these markets dropped visibly. One of the reasons underlying the drop of this price may be attributed to the decrease in settlement price of CO_2 emission allowances on the Balancing Market (by approx. PLN 30, on average).

According to the TSO data, the following changes occurred during the 6 months of 2012, as compared to the corresponding period of 2011:

– clear decrease in electric energy production based on hard coal (about -8.55%),

– clear increase in electric energy production based on lignite (about 9.02%),

– increase in electric energy production by wind farms (about 61%), which reflects the dynamic development of the RES,

– slight decrease in electric energy production in the country (about -0.91%), at the sight increase of the domestic demand (about 0.31%).

The above factors influence the sales of electric energy from the generation units of TAURON Capital Group in 2012.

Competition on the energy market/Situation in electric energy sector

Beginning of the year 2012 did not bring any changes in the trends observed on the electric energy market observed for several years. The possibility of flexible selection of the supplier encourages the establishment of new entities on the market and stimulates the competitiveness, which is reflected, among others, in the number of consumers changing the electricity supplier. The growing dynamics of this process is significant: during the 6 month period of 2012, almost 50 thousand of individual and industrial consumers changed their electricity supplier, consequently, at the end of June 2012, the general number of electric energy consumers who had changed their supplier (in the whole country scale, counting from the moment of the partial liberalisation of the market) reached 84,255 consumers. The most rapid increase of consumers taking advantage of the TPA (Third-party Access) rule involves households: in the first half of 2012, 25,393 consumers changed their electricity supplier, consequently, at the end of June 2012, 39,734 consumers of G tariff group exercised their right to change the electric energy supplier; this means the increase by 177.1% as compared to the situation at the end of 2011.

The response to the activities of competition involves numerous sales actions carried out by the companies of the Sales Business Area, both reactive and proactive, in order to maintain the hitherto clients and acquire new ones. These actions are mainly demonstrated by the extension of the product portfolio, both for clients of C and G tariff groups (mainly the loyalty programmes), and business clients (tailor-made solutions). The sales activities are supplemented by the national and regional scale marketing actions, addressed to individual segments of consumers.

Macroeconomic situation

TAURON Capital Group conducts its operations mainly on the territory of Poland, therefore the national macroeconomic trends are of particular importance. It can be observed that the positive correlation exists between the growth of the demand for electric energy and the economic growth, therefore the macroeconomic situation of the country is directly converted to the financial results achieved by TAURON Capital Group.

In the first half of 2012, the consumption of electric energy in Poland increased slightly, as compared to the corresponding period of 2011, i.e. by 0.31% (according to the data of PSE Operator, in the period from January until June 2012). The distribution of changes in energy demand was very irregular in individual months, i.e. in January, slight decline was noted, in February – significant growth (by 7.3%), while in the subsequent months, drops were recorded: in March (by 1.9%), in May (by 2.26%) and in June (by 1.34%). It can be generally assumed that the changes in energy consumption were affected by meteorological factors, i.e. relatively warm January, wave of strong frost in February and warm March and May. The weather conditions are well illustrated by the high volatility of prices on the SPOT market of electric energy.

Due to the downturn on the global markets, the price of CO_2 emission allowance, following last year's decline, still remained at relatively low level. The value of the allowances ranged from EURO 6/EUA to EURO 9.3/EUA. The EUA/CER spread remained at very high level, generally reaching the value above 3 Euro, and during the peak moment, it even hit Euro 4.25 (data according to listings of Bluenext exchange).

Obligation of public sales of electric energy by generators

In the first half of 2012, the so-called exchange obligation was binding, according to which the generating enterprises are obliged to sell the volume of electric energy on the Energy Exchange in Warsaw (Towarowa Giełda Energii S.A.) (for generators taking advantage of LTC compensations, it means 100% of the electric energy sold). In accordance with provisions of art. 49a of the Act of 10 April 1997 – *Energy Law*, in 2013 companies of TAURON Capital Group will be bound by the obligation to sell not less than 15% of electric energy generated in a particular year, on commodity exchange, within the meaning of the Act of 26 October 2000 on *commodity exchanges* or on the market organised by the entity maintaining the regulated market on the territory of the Republic of Poland.

Termination of long-term contracts

In connection with the termination of long term contracts (LTC) pursuant to the Act of 29 June 2007 *on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy*, the generators who had previously been parties to such contracts were granted the right to receive compensation for covering of the so-called stranded costs (generator's costs resulting from expenditure incurred by such generator before 1 May 2004, on assets associated with generation of electric energy, not covered by the revenue gained from sales of the electric energy generated, reserve capacity and system services on the competitive market after the premature termination of the long term contract).

The aforementioned Act limits the total amount of funds which may be paid to all generators to cover the stranded costs, discounted as of 1 January 2007, to the amount of PLN 11.6 billion. Impact of compensations due to termination of LTC on the results achieved by TAURON Group was described in Note 26 to the interim condensed consolidated financial statement of TAURON Polska Energia S.A. Capital Group, compliant with the International Financial Reporting Standards for the period of 6 months ended on 30 June 2012. In the first half of 2012, the company of the Generation Business Area – TAURON Wytwarzanie, recognised revenue due to the compensation at the amount of about PLN 276,611 thousand.

Potential

TAURON Capital Group is one of two largest power engineering companies in the country, as well as the second largest electric energy producer in Poland. Being the key player in the power engineering sector and an important link in the system of energy security of Poland, TAURON Capital Group acts in the area equal to almost one-fifth of the country territory. The Corporate Strategy of TAURON Capital Group assumes systematic development of the company in Poland and abroad. Besides production and distribution of electric energy, the core activity of TAURON Group covers trade of electric energy, coal mining, heat generation as well as distribution and supply of heat.

Within the entire value chain, TAURON Capital Group holds assets that cover the majority of its business needs.

National Allocation Plan on Distribution of Emission Allowances for the years 2008–2012

The National Allocation Plan for CO_2 emission allowances (KPRU), in relation to the Community emission allowances trading system, is the subject to notification to the European Commission. In view of the fact that the European Commission, on the occasion of the two previous settlement periods, has limited the amount allocated to Poland for allowances of CO_2 emission, in relation to the level proposed in the KPRU, the granted limits constitute significant constraint for the power engineering sector.

For the settlement period, which covers the years 2008–2012 (KPRU II), Poland applied for the allowance of 284 million ton of CO_2. Pursuant to the decision of the European Commission, Poland was granted the annual average limit at the amount of 208.5 million ton. In accordance with the current KPRU II, only 110.8 million ton of CO_2 shall be allocated to professional power plants while the CO_2 emitted under normal conditions is estimated at approx. 120 million ton.

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

Company Management Board

Katowice, 13 August 2012

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

Schedule A: Glossary of terms and list of abbreviations

Below the glossary of trade terms and list of abbreviations most commonly used in this report, is presented.

Table No. 10 Explanation of abbreviations and trade terms applied in the text of the report

Abbreviation and trade term	Full name/explanation
BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with the seat in Jelenia Góra
CAO	Central Allocation Office GmbH with the seat in Freising, Germany
CER	(Certified Emission Reduction) – a unit of confirmed emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
"Red" certificates of energy origin	Certificates of origin of energy from co-generation (CHP certificates – Combined Heat and Power) – the proprietary rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colourful certificates.
EIB	European Investment Bank with the seat in Luxemburg
EBIT	(Earnings Before Interest and Taxes) – result on operating activity before taxation.
EBITDA	(Earnings Before Interest, Taxes, Depreciation and Amortization) – result on operating activity before taxation, increased by amortization and depreciation
EC Kamienna Góra	Energetyka Cieplna w Kamiennej Górze sp. z o.o. (acquired by TAURON Ciepło)
EC Nowa	Elektrociepłownia EC Nowa sp. z o.o. with the seat in Dąbrowa Górnicza (acquired by TAURON Ciepło)
EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
EC Tychy	Elektrociepłownia Tychy S.A. with the seat in Tychy (acquired by TAURON Ciepło)
EEX	European Energy Exchange AG with the seat in Leipzig, Germany
ENEA	ENEA S.A. with the seat in Poznań
ERU	(European Union Emission Trading System) – unit of emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, or one mega gram (1 Mg) of absorbed carbon dioxide (CO_2), obtained as a result of the execution of the joint implementation project
EU ETS	(European Union Emission Trading System) – the European system of CO_2 emission allowances trading
EUA	(European Union Allowance) – authorisation to introduce the equivalent to the air, within the meaning of art of the Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances, carbon dioxide (CO_2), which is used for settlements of emission size within the system, which can be managed based on principles stipulated in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695)
TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice (acquired by TAURON)
JWCD	Centrally Controlled Generating Units
LTC	Long-term contracts – long-term contracts on sales of power and electric energy, listed in the Appendix No. 1 to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (Journal of Laws No. 130, item 905, as amended)
KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
Lipniki	Lipniki sp. z o.o. with the seat in Wrocław (acquired by TAURON EKOENERGIA)
MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
IFRS	International Financial Reporting Standards
DSO	Distribution System Operator
TSO	Transmission System Operator
OTC	(Over The Counter market) – off-exchange market
RES	Renewable Energy Sources
PEPKH	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Katowice
PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw

Abbreviation and trade term	Full name/explanation
PGK	Tax Capital Group
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with the seat in Warsaw
PKW	Południowy Koncern Węglowy S.A. with the seat in Jaworzno
PSE Operator	Polskie Sieci Elektroenergetyczne Operator S.A. with the seat in Konstancin-Jeziorna
RUS	Regulatory System Services – services provided by entities in favour of transmission system operator, required for adequate functioning of the National Power System, providing for maintenance of determined values of reliability and qualitative parameters
SLA	(Service Level Agreement) – the agreement on maintenance and systematic improvement of the service quality level, agreed between the clients and the service provider.
SPOT (SPOT Market)	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Operating of SPOT market for electric energy is strongly related to operating of the Balancing Market provided by the Operator of Transmission Grid
Company, TAURON	TAURON Polska Energia S.A. with its seat in Katowice
SPV	(Special Purpose Vehicle) – a company, usually limited liability, which issues ABS (Asset Backed Securities) based on assets sold to it by the issue arranger
Corporate Strategy	The document entitled *Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020*, being the update of the document *Corporate Strategy of TAURON TAURON Polska Energia S.A. Capital Group for 2008–2012 with estimates until the year 2020*
TAURON Ciepło	TAURON Ciepło S.A. with the seat in Katowice
TAURON Czech Energy	TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic
TAURON Dystrybucja	TAURON Dystrybucja S.A. with the seat in Kraków
TAURON Dystrybucja GZE	TAURON Dystrybucja GZE S.A. with the seat in Gliwice
TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra
TAURON EKOENERGIA GZE	TAURON EKOENERGIA GZE sp. z o.o. with the seat in Gliwice
TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
TAURON Obsługa Klienta GZE	TAURON Obsługa Klienta GZE sp. z o.o. with the seat in Gliwice
TAURON Serwis GZE	TAURON Serwis GZE sp. z o.o. with the seat in Gliwice
TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with the seat in Kraków
TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
TPA	(Third-party Access) – the principle based on the owner or operator making available the grid infrastructure to the third parties in order to supply goods/services to clients of the third party (it may refer to transmission or sales of electric energy, telecommunication services or railway services)
EU	European Union
ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)

Schedule B: List of tables and figures

Below the list of tables and figures occurring in this report is provided.

List of tables

List of Figures