

Report of the Management Board

on the operations of the
ENEA Capital Group
in 2011

Poznan, 10 April 2012



Table of Contents:

1.	THE ORGANISATION OF THE ENEA CAPITAL GROUP	5
1.1.	Description of the ENEA Capital Group	5
1.2.	Policy on directions of development of the Capital Group	10
1.3.	Asset restructuring	11
1.4.	Description of key capital investments.....	13
1.5.	Changes to the organisation and management rules of the Capital Group	14
1.6.	Information on branches	15
2.	DESCRIPTION OF ENEA CAPITAL GROUP'S OPERATIONS.....	15
2.1.	Information on basic products, goods and services	15
2.1.1.	Generation.....	15
2.1.1.1.	Elektrownia "Kozienice" S.A	15
2.1.1.2.	Elektrownie Wodne Sp. z o.o.....	17
2.1.1.3.	Elektrociepłownia Białystok S.A.....	20
2.1.2.	Distribution	23
2.1.3.	Trade.....	24
2.1.4.	Other activity	25
2.2.	Sales markets	25
2.2.1.	Sales to end users	25
2.2.2.	Other sales.....	26
2.2.3.	Sales by value and type.....	26
2.3.	Supply markets	27
2.3.1.	Purchase and sale of energy by ENEA S.A. on the wholesale market	27
2.3.2.	Purchase of the distribution service	27
2.3.3.	Purchase and sale of energy by Kozienice Power Plant	27
2.3.4.	Purchase of transmission services from PSE Operator	28
2.3.5.	Coal supplies	28
2.3.6.	Coal transport	29
2.4.	Information on concluded agreements.....	29
2.4.1.	Agreements of significance to ENEA Capital Group operations.....	29
2.4.2.	Information on transactions with affiliated entities	33
2.4.3.	Credit and loan agreements concluded and terminated	34
2.4.4.	Loans granted	36
2.4.5.	Granted and received sureties and guarantees.....	36
2.4.6.	Agreements between shareholders of the parent company	37
2.4.7.	Insurance agreements	37
2.4.8.	Collaboration or cooperation agreements	38
3.	PRESENTATION OF THE FINANCIAL POSITION OF THE ENEA CAPITAL GROUP	38
3.1.	Discussion of key economic and financial figures disclosed in the annual consolidated financial statement.....	38
3.1.1.	Financial results	38
3.1.2.	Asset situation	44
3.1.3.	Cash	47
3.1.4.	Ratio analysis	47
3.2.	Presentation of the financial position of the ENEA Capital Group with division into quarters	50
3.2.1.	Consolidated Profit and Loss Statement.....	50
3.2.2.	Sales revenues	51
3.2.3.	Cost of sales.....	51
3.3.	Financial results forecasts	52
3.4.	Financial resources management.....	52
3.5.	Information on financial instruments.....	53
3.5.1.	Used financial instruments	53
3.5.2.	Financial risk management	54
3.6.	Unusual factors and events affecting the result.....	56
3.7.	Major events that have, or could have in the future, a material effect on the Company's operations and financial results.....	56
3.8.	Description of key off-balance sheet items	56
3.9.	Description of the Use of Issue Proceeds	56



3.10.	Financing sources of the investment programme	57
4.	DEVELOPMENT PROSPECTS AND DESCRIPTION OF RISKS AND THREATS.....	57
4.1.	Essential operating development and risk factors	57
4.1.1.	The overall condition of the economy	57
4.1.2.	Factors related to economic activity.....	58
4.1.3.	Legal regulation and tariffs	59
4.1.4.	Wholesale electricity prices	60
4.1.5.	Supplies and prices of bituminous coal and other fuels	60
4.1.6.	Obligations with respect to obtaining energy certificates of origin.....	61
4.1.7.	Limits of CO ₂ emission allowances and their market prices	61
4.1.8.	Long-term contracts	62
4.1.9.	The regulatory value of assets	63
4.1.10.	The process of producing and distributing electricity.....	66
4.1.11.	Risk associated with connecting renewable energy sources (RES)	66
4.1.12.	Customer service.....	67
4.1.13.	Market liberalisation.....	67
4.1.14.	Dominant position on the local market	67
4.1.15.	Concessions	67
4.1.16.	Bituminous coal transportation	68
4.1.17.	Implementation of the strategy.....	68
4.1.18.	Synergy results.....	69
4.1.19.	Modernisation of generating assets	69
4.1.20.	Events of force majeure and malfunctions	69
4.1.21.	Insuring our operations	70
4.1.22.	Management personnel	70
4.1.23.	Collective disputes and agreements	70
4.1.24.	Court and administrative proceedings.....	71
4.1.24.1.	Litigation	72
4.1.24.2.	Administrative proceedings.....	73
4.1.25.	Environmental Protection.....	76
4.1.26.	Real estate	76
4.1.27.	Modernisation and development	77
4.2.	Development strategy	78
4.3.	Assessment of the feasibility of implementing investment plans	80
4.4.	Rating.....	81
4.5.	Strategy of social responsibility of the business of the Capital Group	81
5.	AUTHORITIES OF THE ENEA CAPITAL GROUP.....	82
5.1.	Members, appointment and description of powers delegated to authorities of the parent company	82
5.2.	Principles of remuneration	82
5.3.	Level of remuneration	83
5.4.	List of Shares in Entities that are Members of the ENEA Capital Group that are held by the Members of the Management and Supervisory Boards	86
6.	THE SHAREHOLDING AND SHARE CAPITAL STRUCTURE OF THE PARENT COMPANY	86
6.1.	Share capital structure	86
6.2.	Shareholding structure	87
6.3.	Potential changes in the shareholder structure	89
6.4.	Treasury shares.....	90
6.5.	Information on the system of inspecting employee share programmes	90
7.	DECLARATION OF THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES.....	91
7.1.	The set of principles applied.....	91
7.2.	Principles which have not been applied	91
7.3.	Description of the main features of the internal control and risk management systems applied in the issuer's company	92
7.4.	Shareholders holding substantial blocks of shares.....	94
7.5.	Holder of securities carrying special inspection rights.....	94
7.6.	Restrictions on exercising voting rights	94
7.7.	Restrictions on assigning the ownership title to securities	94
7.8.	Principles relating to appointing and recalling management personnel.....	94
7.9.	Powers of the Management Board members	95



7.10.	Description of the principles governing the amendment of ENEA S.A.'s Statute.....	96
7.11.	The procedure and basic powers of the General Meeting of Shareholders and a description of shareholders' rights and the procedure for exercising them	96
7.12.	The composition of the management and supervisory boards of ENEA S.A., changes to it, and a description of their operations	97
8.	ADDITIONAL INFORMATION	105
8.1.	The entity authorised to audit financial statements	105
8.2.	Achievements in the area of research and development	105
8.3.	Environmental issues.....	105
8.4.	Information on employment	108
8.5.	Principles of preparation of an annual consolidated financial statement.....	109
8.6.	Glossary of industry terms.....	110



1. THE ORGANISATION OF THE ENEA CAPITAL GROUP

1.1. Description of the ENEA Capital Group

As at 31 December 2011 the Capital Group consisted of the parent company ENEA S.A. (the "Company", or "Parent Company"), 20 subsidiaries and one associated company. Within the ENEA Capital Group (the "Group"), there are three leading companies, i.e. ENEA S.A. (trade in electricity), ENEA Operator (distribution of electricity) and Elektrownia "Kozienice" S.A. (generation of electricity). The remaining entities provide support activities in relation to the above companies.

A detailed description of the operations of the basic entities comprising the ENEA Capital Group is presented in chapter 2 of this statement, i.e. "Description of ENEA Capital Group's operations."

General information regarding ENEA S.A.	
Name (business name):	ENEA Spolka Akcyjna
Legal form:	Spolka Akcyjna (Joint-stock company)
Country of registration:	Republic of Poland
Registered office:	Poznan
Address:	ul. Gorecka 1, 60-201 Poznan.
National Court Register - Regional Court in Poznan - Nowe Miasto and Wilda in Poznan	KRS 0000012483
Telephone number::	(+48 61) 884 53 00
Fax:	(+48 61) 884 59 55
E-mail:	enea@enea.pl
Website:	www.enea.pl
Statistical classification number (REGON):	630139960
Tax identification number (NIP):	777-00-20-640

As at 31 December 2011 the companies of the ENEA Capital Group operated within the area indicated below:

1. **ENEA S.A.** with its registered office in Poznan is operating within trade in electricity.
2. **ENEA Operator Sp. z o.o.** for 12 March 2012, at 11.00 hours. The core business is the distribution of electricity, conducted since 1 July 2007 on the basis of a licence issued by the president of the Energy Regulatory Office (ERO) on 28 June 2007 for the period from 1 July 2007 to 30 June 2017. Simultaneously, on 30 June 2007 the president of the ERO designated ENEA Operator as the operator of an electrical energy distribution system for the life of the licence.



3. **Elektrownia "Kozienice" S.A.** with its registered office in Swierze Gorne. The core business of Elektrownia "Kozienice" S.A. is the generation of electricity and heat co-generated with electricity.
4. **ENERGOMIAR Sp. z o.o.** with its registered office in Poznan, engaged in the production of astronomical clocks, the maintenance, assembly, legalisation and standardisation of electricity meters, readings of electricity consumption and remote-control power services.
5. **BHU S.A.** with its registered office in Poznan, trading in electrical power equipment, tools and materials.
6. **Hotel EDISON Sp. z o.o.** with its registered office in Baranow, engaged in the hotel, restaurant, training, sports and recreation business.
7. **Energetyka Poznanska Zaklad Transportu Sp. z o.o.** with its registered office in Poznan, established to provide road transport and vehicle maintenance services.
8. **Energetyka Poznanska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o.** with its registered office in Gronowek, a company engaged in the design, construction, modernisation and operation of electric power grids and associated equipment.
9. **Energo-Tour Sp. z o.o.** with its registered office in Poznan, providing hotel and restaurant services, organising vacations, recreational and youth camps, providing tourism and healthcare services.
10. **Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowiskowe ENERGETYK Sp. z o.o.** with its registered office in Inowroclaw, providing health resort services and services within health and rehabilitation.
11. **Elektrownie Wodne Sp. z o.o.** with its registered office in Samociazek, operating within generation of electricity and services within operation of water turbine plants and development of activity within generation of electricity coming from renewable sources through realisation of projects of wind farms and biogas power plants.
12. **ENEOS Sp. z o.o.** with its registered office in Poznan, engaged in the operation and maintenance of street lighting.
13. **ENTUR Sp. z o.o.** with its registered office in Szczecin, engaged in recreation, hotel, tourism and restaurant services, as well as healthcare.
14. **ITSERWIS Sp. z o.o.** with its registered office in Zielona Gora, conducting operations in landline and wireless telecommunications and IT and computer services, as well as wholesale and retail selling of electronic and telecommunications equipment, computers and software.
15. **Auto-Styl Sp. z o.o.** with its registered office in Zielona Gora, engaged in the wholesale of mechanical vehicles, accessories and fuels, servicing and repairing mechanical vehicles, and leasing means of transport.
16. **Miejska Energetyka Ciepna Pila Sp. z o.o.** with its registered office in Pila, engaged in the generation, transmission and distribution of heat and generation of combined heat and power energy using cogeneration units.
17. **Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.** with its registered office in Oborniki, engaged in the generation, transmission and distribution of heat.
18. **ENEA Centrum S.A. (formerly: Energetyka Poznanska Biuro Usług Technicznych S.A.)** with its registered office in Poznan is preparing to commence conducting of customer service for the account of ENEA S.A.



19. **DOBITT ENERGIA Sp. z o.o.** with its registered office in Gorzeslaw, running an investment consisting in construction of a biogas plant with a capacity of 1.6 MW.
20. **Elektrociepłownia Białystok S.A.** with its registered office in Białystok is engaged with production of heat and power energy.
21. **Annacond Enterprises Sp. z o.o.** with its registered office in Warsaw - the company is presently being prepared for commencement of operating activities.

The affiliated entity operates within the following scope:

- **Przedsiębiorstwo Produkcji Strunobetonowych Zerdzi Wirowanych WIRBET S.A.** with its registered office in Ostrow Wielkopolski, engaged in the production of prefabricated concrete, and in particular reinforced concrete beams, as well as decorative concrete elements.

Subsidiaries

ENEA Capital Group as at 31 December 2011 comprised of 20 subsidiaries (under consolidation) in which ENEA S.A. held shares or stock of the total nominal value of PLN 5,587,375,600, which constitutes as at 31 December 2011 99.67 per cent of the total nominal value of share capitals of these companies, amounting to PLN 5,568,823,500.

Holdings of ENEA S.A. in the share capital of subsidiaries.

Item	Company name and address	Share capital of the Company - nominal value [PLN '000]	Shareholding of ENEA S.A. [PLN '000]	Percentage share of ENEA S.A. in the capital and voting rights
1	BHU Spolka Akcyjna ul. Strzeszyńska 58, 60-479 Poznan	16 540.70	15 320.70	92.62
2	Hotel EDISON Sp. z o.o. Baranowo k/Poznania, 62-081 Przemierowo	21 271.50	21 271.50	100.00
3	Energetyka Poznańska Zakład Transportu Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznan	4 975.50	4 975.50	100.00
4	Energomiar Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznan	2 749.00	2 749.00	100.00
5	Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o. Gronowko 30, 64-111 Lipno k/Leszna	8 785.00	8 785.00	100.00
6	Energo-Tour Sp. z o.o. ul. Marcinkowskiego 27, 61-745 Poznan	9 543.00	9 535.00	99.92
7	ENEA Operator Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznan	4 678 050.00 *	4 678 050.00	100.00
8	Elektrownia "Kozienice" S.A. Swierze Gorne, municipality of Kozienice, 26-900 Kozienice 1	462 482.44 **	462 482.44	100.00
9	ITSERWIS Sp. z o.o. ul. Zacisze 28, 65-775 Zielona Gora	6 364.00	6 364.00	100.00
10	Auto-Styl Sp. z o.o. ul. Zacisze 15, 65-775 Zielona Gora	2 200.00	2 200.00	100.00
11	ENEOS Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznan	32 089.50	32 089.50	100.00



12	ENTUR Sp. z o.o. ul. Malczewskiego 5/7 71-616 Szczecin	4 134.50	4 134.50	100.00
13	Elektrownie Wodne Sp. z o.o. Samociazek 92, 86-010 Koronowo	239 849.50	239 841.00	99.996
14	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowiskowe ENERGETYK Sp. z o.o. ul. Wilkonskiego 2, 88-100 Inowroclaw	17 448.00	17 438.00	99.94
15	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. ul. Wybudowanie 56, 64-600 Oborniki	5 182.50	4 717.00	91.02
16	Miejska Energetyka Ciepła Sp. z o.o. ul. Kaczorska 20, 64-920 Pila	28 689.00	18 657.00	65.03
17	ENEA Centrum S.A. ul. Sw. Wojciecha 7/9, 61-749 Poznan	1 973.70	1 973.70	100.00
18	Elektrociepłownia Białystok S.A. ul. Gen. Andersa 3, 15-124 Białystok	18 442.75	18 432.14	99.94
19	DOBITT ENERGIA Sp. z o.o. Gorzesław 8, 56-420 Bierutów	9 175.00	9 175.00	100.00
20	Annacond Enterprises Sp. z o.o. 02-957 Warsaw, ul. Jana III Sobieskiego 1/4	17 430.00	10 632.50	61.00
	TOTAL	5 587 375.59	5 568 823.48	99.67

* Share capital in accordance with the statute and the National Court Register. In the financial statements drawn up in accordance with the EU IFRSs, the share capital is stated after adjustments for in-kind contributions.

** Share capital in accordance with the statute and the National Court Register. In the financial statements drawn up in accordance with the EU IFRSs, the share capital is stated after adjustment by title of hyperinflation.

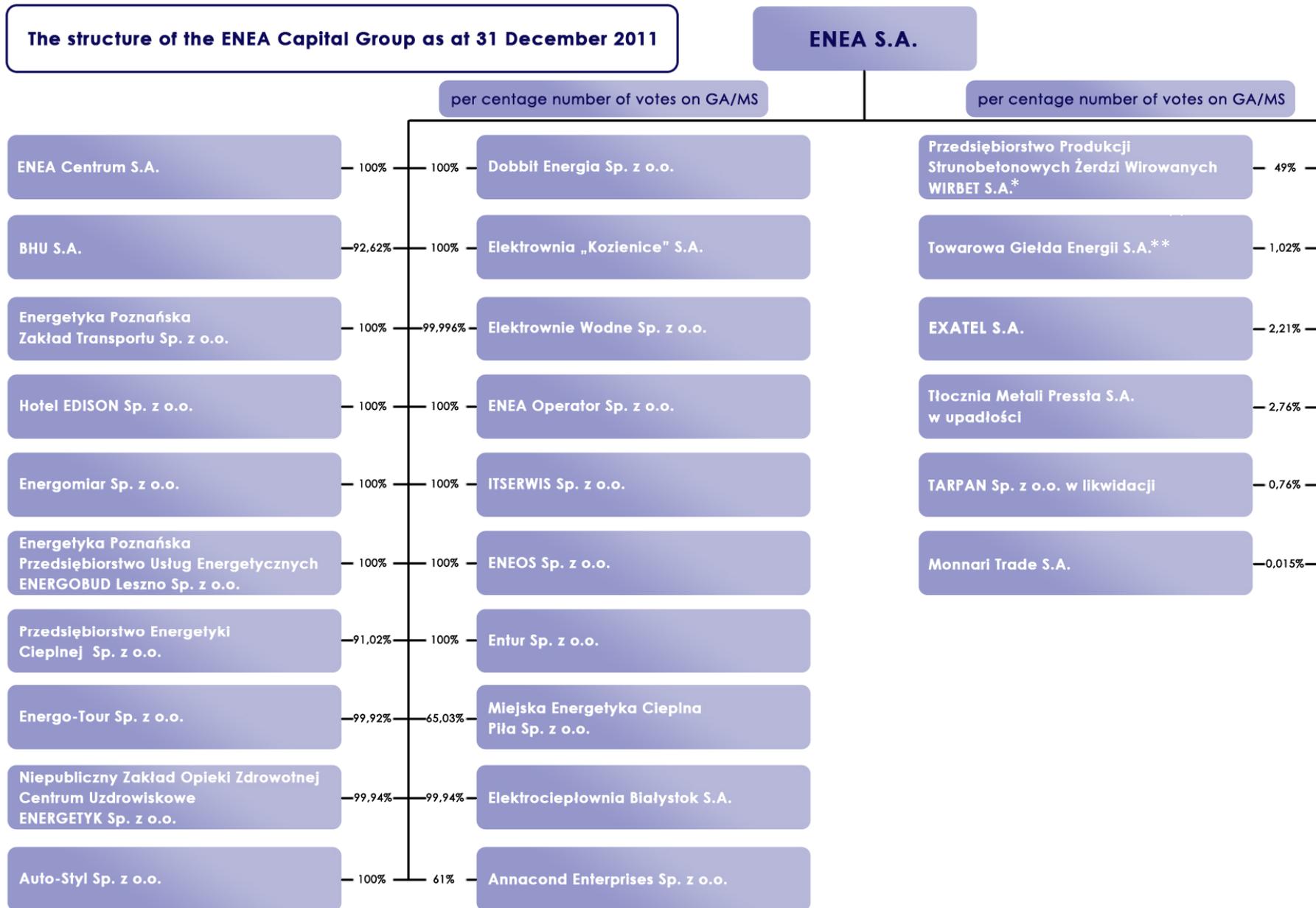
Affiliated companies

Company name and address	Share capital [PLN '000]	The share of ENEA S.A. - nominal value [PLN '000]	Percentage share of ENEA S.A. in the share capital and voting rights
Przedsiębiorstwo Produkcji Strunobetonowych Zerdzi Wirowanych WIRBET S.A. ul. Chłapowskiego 51, 63-400 Ostrow Wlkp.*	5 490.00	2 690.00	49.00

* As a result of transactions of sale of shares of WIRBET S.A. described in *Description of structure of key capital investments* as at the approval date of this report the Company holds no shares in WIRBET S.A.



The organisational diagram below shows the structure of the Capital Group as at 31 December 2011.



* On 16 February 2012 ENEA S.A. concluded an agreement for sale of 269,000 shares of WIRBET S.A. The shares were transferred on 22 March 2012.

** On 23 December 2011 ENEA S.A. concluded the Sales agreement of 14,750 shares. In relation to the closing of the transaction on 29 February ENEA S.A. ceased to be the shareholder of PPE.

1.2. Policy on directions of development of the Capital Group

One basic, significant factor in the development of the Group and its prospects is the implementation of a strategy based on attaining goals in three basic strategic areas:

- development of the core business of the Group,
- enhancement of the effectiveness of the Group functioning,
- construction of a socially liable company.

As part of the Group's strategic area that involves core business development, one of the long-term strategic courses of action to be taken by the Group is gaining access to own sources of energy generation of the potential enabling at least satisfaction of the demand for electricity of all the customers of the Group.

The first step towards carrying out that strategy was joining the Koźienice Power Plant, Poland's highest-capacity bituminous coal-fired power plant, to the ENEA Capital Group in October 2007. Moreover in 2011 we bought a package of shares of Białystok Heat and Power Plant thanks to which we hold 99.94 per cent of shares of the Białystok company. Białystok Heat and Power Plant is one of the biggest enterprises in the region. Generating capacity of the power plant in ca. 75 per cent cover the annual demand for heat of the Białystok agglomeration.

Irrespective of what opportunities there may be to acquire additional generation capacity by acquiring existing entities, we are planning to increase our own generation capacity, including at Koźienice Power Plant, where by 2016 we plan to construct a new power unit with a total capacity of around 1,000 MWe. We are also conducting studies with regard to the construction of another power unit up to 1,000 MWe which involves investment outlays, starting from 2012.

In connection with anticipated increases in the requirements to sell energy produced by renewable and co-generated sources, we are taking action aimed at increasing our control over the costs of meeting the legal requirements. To this end, we plan to continue concluding long-term agreements for the purchase of energy certificates for energy produced from renewable sources and cogeneration from external entities, and to carry out direct investments in such sources. Our intention is to invest in wind farm projects and biogas plants, already commenced and at various stages of development, by acquiring existing entities or investing in co-operation with external entities. Four scenarios of purchases are possible, depending of the stage of the project: searching for projects which in part would be realized by a third entity as a developer's service, purchase of a project from a third party before achievement by this party of a building permit and further individual development of the project, purchase of projects/special purpose companies (established by developers for realization of the project) after achievement of a final building permit for the project/special purpose company or purchase of finished turnkey wind farms and biogas power plants.

Heretofore acquired thermal plants will be modernised and transformed into thermal power plants, also into ones powered with biomass which will generate electricity and heat in cogeneration, enabling us to obtain additional certificates of origin for the energy.

As part of improving the effectiveness of how the Group functions, strategic goals will be implemented in order to increase revenues, reduce costs and integrate operations to increase the margin on ENEA Capital Group operations. Optimisation activities will be conducted in all business areas of the Group, and will be implemented by, for example, transferring the core strategic functions connected with business development, as well as the synergy resulting from the operations of particular business areas within the entire Capital Group, to the ENEA Capital Group corporate level.

Within the strategic area of building a socially responsible business, targets will be set that in the long term will increase the value of the business by building responsible business principles into the operations of the ENEA Capital Group.

The effective implementation of a policy on the developmental direction of the Company and the entire ENEA Capital Group is dependent on initiating a new business model for the Group. The basic task of the new model is guaranteeing a possibly flexible functioning of the ENEA Capital Group for the long run, allowing in result for full exploitation of chances and facing the challenges that occur in Polish power sector.



1.3. Asset restructuring

After execution during the previous years of key organisational changes within the Group in the turnover year of 2011 the asset restructuring was continued:

- On 29 October 2010 the Extraordinary General Meeting of Shareholders was held concerning the merger of EP PUE ENERGOBUD Leszno Sp. z o.o. (Merging Company) with ZUP Energotrans Sp. z o.o. and EWINN Sp. z o.o. (Merged Companies) through transfer of the whole assets of Merged Companies onto the Merging Company. As a result of the merger of the Companies the share capital of EP PUE ENERGOBUD Leszno Sp. z o.o. was increased by PLN 1,418,000, i.e. to the amount of PLN 7,634,000 through creation of 2,836 (219 - ZUP Energotrans Sp. z o.o.; 2.617 – EWINN Sp. z o.o.) equal and indivisible shares of the nominal value of PLN 500 each. The share capital increase was registered on 1 December 2010. Following the merger, as at 31 December 2010 the share capital of EP PUE ENERGOBUD Leszno Sp. z o.o. amounted to PLN 7,634,000, divided into 15,201 shares of PLN 500 each. 67 shares were redeemed from net profits. EWINN Sp. z o.o. was deleted from the National Court Register on 27 December 2010, whereas ZUP Energotrans Sp. z o.o. was deleted on 07 January 2011. The restructuring processes thus completed make it possible, among other things, to create a product proposal covering the full voltage range and to further develop a competitive and strong grid execution company.
- On 27 December 2010 the Extraordinary General Meeting of Shareholders of BHU S.A. adopted a resolution concerning increasing of the share capital of the company by PLN 2.072.000, i.e. to the amount of PLN 16,375,100 by an issue of 20 720 series K shares, as private subscription, in consideration for non-cash contribution in the form of the right of perpetual usufruct of the property located in Zielona Gora and ownership right to the buildings located on it, for which the Regional Court in Zielona Gora keeps a land and mortgage register no ZGE1/00043008/5, entirely depriving the present shareholders of the preemptive right. On 28 December 2010 the offer of holding of the shares of BHU S.A. was accepted and the right of perpetual usufruct of the real estate and the ownership right to the buildings were transferred. The registration of the increasing of the share capital was made on 21 January 2011. The objective of the contribution in kind was ordering of the asset structure within the Capital Group.
- On 30 December 2010 the Extraordinary General Meeting of Shareholders of Miejska Energetyka Ciepna Sp. z o.o. took place, during which the company's share capital was increased (transfer with contribution in-kind of the heating infrastructure in Gozdnica) by PLN 773,000 (from PLN 27,916,000 to PLN 28,689,000). The shares in the increased share capital were taken up in their entirety by ENEA S.A. The registration of the increasing of the share capital was made on 24 February 2011. The objective of the contribution in kind was ordering of the asset structure within the Capital Group.
- On 7 February 2011 an increase of the share capital of the subsidiary Elektrownie Wodne Sp. z o.o. was registered in the National Court register by an amount of PLN 26,000,000 (from PLN 20,189,500 to PLN 239,841,000). All the newly created shares in the share capital of the company were held by the present shareholder - ENEA S.A. and covered in full with a non-cash contribution (contribution in kind) as an organised part of the undertaking of ENEA S.A. operating under the name of: the ENEA S.A. ENEA S.A. Oddział Elektrownia Biogazowa Liskowo.
- On 15 February 2011 the Extraordinary General Meeting of Shareholders was held, during which the share capital of Hotel EDISON Sp. z o.o. was increased by PLN 35,000 i.e. to the amount of PLN 21,271,500 through issuing of 70 new shares of the nominal value of PLN 500 each. The shares in the increased share capital of Hotel EDISON Sp. z o.o. were taken up by the present shareholder – ENEA S.A. and paid in full with cash contribution. The increasing of the share capital in the National Court Register was made on 28 July 2011.
- On 28 February 2011 an Extraordinary General Meeting of Shareholders of Kozienice II Sp. z o.o. and on 9 March 2011 an Extraordinary General Meeting of Shareholders of Elektrownia "Kozienice" S.A. concerning the merger of Elektrownia "Kozienice" S.A. (Merging Company) with Kozienice II Sp. z o.o. (Merged Company) through transfer of the whole assets of the Merged Company onto the Merging Company with a simultaneous increase of the share capital of the Company through emission of the shares directed to ENEA S.A. The share capital of Elektrownia "Kozienice" S.A. as a result of the merger was increased by PLN 12,482,440.00 to the amount of PLN 462,482,440.00 through emission of 1,248,244



ordinary bearer's shares of B series of the nominal value of PLN 10 each. On 30 March 2011 an entry was made to the National Court Register. The purpose of the merger is to make use of the many years of experience and competences of Elektrownia "Kozienice" in managing generation assets and carrying out investments in new production capacities.

- Realising the strategy of ENEA S.A. anticipating the investment into the energy renewable sources, including acquisitions and construction of a biogas plant, ENEA S.A. on 11 March 2011 purchased 100 per cent of the shares in DOBITT ENERGIA Sp. z o.o. with its registered office in Gorzeslaw that is the owner of the construction project and the building permit for construction of an agricultural biogas plant with the power of 1.6 MW and the owner of the land designated for the investment. The value of the transaction was PLN 3,350,000. At the same time, on 11 May 2011, the Extraordinary General Meeting of Shareholders of DOBITT ENERGIA Sp. z o.o. was held during which a resolution was adopted concerning increasing of the share capital of the Company from PLN 100,000 by PLN 9,075,000 to PLN 9,175,000. All the newly established shares from the increased share capital were taken up by ENEA S.A. The increasing of the share capital in the National Court Register was made on 22 August 2011.
- On 13 May 2011 the Extraordinary General Meeting of Shareholders of Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. with its registered Office in Oborniki, approved purchase by ENEA S.A. of 1,234 employee shares for the amount of PLN 1,275.00 per each share 1. Within the realisation of the purchase of the first tranche of the shares ENEA S.A. purchased 314 employee shares in the amount of PLN 400,350.00.
- On 20 July 2011 the subsidiary of ENEA S.A. operating under the name of FINEA Sp. z o.o. in liquidation as a result of the completed process of liquidation was liquidated and was removed from the National Court Register.
- On 12 September 2011 the Extraordinary Meeting of Shareholders of ENEOS Sp. z o.o. adopted a resolution on increasing of the share capital of the company from PLN 20,189,500.00, by PLN 11,900,000.00, up to PLN 32,089,500.00 in consideration of a non-cash contribution (in-kind contribution) as an organised part of the undertaking, in the meaning of Article 551 of the Civil Code, under the name of "Oswietlenie uliczne Miasta Poznania". The aforementioned contribution in kind consists of: tangible and intangible assets, i.e. buildings - (fixed assets) and operational documentation, archives, property insurance, financial separation of the subject of the contribution in kind; economic contracts - including a regulation of using the infrastructure of ENEA Operator Sp. z o.o., settlements by title of modernisation of lighting installations and collisions. The organised part of the undertaking constitutes an individual, both within finance and organisation, set of complements ready when needed to individually perform the tasks to which it was designated, as an organised and separated set of assets, is adjusted to performing specific economic tasks within ensuring on the territory of Poznan securing of public needs within lighting.
- On 13 September 2011 ENEA S.A. held shares in the increased share capital of ENEA Sp. z o.o. and transfer of an organised part of the undertaking in the meaning of Article 551 of the Civil Code, from ENEA S.A. to ENEOS Sp. z o.o. On 13 October 2011 the increasing of the share capital of ENEOS Sp. z o.o. was registered in the National Court Register.
- On 20 September 2011 the Extraordinary General Meeting of Shareholders of BHU S.A. adopted a Resolution on increasing of the share capital of the Company by PLN 165,600 from the amount of PLN 16,375,100 to PLN 16,540,700 through issuing of 1,656 shares of L series of the nominal value of PLN 100 each, in consideration for a non-cash contribution as a right of perpetual usufruct of the property with improvements of the land of the area of 1,387 m², located in Troszczyń, Opalenica municipality, with the total value of PLN 165,600, with depriving the present shareholders of the pre-emptive right. The contract of transfer of the right of perpetual usufruct of the aforementioned land property was executed on 3 November 2011. On 16 November 2011 an entry was made to the National Court Register concerning the increasing of the share capital of the company. Transfer of the aforementioned property to the company aimed at, among others, organisation of the economic position of ENEA Capital Group.
- On 17 November 2011 an Extraordinary General Meeting of Shareholders of Elektrownie Wodne Sp. z o.o. with its registered office in Samociązek during which a decision was made to merge Elektrownie Wodne Sp. z o.o. with Elektrownie Wiatrowe - ENEA Centrum Spolka Akcyjna, Spolka



komandytowa with its registered office in Samociazek. The merger took place by incorporation of Elektrownie Wiatrowe - ENEA Centrum Spolka Akcyjna, Spolka komandytowa into Elektrownie Wodne Sp. z o.o. in the mode described in Article 492 § 1 item 1 of the Commercial Companies Code, i.e. through transfer of the whole assets of Elektrownie Wiatrowe - ENEA Centrum Spolka Akcyjna, Spolka Komandytowa to Elektrownie Wodne Sp. z o.o. - a limited partner in the merged company, in consideration for shares which Elektrownie Wodne Sp. z o.o. issued to the general partner of Elektrownie Wiatrowe - ENEA Centrum Spolka Akcyjna, Spolka komandytowa, i.e. to ENEA Centrum S.A. The limited partner of the merged company, i.e. Elektrownie Wodne Sp. z o.o. as a merging company, did not receive its shares. On 2 January 2012 with the decision of the Regional Court in Bydgoszcz, XIII Economic Division of the National Court Register the both companies were merged. As a result of the merger the share capital of Elektrownie Wodne Sp. z o.o. was increased from the amount of PLN 239,841,000 by PLN 8,500, i.e. to the amount of PLN 239,849,500 through creation of 17 new shares of a nominal value of PLN 500 each.

1.4. Description of key capital investments

Implementing the strategy for the development of the ENEA Capital Group, a number of capital investments were made in 2011:

- On 30 March 2011, a subsidiary of ENEA S.A., Elektrownie Wodne Sp. z o.o., dedicated to, among other things, the extension of production capacity of the Group from Renewable Energy Sources purchased a wind farm located in Darzyno in Pomorze with installed capacity of 6 MW. This is the first undertaking of this kind in the Group. Purchase of the farm is the first step in acquiring significantly bigger sources of this type. The wind farm in Darzyno was built in 2008. It consists of modern Enercon E-82 wind turbines with the power of 2 MW each. It is located in the area of very favourable wind conditions. Its productivity from April to December 2011 was 12.8 GWh of electricity.
- On 1 June 2011 ENEA S.A. purchased 1,283,214 shares of Elektrociepownia Bialystok S.A. of the nominal value of PLN 10 per one share (1,038,939 shares of A series and 244,275 shares of B series) from Societe Nationale d'Electricite et de Thermique S.A. Thanks to the transaction ENEA holds almost 100 per cent of shares of the company from Bialystok. The Basic units for production of electricity and heat in Bialystok Heat and Power Plant are three heat units with the total heating power of 505.2 MWt and with generating capacity of 165.7 MWe. Additionally in the technological system there is a water boiler functioning as a peak source of heat, with the thermal capacity of 81.5 MWt. Generating capacity of the power plant in 75 per cent cover the annual demand for heat of the Bialystok agglomeration. The remaining 25 per cent of energy is generated in Ciepownia Zachod (Heat Power Plant) owned by the Municipal Herat Supply Company in Bialystok.
- On 13 July 2011 ENEA S.A. sold for the account of CENTROZAP S.A. with its registered office in Katowice 6,860 (say: six thousand eight hundred and sixty) shares in the share capital of Przedsiębiorstwo Energetyki Ciepłej w Semie Sp. z o.o. Thus, ENEA S.A. is no longer the shareholder of the aforementioned company.
- On 26 July 2011 the Extraordinary Meeting of Shareholders of EP PUE ENERGOBUD Leszno Sp. z o.o. adopted a resolution on increasing of the share capital of the company from PLN 7,634,000.00, by PLN 1,151,000.00, up to PLN 8,785,000.00 in consideration of a non-cash contribution as a right of perpetual usufruct to the property located in Zielona Gora by Al. Wojska Polskiego and the right of ownership to the buildings located on it, building constituting an individual title, comprising the property and fixed assets not constituting the assets of the subject property as a central heating boiler and building elevator. Holding of the shares by ENEA S.A. in the increased share capital of EP PUE ENERGOBUD Leszno Sp. z o.o. and transfer of the right of perpetual usufruct of the property concerning the contribution in kind was made on 3 August 2011. On 15 September 2011 the registration of the increased share capital of EP PUE ENERGOBUD Leszno Sp. z o.o. was made in the National Court Register. Acquisition by the Company of the aforementioned property shall enable to develop the administration and technical facilities in Zielona Gora.
- In relation to the change of the profile of operations of Energetyka Poznanska Biuro Usług Technicznych S.A. and commencement of provision of services within the service of the customers of ENEA S.A. the name of the company is also changed to the new one: ENEA Centrum S.A. In connection with commencement by the Company of provision of new services on 1 August 2011 the Company acquired



some of the then employees of ENEA S.A. The transfer of the employees of ENEA S.A. constitutes the completion of the first stage of the project aiming at enhancing effectiveness of operations of the whole organisation and adaptation of the Group's structure to the global standards bidding on the electricity market. The aim of the project is implementation of a uniform service of customers of ENEA Group. It will allow for concentration of service competences in the Company, specialisation within this field and responsibility for service quality and customer satisfaction.

- Moreover, in one of the subsidiaries of Kozienice Power Plant, i.e. ELKO Trading Sp. z o.o., during Q3 2011 the share capital was increased from the amount of PLN 13,500,000 by PLN 86,500,000 to PLN 100,000,000 through creation of new 86,500 new shares of the nominal value of PLN 1,000 each which were fully held by Elektrownia "Kozienice" S.A. and paid up in full with cash. The indicated increasing of the share capital of the company is necessary for financial securing of the core business of ELKO Trading Sp. z o.o. in relation to the commencement by the company of operations from 1 August 2011. On 8 November 2011 the increasing of the share capital was registered in the National Court Register.
- On 22 August 2011 ENEA S.A. purchased 21,265 shares in "Annacond Enterprises " Sp. z o.o. with its registered office in Warsaw, with the nominal value of PLN 500 per share, constituting 61 per cent of the share capital of the company. Till the date of this report the aforementioned company conducted preparatory activities to commence operations.
- On 21 September 2011 4,610 ordinary bearer's shares of Monnari Trade S.A. of the nominal value of PLN 0.10 each were transferred to the share account of ENEA S.A., which constituted satisfaction of the receivables of ENEA S.A. reported in the bankruptcy proceedings. Thus, ENEA S.A. became the shareholder of the aforementioned company.
- On 25 November 2011 ENEA S.A. concluded a preliminary agreement for the purchase of 100 per cent of a special purpose vehicle realising the project of construction of a Bardy Wind Farm with capacity of 50 MW. The farm will generate ca. 150,000 MWh of green energy annually.
- On 23 December 2011 ENEA S.A. concluded an agreement for sale of 14,750 shares of Towarowa Gielda Energii S.A. (Polish Power Exchange) with the Warsaw Stock Exchange constituting 1.0172 per cent of the share capital of Polish Power Exchange. On 29 February 2012 the transaction was closed and the aforementioned shares were transferred for the account of the Warsaw Stock Exchange. In relation to the closing on 29 February 2012 ENEA S.A. ceased to be the shareholder of the Polish Power Exchange
- On 16 February 2012 ENEA S.A. concluded an agreement for sale of 269,000 shares of Przedsiębiorstwo Produkcji Strunobetonowych Zerdzi Wirowanych WIRBET S.A. (WIRBET) with THC Fund Management Ltd. with its registered office in Nicosia, Cyprus, constituting 49 per cent of the share capital of WIRBET. At the same time ENEA S.A., based on the authorisation granted to it on behalf of the other shareholders of WIRBET, i.e. Tauron Dystrybucja, ENERGA S.A., PGE Obrot S.A., sold within the aforementioned agreement also their shareholdings, i.e. 280,000 shares. The transfer of the title to THC and issue of share warrants took place on 22 March 2012.

The decision on sale of the aforementioned shares was made as a result of the scope of the operations of WIRBET is not consistent with the key area of activity of ENEA S.A. The sale of the shares shall contribute to the ordering of the structure of the capital group in the area of affiliates and companies in which ENEA S.A. is a minority shareholder.

1.5. Changes to the organisation and management rules of the Capital Group

In 2011 the aforementioned changes occurred within the organisation and management rules of the ENEA Capital Group. All changes implemented in 2011 were focused to improve the effectiveness of strategic management and functioning of selected areas of the operations of the ENEA Capital Group. Apart from the processes of recapitalisation of subsidiaries and sale of small packages in other entities ("minority stakes") in 2011 we also undertook activities connected with the restructuring consisting in among others mergers of entities.



1.6. Information on branches

During the period till 7 February 2011 ENEA S.A. possessed a separated in 2010 in the organisational structure of the Company the division of Elektrownia Biogazowa Liskowo. The division mentioned above was removed (in relation to the contribution of an organised part of the undertaking of ENEA S.A. operating under the name of ENEA S.A. Oddział Elektrownia Biogazownia Liskowo as a contribution in kind to the subsidiary Elektrownie Wodne Sp. z o.o. with its registered office in Samociazek). Detailed information on realisation of the aforementioned contribution in kind was covered under the item *Asset restructuring* above.

Apart from possession of the above mentioned division ENEA S.A. in 2011 did not have any other branches. Outside of Poznan, however, there are Sales Offices operating in Bydgoszcz, Gorzow Wlkp., Zielona Gora and Szczecin.

The subsidiary EP PUE ENERGOBUD Leszno Sp. z o.o. based on the Resolution of the Extraordinary General Meeting of Shareholders of EP PUE ENERGOBUD Leszno Sp. z o.o. dated 29 December 2010 created based on the acquired (through merging) company of EWINN Sp. z o.o. Oddział Wysokich i Najwyższych Napięć in Poznan. The registration of the Division took place on 31 January 2011.

2. DESCRIPTION OF ENEA CAPITAL GROUP'S OPERATIONS

2.1. Information on basic products, goods and services

As part of its basic activities the ENEA Capital Group (further on: "the Group" is involved in generating, distributing and trading in electricity. The Group's companies conduct these operations on the basis of licences granted by the president of the Energy Regulatory Office (ERO) - the body established to regulate the management of fuels and energy and to promote competition in the energy sector.

2.1.1. Generation

2.1.1.1. Elektrownia "Kozienice" S.A.

The largest producer of electricity in the Group is Elektrownia "Kozienice" S.A. (further on: Kozienice Power Plant), which joined the Group in October 2007. It is Poland's largest professional hard coal-fired power plant. It comprises 10 high-performance, updated power units with a total generating capacity of 2,905 MW. The power plant emits low levels of carbon dioxide (in 2010 the emission level was 880 kg/MWh, and in 2011 866 kg/MWh) and has one of the lowest levels of coal consumption per MWh of generated electricity, reported at 0.402 Mg/MWh in 2011. The Kozienice Power Plant in 2011 reached a general gross generating efficiency of 38.7 per cent.

The volume of electricity generated by Kozienice Power Plant in 2010 - 2011 in gross MWh with division into particular quarters is presented in the table below:

Electricity generated by Kozienice Power Plant [gross MWh]		
Period	2010	2011
Q1	2 995 473.700	2 844 850.500
Q2	2 914 317.700	2 976 352.000
Q3	3 247 671.500	3 005 475.900



Q4	3 160 708.700	3 062 113.100
TOTAL	12 318 171.600	11 888 791.500

Kozienice Power Plant in 2011 generated 11,888,791.5 MWh of gross electricity. This constitutes a decrease compared to the same period last year, when Kozienice Power Plant generated gross electricity of 12,318,171.6 MWh.

In January 2008, Kozienice Power Plant also began to generate power from renewable sources by co-firing biomass with conventional fuels (hard coal) thanks to the installation for co-firing of solid biomass with coal for 200 MW units. In 2011 the Kozienice Power Plant recognized certificates of origin for energy from renewable sources in the amount of 393,077.915 MWh. For comparison, in 2010 Kozienice Power Plant recognised certificates of origin of energy from renewable sources in the amount of 319,150.283 MWh.

The company intends to consistently increase the share of biomass in fuel, which, in terms of generated power, is to amount to 2.1 per cent in 2015 according to the plan of costs diminishing (it is currently at the level of 1.5 per cent).

In 2011 the Kozienice Power Plant purchased 221,260.92 thousand tons of biomass for the purpose of production of renewable energy. In particular quarters of 2010-2011 the purchases of biomass are as follows:

Purchase of biomass by Kozienice Power Plant ['000 tons]		
Period	2010	2011
Q1	18 521.52	47 989.76
Q2	47 406.30	56 557.50
Q3	51 262.22	44 871.88
Q4	58 569.12	71 841.78
TOTAL	175 759.16	221 260.92

In 2011 219,302.8 Mg of biomass was used for combustion. Such a volume of combusted biomass results in "avoidance of emissions" of carbon dioxide in the amount of 357,286.3 Mg.

Volume of biomass combusted by Kozienice Power Plant [Mg]		
Period	2010	2011
Q1	18 260.3	47 503.2
Q2	47 675.7	57 002.1
Q3	51 339.7	44 094.0



Q4	59 235.0	70 703.5
TOTAL	176 510.7	219 302.8

Thanks to the conducted modernisation of the low compression part of the turbines on 200 MW and 500 MW units and of the high and low compression part of the turbines on 500 MW units we have successfully reduced the individual coal consumption and thus the emission of CO₂ to the atmosphere was reduced.

The volume of energy generated from renewable sources and cogeneration with division into certificates in Kozienice Power Plant in particular quarters during 2010-2011 was as follows:

Energy from RES Green certificates [MWh]		
Period	2010	2011
Q1	32 358.190	85 762.850
Q2	89 270.247	103 137.678
Q3	91 079.415	78 017.129
Q4	106 442.431	126 160.258
TOTAL	319 150.283	393 077.915
Energy from cogeneration Red certificates [MWh]		
Period	2010	2011
Q1	32 645.480	25 022.906
Q2	6 105.888	10 288.000
Q3	7 157.417	5 212.000
Q4	20 074.154	14 642.013
TOTAL	65 982.939	55 164.919

2.1.1.2. Elektrownie Wodne Sp. z o.o.

Elektrownie Wodne Sp z. o.o. is also engaged in the generation of electricity from renewable resources. (further on: Elektrownie Wodne). Within the activity of the Company there are 21 hydroelectric power plants are functioning, a wind farm and a biogas power plant.



The volumes of energy generated from 21 hydroelectric plants, transferred into the grid and green certificates achieved by this title in particular quarters of 2010-2011 was as follows:

Energy generated from ERS for which Elektrownie Wodne receive green certificates of origin for energy [MWh]		
Period	2010	2011
Q1	35 597.833	54 598.828
Q2	38 755.730	36 672.164, 36 669.033)*
Q3	33 119.587	33 866.147
Q4	47 766.155	35 342.222
TOTAL	155 239.305	160 479.361

Energy transferred into the grid [MWh]		
Period	2010	2011
Q1	35 105.623	53 708.701 (53 720.821)**
Q2	38 318.564	36 304.739 (36 322.964)**
Q3	32 657.884	33 391.702
Q4	47 009.943	34 779.462
TOTAL	153 092.014	158 184.604

*correction of the volumes of energy generated authorising to apply for certificates of origin for generation for the period of technological start-up of EW Oborniki (energy not included into the certificates of origin by ERO)

** correction of the volumes of energy introduced into the grid for the of technological start-up of EW Oborniki (energy considered as transferred to the grid by ENEA Operator Sp. z o. o.)

At present the activity of Elektrownie Wodne includes the activity connected with the development of the project of wind farms. Within wind energy a project is developed with the capacity of 15 MW, for account of which the lands were secured, changes were made to the local spatial development plan of the municipality, the realisation of which covers a possibility of locating of wind turbines on the territory including internal infrastructure and conditions were achieved for connection to the grid. Obtaining decisions on the environmental conditions for the realisation of the undertaking is planned for Q2 2012 and commencement of the construction for Q4 2012.

Based on the Resolution of the General Meeting of Shareholders approving the adjustment of the Material and financial plan for 2010–2012, Elektrownie Wodne withdrew from the realisation of projects for which no amendments were received in the local plan of spatial development within the statutory term allowing for completion of the application for connection to the grid. Besides the developed project with the capacity of 15 MW and a potential project with the anticipated capacity of 30-36 MW, the company also performs searches for projects of wind farms that can be purchased at the stage of a building permit or operational permit.



Within the aforementioned works the purchase was finalised of a working wind farm with the capacity of 6 MW located in the Pomorskie Province (Darzyno Wind Farm). Non-bidding final offers of purchase were also made for wind farms with the total capacity of 84 MW possessing valid building permits and anticipated for realisation during 2011-2012, among which under final negotiations there is a 10 MW project. The Company has also completed due diligence of the project of a wind farm of the capacity of 86 MW and is analysing its risks and appraisal.

In addition, in order to increase the generating capacity of the company the construction of a small hydroelectric plant in Oborniki Wielkopolskie on the Welna river was completed. An estimated average annual volume of production of energy generated in Oborniki Wielkopolskie amounts to 1,440 MWh.

Within the investments in energy renewable sources in 2010 ENEA S.A. purchased a newly constructed biogas power plant in Liszkowo, municipality of Rojewo, the Kujawsko-Pomorskie Province, with the electric capacity of 2.1 MW. The object is innovative on the national level, represents a high technical level, and functions as an utilisation plant for the low-energy biomass by-product (mainly distillery slops). Detailed information within this scope was given in the previous periodic reports. The Liszkowo biogas plant as the first and experimental object of this type in Poland is constantly at the stage of collecting experiences and analyses regarding how to optimally use these kinds of installations.

Below the volumes of production and number of energy certificates of origin from the Liszkowo Biogas Power Plant are presented for the particular quarters of 2010-2011:

Volume of production of energy and number of certificates of origin for energy [MWh]		
Period	2010	2011
Q1	1 878.640	2 686.912
Q2	2 208.104	1 776.040
Q3	1 582.072	1 539.160
Q4	1 783.160	173.768*
TOTAL	7 451.976	6 175.880

* In relation to termination of the agreement with the present operator of Biogas Power Plant in Liszkowo in Q4 2012 Elektrownie Wodne Sp. z o.o. needed to perform necessary overhaul and repairs of the equipment comprising the installation. In relation to the conducted works in Q4 2011 it was impossible to dose fresh substrates to the fermenting mixture. As a consequence the achieved low production of electricity occurred as a result of a self-outgassing of the fermenting mixture dosed during the previous months. Resuming works of the installation and production of electricity was planned for Q1 2012.

The volume of production from the finalised transaction of purchase of the 6 MW wind power plant:

Energy generated by Darzyno Water Plant for which Elektrownie Wodne receive green certificates of origin for energy [MWh]	
Period	2011
Q1	N/A
Q2	3 614.483



Q3	3 593.365
Q4	5 711.148
TOTAL	12 918.996

Energy transferred into the grid [MWh]

Period	2011
Q1	N/A
Q2	3 614.483
Q3	3 577.583
Q4	5 674.021
TOTAL	12 866.087

2.1.1.3. Elektrociepłownia Białystok S.A.

The Basic units for production of electricity and heat in Elektrociepłownia Białystok S.A. (further on Białystok Heat and Power Plant) are three heat units with the total heating power of 505.2 MWt and with generating capacity of 165.7 MWe. Additionally in the technological system there is a water boiler functioning as a peak source of heat, with the thermal capacity of 81.5 MWt. Generating capacity of the power plant in 75 per cent cover the annual demand for heat of the Białystok agglomeration. The remaining 25 per cent of energy is generated in Cieplownia Zachod (Heat Power Plant) owned by the Municipal Heat Supply Company in Białystok (MPEC).

Heat generation and sales

The owner of the municipal heating system and the key customer of the Heat and Power Plant within receipt of heat is MPEC Białystok Spolka z o.o.

The Białystok Heat and Power Plant generates electricity and heat energy in the form of hot water for *central heating and hot tap water* and process steam for the needs of hospitals and industrial plants. The share of the production of process steam in the general production of heat is ca. 13 per cent on an annual average. Beyond the heating season the Heat and Power Plant produces heat just for the needs of hot tap water and process steam with the total heating power of around 50 MWt.

Heat production [GJ]

Period	2010	2011
Water	3 598 116	3 217 952
Steam	412 451	378 276



Production and sale of electricity

The process of energy production in Bialystok Heat and Power Plant is performed in cogeneration. The co-generated production of electric and heat energy is a technological process which simultaneously uses the chemical energy of a fuel for generation of electric electricity and heat. Application of such a technology brings energetic, economic and ecological benefits. It constitutes the most efficient method of generation of heat and electric energy. Additionally there is a possibility of generating electricity using pass-out and condensing turbine set.

Electric energy is sold on the wholesale market based on bilateral contracts and on the Polish Power Exchange. The Bialystok Heat and Power Plant also sells energy at the level of voltage of 15 and 0.4 kV to industrial plants located in the vicinity.

Production of electricity [MWh]		
Period	2010	2011
Q1	165 568.177	187 413.378
Q2	74 262.147	101 868.669
Q3	72 550.252	103 803.962
Q4	149,004.534	165,252.758
TOTAL	461 385.110	558 338.767

Sale of electricity from own production [MWh]		
Period	2010	2011
Q1	140 893.323	162 924.271
Q2	62 280.833	87 396.465
Q3	60 059.679	89 281.989
Q4	128 379.401	143 103.777
TOTAL	391 613.236	482 706.502

Apart from trading in electricity on wholesale market Bialystok Heat and Power Plant sells electricity to end users (direct sales). Delivery of electricity is performed on direct cable lines belonging to recipients. Recipients in this segment of sales are companies and industrial plants located in the direct vicinity of Bialystok Heat and Power Plant. Direct sale is conducted on the level of 0.4 and 15 kV voltage. Direct sale is conducted on the level of 0.4 and 15 kV. In case of 0.4 kV recipients electricity is collected from auxiliary distribution board of the heat and power plant and for 15 kV recipients the energy is collected from 15 kV distribution boards which is specially dedicated for this sale and powered from two 10/15/6 three-winding transformers.



Property rights from RES and CHP

In 2008 Bialystok Heat and Power Plant launched a new installation for production of electricity and heat in cogeneration using energy renewable sources (biomass). The specially designed furnace, the so called fluidised bed (BFB) constitutes the key element of the biomass boiler created in result of conversion of the existing OP 140 coal boiler. At present, the conversion of another twin OP 140 boiler into a biomass boiler with a fluidised bed is realised. Investment completion date - end of 2012.

In order to maximise energy production from RES generated in a hybrid system (coal boiler + biomass boiler) the TZ4 condensing turbine set is used which is powered with the extraction steam of the TZ1 heating turbine set with the pressure of 1 MPa.

Electricity generated in RES unit [MWh]*		
Period	2010	2011
Q1	39 837.255	48 006.903
Q2	15 841.620	44 532.263
Q3	9 037.287	52 236.214
Q4	49 311.293	49 494.485
TOTAL	114 027.455	194 269.865

Electricity generated in CHP cogeneration unit [MWh]**		
Period	2010	2011
Q1	165 568.177	187 413.378
Q2	74 262.147	101 868.669
Q3	72 550.252	103 803.962
Q4	149 004.534	71 354.917
TOTAL	461 385.110	464 440.926

* volume of electricity for which Company has a right to apply for proprietary interests resulting from certificates of origin - so called "green certificates"

**volume of electricity for which Company has a right to apply for proprietary interests resulting from certificates of origin from Cogeneration - so called "red certificates"

Other sources

In addition, within the works connected with the achievement of energy from renewable sources and in cogeneration in MEC Pila (a company belonging to the Group) the following project was performed – "Construction of the Biomass Cogeneration Unit in ORC technology on the Regional Boiler House KR-Koszyce in Pila". The investment is to be co-financed from the European Union from the funds of the Cohesion Fund within 9.1 action - *Highly efficient energy production, priority IX - Environment-friendly energy infrastructure and energy efficiency*, of the Infrastructure and Environment 2007-2013 Operational Programme. The detailed



analysis of the project and updated external and internal conditions demonstrated justifiability of its modification through replacement of the ORC installation powered with the biomass fired boiler with the cogeneration source fired with natural gas. The Company applied to the institution implementing and financing financial aids for an approval for project modification. Cogeneration installation fuelled with natural gas with electric power amounting to 10 MWe and heat power of 9 MW shall produce electricity and heat in cogeneration satisfying the requirements of the highly-efficient cogeneration.

On 11 May 2011 ENEA S.A. purchased DOBITT ENERGIA Sp. z o.o., a company located in the Dolnoslaskie Province. The company holds the construction project for a biogas power plant (agricultural) with the electric power of 1.6 MW, and a final building permit. The construction of the biogas power plant was commenced in June 2011. Till the end of 2011 a construction was completed as a building shell: fermenters, containers for post-fermentation substance and technical building. The commissioning and start-up is planned for the end of June 2012.

In November 2011 ENEA S.A. executed a preliminary agreement for the purchase of 100 per cent of the shares of a special purpose vehicle implementing the project of construction of a wind farm with capacity of 50 MW. The farm will generate ca. 150,000 MWh of green energy annually.

Total generating capacity

The total generating capacity of the ENEA Capital Group amounts to 3,139.27 MW and covers:

- 2,905 MW in Kozenice Power Plant (a small amount of heat is also generated - the heating capacity of the power plant amounts to 266 MWt),
- 60.14 MW in 21 water turbine plants,
- 2.13 MW in the biogas plant in Liszkowo,
- 166 MW in Bialystok Heat and Power Plant,
- 6 MW in the wind farm in Darzyno.

2.1.2. Distribution

Within our Group, the distribution of electricity is the responsibility of ENEA Operator Sp. z o.o. ("ENEA Operator"), which acts as the operator of the power distribution system. The distribution network covering an area of over 20 per cent of the country, located in the north-western part of Poland. ENEA Operator possesses over 129,000 km of power lines (including connections) and over 35,000 transmission stations (the information is valid as at 31 December 2011).

According to the Energy Law, ENEA Operator as a distribution system operator is responsible for, among others:

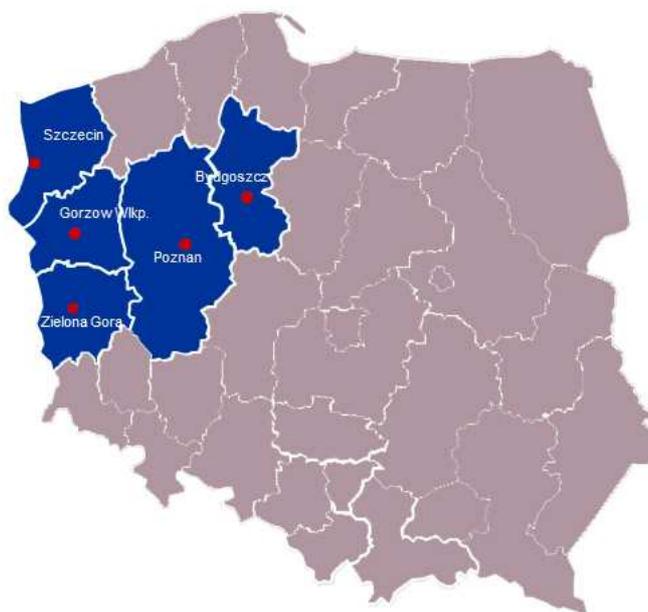
- conducting grid traffic of the distribution network,
- operation, maintenance and repairs of the distribution network ensuring its uninterrupted work,
- ensuring extension of the distribution network and planning of development of the grid, including connection of energy renewable sources,
- system balancing,
- managing flows of energy in the distribution network,
- purchase of electricity for covering of losses occurring in the distribution network.

ENEA Operator supplies electricity to over 2.39 mln users in the western and north and western Poland. To this end it uses the distribution network covering an area of over 20 per cent of the country, including 109,000 km of power lines (over 127,000 including connections).

The Company acts on the territory of 58,213 km², on the area of 5 provinces: Wielkopolskie, Zachodniopomorskie, Lubuskie, Kujawsko-Pomorskie and in small part Dolnoslaskie and Pomorskie.

Because of the size, the Company runs business within the extended territorial structure - the seats of the five Branches are located in Poznan, Bydgoszcz, Gorzow Wielkopolski, Szczecin and Zielona Gora.





Below we present the volumes of electricity delivered to customers connected to the grid of ENEA Operator who hold comprehensive agreements with ENEA S.A.:

Volume of electricity [TWh]		
2009	2010	2011
16.79	15.53	14.74

Below we present the volumes of electricity delivered to all the customers connected to the grid of ENEA Operator (it covers also those customers who chose a seller other than ENEA S.A.)

Volume of electricity [TWh]		
2009	2010	2011
16.25	16.98	17.10

2.1.3. Trade

Within the ENEA Capital Group the wholesale trade in electricity and sales of electricity to end users belongs in major part to ENEA S.A. for which it constitutes the core business.

Pursuant to the approval given by the Ordinary General Meeting of Shareholders of ENEA S.A. held on 29 June 2011, of which the Company informed in the current report No 19/2011, starting with 1 August 2011 a reorganisation was performed within the Group, in result of which competencies within wholesale were transferred to the special purpose vehicle - ELKO Trading Sp. z o.o. The company is responsible towards ENEA for among others conducting a portfolio of electricity and sale of property rights for account of customers of ENEA S.A., purchase of energy on a wholesale market, settlements and it functions as a commercial co-ordinator (OH).

In 2011 the total sales within trading in energy amounted to (excluding not invoiced statistic sales - date of meter reading is after the date ending the given turnover year) ca. 15.5 TWh, including sales to retail users of ca. 14.7 TWh, however sales to recipients connected to the grid of distribution system operators other than ENEA Operator amounted to ca. 2.1 TWh. The number of end users as at 31 December 2011 amounted to around 2,400,000.



In 2011 the operations on the wholesale market connected with trading in electricity were also performed by Kozenice Power Plant. Within the licence the sales of electricity in 2011 amounted to 1,261.5 GWh, and in 2010 Kozenice Power Plant realised electricity sales at the level of 242 GWh.

2.1.4. Other activity

Moreover, the companies of our Group also conduct operations supplementary to the basic operations listed above, including:

- the construction, expansion, modernisation and repair of electric power equipment and networks,
- design, construction, production and sale of electrical and power equipment and apparatus,
- services related to the maintenance of street lighting and low-voltage networks,
- transport services (including the sale, servicing, repair and leasing, of vehicles), and
- social activity (tourism objects, restaurants and recreation services, health protection).

2.2. Sales markets

The portfolio of recipients to whom we sell electricity is highly diversified. Presently we sell electricity to over 2,400,000 recipients, including over 2,100,000 of individual recipients and around 0.3 mln business entities. In 2011 the proceeds from supplying electricity to our largest customer accounted for 1.48 per cent of the overall value of electricity and distribution sales, and the share of the ten largest customers amounted to 10.2 per cent.

2.2.1. Sales to end users

We sell electrical energy to our recipients and offer comprehensive services (energy sales and distribution services) within the following tariff group sets specified in electricity tariffs:

Set of tariff groups	Description
Tariff group set A	Energy sold and delivered to customers connected to a high-voltage grid
Tariff group set B	Energy sold and delivered to customers connected to a medium-voltage grid
Tariff group set C	Energy sold and delivered to customers connected to a low-voltage grid, with the exception of end users using electricity for household purposes
Tariff group set G	Energy sold and delivered to end users using electricity for household purposes, regardless of voltage of the grid to which they are connected

This offer is directed to customers on the domestic market.

In practice, tariff group sets A and B are used mainly by large companies operating in such sectors as chemicals, cement, steel, automotive, paper, wood and metals processing, communal services and port services. In tariff group set C, settlements are made with facilities connected to a low-voltage grid which are not households, such as shops, service outlets, hotels, cities and municipalities – for street lighting, whereas in tariff group set G, settlements are made with end users using electricity to power households and related utility rooms.

Typically, ENEA S.A. concludes comprehensive agreements for an indefinite term, but agreements for the sale of energy (without energy distribution services), including agreements with customers connected to networks of distribution system operators other than ENEA Operator, are most often concluded for a fixed term usually amounting to 12 months.



Notice periods are most frequently set for 1 month (around 2,300,000 agreements), less frequently for two, three or six months (around 0.1 mln agreements).

2.2.2. Other sales

Participating in the domestic trade in electricity we are realising sales on the wholesale market to other traders (starting from 1 August 2011 the realisation by ELKO Trading Sp. z o.o.), that as a result balance their own contract positions. Sales volume results mainly from action to balance the hourly demand for electricity with previously concluded contracts, which optimises exposure on the balancing market.

2.2.3. Sales by value and type

Revenues on sales of electricity in particular sets of tariff groups on a qualitative basis (not including non-invoiced statistical sales) were as follows:

Item	Revenues on sales of electricity to end users [PLN '000]		
	2010	2011	Change
Tariff group set A	352 703.6	503 489.1	142.8%
Tariff group set B	1 574 055.3	1 349 281.0	85.7%
Tariff group set C	1 021 673.5	898 785.8	88.0%
Tariff group set G	1 110 758.6	1 190 128.6	107.7%
TOTAL	4 059 191.0	3 941 684.5	97.1%

In 2011 in relation to 2010 the greatest increase in revenues on sales was noticed in the A tariff group set and amounted to 42.8 per cent. However the greatest drop in revenues on sales of energy was noted in the B tariff group set. The drop amounted to 14.3 per cent. In 2011 the sales on sale of energy were lower by PLN 117,506,500, i.e. 2.9 per cent in relation to 2010.

Decreases of revenues from electrical energy sales were consistent with decreases of the volume of energy sold.

Sales of electrical energy in each tariff group set, in terms of value (without taking into account non-invoiced statistical sales), were as follows:

Item	Sales of electricity [MWh]		
	2010	2011	Change
Tariff group set A	1 532 206	2 171 771	141.7%



Tariff group set B	6 007 113	5 103 742	85.0%
Tariff group set C	3 486 353	3 010 626	86.4%
Tariff group set G	4 505 792	4 460 507	99.0%
TOTAL	15 531 464	14 746 646	94.9%

In 2011 in relation to 2010 the growth in the volume of sales was noted in the A tariff group set. The greatest increase in the volume of sales, by 41.7 per cent was noted in the A tariff group set. However the greatest drop in sales of energy was reflected in the B tariff group set. In 2011 the total sales of energy was lower by 784,818 MWh, i.e by 5.1 per cent in relation to 2010.

2.3. Supply markets

2.3.1. Purchase and sale of energy by ENEA S.A. on the wholesale market

In connection with organisational changes and separation as of 1 August 2011 the scope of the operations connected with the wholesale market to the special purpose vehicle ELKO Trading Sp. z o.o. all the contracts connected with the wholesale market (also those concluded by ENEA S.A.) are serviced and administered by the subsidiary. In 2011 the wholesale portfolio of electricity was in a substantial scope diversified.

A key part of energy sold by ENEA S.A. was energy purchased on commodity markets run by Polish Power Exchange. Any remaining purchase contracts were entered into within the bilateral transactions (including with ELKO Trading Sp. z o.o.) and realised in the process of balancing of the balancing mechanism unit on the balancing market (transactions on the balancing market of the Transmission System Operator resulting from the difference between estimated and actual trading positions).

2.3.2. Purchase of the distribution service

The objective of realisation of sales of comprehensive services (sale of electricity and electricity distribution services) to end users connected to the grid of ENEA Operator, the Company purchases the electricity distribution services from ENEA Operator based on the concluded contract on provision of electricity distribution services.

2.3.3. Purchase and sale of energy by Kozenice Power Plant

Since 9 August 2010 the Kozenice Power Plant is obliged to sell at least 15 per cent of the granted electricity on the Power Exchange. Such a direction of sales is a consequence of increase of turnover on the stock exchange market as a result of changes imposing an obligation resulting from Art. 49a of the Energy Law on the energy companies dealing with generation (an energy company dealing with generation of electricity is obliged to sell not less than 15 per cent of electricity generated in a given year on commodity exchanges or on a regulated market subject to the fact that an energy company dealing with generation of electricity possessing the right to receive funds for coverage of stranded costs is obliged to sell the generated electricity in full in the way ensuring public and equal access to the electricity through an open tender on the Internet trading platform on the regulated market or on commodity exchanges).

Within the realisation of this obligation sales of generated electricity on the Polish Power Exchange during 2011 constitutes around 93.4 per cent of sold and generated electricity.

The rest is sold on the balancing market (2.8 per cent), outside the ENEA Capital Group (3.8 per cent for contracts concluded before entry into force of the Amendment to the Energy Law of 8 February 2010), and is also designated for covering power reserves under regulatory systems services, with insignificant amounts sold to local end users.



On 1 August 2011 the Group underwent reorganisation in the consequence of which the competences within the wholesale trade were transferred to the special purpose vehicle ELKO Trading Sp. z o.o. The company accounts to ENEA S.A. among others for keeping the portfolio of electricity and proprietary interests for the account of clients of ENEA S.A., purchases of energy on the wholesale market, settlement and it operates as a trading operator (OH), and for the Kozenice Power Plant since November 2011 it has been providing analytical support within electricity and presently performs full scope settlements (electricity, proprietary interests and production fuels) and Scheduling Co-ordinator (OHT) for ELKO.

Attainable generating capacity of electricity of the Kozenice Power Plant amounts to 2,905 MW. The technical generation potential of the Kozenice Power Plant is 14.1 TWh net (15.0 TWh gross) annually.

From 2005-2011, the Kozenice Power Plant generated a net total of, respectively, 11.2, 12.3, 11.5, 10.9, 11.2, 11.4 and 11.0 TWh of electricity (corresponding to gross electricity volumes of 12.1, 13.2, 12.4, 11.8, 12.1, 12.3 and 11.9 TWh).

The Kozenice Power Plant produced 11.9 TWh of gross energy in 2011. Taking into account the current size and efficiency of the Kozenice Power Plant's generating capacity and the planned assignment levels of carbon dioxide emission rights in 2008-2012 (9.6 million tonnes annually), Kozenice Power Plant can currently only generate about a gross 10.9 TWh of electricity annually without needing to purchase additional rights.

On the wholesale market in 2011, Kozenice Power Plant purchased electricity under bilateral agreements and on trading platforms in the amount of 1,261.5 GWh, including 199.6 GWh within the ENEA Capital Group, and 1,061.9 GWh from entities outside the ENEA Capital Group.

Having in mind the inclusion in the Group's Corporate Strategy for 2010-2015 with a perspective to 2020 establishment of a company dealing with the wholesale of electricity, on 21 October 2010 ELKO Trading Sp. z o.o. was established with its registered office in Swierze Gorne. All the shares in the company were subscribed for by the Kozenice Power Plant. On 20 July 2011 the Extraordinary Meeting of Shareholders increased the share capital to the amount of PLN 100,000,000, i.e. by PLN 86,500,000, through creation of 86,500 new shares of the nominal value PLN 1,000 each. The Kozenice Power Plant subscribed for all the newly created shares and paid them up with cash. The object of activity of ELKO Trading Sp. z o.o. is wholesale of electricity, proprietary interests, and allowances for emissions of CO₂ and production fuels.

2.3.4. Purchase of transmission services from PSE Operator

In 2011, ENEA Operator bought transmission services from PSE Operator S.A. accounting for 6.66% of the net revenues of the Group. PSE Operator S.A. is not affiliated with ENEA S.A.

2.3.5. Coal supplies

The basic fuel used to produce electricity with the Issuer's production assets, i.e. Kozenice Power Plant, is bituminous coal (it is also the case of other leading power companies in Poland). In 2011, the cost of coal comprised about 45 per cent of operating costs.

Within supplies of coal the entities from the Issuer's Capital Group are dependant on Lubelski Wegiel "Bogdanka" S.A., Katowicki Holding Węglowy S.A., Kompania Węglowa S.A. and Jastrzebska Spolka Węglowa S.A. The Polish market of coal supplies is a market highly monopolised by companies belonging to the State Treasury which control a substantial part of domestic supplies of coal on the quantitative basis, excluding Lubelski Wegiel "Bogdanka" S.A., which in 2010 became private.

The key supplier of bituminous coal for the Power Plant is Lubelski Wegiel "Bogdanka" S.A., which, during 2011, supplied around 3.1 million tonnes, which constitutes around 61 per cent of the material supplied on the quantitative basis. The main reason for choosing Lubelski Wegiel "Bogdanka" S.A. as the main supplier is its proximity to the power plant - about 130 km - when most Polish mines are located in Upper Silesia, about 300 km away. Coal from the Bogdanka mine has high sulphur content, and due to the current level of efficiency of the desulphurisation systems in the Kozenice Power Plant, use of Bogdanka coal as the sole fuel for the Power Plant would mean exceeding permitted sulphur emission levels. For this reason, and in order to diversify the supplies, the Power Plant concluded agreements for supplies of bituminous coal with suppliers from the Upper Silesia, i.e. with Katowicki Holding Węglowy S.A., Kompania Węglowa S.A. and Jastrzebska Spolka Węglowa S.A. With Lubelski Wegiel "Bogdanka" S.A. and Katowicki Holding Węglowy S.A. the Power Plant possesses frame



multiannual agreements within which the price and volume of supplied coal re determined each year. With other suppliers the power plant enters into short-term agreements with due dates within one year.

2.3.6. Coal transport

The basic means of transport used to deliver bituminous coal to Kozenice Power Plant in 2011 was rail transport. Over 90 per cent of supplies of this material to the Kozenice Power Plant were realised by PKP Cargo S.A., the biggest railway carrier in Poland, with which an agreement was concluded for transport of coal to the Power Plant from the mine of Lubelski Wegiel "Bogdanka" S.A. and mines of Katowicki Holding Weglowy S.A. and Kompania Weglowa S.A. as a result of of the public tender on an open basis. Around 10 per cent of coal transports were purchased by the Power Plant subject to the terms that the supplier sold coal with its transport to the Power Plant.

2.4. Information on concluded agreements.

2.4.1. Agreements of significance to ENEA Capital Group operations

Below we set out significant agreements concluded by our Group, i.e. those which in the Company's opinion merit listing due to their significance for the Group's operations. With the exception of electricity transmission agreements concluded with PSE Operator and a coal transport agreement concluded with PKP Cargo, we are not dependent on other industrial, trade or financial agreements. Were the agreements with PSE Operator to be terminated, we would be forced to conclude electricity transmission agreements on new terms, and if the agreement with PKP Cargo, the largest rail carrier in Poland, were to be terminated, we might have difficulty in ensuring continuous deliveries of coal to the Kozenice Power Plant. We depend on two suppliers for our coal supplies: Lubelski Wegiel "Bogdanka" S.A. that in 2011 supplied 61 per cent of coal within volumes and Katowicki Holding Weglowy S.A. Moreover, from the subsequent two suppliers: Kompania Weglowa S.A. and Jastrzebska Spolka Weglowa S.A. the Kozenice Power Plant makes supplementary purchases.

All the contracts based on which supplies of coal were realised to the Kozenice Power Plant in 2011 described in this paragraph were included in the course of normal operations.

Agreements under which fuel coal supplies were made in 2011:

Multiannual Agreement of 31 December 2003 concluded between Elektrownia "Kozenice" S.A. and Lubelski Wegiel "Bogdanka" S.A.

The subject of the agreement is to define the framework rules for the long-standing supply of power coal, in particular delivery deadlines and basic quantity and quality parameters of the coal. Completed agreement, valid in the period from 31 December 2003 to 31 March 2011.

The multiannual agreement predicted conclusion of annual contracts specifying the terms of deliveries during the subsequent periods such as: prices, specific amounts of supplies and specific conditions of supply and receipt (including the procedure and rules for documentation, rules for identifying and measuring coal amounts, and the complaints procedure). The Agreement included a clause that obligated the Parties thereto, in the event of material changes to market conditions, to renegotiate its terms and conditions. The agreement provided for contractual penalties for the delivery of coal with characteristics worse than the limits specified in annual agreements or failure to deliver or failure to accept the amount of coal specified in the delivery schedule. Either party could terminate the agreement with a one-year notice period beginning on the first day of a financial quarter.

Multiannual agreement no UW/LW/01/2010 of 4 March 2010 between the Kozenice Power Plant and Lubelski Wegiel „Bogdanka” S.A.

Term of the agreement: 4 March - 31 December 2025. The subject of the agreement is to define the framework rules for the long-standing supply of power coal, in particular delivery deadlines and basic quantity and quality parameters of the coal. The multiannual agreement predicts conclusion of annual contracts as annexes specifying the terms of deliveries during the subsequent periods such as: prices, specific amounts of supplies and specific conditions of supply and receipt (including the procedure and rules for documentation, rules for identifying and measuring coal amounts, and the complaints procedure). The price for a given calendar year will be fixed through negotiations according to the set negotiation terms. The agreements contain a clause



enabling, in case of substantial change of market conditions, each Party to claim agreement terms renegotiation. The agreement provides for contractual penalties for the delivery of coal with characteristics worse than the limits specified in annual agreements or failure to deliver or failure to accept the amount of coal specified in the delivery schedule. Each party may terminate the agreement with 2-year notice beginning on the first day of the subsequent year, in case of failure to fix the price for the following calendar year in at least three negotiation terms. On 23 January 2012 the Board of Kozenice Power Plant signed with Lubelski Wegiel "Bogdanka" S.A. an annex to the aforementioned multiannual agreement. The Annex anticipates the change of the present method of setting prices in annual contracts into a solution adopted in a new additional Contract, i.e. prices of energetic coal will be set for a given calendar year through negotiations, including the dynamics of change of prices of energetic coal in Poland.

Multiannual agreement for supplies of fuel coal of 8 January 2009 between the Kozenice Power Plant and Katowicki Holding Weglowy S.A.

The subject of the agreement is to define the framework rules for the long-standing supply of power coal, in particular delivery deadlines and basic quantity and quality parameters of the coal. The agreement is valid for the period of 1 January 2009 to 31 December 2013. The multiannual agreement predicts conclusion of annual contracts specifying the terms of deliveries during the subsequent periods such as: prices, specific amounts of supplies and specific conditions of supply and receipt (including the procedure and rules for documentation, rules for identifying and measuring coal amounts, and the complaints procedure). The Agreement contains a clause which makes it possible, in the case of significant changes in coal prices, the rules for setting prices for energy producers, or other important factors affecting coal prices, to renegotiate prices on consent of the two Parties to the contract. The agreement provides for contractual penalties for the delivery of coal with characteristics worse than the limits specified in annual agreements or failure to deliver or failure to accept the amount of coal specified in the delivery schedule. Either party may terminate the agreement with a one-year notice period beginning on the first day of a financial quarter.

Annual Agreement of 3 August 2009 for the provision of fuel coal for 2010 (UR2010) constituting Attachment No. 5 to Multiannual Agreement between Elektrownia "Kozenice" S.A. and Lubelski Wegiel "Bogdanka" S.A.

The subject of the a/m Annual Agreement was the provision of fuel coal that meets specified quality parameters, carried out during the life of the agreement, i.e. 1 January 2010 – 31 March 2011 (UR2010), from the mine belonging to Lubelski Wegiel "Bogdanka" S.A. The annual agreement sets out the price of coal, the basic quantities to be delivered, the parametric limits of the coal (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be settled. The agreement could be terminated by either Party upon one year's notice, the first day of which will fall on the first day of a financial quarter, or at any moment as agreed by the Parties. Either Party may impose contractual penalties for failure to deliver or failure to accept the amounts of coal according to the provisions specified in the Agreement.

Annual Agreement of 20 December 2010 for the provision of fuel coal for 2011 (UR2011) constituting Attachment No. 2 to Multiannual Agreement No. UW/LW/01/2010 between Elektrownia "Kozenice" S.A. and Lubelski Wegiel "Bogdanka" S.A.

The subject of the a/m Annual Agreement is supplementary provision of fuel coal that meets specified quality parameters, carried out during the life of the agreement, i.e. 1 January 2011 – 31 March 2012 from the mine belonging to Lubelski Wegiel "Bogdanka" S.A. The annual agreement sets out the price of coal, the basic quantities to be delivered, the parametric limits of the coal (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted. The agreements may be terminated by either Party upon one year's notice, the first day of which will fall on the first day of a financial quarter, or at any moment as agreed by the Parties. Either Party may impose contractual penalties for failure to deliver or failure to accept the amounts of coal according to the provisions specified in the Agreement. The term of the agreement expires on 31 March 2012 but coal supplies in the volume complaint with the contract terms were fully satisfied.



Annual Agreement of 7 August 2009 for fuel coal supply in 2010 and 2011 (UR2010 and 2011) constituting Attachment No. 2 to the a/m Multiannual Agreement concluded between Elektrownia "Kozienice" S.A. and Katowicki Holding Węglowy S.A.

The subject of the a/m annual agreement is deliveries of energy coal carried out by the Seller in favour of Kozienice Power Plant during the life of the Agreement, i.e. from 1 January 2010 to 31 March 2012. The realisation of the Agreement is at the final stage. The annual agreement defines the basic quantities to be delivered together with an initial schedule of deliveries divided into quarters, the mines designated for providing the shipments, the price of specific categories of coal, the parametric quality limits (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for. The agreement may be terminated by either Party upon one year's notice, which will commence on the first day of a financial quarter. In the case of a failure to perform or improper performance of the Agreement, either Party may impose contractual penalties as provided for in the Agreement.

Agreement No 1/DH/SE/2011 for supplies of coal for energetic purposes in 2011 of 14 January 2011 concluded between the Kozienice Power Plant and Jastrzebska Spolka Weglowa S.A.

Agreement is completed. The subject of the agreement was sale and delivery of coal by Jastrzebska Spolka Weglowa S.A. for the Kozienice Power Plant. The prices and detailed terms and volume of supplies were negotiated each time on agreement execution. Each of the parties could terminate the agreement with six months' notice. The agreement was concluded for the period from 1 January 2011 to 31 December 2011. The agreement defined the coal prices, supply and receipt terms, volume of supplies in 2011 with tolerance of allowable deviations, coal quality parameters with limits beyond which (in its monthly settlement) the Power Plant could impose contractual penalties, method of delivery, method of settlements, and specific conditions for settlements in terms of coal quantity and quality.

Coal sale agreement in 2010 of 10 August 2010 between the Kozienice Power Plant and Kompania Weglowa S.A.

Agreement is completed. The subject of the a/m agreement is deliveries of fuel coal carried out by the Seller in favour of the Kozienice Power Plant during the life of the Agreement, i.e. from 1 September 2010 to 30 April 2011. The agreement defined the basic quantities to be delivered together with an initial schedule of deliveries divided into quarters and quality ranges, the price of specific categories of coal, the parametric quality limits (beyond which the power plant could apply calculation of discounts in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for and complaints. The agreement was furnished with a "rebus sic stantibus" clause. In the case of a failure to perform or improper performance of the Agreement, either Party may impose contractual penalties as provided for in the Agreement.

Coal sale agreement No 214/KW/2010 of 15 December 2010 between the Kozienice Power Plant and Kompania Weglowa S.A.

Agreement is completed. The subject of the a/m agreement is deliveries of fuel coal carried out by the Seller in favour of the Kozienice Power Plant during the life of the Agreement, i.e. from 1 January 2011 to 31 December 2011. The agreement defined the basic quantities to be delivered together with an initial schedule of deliveries divided into quarters and quality ranges, the price of specific categories of coal, the parametric quality limits (beyond which the power plant could apply calculation of discounts in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for and complaints. The agreement was furnished with a "rebus sic stantibus" clause. In the case of a failure to perform or improper performance of the Agreement, either Party could impose contractual penalties as provided for in the Agreement.

Coal sale agreement No 45/KW/2011 of 28 February 2011 between the Kozienice Power Plant and Kompania Weglowa S.A.

Agreement is completed. The subject of the a/m agreement is deliveries of fuel coal carried out by the Seller in favour of the Kozienice Power Plant during the life of the Agreement, i.e. from 1 April 2011 to 30 September 2011. The agreement defined the basic quantities to be delivered together with an initial schedule of deliveries



divided into quarters and quality ranges, the price of specific categories of coal, the parametric quality limits (beyond which the power plant could apply calculation of discounts in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for and complaints. The agreement was furnished with a "rebus sic stantibus" clause. In the case of a failure to perform or improper performance of the Agreement, either Party could impose contractual penalties as provided for in the Agreement.

Agreement No UD/LW/01/2011 of 20 December 2010 for deliveries of additional quantities of fuel coal in 2011 concluded between the Kozenice Power Plant and Lubelski Wegiel „Bogdanka” S.A.

The subject of the a/m Annual Agreement is supplementary provision of fuel coal that meets specified quality parameters, carried out during the life of the agreement, i.e. 1 January 2011 – 31 March 2012 from the mine belonging to Lubelski Wegiel "Bogdanka" S.A. The additional agreement set out the price of coal, the basic quantities to be delivered, the parametric limits of the coal (beyond which the power plant could impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted. The agreement could be terminated by either Party upon one month's notice, which will commence on the first day of a month after the month in which it was terminated. Either Party may impose contractual penalties for failure to deliver or failure to accept the amounts of coal according to the provisions specified in the Agreement. The term of the agreement expires on 31 March 2012 but coal supplies in the volume complaint with the contract terms were fully satisfied.

Fuel coal transport services provision agreement of 31 May 2010 concluded between the Kozenice Power Plant and PKP Cargo

The agreement governs the provision of fuel coal transport services by PKP Cargo for the Kozenice Power Plant from Silesian mines belonging to Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A., as well as Lubelski Wegiel "Bogdanka" S.A. between 1 June 2010 and 31 May 2012. The agreement regulates the estimated amount of coal to be transported, the maximum price and prices of transport per tonne from individual suppliers while it remains in force. The agreement sets out monthly transport schedules, rules for receiving coal transports and rules for the settlement of receivables for transport, including complaint procedures. PKP Cargo has provided cash security for the proper performance of the agreement. The agreement provides contractual penalties for PKP Cargo for failing to carry out more than 15 per cent of the contracted transports for reasons within the control of PKP Cargo, and contractual penalties for the Kozenice Power Plant if it terminates the agreement for reasons within its control. The Kozenice Power Plant may terminate the agreement with immediate effect in case of a flagrant breach by PKP Cargo, and may demand compensation for the cost differential of services provided by another carrier. The agreement does not permit either Party to terminate before its expiry without grounds.

Agreements entered into under which fuel coal supplies will be carried out in future years:

On 23 January 2012 the Board of Kozenice Power Plant concluded with Lubelski Węgiel "Bogdanka" S.A. a new multiannual contract for supplies of energetic coal for the needs of the newly constructed unit. The Contract was concluded for the period from the execution date till 31 December 2036 with physical commencement of deliveries of energetic coal in the first calendar quarter of 2017. The Contract anticipates 20 calendar years of deliveries of coal for the needs of the newly constructed unit of the Kozenice Power Plant. Estimated value of the Contract according to the delivery prices of the current year amounts to PLN 11.248 bln net with no inclusion of the volume quantitative tolerance ($\pm 5\%$) resulting from the Contract. The Contract anticipates the following terms:

- Prices of energetic coal will be set for a given calendar year of physical deliveries through negotiations with inclusion of the dynamics of change of prices of deliveries of energetic coal in Poland.
- Annual contract will be concluded specifying: quantitative volume, schedules of deliveries, declares qualitative parameters, other rules of logistics and settlement of delivery during the term of an annual contract.
- The Parties to the Contract reserve the right to terminate it when there are no arrangements through price negotiations for the following calendar year of the Contract with 2-year notice commencing with 1 January of the following year.



- Additionally the Buyer has the right to terminate the Agreement with 6-month notice and if till 31 December 2012 the following conditions will not occur jointly (a) signing of an agreements for construction of a power unit and (b) Closing of the financing of the unit financing confirmed with the resolution of the Board of the Kozenice Power Plant.

The subject of the agreement is to define the framework rules for the long-standing supply of power coal, in particular delivery deadlines and basic quantity and quality parameters of the coal. The multiannual agreement predicts conclusion of annual contracts as annexes specifying the terms of deliveries during the subsequent periods such as: prices, specific amounts of supplies and specific conditions of supply and receipt (including the procedure and rules for documentation, rules for identifying and measuring coal amounts, and the complaints procedure). The price for a given calendar year will be fixed through negotiations according to the set negotiation terms. The agreement contains a clause enabling, in case of substantial change of market conditions, each Party to claim agreement terms renegotiation. The agreement provides for contractual penalties for the delivery of coal with characteristics worse than the limits specified in annual agreements or failure to deliver or failure to accept the amount of coal specified in the delivery schedule. Each party may terminate the agreement with 2-year notice beginning on the first January of the subsequent year, in case of failure to fix the price for the following calendar year in at least three negotiation terms. The agreement provides for the following contractual penalties: for failure to deliver or collect the volumes of coal resulting from the schedule of deliveries - in the amount of 20 per cent of the value of non-delivered or non-collected coal; for delivery by the Seller of coal supply whose quality parameters are worse than the limit parameters specified in the Agreement - in the amount from 1 to 5 per cent of net value of a given fuel coal supply, each of the parties may claim complementary damages on general terms of the aforementioned contractual penalties do not cover the incurred loss. The remaining terms of the Contract do not diverge from the market standards applied in contracts of this type.

Of the conclusion of the aforementioned multiannual agreement the Issuer notified in the current report No 1/2012 of 23 January 2012.

Significant agreements concluded by ENEA S.A.

Information on agreements which are significant to the operations of ENEA S.A. can be found in the Report of the Management Board of ENEA S.A. for 2011, in item 2.4 under "Information on concluded agreements".

2.4.2. Information on transactions with affiliated entities

The Company has concluded transactions (including key ones) with affiliated entities in the past, and plans to do so in the future.

Within our Group, the following transactions have been concluded with affiliated entities:

- between companies belonging to the Group, where they are eliminated at the consolidation stage,
- between Group companies and members of their corporate bodies,
- between Group companies and units controlled by the State Treasury.

All agreements with affiliated entities are concluded under market conditions and the prices used in them do not diverge from the prices used in transactions with non-affiliated entities.

Agreements between companies belonging to the Group

Transactions between companies belonging to our Group are being eliminated, since transactions between Group companies (such as sales transactions) are not treated as revenue for the Group. Revenue is only recognised when a transaction (such as a sales transaction) is concluded outside the Group.

Information on transactions with affiliated entities is to be found in the Financial Report of ENEA S.A. for financial year 2011, note No. 42.



2.4.3. Credit and loan agreements concluded and terminated

During the reporting period ENEA S.A. prolonged the term of loan agreements for the current account in BZ WBK S.A. for the total amount of PLN 90,000,000 and in Pekao S.A. for the total amount of PLN 10,000,000. Additionally, the company possesses an agreement on working capital facility in PKO BP S.A. for the amount of PLN 50,000,000. The total limit on working capital facilities as at 31 December 2011 was PLN 150,000,000, and as at 31 December 2011 the Company had no debts pertaining to them.

The status of the loans as at 31 December 2011 is shown in the table below:

Creditor	Credit facility granted [PLN '000]	Interest rate	Costs of credit [PLN '000]	Debt on credit facilities as at as at 31.12.2011 [PLN '000]	Date of commencement	Date of completion	Repayment period
PKO BP S.A.	50 000.00	WIBOR 1M + margin	0.00	0.00	25.04.2006	x	5 years of the first usage of the credit
Bank Pekao S.A.	10 000.00	WIBOR 1M + margin	0.04	0.00	17.11.2011	17.11.2014	17.11.2014
Bank Zachodni WBK S.A.	90 000.00	WIBOR 1M + margin	36.78	0.00	17.11.2011	17.11.2014	17.11.2014
TOTAL			36.82	0.00			

ENEA S.A. in 2011 only from time to time made a use of working capital facilities in order to finance current operations. The Company did not draw any loans on pawn, mortgage secured-loans, or any loans secured with transfer of ownership to fixed assets or transfer of ownership to an organized part of an undertaking. Securities for bank loans and credits referred to hereinabove are authorization to use current accounts with the banks where ENEA S.A. holds current accounts as well as declarations on voluntary submission to enforcement.

In 2011 ENEA S.A. did not draw any loans.



The credits drawn by the subsidiaries in 2011 are presented in the table below.

Company	Creditor	Credit currency	Credit type	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Interest rate	Debt on credit facilities as at 31.12.2011 [PLN '000]	Date of commencement	Date of completion	Repayment period
Credit agreements										
MEC Pila	Wojewodzki Fundusz Ochrony Srodowiska i Gospodarki Wodnej	PLN	Investment	665	0	Floating rate in the amount of 0.5 bill rediscount rate of NBP on an annual basis, but not less than 3 per cent.	665	27.09.2011	20.05.2016	5 years
Auto-Styl	Volkswagen Bank S.A.	PLN	Revolving facility	700	7	WIBOR 3M+ 3.5%	0.00	30.06.2011	30.06.2012	1 year
BHU	BPH	PLN	Investment	2 500		6.27%	2 500	16.12.2011	15.12.2016	5 years
ENEOS	PKO BP	PLN	Investment	360	11	6.25%	343	05.09.2011	20.12.2016	5 years
ENEOS	PKO BP	PLN	Investment	650	16	6.25%	618	05.09.2011	20.10.2016	5 years
ENEOS	PKO BP	PLN	Investment	400	14	6.25%	381	05.09.2011	20.12.2016	5 years
ENEOS	PKO BP	PLN	Investment	570	18	6.25%	555	05.09.2011	20.12.2020	9 years
TOTAL				5 845			5 062			

Information on credits and loans in the ENEA Capital Group can be found in the consolidated financial statements in Note 15 and Note 23.

Information on the average weighted interest on credits and loans can be found in Note 26.6.

2.4.4. Loans granted

During financial year 2011 the Group Companies did not grant any loans.

2.4.5. Granted and received sureties and guarantees

On 3 November 2011 ENEA S.A. signed with PKO BP S.A. a frame contract for 12 months for granting of bank guarantees up to the amount of PLN 200,000,000. The guarantees issued within the guaranty facility are to constitute the securing of making deposits for IRGiT S.A. and KDPW S.A. by ENEA S.A. and ELKO Trading Sp. z o.o. and other obligations (max. PLN 3,000,000). Obligations towards the aforementioned entities to make deposits result among others from the concluded futures contracts for supply of electricity and transactions of purchase of proprietary interests to the certificates of origin for electricity.

Additionally, during the financial year 2011 ENEA S.A. signed with BZ WBK S.A. Annex to the Agreement on a guarantee in favour of Rondo Property Investment Sp. z o.o. under which the life as well as the amount of the guarantee is extended.

The list of guarantees issued to the order of ENEA S.A. as at 31 December 2011 is shown in the table below:

Date security was granted	Date of security validity	Entity for which security was granted	Agreement type	Form of security	Secured amount
14.12.2011	31.12.2012	RONDO PROPERTY INVESTMENT Sp. z o.o. in Warsaw	Premises lease agreement	Bank guarantee	EUR 25 800 + PLN 21 000
14.12.2011	18.11.2012	Izba Rozliczeniowa Gield Towarowych S.A. (Warsaw Commodity Clearing House)	The guarantee issued by the bank in order to secure the transaction and securing deposit made by ENEA S.A. for the account of IRGIT S.A. in connection with settlement of transactions connected with trade in electricity and property rights on the commodity exchange	Bank guarantee granted within the guarantee line in the amount of PLN 200,000,000.	PLN 35 000 000
14.12.2011	18.11.2012		The guarantee issued by the bank on request of ENEA S.A., securing the transaction and securing deposit to be made by ELKO Trading Sp. z o.o. for the account of IRGIT S.A. in connection with settlement of transactions connected with trade in electricity and property rights on the commodity exchange	Bank guarantee granted within the guarantee line in the amount of PLN 200 000 000.	PLN 45 000 000

In the turnover year ENEA S.A. granted for the account of Warsaw Commodity Clearing House an unconditional and irrevocable surety for obligations of ELKO Trading Sp. z o.o. in relation to its participation in the Warsaw Commodity Clearing House in the amount of PLN 50,000,000. The surety was issued for the period of 27 July 2011 to 31 July 2012.



The status of granted guarantees and suretyships as at 31 December 2011 is shown in the table below.

Date surety/ guarantee was granted	Date of validity of surety/guarantee	Entity for which surety/ guarantee was granted	Entity to which surety/ guarantee was granted	Agreement number	Value of surety/guarantee	Actual debt as at 31 December 2011 [PLN '000]
26.08.2003	31.08.2017	EP Zaklad Transportu Sp. z o.o.*	Poznan Department of Communal Services and Housing	Surety's statement of 2 September 2003	PLN 216 400	-
					EUR 49 000 **	
27.07.2011	31.07.2012	ELKO Trading Sp. z o.o.	Izba Rozliczeniowa Gield Towarowych S.A. (Warsaw Commodity Clearing House)	ZAM/DF/40/107 2/2011	PLN 50 000 000	-
TOTAL					50 216 400 PLN	-

*For the purpose of meeting the statutory conditions for obtaining a licence to carry on for-profit operations

** The average EUR exchange rate as at 31 December 2011 was 4.4168 - NBP table No. 252/A/NBP/2011 from 30 December 2011

The total off-balance sheet value of sureties and guarantees granted as at 31 December 2011 was PLN 50,216,400.

There are no 'endangered guarantees or suretyships' among the suretyships and guarantees granted. The sureties and guarantees granted by ENEA S.A. fall within the limits specified in Article 33 item 1 of the Act on sureties and guarantees granted by the State Treasury and other legal persons of 8 May 1997 (Journal of Laws of 2003 No. 174, item 1689 as amended).

The list of sureties and guarantees granted and received in 2011 by subsidiaries is resented in the table below:

Company	Date security was granted	Date of security validity	Entity for which security was granted	Agreement type	Form of security	Secured amount
Auto-Styl	25.05.2011	30.06.2012	IBERIA MOTOR COMPANY	Bank guarantee	Conveyance of movables and assignment from the policy	PLN 150 000

Other conditional liabilities granted by ENEA S.A. as at 31 December 2011

Type of liability	Entity for which security was granted	Value of security	Validity term of security
Blank promissory note	Securing of the liabilities of PSE Operator S.A. by title of settlements and payments for energy	PLN 15 000 000	Indefinite term

Other conditional obligations assumed by the ENEA Capital Group are described in the consolidated financial statements for 2011 under Note 49.

2.4.6. Agreements between shareholders of the parent company

The Company is not aware of any agreements between shareholders of ENEA S.A.

2.4.7. Insurance agreements

The companies of the ENEA Capital Group transfer the risk of incurring losses as a result of property damage through conclusion of insurance agreements with largest insurance agencies such as PZU S.A., TuIR AXA S.A.,



TUIR WARTA S.A., STU Ergo Hestia S.A., TU Allianz Polska S.A. The insurance coverage does not diverge from the standards applied in the electric power industry and is adapted to the specifics of operations of particular companies. The insurance programmes cover among others insurance of property against fire and other fortuitous events, damages resulting from interruptions in operations caused by fire and other fortuitous events, electric insurance of machines against electric damage and failures, risk of interruptions in operations as a result of machine failures and insurance of electronic equipment against all the risks. In order to ensure an optimum insurance protection within the Group the insurance programme additionally covers third party liability insurances by title of pursued activity and usage of the property. The Group is also covered with a Corporate Third Party Liability Insurance Agreement for members of the management.

2.4.8. Collaboration or cooperation agreements

In 2011 ENEA S.A. also started cooperation with Polskie Gornictwo Naftowe i Gazownictwo S.A. (PGNiG) analysing the ability to construct together an electric power generating source fuelled by gas. In November 2011 ENEA S.A. signed with PGNiG relevant agreements on cooperation, within performance of analyses concerning possibilities of common realisation of energetic projects. Within this cooperation we are performing actions aimed at selection of an optimum location for the gas-powered unit. Together with PGNiG we are planning to conduct detailed location and economic analyses for the selected locations and then make appropriate corporation decisions.

In December 2010 ENEA S.A. concluded a frame agreement on cooperation, based on which it achieved a temporary exclusivity for negotiations till 30 June 2012 and pre-emptive right to buy shares of special purpose vehicles being owners of wind farm projects with the total target installed capacity of 214 MWe.

3. PRESENTATION OF THE FINANCIAL POSITION OF THE ENEA CAPITAL GROUP

3.1. Discussion of key economic and financial figures disclosed in the annual consolidated financial statement

3.1.1. Financial results

Profit and loss statement in PLN '000	2010	2011	Change	Difference
Net sales revenues	7 836 875	9 688 949	123.6%	1 852 074
Cost of sales	7 059 855	8 915 036	126.3%	1 855 181
Other operating revenue	84 292	248 331	294.6%	164 039
Profit/(Loss) on sales and liquidation of tangible fixed assets	-7 124	-12 878	180.8%	-5 754
Tangible and intangible impairment write-off	6 143	6 406	104.3%	263
Other operating expenses	136 081	158 736	116.6%	22 655



Operating profit/(loss)	711 964	844 224	118.6%	132 260
Financial expenses	41 003	46 887	114.4%	5 884
Financial revenue	140 493	184 070	131.0%	43 577
Dividend revenue	774	1 438	185.8%	664
Share in profits/(losses) of affiliated entities accounted for using the equity method	988	4 529	458.4%	3 541
Profit /(loss) before tax	813 216	987 374	121.4%	174 158
Income tax	173 835	194 853	112.1%	21 018
Net profit/(loss) for the reporting period	639 381	792 521	124.0%	153 140
EBITDA	1 364 636	1 555 815	114.0%	191 179

One-off events

In relation to the purchase in 2008 of the Bialystok Heat and Power Plant and satisfaction of the obligation to assess the assets of the Company for the needs of allocation of the purchase price the result in the segment of generation increased by PLN 44.8 mln (single adjustment resulting from the surplus of the fair value of net assets over the purchase price – PLN 82 mln, adjusted mainly with amortisation costs concerning the CO₂ emission allowances – PLN 33.7 mln). The remaining part of the amortisation write-off concerning in particular rights to CO₂ emissions will be included in the amortisation costs in 2012.

Moreover, in 2011 a reserve for Voluntary Redundancy Programme was established in ENEA Operator in the amount of PLN 21,400.

Revenues

The Group's net revenues from sales in 2011 amounted to PLN 9,688,949,000, which in relation to 2010 constituted growth by PLN 1,852,074,000, i.e. by 23.6 per cent.

The breakdown below shows the value and structure of revenues on sales achieved in 2011.

Item	2010		2011		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Revenues from the sale of electricity	4 995 638	63.7	6 508 001	67.2	130.3%	1 512 363
Revenues from the sale of distribution services	2 526 943	32.2	2 642 110	27.3	104.6%	115 167



Revenues from the sale of goods and materials	111 695	1.4	123 357	1.3	110.4%	11 662
Revenues from the sale of other services	132 821	1.7	287 855	3.0	216.7%	155 034
Revenues from certificates of origin	0	0.0	19 230	0.2	x	19 230
Recovery of stranded costs	15 580	0.2	2 472	0.0	15.9%	-13 108
Revenues from the sale of heat energy	54 198	0.8	105 924	1.0	195.4%	51 726
Total net revenues	7 836 875	100.0	9 688 949	100.0	123.6%	1 852 074

The Group's revenues mainly consist of revenues from sales of electricity and from sales of distribution services, which amount to 67.2 per cent and 27.3 per cent of total net revenues, respectively.

- Revenues from the sale of electricity in 2011 amounted to PLN 6,508,001,000 and rose in relation to the previous year by 30.3 per cent. This stems mainly from an increase in the sale of electricity by Kozenice Power Plant by PLN 1,646,507,000 (increase in the value of sold electric energy realised by Kozenice Power Plant by 8,230 GWh with an average increase in price by 1.1 per cent). At the same time sales of electricity by EC Bialystok from 1 June 2011 in the amount of PLN 57,691. In addition, revenues from the sales of electricity to end users of ENEA S.A. by PLN 117,506,000, which stemmed mainly from lower volumes of electricity sold by 785 GWh with an increase of the average sale price by 2.3 per cent. In addition lower revenues from sales of electric energy to other entities by PLN 90,144,000, which stemmed mainly from lower volumes of electricity sold by 481 GWh.
- Revenues from the sale of distribution services in 2011 amounted to PLN 2,642,110,000 and were higher than in the preceding year by PLN 115,167,000. The increase of those revenues was mainly caused by an increase in the amount of electricity supplied to end users by 117 GWh with a simultaneous increase in the average sale price of distribution services by 2.3 per cent.
- The growth in revenues from sales of other services by PLN 155,034,000 stems mainly from realisation in the reporting period of sales of free allowances for CO₂ emissions in Kozenice Power Plant in the amount of PLN 148,996,000. Moreover, the increase in revenues under this item stems from an increase in sales of services mainly in the companies: Energomiar, ENEOS and ENERGOBUD Leszno.
- Revenues from the sale of heat energy in 2011 amounted to PLN 105,924,000 and amounted to 1 per cent of sales revenues. The increase of these revenues by PLN 51,726,000 was caused mainly by the purchase on 1 June 2011 of EC Bialystok and its inclusion in the financial statement as a subsidiary of ENEA S.A. (so far an affiliate).
- Revenues from the sale of certificates of origin amounted to in 2011 PLN 19,230,000 and constitute revenues realised by EC Bialystok.
- Revenues from sales of goods and materials amounted to PLN 123,357,000 and increased by PLN 11,662,000, which mainly stems from increase in sales within the companies: BHU and Auto-Styl.

Costs

In 2011 the total costs of sales amounted to PLN 8,915,036 and increased by 26.1 per cent in relation to the previous year.



The breakdown below shows the value and structure of costs on sales which were incurred in 2011.

Item	2010		2011		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Amortisation/depreciation	652 672	9.2	711 591	8.0	109.0%	58 919
Employee benefit costs	924 356	13.1	1 012 410	11.4	109.5%	88 054
Consumption of materials and raw materials and value of goods sold	1 535 465	21.8	1 744 871	19.6	113.6%	209 406
Costs of purchases for resale	2 689 513	38.1	4 112 557	46.1	152.9%	1 423 044
Transmission services	693 340	9.8	713 880	8.0	103.0%	20 540
Other external services	364 550	5.2	414 886	4.6	113.8%	50 336
Taxes and charges	199 959	2.8	204 841	2.3	102.4%	4 882
Total cost of revenues from sales	7 059 855	100.0	8 915 036	100.0	126.3%	1 855 181

The largest items in the Capital Group's costs are the costs of purchasing electricity for sale and consumption of materials, as well as the value of goods sold, which constitute respectively 46.1 per cent and 19.6 per cent of the costs of revenues from sales.

- The purchase of energy for sales needs amounted in the reporting period to PLN 4,112,557,000 and rose in relation to the same period of the previous year by 52.9 per cent, and this was mainly caused by an increase in the volume of electricity purchases on the external market. The drop in sales of electricity by Koziencice Power Plant to ENEA S.A. results from the change in the regulations of the Energy Law concerning sales of electricity by power plants possessing settlements by title of stranded costs. Complaint with these regulations entities generating electricity are obliged to sell electricity in the public mode from 9 August 2010. It should also be noted that the average price of purchase of electricity increased by 5.6 per cent in relation to the comparative period of 2010.
- The cost of use of materials, raw materials and the value of goods sold in the reporting period amounted to PLN 1,744,871,000 and increased in relation to the analogical period of the previous year by PLN 209,406,000, which mainly stems from the inclusion in the item of these costs of value of consumption of materials demonstrated in the amount of PLN 82,176,000 by Bialystok Heat and Power Plant and from increase of this item in Koziencice Power Plant, where the increase in the use of biomass by PLN 28,489,000 (average costs of biomass with transport by 9.7 per cent) and increase of cost of other materials (by PLN 110,220,000), which follows mainly from higher costs of allowances for emissions of CO₂. At the same time, a decrease by PLN 40,258,000 in the costs of the use of coal was noted in result of lower production of electrical energy and a decrease in costs of IT Serwis and Energomiar.
- Employee benefit costs in 2011 amounted to PLN 1,012,410,000 and increased in relation to the previous year by PLN 88,054,000, which mainly stems from creation of reserves for Programme of Voluntary Redundancy in the amount of PLN 21,400,000 and reserves for bonuses from profit for the team in the amount of PLN 16,658,000 and inclusion of EC Bialystok's costs in the amount of PLN 17,961,000. Simultaneously, in the period under review, the growth was noted of average wages by 3.5



per cent with a simultaneous increase in average employment from 10,233.23 full-time equivalents in 2010 to 10,253.47 full-time equivalents in 2011.

- The costs of transmission services in 2011 amounted to PLN 713,880,000 and are higher in relation to the previous year by PLN 20,540,000 which was influenced by the increase in the contracted power in the nodes in LV grid, increase in transmission prices and rates for fixed and variable fee in the Tariff for 2011 in relation to the Tariff for 2010 and increase in prices for purchase of energy for loss (decisive in relation to a fee for the Distribution System Operator).
- Costs of external services in 2011 amounted to PLN 414,886,000 and increased in relation to the previous year by PLN 50,336,000, which mainly stems from inclusion of costs of external services of the Bialystok Heat and Power Plant (from 1 June 2011) and incurring higher costs connected with the development of the image of the Company and brand. Additionally, the consulting expenses increased which was impacted by the realisation of projects aiming at the optimisation of processes and improvement of the efficiency of activity of the ENEA Capital Group.
- The costs of taxes and charges in 2011 amounted to PLN 204,841,000 and increased in relation to the previous year by PLN 4,882,000, which stems mainly from inclusion of costs of Elektrociepłownia Bialystok and an increase of tax from property in relation to increased assets.
- Amortisation and depreciation in the reporting period amounted to PLN 711,591,000 and was higher than in 2010 by PLN 58,919,000 or 9 per cent. Increase of amortization stems from the purchase on 1 June 2011 of EC Bialystok and its inclusion in the financial statement as a subsidiary of ENEA S.A. (till 1 June 2011 EC Bialystok was an affiliate of ENEA S.A.).

Other operating activities [PLN '000]	2010	2011	Change	Difference
Other operating revenue	84 292	248 331	294.6%	164 039
Other operating expenses	136 081	158 736	116.6%	22 655

In 2011 the result on other operating activity increased in relation to 2010 by PLN 141,384,000 and amounted to PLN 89,595,000, which mainly stems from the profit for a bargain purchase of EC Bialystok and from higher costs of reception of donations of the grid infrastructure (including also gratuitous acquiring to the assets of the Main Power Supply "MPS" of the value of PLN 30.0 mln).

Consolidated profits before tax, i.e. after financial activities and shares in results of the affiliates had been taken into account, in 2011 amounted to PLN 987,374,000 and was higher by PLN 174,158,000 that is by 21.4 per cent, relative to the previous year. This stemmed mainly from the higher operating profit generated, the increased financial results by PLN 37,693,000 and higher share in profits of affiliated companies evaluated according to equity method by PLN 3,541,000, which mainly relates to higher shares of Koziencice Power Plant in Energo Inwest Broker S.A.

The net profit generated by the Group in 2011 amounted to PLN 792,521,000 and was higher than the profit attained in 2010 by PLN 153,140,000, i.e. by 24 per cent.

Results from particular segments of activity

Segments [PLN '000]	2010	2011	Change	Difference
Trade				
Sales revenues	4 353 857	4 069 236	93.5%	-284 621



EBIT	209 283	158 958	76.0%	-50 325
EBITDA	209 893	159 661	76.1%	-50 232
Distribution				
Sales revenues	2 527 923	2 640 730	104.5%	112 807
EBIT	263 527	325 998	123.7%	62 471
EBITDA	624 417	678 661	108.7%	54 244
Generation				
Sales revenues	2 528 949	3 167 681	125.3%	638 732
EBIT	313 618	470 192	149.9%	156 574
EBITDA	565 929	795 365	140.5%	229 436
Other activity				
Sales revenues	770 905	800 210	103.8%	29 305
EBIT	41 404	46 885	113.2%	5 481
EBITDA	75 414	76 783	101.8%	1 369
Exclusions				
Sales revenues	-2 344 759	-988 908	42.2%	1 355 851
EBIT	-15 523	-34 370	221.4%	-18 847
Undistributed costs (management costs)	-100 345	-123 439	123.0%	-23 094



Excluded amortisation and amortisation not distributed to segments	4 851	3 154	65.0%	-1 697
TOTAL				
Sales revenues	7 836 875	9 688 949	123.6%	1 852 074
EBIT	711 964	844 224	118.6%	132 260
EBITDA	1 364 636	1 555 815	114.0%	191 179

Decrease in results on the Trade segment stems from decrease in revenues from sales of electricity to end users, which was mainly caused by a lower volume of electricity sold by 785 GWh with a growth in the average price of sale by 2.3 per cent and the average price of purchase by 5.6 per cent. At the same time, in 2011 estimate costs of unbalancing of the electricity increased costs by PLN 37,439,000 and in 2010 they diminished costs by PLN 15,343,000. Unbalancing of purchases with sales corrects purchase costs +/- in relation to the fact that the volume of energy invoiced as purchases and sales is not equal and in relation to adjustments made on the Balancing Market within 15-month settlement period. At the same time, in the reporting period a decrease in costs of purchase of certificates of origin decreased by PLN 57,670,000 in result of lower individual cost of purchase of certificates of origin per 1 MWh of energy sold to end users by 6 per cent.

Increase in results on the Distribution segment stems from an increase in sales of distribution services which was mainly caused by an increase in the volumes of electricity supplied to end users by 117 GWh and the increase in the average price of sold distribution services by 2.3 per cent. Additionally there was an increase in results from other activities mainly in relation to obtaining subsidies of network infrastructure.

Increase in results on the Generation segment stems from an increase in revenues from sales of electricity within licences for trading, and an increase in revenues from achievement of certificates of origin for energy (increase of production from biomass by 71 GWh) and achievement of revenues from sales of allowances for emissions of CO₂ in Kozenice Power Plant. In 2011 in Elekrownie Wodne an increase of production of electricity (better hydrological conditions) and an increase in sales prices were reflected in higher revenues from sales of electricity and higher revenues by title of certificates of origin. At the same time starting from H1 2011 in the segment of generation financial conditions of the heat sector have been included. Additionally, the appraisal of EC Bialystok was included.

Increase in results on the Other activities segment stems from increase in the financial results of ENERGOBUD Leszno, ENERGETYK and Entur.

Increase in the management costs stems mainly from incurring higher costs of external services connected with marketing activities and counselling services.

3.1.2. Asset situation

Total assets in PLN '000	As at:		Change	Difference
	31 December 2010	31 December 2011		
Fixed assets	8 737 868	9 796 900	112.1%	1 059 032
Tangible fixed assets	8 308 650	9 076 871	109.2%	768 221
Perpetual usufruct right	29 208	69 496	237.9%	40 288



Intangible assets	145 141	267 176	184.1%	122 035
Investment properties	8 203	32 219	392.8%	24 016
Investments in associated entities, accounted for using the equity method	170 220	278 854	163.8%	108 634
Financial assets held for sale	74 867	70 490	94.2%	-4 377
Financial assets valued at fair value by the profit and loss account	1 411	1 557	110.3%	146
Trade and other receivables	168	237	141.1%	69
Current assets	4 098 837	3 881 491	94.7%	-217 346
Inventories	242 058	340 685	140.7%	98 627
Trade and other receivables	922 460	1 052 119	114.1%	129 659
Current income tax assets	1 819	15 004	824.8%	13 185
Financial assets held-to-maturity investments	250 934	531 883	212.0%	280 949
Financial assets valued at fair value by the profit and loss account	1 781 939	723 439	40.6%	-1 058 500
Cash and cash equivalents	899 627	1 218 361	135.4%	318 734
Fixed assets for sale	0	21 503	x	21 503
Total assets	12 836 705	13 699 894	106.7%	863 189
Total liabilities in PLN '000	As at:		Change	Difference
	31 December 2010	31 December 2011		
Total equity	9 876 471	10 479 762	106.1%	603 291



Share capital	588 018	588 018	100.0%	0
Share premium	3 632 464	3 632 464	100.0%	0
Share based payments reserve	1 144 336	1 144 336	100.0%	0
Financial instruments revaluation reserve	50 922	49 565	97.3%	-1 357
Other reserves	-22 110	-21 710	98.2%	400
Retained earnings	4 458 944	5 058 001	113.4%	599 057
Minority interest in equity	23 897	29 088	121.7%	5 191
Total liabilities	2 960 234	3 220 132	108.8%	259 898
Non-current liabilities	1 373 976	1 447 783	105.4%	73 807
Current liabilities	1 586 258	1 772 349	111.7%	186 091
Total equity and liabilities	12 836 705	13 699 894	106.7%	863 189

As at 31 December 2011, the balance-sheet total of the Group was PLN 13,699,894 and increased by PLN 863,189,000, that is by 6.7 per cent relative to the situation as at 31 December 2010.

Fixed assets as at 31 December 2011 amounted to PLN 9,796,900,000 and increased in relation to the previous year by PLN 1,059,032,000 which mainly stems from the purchase of the shares of Bialystok Heat and Power Plant, which on 1 June 2011 became a subsidiary of ENEA S.A. (so far an affiliate), purchase of shares of Windfarm Polska, and acquiring by Elektrownie Wodne of ENEA Centrum S.A. Spolka Komandytowa's wind power stations in Darzyno and increase in the network property.

At the end of 2011 the current assets amounted to PLN 3,881,491,000 and increased in relation to the state as at the end of 2010 by PLN 217,346,000 (by 5.3 per cent). In current assets there was a drop in the sum of items of financial assets valued at fair value by the profit and loss account and cash and cash equivalents, mainly in relation to the purchase of the shares of EC Bialystok and purchase of the shares of Windfarm Polska. In addition, there was an increase in financial assets held to maturity in Kozenice Power Plant in relation to greater investing of cash with the maturity term exceeding 3 months. Additionally, reserves rose in result of a higher stock of coal and a higher stock of certificates of origin for energy in Kozenice Power Plant and EC Bialystok and receivables from trade and services.

The dominant source of financing the assets of the Group is equity, which on 31 December 2011 amounted to PLN 10,479,762,000 and was higher than as at 31 December 2010 by PLN 603,291,000, that is by 6.1 per cent. The change is impacted by the profit gained in 2011 and the value of dividend for the shareholders for 2010.

As at 31 December 2011, the value of the Group's long-term liabilities was PLN 1,447,783,000 and increased by PLN 73,807,000, that is by 5.4 per cent in relation to the state as at 31 December 2010. It stems mainly from



inclusion of the reserve by title deferred income tax in EC Bialystok and reserve for other obligations and liabilities in ENEA Operator. Employee benefits obligations also grew (EC Bialystok and ENEA Operator). In addition, settlement of income from subsidies and connection fees was decreased.

Short-term liabilities were at the level of PLN 1,772,349,000 and increased by PLN 186,091,000 (by 11.7 per cent) in relation to the state as at the end of the previous year, mainly in result of the increase in liabilities by title of deliveries and services, which stemmed from lower adjustments of liabilities inside the Group.

3.1.3. Cash

Cash flow in PLN '000	As at		Change	Difference
	31 December 2010	31 December 2011		
Net cash flows from operating activities	1 275 667	1 410 051	110.5%	134 384
Net cash flows from investing activities	-1 067 613	-855 937	80.2%	211 676
Net cash flows from financing activities	-210 970	-235 380	111.6%	-24 410
Net increase / decrease in cash and cash equivalents	-2 916	318 734	x	321 650
Cash and cash equivalents at the end of the reporting period	899 627	1 218 361	135.4%	318 734

At the end of December 2011 the Group's balance of cash and cash equivalents amounted to PLN 1,218,361,000 and was lower by PLN 318,734,000 than the level achieved at the end of December 2010 (PLN 899,627,000).

Operating cash flows amounted to PLN 1,410,051,000 in 2011, a decrease of PLN 134,384,000 relative to 2010 (PLN 1,275,667,000). The increase mainly stems from generation of a higher net financial result.

Cash flows from investment activities amounted to PLN -855,937,000 in 2011 and in 2010 they amounted to PLN -1,067,613,000. A change in the amount of PLN 211,676,000 stems mainly from achievement of higher incomes from selling financial assets with lower value of purchase of financial assets. At the same time the value of purchase of tangible and intangible fixed assets and value of purchase of subsidiaries increased (EC Bialystok, Windfarm Polska, Farma Wiatrowa Darzyno, Annacond Enterprises, DOBITT ENERGIA).

Cash flows from financing activities amounted to PLN -235,380,000 in 2011 and in 2010 they amounted to PLN -210,970,000. A change in the amount of PLN -24,410,000 resulted mainly from higher expenses connected with payment of dividend for shareholders.

3.1.4. Ratio analysis

Item	2010	2011
PROFITABILITY RATIOS		
ROE - return on equity		



<u>gross profit (loss)</u>		
	8.2%	9.4%
<i>equity</i>		
ROA - return on assets		
<u>operating profit (loss)</u>		
	5.5%	6.2%
<i>total assets</i>		
Net profitability		
<u>net profit (loss)</u>		
	8.2%	8.2%
<i>net sales revenues</i>		
Operating profitability		
<u>operating profit (loss)</u>		
	9.1%	8.7%
<i>net sales revenues</i>		
EBITDA		
<u>operating profit (loss) + amortisation and depreciation</u>		
	17.4%	16.1%
<i>net sales revenues</i>		
LIQUIDITY AND FINANCIAL STRUCTURE RATIOS		
Current liquidity ratio		
<u>current assets</u>		
	2.6	2.2
<i>current liabilities</i>		



Equity-to-fixed assets ratio		
<i>equity</i>	113.0%	107.0%
<i>fixed assets</i>		
Total debt ratio		
<i>total liabilities</i>	23.1%	23.5%
<i>total assets</i>		
ECONOMIC ACTIVITY RATIOS		
Current receivables turnover in days		
<i>average net trade and other receivables x number of days</i>	42	37
<i>net sales revenues</i>		
Turnover of trade and other payables in days		
<i>average trade and other liabilities x number of days</i>	63	54
<i>cost of products, goods and materials sold</i>		
Inventory turnover in days		
<i>average inventory x number of days</i>	17	14
<i>cost of products, goods and materials sold</i>		

In 2011 the Group achieved a positive financial result and positive profitability ratios. EBITDA amounted to 16.1 per cent and was lower than that achieved in 2010 (17.4 per cent).

Net profitability achieved by the Group in 2011 amounted to 8.2 per cent and was at the same level as the one achieved in the previous year.



The efficiency of the Group's operations increased as measured by the ROE and ROA business activity ratios. In 2010 ROE was 8.2 per cent and increased to 9.4 per cent in 2011, as a result of a higher pretax profit in 2011 than in the previous year. ROA increased from 5.5 per cent in 2010 to 6.2 per cent in 2011 as a result of a higher operating profit.

The Group is able to settle its current liabilities on time, which is confirmed by the level of the current liquidity ratio amounting to 2.2 in 2011. That figure is the result of the high level of current assets due to the investment of funds obtained from the 2008 issue of shares on the Warsaw Stock Exchange in financial assets.

In 2011, the receivables turnover rate was at the lower level than in the previous year (by 5 days) and amounted to 37 days. Meanwhile the liabilities turnover indicator in 2011 was 54 days, and was thus 9 days shorter than in the previous year. Please note that a correct relationship was maintained between the receivables and payables turnover rates (liabilities are settled after receivables are obtained), which in turn has a beneficial effect on the Group's financial liquidity. The inventory turnover indicator in 2011 was 14 days, and inventory turnover was thus 3 days faster than in the previous year.

At the end of December 2011, the total debt ratio was 23.5 per cent and the ratio of shareholders equity to fixed assets was 107.1 per cent on 31 December 2011 (and 113 per cent on 31 December 2010).

3.2. Presentation of the financial position of the ENEA Capital Group with division into quarters

3.2.1. Consolidated Profit and Loss Statement

Data in PLN '000	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011	Difference [Q2-Q1]	Difference [Q3-Q2]	Difference [Q4-Q3]
Net sales revenues	2 472 230	2 273 446	2 422,274	2 520 999	9 688 949	-198 784	148 828	98 725
Cost of sales	2 187 722	2 117 809	2 184 013	2 425 492	8 915 036	-69 913	66 204	241 479
Other operating revenue	25 452	30 906	134 766	57 207	248 331	5 454	103 860	-77 559
Profit/(Loss) on sales and liquidation of tangible fixed assets	-291	3 336	-2 998	-12 925	-12 878	3 627	-6 334	-9 927
Tangible and intangible impairment write-off	0	0	5 634	772	6 406	0	5 634	-4 862
Other operating expenses	26 874	34 445	27 701	69 716	158 736	7 571	-6 744	42 015
Operating profit/(loss)	282 795	155 434	336 694	69 301	844 224	-127 361	181 260	-267 393
Financial expenses	6 963	1 074	21 676	17 174	46 887	-5 889	20 602	-4 502
Financial revenue	34 142	48 800	60 972	40 156	184 070	14 658	12 172	-20 816
Dividend revenue	0	741	697	0	1 438	741	-44	-697
Share in (losses)/profits of affiliated entities accounted for using the equity method	1 872	6 587	-5 078	1 148	4 529	4 715	-11 665	6 226
Profit (loss) before tax	311 846	210 488	371 609	93 431	987 374	-101 358	161 121	-278 178
Income tax	64 484	43 737	64 967	21 665	194 853	-20 747	21 230	-43 302
Net profit (loss) for the reporting period	247 362	166 751	306 642	71 766	792 521	-80 611	139 891	-234 876



EBITDA	439 440	325 655	529 410	261 310	1 555 815	-113 785	203 755	-268 100
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3.2.2. Sales revenues

Data in PLN '000	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011	Difference [Q2-Q1]	Difference [Q3-Q2]	Difference [Q4-Q3]
Revenues from the sale of electricity	1 720,393	1 542 484	1 582 942	1 662 182	6 508 001	-177 909	40 458	79 240
Revenues from the sale of distribution services	673 558	632 307	645 571	690 674	2 642 110	-41 251	13 264	45 103
Revenues from the sale of goods and materials	21 920	24 853	36 314	40 270	123 357	2 933	11 461	3 956
Revenues from the sale of other services	35 676	55 929	129 504	66 746	287 855	20 253	73 575	-62 758
Revenues from certificates of origin	0	5 374	3 710	10 146	19 230	5 374	-1 664	6 436
Recovery of stranded costs	0	0	2 472	0	2 472	0	2 472	-2 472
Revenues from the sale of heat energy	20 683	12 499	21 761	50 981	105 924	-8 184	9 262	29 220
Total net revenues	2 472 230	2 273 446	2 422 274	2 520 999	9 688 949	-198 784	148 828	98 725

3.2.3. Cost of sales

Data in PLN '000	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011	Difference [Q2-Q1]	Difference [Q3-Q2]	Difference [Q4-Q3]
Amortisation/depreciation	156 645	170 221	192 716	192 009	711 591	13 576	22 495	-707
Employee benefit costs	225 795	238 097	237 086	311 432	1 012 410	12 302	-1 011	74 346
Consumption of materials and raw materials and value of goods sold	361 077	387 423	467 884	528 487	1 744 871	26 346	80 461	60 603
Costs of purchases for resale	1 134 437	989 669	952 133	1 036 318	4 112 557	-144 768	-37 536	84 185
Transmission services	179 762	175 589	179 342	179 187	713 880	-4 173	3 753	-155



Other external services	75 220	106 368	106 335	126 963	414 886	31 148	-33	20 628
Taxes and charges	54 786	50 442	48 517	51 096	204 841	-4 344	-1 925	2 579
Cost of sales	2 187 722	2 117 809	2 184 013	2 425 492	8 915 036	-69 913	66 204	241 479

3.3. Financial results forecasts

The Management Board of ENEA S.A did not publish any consolidated financial results forecasts for 2011.

3.4. Financial resources management

During the turnover year ENEA S.A. had financial resources at its disposal that guarantee that all current and planned expenses associated with the Company's operations will be serviced. The balance of available cash makes it possible to flexibly settle its ongoing liabilities. The Company's liquidity management is concentrated on a detailed analysis of the flow of receivables, ongoing monitoring of bank accounts as well as the ongoing concentration of cash resources in consolidated accounts. Cash coming from issue is managed by a specialist external company. As agreed, proceeds from the issue have been invested in minimum risk instruments, i.e. debt instruments issued, secured or guaranteed by the State Treasury, and bank deposits.

In 2011 ENEA S.A. had open working capital facilities from BZ WBK S.A., Pekao S.A. and PKO BP S.A. banks. The total limit of the working capital facilities available to the ENEA Capital Group as at 31 December 2011 was PLN 150,000,000.

ENEA S.A. in 2011 only from time to time made a use of working capital facilities in order to finance current operations.

The Company did not draw any loans on pawn, mortgage secured-loans, or any loans secured with transfer of ownership to fixed assets or transfer of ownership to an organized part of an undertaking.

Securities for bank loans and credits referred to hereinabove are authorizations to use current accounts as well as declarations on voluntary submission to enforcement.

The list of open credit lines available to subsidiaries is presented in the table below:

Subsidiary	Bank	Loan credit [PLN '000]	Amount of the loan used as at 31 December 2011 (PLN '000)
Auto-Styl Sp. z o.o.	Volkswagen Bank S.A.	6 500	3 440
BHU	BPH	2 500	0.00
Hotel Edison	BZ WBK	300	245
IT Serwis	BZ WBK	1 500	875
MEC Pila	Millennium S.A.	1 000	0



ENEA Operator	BZ WBK	150 000	0
TOTAL		161 800	4 560

3.5. Information on financial instruments

3.5.1. Used financial instruments

During the reporting period ENEA S.A. concluded one forward transaction the objective of which was securing of currency exchange risk (EUR/PLN) connected with the realisation of the agreement concerning the purchase of assets. The result of the aforementioned transaction was positive as of the date of financial statement, but immaterial in the context of the Group's results.

Currency exchange risk securing transactions were concluded also after the balance sheet date.

The futures were also concluded during 2011 by one of the subsidiaries - Bialystok Heat and Power Plant. The subsidiary sold the excess of allowances for emissions of CO₂ relating to the limit for 2008-2012 as future contracts and concluded agreements for exchanges of the allowances EUA into CER. The contracts were partially realised in December 2011 with another date of realisation in December 2012. They were both EUR transactions. The Company conducted forward transactions of EUR sale. The total result of the Subsidiary EC Bialystok on forward contracts amounted to as at 31 December 2011 PLN 7,595,000. 000. The result and the nominal value of forward contracts concluded by the Bialystok Heat and Power Plant is substantial in the light of Company's results and immaterial for the Groups results. The result is also material in relation to equity of the Bialystok Heat and Power Plant.

In 2011 Bialystok Heat and Power Plant also conducted forward transactions of EUR sale in connection to the purchase of the biomass, whose price is given in this currency.

The table below presents the list of forward contracts concluded by ENEA S.A. and companies of the Group as at 31 December 2011.

Forward contracts	Total nominal value of transaction	Transaction maturity date	Valuation of transaction as at 31 December 2011
ENEA S.A.			
forward contract EUR/PLN	25 000 000 EUR/ 110 875 000 PLN	24.02.2012	PLN 142 800
EC Bialystok			
forward contracts for CO ₂ emissions	5 491 000 EUR	17.12.2012	PLN 10 769 000
forward contracts EUR/PLN	11 060 000 EUR		PLN -3 174 000
Total forward contract in EC Bialystok			PLN 7 595 000

The table below presents the detailed list of forward contracts EUR/PLN concluded by the Bialystok Heat and Power Plant as at 31 December 2011.

Forward contracts	Total nominal value of transaction	Transaction maturity date	Valuation of transaction as at 31 December 2011
forward contract sale EUR/PLN	3 108 000 EUR	30.01.2012	PLN -1 239 000



forward contract EUR/PLN	3 212 000 EUR	30.01.2013	PLN -1 451 000
forward contract sale EUR/PLN	400 000 EUR	16.01.2012	PLN -41 000
forward contract sale EUR/PLN	340 000 EUR	15.02.2012	PLN -35 000
forward contract purchase EUR/PLN	400 000 EUR	15.03.2012	PLN -42 000
forward contract purchase EUR/PLN	280 000 EUR	16.04.2012	PLN -29 000
forward contract purchase EUR/PLN	280 000 EUR	15.05.2012	PLN -29 000
forward contract purchase EUR/PLN	340 000 EUR	15.06.2012	PLN -35 000
forward contract purchase EUR/PLN	450 000 EUR	16.07.2012	PLN -46000
forward contract purchase EUR/PLN	450 000 EUR	16.08.2012	PLN -46 000
forward contract purchase EUR/PLN	450 000 EUR	14.09.2012	PLN -46 000
forward contract purchase EUR/PLN	450 000 EUR	15.10.2012	PLN -45 000
forward contract purchase EUR/PLN	450 000 EUR	15.11.2012	PLN -45 000
forward contract purchase EUR/PLN	450 000 EUR	15.12.2012	PLN -45 000
Total forward contract EUR/PLN			PLN -3 174 000

3.5.2. Financial risk management

Effective financial management must take into account both risks and financial results. Financial risk is bound up with unexpected changes in cash flow, which stem from activity on financial markets or operating activities.

In the ENEA Capital Group, the following areas of risk may be identified:

- *Credit risk* is understood as the risk of loss resulting from the client's or the counterparty's to a financial instrument failure to pay or untimely payment of receivables. The main factors influencing the appearance of a credit risk in the case of the Group are:
 - large number of minor customers having an influence on high costs of controlling the flow of receivables,
 - the need to supply electrical energy to budget units which are in a difficult financial situation,
 - the legal requirements regulating the principles of suspending supplies of electrical energy as a result of a failure to pay.



In the Capital Group the credit risk in respect of receivables differs for particular market segments in which the Group operates:

- Sales of electricity and distribution services to individual recipients - this segment characterises with a large number of overdue receivables. Although they do not constitute substantial threat for the Group's finances, actions were undertaken in order to diminish them. Actions are being successively performed with an objective to improve the collection process consisting in creation of new and updated instructions and rules concerning debt collection, and commencing cooperation with specialist entities. Debt collection of receivables commences 20-25 days after the due date. Introduction of uniform rules of conducting debt collection proceedings, including soft debt collection allows for a shorter time of repayment and helps avoid long-lasting and often ineffective hard debt collection, i.e. court and court receiver enforcement proceedings. Only cases of the value exceeding the limit of collection profitability are filed for courts proceedings and enforcement proceedings.
- Sales of electricity and distribution services to business clients, key and strategic - the amounts of overdue receivables in this segment are higher than in case of individual recipients. The rules of debt collection are however similar and are undertaken after expiry of 6-10 business days after the due date,
- Other receivables - comparing with the two earlier segments the amounts of overdue receivables are immaterial.

The key role in the process of debt recovery belongs to employees supervising contacts with clients. These are people monitoring the process of debt recovery who, through contacts with a client, try to recover the receivables which are already overdue. Cooperation with a debtor, recognising their present and future financial situation is one of the duties of the personnel appointed to that end. The Group carries out ongoing monitoring of the amount of outstanding receivables, and in justified cases raises legal claims and makes write-offs.

- *Risk of loss of financial liquidity* understood as the risk of loss of the ability to settle current liabilities within their due term. The objective of activities performed by the Group Companies within management of liquidity risk is limitation, to an acceptable level, probability of losing or limitation of ability to settle obligations. Particularly, as a result of these activities the policy assumes guaranteed skills of reaction to the so called liquidity crises, i.e. the period of a substantial demand for liquid assets.

The policy of managing loss of financial liquidity risk assumes ensuring availability of financial means at the level allowing for settling obligations in the course of normal operations and enabling simultaneously undisturbed continuation of activity in situations of liquidity crises for a period necessary to launch an emergency financing plan allowing for quick increase in liquidity. Within liquidity management the Group is concentrated on a detailed analysis of the inflow of receivables, on-going monitoring of bank accounts as well as the on-going concentration of cash resources in consolidated accounts, occurring financial surpluses the Group's Companies invest into current assets in the form of fixed term deposits. In order to reduce the risk of liquidity and ensuring stable sources of financing the Group diversifies the sources of external financing. Constant risk management within the aforementioned areas and market position and financial standing of the Group allows for a statement that the risk of loss of financial liquidity is maintained at the minimum level.

- *The currency exchange rate* risk is connected with a possible occurring of changes generated by the Group Companies in cash flows as a result of changes in the currency exchange rates in which the values are denominated.

During the reporting period of companies of the Capital Group concluded futures transactions securing currency exchange rate risk. The value of concluded transactions and generated results are immaterial for the results of the Group. Currency exchange risk securing transactions were concluded also after the balance sheet date.

Full information on the influence of exchange risk has been presented in the consolidated financial statements for 2011 in Note 26.5.



- *Interest rate risk* to which the Group is exposed is connected with the existing indebtedness of the Group Companies by title of drawn credits and loans and with financial assets in the form of a portfolio of debentures and bank deposits. In relation to the above the Group Companies try to operate based on a floating rate, calculated in correlation with the market rates (inter-banking).

Full information on the influence of the interest rate risk has been presented in the consolidated financial statements for 2011 in Note 26.6.

- *Commodity risk* is connected with a possible occurring of changes in the revenues/cash flows generated by the Group, mainly as a result of changes in commodity prices, and fluctuations within the demand for the products offered by the Group. The objective of managing commodity risk is maintaining exposure to that risk within the acceptable frames with a simultaneous optimisation of return on risk.

A specific aspect of a commodity risk of the Group is the fact that acting as an integrated energy enterprise holding marketing licence and licence for distribution of electricity is obliged to submit for approval the tariffs for electricity for G tariff groups in the home and pre-pay packages. Enterprises dealing with generation and trade in energy are exempted from such an obligation. The Group makes purchases energy at market prices and calculates its tariff based on costs approved by the President of ERO as justified and with inclusion of a margin (in trading) or return on capital (in distribution) planned for the next tariff period. In relation to the above the Group during the period of validity of the tariff has limited abilities of transferring of disadvantageous changes for the Company in costs of its operations to end users of electricity. The Group may file an application for adjustment of the tariff to the President of ERO only in the case of drastic increase in costs for reasons beyond its control.

3.6. Unusual factors and events affecting the result

Unusual factors and events affecting the financial result in 2011 are presented in item 3.1 above, "Discussion of key economic and financial figures disclosed in the annual consolidated financial statements".

3.7. Major events that have, or could have in the future, a material effect on the Company's operations and financial results

Events that could in the future affect the Capital Group's operations and financial results also include the circumstances and factors that determine the Company's development prospects as described below in Section 4 of this report. "Development prospects and description of risks and threats".

3.8. Description of key off-balance sheet items

A description of key off-balance sheet items is presented in pt. 2.4.5 hereinabove under "Granted and received sureties and guarantees".

3.9. Description of the Use of Issue Proceeds

ENEA S.A. during 2011 did not issue any securities.

Means obtained by ENEA S.A. from public offering conducted in 2008 are invested in instruments exhibiting minimum risk, i.e. issued debt instruments, secured by suretyship or guaranteed by the State Treasury or bank deposits. Revenues from the aforementioned investments in 2011 amounted to PLN 78,688,000.

The planned manner of using the proceeds from the issue of Series C shares was described in detail in the Issue Prospectus prepared in relation to the issue of those shares.

3.10. Financing sources of the investment programme

A request for quotation directed to banks in Q4 2011 regarding the possibility to obtain financing in the form of issuing bonds within the programme was met with great interest of the invited commercial banks. The amount offered to the Company exceeds the anticipated financial needs. The Planned Programme of issuing bonds is one of the possibilities to finance investments in the Group, in particular with regard to generation and distribution segments. It should be noted that the Group has a high level of own funds that will be gradually used in the investment programme.



In addition ENEA S.A. took actions with the purpose of obtaining funds from multilateral institutions. At present the Company conducts talks with the European Investment Bank ("EIB") concerning the possibility to obtain financing in the form of loan for implementation of the investment programme of the Group with regard to the area of electricity distribution. The aforementioned financing is planned as long-term. The total amount of financing ENEA S.A. applies for with the EIB is estimated at PLN 950 million.

Moreover ENEA S.A. conducts parallel talks with the European Bank for Reconstruction and Development (EBRD) concerning the possibility to obtain a maximum of PLN 800 million of a long-term unsecured loan (up to 15 years) for implementation of the investment programme of the Group with regard to the area of electricity distribution.

It is planned that the funds would be obtained from the EIB and EBRD in mid-2012 and used gradually during the availability period established with the Banks.

The funds ENEA S.A. applies for with the EIB and EBRD would constitute one of the main sources of financing the investment programme in the years 2012-2015 and as estimated would amount to PLN 3.2 billion in the area of electricity distribution. Investments in the area of distribution among others concern expansion of the grid, reduction of grid power losses, improvement in quality of distribution and allowing for connection of new producers of renewable energy to the grid. In the next few years ENEA Operator anticipates connection of more than 500 MW of renewable energy to the grid.

Of key importance for gaining financing of the investment programme is the strong position of the Group on the Polish power market and sound financial policy confirmed on 14 April 2011 by Fitch Ratings agency which awarded ENEA S.A. long-term high ratings of an entity in the domestic and foreign currency at the level of "BBB" and long-term domestic rating at the level of "A(pol)" with a stable perspective.

4. DEVELOPMENT PROSPECTS AND DESCRIPTION OF RISKS AND THREATS

The prospects for development of the Group depend on a number of internal and external legal and macro-economic factors which could at the same time, if there are significant and also unfavourable departures from standard or assumed parameters (or circumstances associated with such factors), pose risks and dangers in achieving the Group's desired results or development.

4.1. Essential operating development and risk factors

4.1.1. The overall condition of the economy

The position of the Group in 2011 was to a certain extent shaped by the general trends in the national economy. 2011 was the year of economic growth for the Polish economy. According to figures from the Central Statistical Office, the Gross Domestic Product (GDP) in constant prices of the previous year grew by 4.3 per cent in 2011 yoy compared to 3.9 per cent a year before.

Gross added value in the national economy in 2011 rose by 4 per cent yoy (as compared to +3.9 per cent yoy a year before). Gross added value in the industry rose by 6.3 per cent (as compared to + 9.4 per cent yoy a year before), in the construction sector it rose by 11.8 per cent (as compared to +6.4 per cent yoy a year before) and in the sector of trade and repairs by 4.6 per cent (as compared to +2.6 per cent yoy a year before).

Domestic demand increased by 3.8 per cent yoy (against +4.6 per cent yoy a year before), total consumption rose by 2.1 per cent (against +3.5 per cent yoy a year before) and individual consumption by 3.1 per cent (against +3.2 per cent yoy a year before).

According to the experts the increase of GDP by 4.3 per cent in 2011 is a success but it is assumed that in 2012 the growth of GDP will be lower (2.5-3 per cent).



The growth rate of the basic macroeconomic indicators relative to the previous year is as follows:

Item	Unit	2010	2011 *
GDP	growth in %	3.9	4.3
Value added in industry	growth in %	9.4	6.3
Domestic demand	growth in %	4.6	3.8
Gross outlays on fixed assets	growth in %	-2.0	7.5
Industrial production sold	growth in %	9.7	7.7
Average gross salary	growth in %	5.4	4.4
Unemployment rate	%	12.3	12.5
Inflation	%	2.6	4.3
Export [EUR]	growth in %	19.5	12.8
Import [EUR]	growth in %	21.7	12.1

* some figures are only estimates published by the Central Statistical Office

Gross outlays on fixed assets in 2011 grew by 7.5 per cent yoy as compared to a 2 per cent decrease a year before. Uncertainty as to the future economic situation caused that companies still a little unwillingly devoted the generated surpluses to investments. According to the experts key causes for which the companies chose secure forms of locating surpluses were undoubtedly drops on exchanges and generally uncertain situation in the global economy. The indebtedness crisis whose synonym became problems of Greece caused that the threat for the global economy to enter recession and for Poland of a strong slow-down became real.

The Polish export in 2011 reached the value of EUR 135.8 bln and was higher by 12.8 per cent than in a previous year - as results from preliminary figures of the Central Statistical Office. According to this data the Polish export in 2011 grew faster than import which increased in the previous year by 12.1 per cent yoy reaching EUR 150.5 bln. However, the rate of pay growth is still slowing down and the rate of unemployment has started to rise again.

4.1.2. Factors related to economic activity

The results of our activity, like our financial situation and development prospects, depend on many factors, which are influenced both by the condition of the Polish economy and by the regional economic situation. The above factors include growth or decline in gross national product, in industrial production, in inflation, in unemployment and in average wages and salaries, the size and demographic nature of the population and also the development of the service sector and industry. All and any future unfavourable changes in one or several



of the above factors, and in particular worsening in the condition of the Polish economy, may have a negative effect on the results and the financial situation of our Group.

Furthermore, decisions of a political nature may have an effect on our activity since we operate in the power sector, which is considered to be of strategic importance. This relates principally to definition of the country's power policy and to structural and ownership decisions relating to power enterprises controlled by the State Treasury. These factors may have a significant and negative effect on revenues from the sale of electricity and the provision of distribution services, particularly in relation to individual consumers.

Our Group is exposed to the risk of changes in the legal and regulatory environment. In Poland, that environment, and especially the law as it concerns the power sector, is subject to change. As a consequence, legal regulations are not interpreted in a uniform manner by courts or institutions of public administration.

Additionally, there is no uniform law interpretation within functioning of the energy sector. As a result, there is no developed, unified interpretation of the law in this area. There is, therefore, considerable uncertainty as to how issues relating to our activities will be resolved if they become the subject of court proceedings. Therefore, there is a risk of unexpected and unfavourable decisions that could have a negative effect on our activity, financial results, financial situation or development prospects.

The operations of our Group are also strongly influenced by changes in taxation law. The taxation system in Poland is subject to dynamic changes that result from the need to adapt its regulations to meet the requirements arising from European Union law. The nature and extent of such changes, together with difficulties of interpretation related to the application of tax law, hamper both day-to-day activity and proper tax planning. Tax authorities' practice and court decisions in this area are not uniform. The adoption by the tax authorities of interpretations of tax regulations that differ from our own may have a negative effect on our activity, financial results, financial situation or development prospects.

4.1.3. Legal regulation and tariffs

Our operating results depend on a number of regulations and decisions of regulatory authorities, in particular those aimed at shaping electricity prices for customers from tariff G groups who use energy for household purposes.

We conduct our activities in an environment which is subject to a special legal framework.

Our situation is particularly affected by the provisions of the Energy Law and European Union regulations, especially those relating to environmental protection. Those laws and regulations are subject to frequent amendments, which we are unable to foresee and which could result in a lack of consistency in the provisions of law that form the basis for our operations.

The authority responsible for regulating the energy sector in Poland is the President of the Energy Regulatory Office (the "ERO"). Key powers of the president of the ERO include approving tariffs and inspecting their application and granting and withdrawing exemptions from the obligation to submit tariffs for approval, granting and withdrawing licences, appointing entities to be system operators, agreeing development plans, imposing fines, and inspecting energy companies' performance of the obligations set out in the Energy Law. Besides the president of the ERO, other authorities can also exercise substantial influence over our operations by exercising their inspection and regulatory powers. These include the President of the OCCP and the European Commission, which have key powers in the process of liberalising the energy sector and related to the supervision of its implementation. The inspection and regulatory powers of the President of the ERO and other authorities enable them to significantly influence our operations, particularly the amount of revenues that we generate. The scope of those powers might change in the future, as a result of which those authorities could obtain additional powers relating to the activities that we conduct. Decisions made by those authorities could have a material adverse effect on the amount of revenues we generate.

The tariffs approved by the President of the ERO, which we apply in our operations, are calculated on the basis of elements whose amount is to a large extent at the discretion of the President of the ERO.

ENEA S.A. is obliged to submit tariffs for electricity sales to households connected to the ENEA Operator grid to the President of the ERO for approval. By law, the manner in which tariffs are calculated should ensure that the power company: (i) has sufficient funds to cover the costs planned for the tariff period in question, provided that the President of the ERO deems them to be justified; and (ii) obtains a particular margin (in trading) or return on capital (in distribution) while ensuring that customers are protected from unreasonably high prices



and rates for charges. Some elements of the tariff calculations are calculated on the basis of financial models and other assumptions adopted by the President of the ERO, which do not take into account the actual costs of our operations or the value of our assets disclosed in our financial statements.

As a result, elements of the tariff calculations are the subject of often lengthy negotiations with the President of the ERO, which may not lead to our generating the revenues we have planned. This can have an adverse effect on the amounts of the margins we obtain and return on capital.

In practice, tariffs are usually approved for a period of one year. If we incur additional costs during a regulatory period that were not included in the model or were included in a lower amount, we are limited in our ability to take such costs into account in the tariff. In practice, the President of the ERO will only accept a tariff adjustment in the case of a substantial increase in costs or indicators (such as inflation) due to causes that are beyond our control.

Until 31 December 2007, ENEA S.A.'s activities relating to sales of electricity to end customers were subject to an obligation to present tariffs to the president of the ERO for approval. As at the date when this report is disclosed, due to a decision of the president of the ERO of 14 May 2008 we are exempt from the obligation to submit electricity tariffs to the president of the ERO for approval, except for the tariff for customers from the G tariff groups (households) connected to the grid of ENEA Operator. As at the date of disclosing this report, the legal status has not changed in this respect.

For purposes of sales to recipients from tariff group set G for 2011, on 4 October 2010 the President of the ERO called ENEA S.A. to submit a tariff request for approval. In reply to the call ENEA S.A. on 13 October 2010 applied to the President of the ERO for approval of the "Tariff for electricity" for G tariff groups for 2011. The administrative proceedings concerning approval of the "Tariff for electricity" for G tariff groups for 2009 were concluded by issuing Decision No. DTA-4211-51(17)/2010/2688/IV/BH of 17 December 2010, in which the President of the ERO approved the tariff for G tariff groups for the period until 31 December 2011. This tariff, in accordance with the Resolution of the Management Board of ENEA S.A. No. 877/2010 of 21 December 2010, started to apply on 1 January 2011.

With regard to sales of electricity to customers other than households (tariff group sets A, B and C), as of 1 January 2009 to 31 July 2011, an "Electricity Tariff" is in effect for tariff groups sets A, B and C, implemented by ENEA S.A. Management Board Resolution No. 786/2008 of 25 November 2008 and amended with regard to electricity prices as from 1 June 2009 by ENEA S.A. Management Board Resolution No. 266/2009 of 27 April 2009. From 1 August 2011 an "Electricity Tariff" is in effect for tariff groups sets A, B and C, implemented by ENEA S.A. Management Board Resolution No. 383/2011 of 14 June 2011.

On 16 December 2011, in Decision No. DTA-4211-53(15)/2011/2688/V/BH, the President of the ERO approved ENEA's "Electricity Tariff" for customers using power for household purposes. It came into force pursuant to ENEA S.A. Management Board Resolution No. 761/2011 of 20 December 2011 as of 1 January 2012.

4.1.4. Wholesale electricity prices

Wholesale electricity prices depend on a number of factors, including market and regulatory factors.

The wholesale market for electricity trading is currently fully liberalised, so the amount of costs and revenues that we generate depends on the electricity prices that are applicable on the market at a particular time. With regard to the increase in fuel prices and higher share of costs connected with the participation in the European Emissions Trading Scheme a growth is anticipated in prices of electricity on the wholesale market for the subsequent years.

Moreover, amendments introduced by the Act of 8 January 2010 on Amending the Energy Law and on Amending Certain Others Laws (Journal of Laws No. 21 of 8 February 2010, item 104) stipulate an obligation to sell electricity on the commodities exchange or in a way that guarantees public and equal access to electricity on the power exchanges or internet platforms for trading electricity on the regulated market. Amendment of the Energy Law within this scope entered into force from 9 August 2010, which mainly influenced the volume of trading on the stock exchange and thus greater representativeness of quoted prices.

4.1.5. Supplies and prices of bituminous coal and other fuels

The basic fuel used to produce electricity by our basic production assets, i.e. Koziernice Power Plant, is bituminous coal. In 2011, the cost of coal comprised about 45 per cent of operating costs of the Power Plant.



We depend on four suppliers for our coal supplies: Lubelski Wegiel "Bogdanka" S.A. which delivered in 2008 54 per cent, in 2009 52 per cent, in 2010 approx. 61 per cent and in 2011 approx. 61 per cent of that fuel in terms of quantity, Katowicki Holding Węglowy S.A, Jastrzebska Spolka Węglowa S.A. and Kompania Węglowa S.A. The Polish market of coal supplies is a market highly monopolised by companies belonging to the State Treasury, our key shareholder, which control a substantial part of domestic supplies of coal on the quantitative basis, excluding Lubelski Wegiel "Bogdanka" S.A., which in 2010 became private. It is uncertain whether the contracts in force for supply of coal which we concluded with our key suppliers will not be terminated or prolonged after their term. Moreover, according to these contracts, the price and quantity of delivered coal are determined during negotiations each year. It is not certain that the result of such negotiations will be always advantageous for us. If we are not able to execute contracts for supply of coal to Koźienice Power Plant or the deliveries are suspended or disrupted for any other reason (i.e. as a result of strikes at mines), Koźienice Power Plant may be forced to purchase coal from more distant places at higher prices, suspend or limit generations of electricity till resuming supplies of coal or adjust own generating assets to use alternative fuels, which may result in increases in its expenditures. Increase of costs in Koźienice Power Plant would be reflected in the prices of power energy we sell which could lead to a situation that our price become uncompetitive in relation to the prices of electricity sold by our competitors on the market. Furthermore, if we are unable to maintain our inventories of bituminous coal at the legally required level, we could receive administrative fines of up to 15 per cent of our revenues from licensed activities in the previous tax year.

In January 2008, the Power Plant began to produce power from the co-combustion of biomass as fuel. Co-combustion of biomass is carried out in eight 215-225 MW power units. Sawdust pellets and briquettes as well as sunflower pellets and briquettes are primarily used as biomass. In 2011 the Power Plant had agreements with 13 biomass suppliers. In 2010, biomass consumption amounted to 176,510,700 tonnes, whilst in 2011 it was 219,302,800 tonnes (according to beltway scales).

4.1.6. Obligations with respect to obtaining energy certificates of origin

Also, the legal provisions impose an obligation on us to obtain and present certificates of origin to the President of the ERO for redemption, confirming: (i) that electricity is being generated in renewable sources ("green" certificates); and (ii) that electrical energy is being generated in combination with heat generation (Cogeneration, "red", "yellow" and "violet" certificates) or, if certificates of origin are not presented for redemption in the required quantity, the payment of substitute charges. The number of certificates of origin that we must obtain and redeem is provided for by law and is calculated as a percentage share of electricity sold to end users. That share will increase in subsequent years. Moreover, the amount of electricity we sell to end users may also increase. The sources of renewable energy or energy generated in cogeneration which we possess enable us to some extent to carry out our obligations regarding the redemption of certificates of origin to a small extent. As a consequence The Company therefore obtains certificates of origin also from third parties or pays compensatory charges the amount of which are for each year announced by the President of ERO.

Moreover, the Act of 8 January 2010 on Amending the Energy Law and on Amending Certain Other Laws (Journal of Laws No. 21 item 104 of 8 February 2010) introduced new units generating energy in cogeneration, which are covered by the system of certificates (violet certificates). The executive regulation entered into force with a delay and ENEA S.A. is obliged to redeem the "violet" certificates of origin or pay a compensatory payment only within sales to end users from 20 September 2011.

4.1.7. Limits of CO₂ emission allowances and their market prices

Our electricity production operations depend on the quantity of rights allocated to us to emit CO₂ and other gases and substances for a particular settlement period. CO₂ emission allowances are allocated on the basis of the Community-wide Emissions Trading Scheme. For the second settlement period of trading in CO₂ emission rights (2008-2012), Koźienice Power Plant was granted rights to emit 9.6 million tonnes of CO₂ per year, a decrease of 8.6 per cent relative to the average annual allocation in the period 2005-2007. In view of the current scale and efficiency of the production capacity of the Koźienice Power Plant, that quantity of CO₂ emission rights corresponds to the production of approximately 10.9 TWh gross of electricity per year, i.e. 11.4 per cent less than the quantity of electricity that the Power Plant generated in 2010. Starting from 2013, it is expected that gratuitous allocations of CO₂ emission rights for the power sector will be completely ceased and replaced with a system of bidding for emission rights. There is a chance, however, that the energy sector will receive some entitlements under free distributions (70 per cent in 2013, decreasing by 10 per cent each year to 2020, when all entitlements will have to be acquired in an auction). It should be emphasised that, in order to



obtain free entitlements in 2013-2020, a series of very complex requirements will have to be met, including the development by the Polish government and the European Commission of a credible, reliable investment program in connection with climate protection, in an amount corresponding to the price of possible free entitlements. Within the due term, i.e. till 30 September 2011 Poland prepared and filed with the European Commission an application for allocation of free allowances for CO₂ emissions in 2013-2019 for modernisation of electricity generation. The application includes the allocation of free allowances for existing units of the Kozienice Power Plant and a newly designed unit No XI with the power of around 1,000 MW. Among other companies of ENEA Group the list also contains the Bialystok Heat and Power Plant.

In relation to the necessity of purchasing more and more allowances the electricity generation costs will substantially increase. We could also be forced to incur other unforeseeable costs in connection with emission rights or changes in the law and the resulting requirements in that respect. We might therefore be forced to reduce the amount of electricity that we produce or increase our production costs, which could have an adverse effect on our business activities, financial standing, financial results or development prospects.

4.1.8. Long-term contracts

As the European Commission has found that long-term contracts with the state-owned company PSE S.A. regarding the sale of power and electricity constitute prohibited public aid, the Polish Parliament has adopted an act intended to terminate these contracts. Under the Act on Covering Costs Incurred by Power Companies due to the Early Termination of Long-Term Power Purchase Agreements of 29 June 2007 (the "LTPPA Termination Act"), the Group (Kozienice Power Plant), starting from 1 April 2008, is entitled to compensation for the stranded costs it has incurred as a result of the early termination of long-term power purchase agreements.

Pursuant to the Act, the Group will be entitled to compensation until 2014.

The LTPPA compensation mechanism is as follows:

- companies submit requests for advance compensation payments by 31 August of each year,
- the President of the ERO determines the annual adjustment value for the stranded costs (advance adjustment) by 31 July of the following year,
- the President of the ERO determines the final adjustment value by 31 August of the year following the end of the adjustment period (for the Group it will be 31 August 2015).

The Group developed a calculation model on the basis of which it requests advance payments and annual settlements from the President of the ERO. The calculation of the amounts due is not unequivocal as it is determined by numerous factors, including the interpretation of statutory provisions. The Group has decided to enter as proceeds only amounts stipulated in the decision concerning the annual adjustment of stranded costs.

For 2008 Kozienice Power Plant obtained advance payments towards stranded costs from the company Zarzadca Rozliczen S.A. in the amount of PLN 93,132,000. In the decision by the President of the ERO of 31 July 2009 setting the amount of the adjustment to the yearly stranded costs (i.e. advance payments received from Zarzadca Rozliczen S.A.) for the Kozienice Power Plant for 2008 was set at the level of PLN -89,537,000. The Power Plant filed an appeal against this decision with the Regional Court in Warsaw, at the Court of Competition and Consumer Protection. Any other activities in 2009 concerning annual adjustment of stranded costs were described in the financial statement for 2010.

In 2010 the following material events took place. On 3 August 2010 the Power Plant received the decision of the President of ERO of 29 July 2010 setting the annual adjustment for 2009 in the amount of PLN 15,580,000. Since this decision is disadvantageous for the Power Plant on 17 August 2010 it filed an appeal against this decision with the Regional Court in Warsaw, at the Court of Competition and Consumer Protection. In 2010 financial statement revenues in the amount of PLN 15,580,000 were included in the report of total revenues in the item of Revenues on sales as an amount of likely revenues. On 30 September 2010 the Power Plant received the amount of the annual adjustment for 2009 in the amount of PLN 15,580,000 from Zarzadca Rozliczen S.A.

For 2010 the Power Plant applied for the advance towards stranded costs in the amount of PLN 0.00. In 2010 the revenues from compensations for 2010 were not recognised (the statement included only the



amount of the annual adjustment for 2009). On 29 July 2011 the President of ERO determined the amount of the annual adjustment of stranded costs for 2010 in the amount of PLN 2,472,000. Since also this decision is disadvantageous for the Power Plant on 18/08/2011 it filed an appeal against this decision with the Regional Court in Warsaw, the Court of Competition and Consumer Protection. On 30 September 2011 the Power Plant received the amount of the annual adjustment for 2010 in the amount of PLN 2,472,000 from Zarzadca Rozliczen S.A.

At present formal and procedural activities are still in progress.

For 2011 Kozenice Power Plant applied for an advance towards stranded costs in the amount of PLN 3,500,000. Till 5 January 2012 Zarzadca Rozliczen S.A. paid advances for four quarters of 2011 in the total amount of PLN 3,500,000. In I-XII 2011 incomes from indemnities were recognised in the amount of the annual adjustment of stranded costs for 2010 i.e. PLN 2,472,000.

For 2012 the Power Plant applied for the advance towards stranded costs in the amount of PLN 0.00.

A hearing on the appeal against the decision of the President of ERO determining the annual adjustment for 2008 had been set by the Court of Competition and Consumer Protection for 20 February 2012. This hearing was postponed and another date set for 20 April 2012.

For the day of this report it is not possible to finally determine the amounts of annual adjustments for 2008-2010 (results of the proceedings concerning appeals from the decision of the President of ERO determining annual adjustments for 2008, 2009 and 2010 are still not known). The complete amount of the granted permissible public aid by title of compensates of stranded costs will be determined in the decision of the President of ERO determining the amount of the final adjustment which will be issued in 2015. Having the above in mind it should be reserved that the revenues recognised so far by title of LTPPA based on annual adjustments determined by the President of ERO may change as a result of the aforementioned decision of the President of ERO determining the amount of the final adjustment.

4.1.9. The regulatory value of assets

In connection with the work of the Team appointed by the Polish Electricity Transmission and Distribution Association, with the participation of representatives of the President of the ERO, unified principles for accounting the value of network assets for the purpose of calculating distribution tariffs were developed. Those principles, set out in the document "Method of Establishing the Regulatory Value of Assets and the Return on Invested Capital" of 19 November 2008, were approved by the Management Boards of the Distribution Companies acting as distribution system operators, by appropriate resolutions. The President of ERO submitted the aforementioned elaboration as an official document specifying the new rules for determining the return on capital for calculation of the regulated revenues including the letter of 23 December 2008. RAB (regulatory asset base) is a value of assets engaged in the distribution activity, remuneration of capital is to ensure funds for instruments and may be devoted for a dividend for owners. The method, in force as of the tariff year 2010, foresees that the initial RAB providing the basis for further calculations will be estimated on the basis of the lost revenue method, i.e. on the basis of a determination of the value of the loss that the Distribution System Operator would incur if it were deprived of its network assets. The initial value of RAB was determined as at 31 December 2008, and was taken as the lower of two values determined for each company by an independent entity on the basis of the replacement cost method (RC) and the economic value method (EV).

As a result of works of the aforementioned Team updating the elaboration "Method of determination of the regulatory asset base and return on engaged capital" and approvals of updating by the Boards of operating distribution systems, with the letter of 8 July 2011, sign DTA-4201-1(1)/2011/KG the President of ERO sent the approved Annex No 1 to the aforementioned document "Method of determination of the Regulatory Asset Base and return on engaged capital". According to the instructions included in the said documents the determined preliminary value of RAB is annually, starting from 2010, updated according to the following formula:

$$RAB_t = RAB_{t-1} + I_{t-1} - CC_{t-1} - AY_{t-1} - AR_{t-1} - \Delta I_{t-2}$$



where:

- t - the year for which a given tariff is to apply,
- RAB_t - value of the regulatory asset base for year t (according to the state at the beginning of a given tariff year)
- RAB_{t-1} - value of the regulatory asset base accepted in determining the tariff for year t-1, where the RAB for 2009 is an initial amount determined by the lost revenue method (LR),
- I_{t-1} - amount of investment outlays accepted in determining the tariff for year t-1,
- CC_{t-1} - amount of revenue from charges for connection to the distribution system operator's network accepted in determining the tariff for year t-1,
- AY_{t-1} - non-returnable aid funds and other sources of financing to be paid to the network company to finance network assets in year t-1,
- AR_{t-1} - level of amortisation from year t-1 used in updating the RAB,
- ΔI_{t-2} - corrective coefficient determined as the difference between the actual level of investment outlays, connection charges and non-returnable aid funds and other sources of financing calculated according to the following formula:

$$\Delta I_{t-2} = -(I_{Wt-2} - I_{t-2}) + (CC_{Wt-2} - CC_{t-2}) + (AY_{Wt-2} - AY_{t-2})$$

where:

- I_{Wt-2} - actual value of investment outlays for network assets in tariff year t-2,
- CC_{Wt-1} - actual amount of connection charges in tariff year t-2,
- AY_{Wt-2} - non-returnable aid funds and other sources of financing in year t-2. For 2009 the value of AY_{Wt-2} should be equal to 0.

In order to avoid errors arising from differences between the book value of assets and the RAB values for tariff purposes, the amount of amortization in updating RAB is determined according to the formula:

$$AR_{t-1} = \frac{RAB_{t-1}}{BV_{t-1}} \cdot (BA_{t-1} + L_{t-2})$$

where:

- BV_{t-1} - book value of net network assets at the beginning of tariff year t-1 resulting from the company's books of account,
- RAB_{t-1} - regulatory asset base accepted in determining the tariff for year t-1,
- L_{t-2} - book value of net liquidated network assets included by the network company in other operating expenses in year t-2,
- BA_{t-1} - amount of book amortisation of the network assets planned for year t-1 calculated as follows:

$$AK_{t-1} = AK(BO)_{t-1} + \frac{I_{t-1}}{2} rA_{t-1}.$$

where:

- $BA(BO)_{t-1}$ - amount of book amortisation of the network assets planned for year t-1 as at the beginning of year t-1,
- I_{t-1} - value of investment outlays considered by the President of the ORE in the calculation of the tariff for year t-1,



rA_{t-1} average rate of amortisation for new investment outlays considered by the President of the ORE in calculating the tariffs of network companies for year t-1.

The return on capital for subsequent tariff years, starting from 2010, is determined using the following formula:

$$R_t = \min \left\{ \begin{array}{l} RAB_t \cdot WACC_t \\ R(BO)_t + R(I)_t \end{array} \right\}$$

where:

- R_t - return on invested capital considered in the tariff for year t,
- RAB_t - regulatory asset base as at the beginning of year t,
- $WACC_t$ - weighted average cost of capital for year t,
- $R(BO)_t$ - return on invested capital resulting from the compensation of assets existing as at 31 December 2008 and taking its complete return path into account,
- $R(I)_t$ - return on invested capital resulting from compensation of new investments implemented after 31 December 2008,

Whereas $R(BO)_t$ and $R(I)_t$ Whereas $R(BO)_t$ and $R(I)_t$ can be expressed by the formula:

$$R(BO)_t = R(BO)_{t-1} + 1.5\% \cdot RR(BO)_{t-1}$$

$$R(I)_t = \left(\sum_{j=2009}^{t-1} I_j - \sum_{j=2009}^{t-1} CC_j - \sum_{j=2009}^{t-1} AF_j - \sum_{j=2009}^{t-1} AI_j - \sum_{j=2009}^{t-2} \Delta_j \right) \cdot WACC_t$$

where:

- $RR(BO)_t$ - regulatory revenue for year t-1 corrected by return and amortisation from investments implemented after 31 December 2008,
- I_j - amount of investment outlays considered by the President of the ORE in calculating the tariff for year j,
- CC_j - revenue from charges for connection to the network considered by the President of the ORE in calculating the tariff for year j,
- AY_j - non-returnable aid funds and other sources of financing to be paid to the network company to finance network assets in year j. For 2009-2010 AY and AY_{wt} should be equal to 0.
- AI_j - level of amortisation of investments implemented after 31 December 2008,
- Δ_j - corrective coefficient determined as the difference between the actual level of investment outlays incurred in year j as well as revenue from connection charges in year j_2 and the level accepted in calculating the tariff for year j.

where revenue $RR(BO)$ for 2009 is determined using the following formula:

$$RR(BO)_{2009} = RR_{2009} - AI_{2009}$$

whereas for the following years:

$$RR(BO)_{t-1} = RR_{t-1} - R(I)_{t-1} - AI_{t-1}$$

where:

- RR_{t-1} - regulatory revenue for year t-1 resulting from the first tariff application approved for a given tariff year.

The level of amortisation accepted for the above calculations is determined according to the formula:



$$AI_{2009} = \frac{I_{2009}}{2} \cdot rA_{2009}$$

$$AI_t = AI_{t-1} + \frac{I_{t-1} + I_t}{2} \cdot rA_t$$

where:

rA_t - average rate of amortisation for new investment outlays considered by the President of the ORE in calculating the tariffs of network companies for year t.

After the complete return on invested capital has been attained, the above formula will become:

$$R_t = RAB_t \cdot WACC_t$$

4.1.10. The process of producing and distributing electricity

There are numerous risks associated with producing and distributing electricity, which could lead to us being held liable or fined.

Both the production and distribution of electricity are dangerous activities, particularly with regard to such tasks as transporting and unloading fuels, operating heavy equipment, and delivering electricity to transmission and distribution systems. Dangers such as fire, explosions and grid malfunctions are an intrinsic part of our operations and they can occur, in particular, due to internal procedures not being complied with, technological defects, human error or external events. The occurrence of any of the above events could cause injury or death, damage or destruction of property, plants or equipment, pollution or damage to the environment, and interruptions in our operations, which could lead to us bearing significant liability or being fined.

4.1.11. Risk associated with connecting renewable energy sources (RES)

According to the Energy Law, ENEA Operator, as an energy business involved in the distribution of electricity, is obliged to conclude grid connection agreements with entities seeking such connection, if the technical and economic connection conditions are met, and the entity seeking connection meets the conditions for connection and receipt of power. If ENEA Operator refuses to conclude such a connection agreement, it is obliged to notify the President of the ERO and the entity seeking connection, specifying the reasons for such refusal. At present, ENEA Operator is party to dozens of proceedings brought by the President of the ERO concerning connections to its own distribution network.

4.1.12. Customer service

As a consequence of the realisation of the Corporate Strategy of the ENEA Capital Group numerous projects and initiatives were performed aiming at the realisation of one of the strategic goals of the core business of the Company which is increasing profit on sales of electricity.

One of these actions was the SEGMENTATION project commenced in 2010 within Programme ENEA 2010+, whose objective was to increase the competitiveness of ENEA S.A. on the electricity market through enhancement of the efficiency) within organisation and costs) and effectiveness of realisation of processes connected with the service of the present and gaining new clients. The result of the works over the project was e.g. development of the set of functional requirements for the billing and CRM systems and development of a new organisational structure of the Trade Department of ENEA S.A. corresponding to the implemented segmentation of ENEA S.A.'s clients. The analytic stage of this project was completed in Q2 2011. Further works at the implementation stage were continued within new projects, including within the project of Customer Service.

Within the realisation of the works of this project the concept was prepared for separation of the customer service from ENEA S.A. On 1 August 2011 the Customer Service Division of the Trade Department of ENEA S.A. was moved to the EP BUT S.A. Further, the name of the company was changes from EP BUT S.A. to the new name ENEA Centrum S.A. The present activity within customer service is being presently realised by ENEA Centrum S.A.



4.1.13. Market liberalisation

In connection with electricity market liberalisation and increasing competition in this area, ENEA S.A. is exposed to the risk of losing customers in the sale of electricity. As of 1 July 2007, all electricity customers are entitled to choose an electricity seller. The risk therefore exists that other energy companies will offer our customers more favourable terms and will in effect take them over, which could lead to a decline in our revenue. However, even if our present customers choose another electricity seller, our Group will continue to obtain revenue from energy distribution to customers connected to our distribution network.

2011 on the energy market showed that the conscience of a possibility to change the sellers is getting higher not only for business clients but also households. The activities of the President of ERO aiming at activation of energy recipients bring more and more effects. For full market liberalisation what is lacking is only deregulation of prices of electricity for households. According to the figures of ERO 14,000 commercial clients and 13,000 households changed the seller in 2011. During the previous year the number of all the active recipients of electricity increased from almost 9,000 to almost 36,000. It is the first time the number of recipients in households who decided to change their present seller of energy is so great and becomes near to the number of institutional clients (tariff groups A, B and C) who at the same time made similar changes. A year ago - as at 31 December 2010 - consumers who exercised their right to change the seller among commercial clients amounted to 7,611 (as at the end of 2011 it was 21,716), however the recipients in households amounted to 1,340 (as at the end of 2011 it was 14,341). It means that so far almost 40,000 clients have changes the energy supplier.

At the same time, ENEA S.A. is an active participant on the competitive market, engaging in activities aimed at selling energy to customers connected to the grids of operators other than ENEA Operator. In 2011, we sold about 2.1 TWh to such customers.

4.1.14. Dominant position on the local market

We have a dominant position with regard to providing distribution services on the local market covering northwest Poland. The actions we take are therefore subject to inspection by Polish and European anti-monopoly institutions (including the President of the OCCP and the European Commission). If those authorities find that we are applying monopolistic practices, they will issue a decision ordering us to refrain from applying them and possibly fine us. Furthermore, any legal acts that are a manifestation of an abuse of a dominant position will be invalid, either entirely or partially, as appropriate. In the future, any decisions that might be issued by the President of the OCCP or the European Commission could have an adverse effect on our business activities, financial standing, financial results or development prospects.

4.1.15. Concessions

The expiry or withdrawal of our concessions could restrict our basic activities or make it impossible for us to carry them out.

Our activities in the generation, distribution and trade of electricity require licences granted by the President of the ERO. In accordance with the Energy Law, licences are in principle granted for a period from 10 to 50 years. Within our Group, we hold, specifically, the following licences: (i) ENEA holds a licence for electricity trading which is valid until the end of 2025; (ii) ENEA Operator holds a concession for electricity distribution which is valid until mid-2017; (iii) Kozenice Power Plant holds a licence for electricity generation which is valid until the end of 2025, and a licence for electricity trading which is valid until the end of 2012; and (iv) Elektrownie Wodne holds a licence for electricity generation which is valid until 31 December 2030.

The Energy Law grants the president of the ERO powers to withdraw a concession, particularly if a legally valid judgement is issued banning a company from performing economic activity covered by a concession, or if a company has permanently ceased to perform economic activity covered by a concession. The President of the ORE also has the right to withdraw a licence or change its terms in the event of a blatant breach of the terms specified in a licence, or other terms of performing a licensed activity, and also if a licensed company does not, in the appointed time, bring about a state compliant with the terms specified in the license or with the provisions regulating the licensed activity. The president of the ERO also has the right to withdraw a concession or change its scope on account of a danger to the country's defences and security or to the safety of its citizens, and also in the event of the bankruptcy of the company, its division, or merger with another company.



Neither is there any certainty that, after the period for which the licences were granted, we will be able to gain an extension of the period for which they are valid, or any certainty regarding the terms on which the licences will be extended.

Failure to extend our licences, or their withdrawal, will restrict and in extreme cases make it impossible for us to carry out our activities, which could have a significant adverse effect on our operations, financial standing, financial results or development prospects.

4.1.16. Bituminous coal transportation

The basic means of transport used to deliver bituminous coal to Koźienice Power Plant is rail transport. Over 90 per cent of supplies of this material to the Koźienice Power Plant were realised by PKP Cargo S.A., the biggest railway carrier in Poland, with which an agreement was concluded for transport of coal to the Power Plant from Lubelski Wegiel "Bogdanka" S.A. and mines of Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A. as a result of the public tender on an open basis. Around 10 per cent of coal transports were purchased by the Power Plant subject to the terms that the supplier sold coal with its transport to the Power Plant.

4.1.17. Implementation of the strategy

We will make efforts to implement our policy with respect to development directions but we might not be able to implement our development strategy and planned investment outlays because of factors which remain beyond our control.

Our development strategy foresees the implementation of specific targets, and covers in particular the development of the Group's core operations, improving the Group's effectiveness, and building a socially responsible business.

The implementation of our strategy is affected by several factors, most of which are independent of us, particularly decisions of our majority Shareholder the State Treasury, measures taken by our competitors, and changes in the applicable law. A key aspect of the implementation of our strategy is the need to ensure appropriate financing on terms that are favourable for us. There is no guarantee that such financing will be available for us. As a result, we could be forced to postpone the achievement of certain strategic goals, as well as to reduce or forgo planned investment outlays, which could have a material effect on our operations, financial standing, financial results or development prospects.

One of the key aspects of the implementation of the strategy is the need to ensure appropriate financing on terms that are favourable for us. Our ability to obtain financing and the cost of capital depend on many factors, and in particular on: (i) general market conditions and the situation in capital markets; (ii) the availability of bank loans; (iii) investors' confidence; (iv) the Company's financial situation; and (v) tax regulations and regulations on trading in securities.

We conduct our activities in an environment which is subject to a special legal framework. The situation of the Group is particularly affected by the provisions of the Energy Law and European Union regulations, including those relating to environmental protection. These legal regulations are subject to frequent changes (which ENEA S.A. is not in a position to forecast) and there is a tendency to gradually increase the requirements relating to use of the environment, in particular in relation to entities in the power sector. These growing requirements may in the future create a need for us to incur additional investment outlays. Also, the legal provisions impose an obligation on us to obtain and present certificates of origin to the President of the ERO for redemption, confirming: (i) that electricity is being generated in renewable sources; and (ii) that electrical energy is being generated in combination with heat generation (cogeneration) or, if certificates of origin are not obtained or presented for redemption in the required quantity, the payment of compensatory charges.

Actions undertaken by the Company in its development strategy are also dependent on the level of permits for emissions of carbon dioxide and other gases and substances received for each specific settlement period.

Operations planned by the Company in regard to acquisitions and capital investments may not achieve the expected effect because of factors beyond ENEA's control such as competition from other power companies and market conditions. Furthermore, the results obtained by the companies in which we invest may turn out to be worse than our initial estimates, which may cause a reduction in the rate of return on these transactions compared with initial expectations. As a result of acquisitions or investments made, we will also have to take steps to reorganise the structure of the entities concerned, to integrate particular business areas, to centralise the management of assets and liabilities and to integrate information technology systems. These processes



may turn out to be time-consuming and costly and it is uncertain whether they will be performed in accordance with the desired schedule or in the planned manner. They may also lead to lasting differences in the procedures employed in the Group. The above actions are dependent also on the behaviour of the trade unions involved in the acquisitions or capital investments made.

ENEA's activity in modernising generating capacity and in making new investments in generating assets is dependent on weather conditions, the pace of construction, repair and modernisation works, increases in the planned costs of investments, market conditions and the need to obtain necessary permits.

Achieving strategic objectives in the field of development is also affected by the condition of the Polish economy and by the regional economic situation, and in particular by: growth or decline in the gross national product and industrial production, inflation, unemployment and in average wages and salaries, the size and demographic structure of the population, and also the development of the services sector and industry.

4.1.18. Synergy results

The planned acquisitions and capital investments may not produce the expected results. We plan to take over controlling interests or make other equity investments in several companies operating in the electricity sector. There is no guarantee, for example due to factors that are beyond our control, including competition from other energy companies, that our plans will be fulfilled. The valuation of our future acquisitions and investments will depend on market conditions, as well as on other factors that are beyond our control, and it might turn out that we are unable to correctly assess the value of the acquisitions and investments that we have carried out. Furthermore, the results achieved by companies in which we invest might turn out to be worse than our initial estimates, which could result in the rate of return from those transactions being lower than initially anticipated. Furthermore, as a result of acquisitions and investments that we carry out, we will be forced to take steps to reorganise the organisational structures of those entities, integrate individual business areas, centralise the management of assets and liabilities and integrate IT systems. Those processes may turn out to be time-consuming and costly, and there is no guarantee that they will be implemented in accordance with the planned timetable or in the planned manner, or that they will be implemented at all. Integration processes within individual companies could also lead to permanent differences in the procedures applied in the Group or to the loss of existing customers or business partners. If it is not possible to effectively carry out the integration of the entities that we take over due to the events described above, or for any other reason, it could have an adverse effect on our operations, financial standing, financial results or development prospects.

4.1.19. Modernisation of generating assets

We may not be able to carry out the needed modernisation of our generation and distribution assets, or to complete our investments, due to events beyond our control, including third-party actions.

Our activities involving the production and distribution of electricity require ongoing and regular refurbishments and modernisations, as well as new investments in production and distribution assets. Such projects are burdened with significant risk factors. These risk factors in particular relate to inclement weather, delays in the completion of construction, repair and modernisation works, increases of planned investment costs, the insolvency of contractors or sub-contractors, contractors' or sub-contractors' employee disputes, shortages of construction materials or equipment, accidents, unforeseen technical difficulties or the impossibility of obtaining required permits. If any of those risks occurs, it could lead to delays in implementing plans to modernise our distribution or production assets or prevent them from being implemented, which could have an adverse effect on our financial results and development prospects.

4.1.20. Events of force majeure and malfunctions

Events of force majeure or other malfunctions of electricity infrastructure that belongs to us or other power companies or of production assets could lead to us failing to comply with electricity supply conditions, being held liable, or receiving administrative penalties.

Maintaining the power system and our distribution infrastructure in proper working order is of key significance for our business activities. The law also imposes certain obligations on us to maintain and repair key elements of our power infrastructure. A malfunction of the electricity system (including transmission or distribution grids and production assets belonging to third parties) or our electricity infrastructure could prevent or reduce the purchase or sale of electricity or system services and the provision of electricity distribution services. Our



distribution infrastructure is getting older, although it is modernised periodically, which caused that we are additionally exposed to a risk of a failure. In the event of a malfunction in the distribution infrastructure due to its current technical condition, problems related to it or events of force majeure, because ENEA Operator is obliged under the provisions of the Energy Law to maintain and repair the distribution grid it may become necessary to incur substantial unforeseen costs.

It is of key significance for our production activities to ensure continuous supplies of electricity and regulatory system services (RSS), in accordance with the terms and conditions of agreements we have concluded and market demand. This means that we need to ensure that the tendency of production equipment to malfunction is kept at a low level. Because malfunctions are likely to occur in production equipment, particularly those which are partially worn out, there is a risk that we will fail to comply with power supply conditions, which could result in substantial repair costs, contractual penalties and costs of emergency purchases on the balancing market.

Malfunctions of our distribution infrastructure or production assets could give rise to liability with respect to third parties, which could result in an obligation to pay substantial damages. Additionally, a breakdown in our distribution or generating infrastructure may be grounds for imposition on us by the President of the ERO of a penalty of up to 15 per cent of our revenues from licensed activities.

4.1.21. Insuring our operations

Insurance policies concluded for the benefit of Companies belonging to the ENEA Capital Group may not be sufficient to cover losses borne as a result of activities carried out. Such activities are associated with many risks. For example, malfunctions in the electricity system could prevent us from selling electricity or make it necessary to incur unforeseen costs in order to repair the distribution infrastructure. Our key assets, particularly production assets, power lines or transformer units, could be destroyed due to an event of force majeure or other events, including fires, other natural disasters or a terrorist attack. Our Group's activities could also result in claims being asserted relating to damage caused to third parties. The scope of the insurance policies we hold corresponds to the scope of the insurance policies held by other power companies in Poland, though it may differ from the scope of insurance policies held by foreign entities. There is no guarantee that the insurance policies concluded on our behalf will be sufficient to cover all the losses incurred by us or by third parties in connection with our operations. The occurrence of any of the above circumstances or similar circumstances could therefore lead to us being unable to resume the full scope of our activities within a reasonable time or at all, which could have an adverse effect on our operations, financial standing, financial results or development prospects.

4.1.22. Management personnel

The Company's future success depends on its ability to recruit and retain highly qualified management personnel possessing a widely understood experience in managing the enterprise and within planning and realisation of strategy, within commercial activities according to the set objectives.

Company's working towards maintaining the position of a leader on the power services market and active gaining of new clients, both individual and business, and also higher and higher dynamics and comprehensiveness of changes that occur in the power business are connected with serious challenges for the management personnel.

Willing to face an efficient managing of the enterprise the Company, through various trainings, regularly develops and improves the competences of the managerial personnel, which in turn is a great motivation for the employees causing that they are more committed to the duties they perform.

4.1.23. Collective disputes and agreements

Collective disputes with employees may cause disruptions to our business.

ENEA S.A.

Approximately 50 per cent of our employees belong to trade unions. The position of trades unions in the power sector is particularly strong because of the volume of employment in the sector and its strategic influence on the functioning of the economy. Furthermore the expectations of the trades unions are based on the conditions won by the employees of other power companies or power generators in agreements



concluded in relation to the earlier privatisation of these companies. Although we are endeavouring to maintain good relations with our employees and to resolve on an ongoing basis all problems that arise, we cannot exclude the possibility of collective disputes taking place in the future. Collective disputes with employees may lead to disruption of our ongoing activities, and in particular to stoppages, and may also cause an increase in labour costs, which may have a negative effect on our business, financial situation, financial results or development prospects.

In 2011 ENEA S.A. was a party to a collective dispute with a trade union in relation to increase of remunerations which started on 1 March 2011 and was terminated on 16 March 2011 of which the Company informed in current reports (CR 11/2011 and CR 12/2011). Additionally ENEA is a party to a collective dispute which was initiated on 7 September 2009, and concerned the planned privatisation of the Company and the effects of a potential change to the shareholding structure on the Company's employees.

Our ability to improve productivity and reduce costs by restructuring employment is limited by collective agreements.

If we consider that improvement of our profitability and ability to compete effectively thanks to more efficient operation depends on reducing employment, our efforts to do so will be subject to limitations that arise from collective agreements concluded with trades unions operating in the Group. In particular, in accordance with the agreement concluded with trade unions on 18 December 2002, our employees are covered by specific guarantees that conditions of work and payment will be maintained, and also by a guarantee of long-term employment. On the basis of this agreement, we undertook to pay an employee, in the event of termination of his or her contract of employment, severance pay amounting to the product of the individual's monthly remuneration and the period remaining to the end of the period guaranteed by the agreement. 80 per cent of this amount is payable if payment is made in a lump sum and 100 per cent if payment is made monthly.

Kozienice Power Plant

65 per cent of the employees of the Kozienice Power Plant belong to trade unions operating within the Company. At present, we have no misunderstandings or conflicts pertaining to work time, remuneration, employee benefits or union rights and freedoms, and so there are no collective disputes between employees and the employer in the understanding of the law of resolving collective disputes.

ENEA Operator

In 2011 ENEA Operator was a party to one collective dispute with three trade unions resulting from failure to realise the demand of increasing remunerations. The dispute commenced on 22 March 2011 - of which the Company informed in a current report No 13/2011 and terminated on 8 July 2011 with an agreement signed in the presence of a mediator (CR 24/2011). As of the date of approval of this report in ENEA Operator there is a collective dispute pending with three trade union organisations (CR 10/2012) concerning pay increases.

4.1.24. Court and administrative proceedings

We are now and may be in the future a party to court and administrative proceedings. In the event of administrative proceedings being taken against us by the President of the ERO or the President of the OCCP, if our actions are judged to be in conflict with the law, a penalty may be imposed on us amounting to up to 15 per cent of revenue from activity conducted under licence and in the event of our activities being judged to breach the conditions of a licence there is a risk that the licence may be withdrawn. A similar risk applies to those of our subsidiary companies that hold licences.

Entities from the ENEA Capital Group are parties to the following proceedings:

4.1.24.1. Litigation

ENEA S.A.

- In proceedings concerning ENEA S.A.'s charging energy customers a double subscription fee for the month of January 2008, in a decision issued on 12 September 2008, the President of the Competition and Consumer Protection Office ruled that charging energy customers a double subscription fee for the month of January 2008 constituted an anticompetitive practice and ordered the practice to be stopped. He also imposed a fine on ENEA in the amount of PLN 160,000, constituting approximately



0.03 per cent of the maximum fine (the amount of the fine results from the fact that the President of the Office of Competition and Consumer Protection recognised that there was no need for repressive measures against ENEA, and that the fine was a disciplinary measure). On 30 September 2008, ENEA lodged an appeal against the above decision with the Regional Court in Warsaw, the Court of Competition and Consumer Protection. On 31 August 2009, the Competition and Consumer Protection Court changed the decision of the President of the Office of Competition and Consumer Protection, reducing the fine to PLN 10,000. On 25 September 2009, ENEA filed an appeal against the Competition and Consumer Protection Court with the Court of Appeals in Warsaw, moving that the decision be revoked in its entirety. On 27 April 2010 the Court of Appeals overturned the verdict by the Court of Competition and Consumer Protection and returned the case for reconsideration. In its judgement of 27 January 2011 the Court of Competition and Consumer Protection upheld the cash fine imposed on the Company in the amount of PLN 10,000. On 27 April 2010 the Court of Appeals ruled favourably in the appeal of ENEA S.A. against the verdict of the Court of Competition and Consumer Protection and overruled the verdict and returned the case for reconsideration. With the decision of 27 January 2011 the Court of Competition and Consumer Protection upheld the penalty imposed on the company in the amount of PLN 10,000. Having received the decision justification the attorney of ENEA S.A. filed an appeal on 20 April 2011 with the Court of Appeals in Warsaw, VI Civil Department. The Court of Appeals during the hearing on 8 February 2012 overruled the appeal of ENEA S.A. The judgement is final.

- On 27 November 2008, the President of the ERO ruled in the matter of ENEA's failure to meet its obligation of purchasing electricity generated in cogeneration in 2006, and imposed a fine on the Company, in the amount of PLN 7,594,613.28. On 17 December 2008, ENEA appealed against that decision to the Court of Competition and Consumer Protection. On 15 December 2009, the Court of Competition and Consumer Protection ruled in favour of ENEA, changing the decision of the President of the ERO of 27 November 2008 and dismissing the administrative proceedings. The President of the ERO filed an appeal to the Appeals Court in Warsaw against this ruling. In its judgement of 24 November 2010 (VI ACa 327/10) the Appeals Court revoked the judgement of the Regional Court in Warsaw - the Competition and Consumer Protection Court of 15 December 2009 and returned the case to the Competition and Consumer Protection Court for reconsideration and for awarding costs of appeal proceedings. On 27 September 2011 the Regional Court in Warsaw the Court of Competition and Consumer Protection overruled the appeal of ENEA S.A. against the decision of the President of ERO on imposing of a penalty to ENEA S.A. On 18 November 2011 an appeal was filed against the judgement of 27 September 2011.
- On 28 December 2009, the President of the ERO ruled in the matter of ENEA's failure to meet its obligation of purchasing electricity generated in cogeneration in H1 2007, and imposed a fine on the Company, in the amount of PLN 2,150,000.00. On 19 January 2010, ENEA lodged an appeal against the above decision of the President of the ERO with the Court of Competition and Consumer Protection. With a judgement of 6 March 2012 the Regional Court in Warsaw the Court of Competition and Consumer Protection revoked the decision of the President of ERO of 28 December 2009 imposing on ENEA S.A. a financial penalty for infringing upon the obligation to purchase energy from cogeneration in H1 2007. As at 14 March 2012 the decision is not final.

Kozienice Power Plant

- The Kozienice Power Plant was a party to proceedings against CTL LOGISTIC S.A. pending before the Court of Appeals and the Supreme Court for compensation for non-performance of a forwarding agreement with the total value of PLN 10,579,908. On 21 December 2011 out-of-court settlements were made. Therefore the aforementioned cases were terminated.
- On 13 September 2010 Centrum Konsultingu Menadżerskiego Gordion Sp. z o.o. filed a motion dated 7 September 2010. Therefore the Kozienice Power Plant is a party to the proceedings initiated by Centrum Konsultingu Menadżerskiego Gordion Sp. z o.o. for infringement of personal interests. The amount claimed is PLN 5,017,801.00.
- The Kozienice Power Plant is also a respondent party in the case filed by Gospodarstwo Ogrodnicze w Ryczywole Kamila Lewek Wisniewska Jacek Pospiszyl spolka cywilna for damages in the amount of PLN 5,082,384.00 as compensation for losses caused by traffic generated by a plant belonging to Kozienice Power Plant.



- On 14 January 2011 Polish Business Offers Sp. z o.o. filed a motion for request for an amicable settlement within claims resulting from Article 24 of the Civil Code. Infringement of personal interest is indicated. The amount claimed is PLN 2,370,000,00.

As at the date of this report it is not possible to determine the result of the proceedings in these cases, subject to the fact that the dispute with Polish Business Offers Sp. z o.o. was terminated based on an out-of-court settlement of 28 February 2012, yet based on the agreement concerning conclusion of a court settlement of 28 February 2012 with Centrum Konsultingu Menadzarskiego Gordion Sp. z o.o. the dispute with Centrum Konsultingu Menadzarskiego Gordion Sp z o.o. is to be terminated before the courts.

ENEA Operator

ENEA Operator is a party to numerous proceedings connected with the activity pursued by it as an operator of the distribution system. The subject of these proceedings is mostly making claims by title of unpaid connection fees and other charged activities undertaken by the Company on request of the client and illegal collection of electricity. Moreover ENEA Operator participates in court proceedings concerning non-contractual use of properties by third persons through which the infrastructure runs which is property of the Company.

4.1.24.2. Administrative proceedings

ENEA S.A.

Administrative proceedings run by the President of the Office of Consumer and Customer Protection concerning suspicion of using by ENEA S.A. of practices infringing the collective interests of consumers. The proceeding was connected with with the inspection performed in 2011 by the Office of Consumer and Customer Protection of contractual patterns used by power companies in trading with recipients in households. The proceeding was terminated.

Kozienice Power Plant

The Kozienice Power Plant is a party to two proceedings before the Regional Court, Court of Competition and Consumer Protection.

On 5 August 2009, Kozienice Power Plant received a decision by the President of the ERO of 31 July 2009 on the amount of the annual correction (for 2008) in compensation for stranded costs, in the amount of PLN 89.5 million, which it was obliged to return to Zarzadca Rozliczen S.A. by 30 September 2009. Kozienice Power Plant questioned the obligation to return such an amount, appealing to the Regional Court in Warsaw, Court of Competition and Consumer Protection.

On 23 September 2009, the Court issued a decision suspending enforcement of the contested decision above the amount of PLN 44,800,000. Kozienice Power Plant returned advance payments in the amount of PLN 44,800,000, pursuant to the decision of the Court. On 2 October 2009, the Kozienice Power Plant submitted a grievance against that decision to the Court of Appeals in Warsaw. On 20 January 2010, the Court of Appeals overturned the decision of the Court of Competition and Consumer Protection of 28 October 2009 on dismissing the grievance of ELKO against the decision of the Court of Competition and Consumer Protection of 23 September 2009 on the motion by the Company for refraining from enforcing in its entirety the decision of the President of the Energy Regulatory Office of 31 July 2009.

On 19 May 2010, the Court of Appeals amended the decision of the Court of Competition and Consumer Protection of 23 September 2009 and suspended the enforcement of the decision of the President of the ERO of 31 July 2009 on the annual adjustment of stranded costs in its entirety. The Court of Appeals stressed that the Court of Competition and Consumer Protection had no legal basis to refuse to suspend the enforcement of the decision in part. Therefore, since it found basis to withhold the execution of the decision then it should suspend the execution of the decision in entirety. In connection with the aforementioned ruling, on 27 May 2010 the Kozienice Power Plant asked Zarzadca Rozliczen S.A. to return the amount of PLN 40,600,000 with the interest due. However, Zarzadca Rozliczen sent a negative reply to the Company, justifying that the basis of a return can only be a change of the decision by the President of the ERO as at 31 July 2009. On 5 July 2010 Kozienice Power Plant sent to Zarzadca Rozliczen S.A. final pre-litigation request for payment of the amount 40,600,000 with the interest due. In its letter of 12 July 2010, Zarzadca Rozliczen S.A. upheld its earlier position in this matter and declined to return the sum in question.



On 1 December 2010, case KDT 2008 was heard before the Court for Competition and Consumer Protection. However, the court decided to defer it until a legally valid decision is issued by the Court of Appeals as to whether Zarzadca Rozliczen can be granted the status of an interested party in the proceedings.

With the decision of 22 June 2011, file no VI Acz 966/11 the Court of Appeals in Warsaw overruled the grievance of Zarzadca Rozliczen to the decision of the Court for Competition and Consumer Protection of 21 October 2010 on denial to admit Zarzadca Rozliczen to participate in the proceedings on KDT 2008 as an interested party. The date of the hearing concerning the annual adjustment for 2008 was determined for the day of 20 February 2012. The hearing was deferred and another date was set for 20 April 2012.

On 3 August 2010 the Power Plant received the decision of the President of ERO of 29 July 2010 setting the annual adjustment for 2009 in the amount of PLN +15,600,000. Since also this decision is disadvantageous for the Power Plant on 17 August 2010 it filed an appeal against this decision with the Regional Court in Warsaw, the Court of Competition and Consumer Protection. In the financial statement for 2010 revenues in the amount of PLN 15,600,000 were included in the statement of total revenues under the sales revenues item. On 30 September 2010 the Power Plant received the amount of the annual adjustment for 2009 in the amount of PLN 15,600,000 from Zarzadca Rozliczen S.A.

The date of hearings concerning the annual adjustment for 2009 has not been set yet.

On 29 July 2011 the President of ERO determined the amount of the annual adjustment of stranded costs for 2010 in the amount of PLN 2,500,000. Since also this decision is disadvantageous for the Power Plant on 18 August 2011 it filed an appeal against this decision with the Regional Court in Warsaw, the Court of Competition and Consumer Protection. On 30 September 2011 the Power Plant received the amount of the annual adjustment for 2010 in the amount of PLN 2,500,000 from Zarzadca Rozliczen S.A.

The date of hearings concerning the annual adjustment for 2010 has not been set yet.

On 11 February 2009, Kozenice Power Plant submitted a motion to the Customs Office in Radom for the recognition and return of excise duty overpayments for the months from January 2006 to December 2008, in the amount of PLN 694,600,000, together with corrections of the tax returns.

Moreover, on 24 November 2009, the Company submitted a motion with the Customs Office in Radom requesting the confirmation and return of excise tax overpayments on electricity for January and February 2009, in the amount of PLN 34,600,000, of which PLN 247,000 was from excise duty on electricity from renewable resources.

Corrections in excise duty, excluding excise on energy generated from renewable sources result from the incompatibility of Polish regulations from 1 January 2006 to 28 February 2009 concerning electric energy taxation with European Union regulations.

The Head of the Customs Office in Radom, having examined the Company's motion, issued a number of decisions denying the return of overpayment in excise duty for the months from January 2006 until December 2007 inclusive. At the same time the Head of the Customs Office in Radom issued decisions defining tax obligations in excise duty for the months from January 2006 until December 2007.

The Company has filed an appeal against the aforementioned decisions to the Director of the Customs Chamber in Warsaw who issued decisions keeping in force the decisions of the Head of the Customs Office in Radom refusing to grant refund of the overpayment in excise duty for the months covering January 2006 to December 2007 and defining tax obligations for the aforementioned months.

Proceedings regarding the overpayment for 2006 – the Company has submitted appeals to the Province Administrative Court in Warsaw against decisions by the Director of the Customs Chamber upholding the decisions of the Head of the Customs Office in Radom declining to refund overpayments of excise duty for individual months in 2006 and setting the tax liability for the period in question in the amounts resulting from preliminary declarations of the Company.



Proceedings regarding the overpayment for 2007 – the Company has submitted appeals to the Province Administrative Court in Warsaw against decisions by the Director of the Customs Chamber upholding the decisions of the Head of the Customs Office in Radom declining to refund overpayments of excise duty for individual months in 2007 and setting the tax liability for the period in question in the amounts resulting from preliminary declarations of the Company.

Proceedings concerning overpayment for 2008 - the Head of the Customs Office in Radom issued decisions specifying the overpayment of excise tax from electricity but only that generated from renewable sources for particular months of 2008 in the total amount of PLN 2,600,000. However within the scope resulting from inconsistency of the Polish tax regulations with the Community regulations he issued the decisions denying to return the overpayment redetermining the tax obligation in the values diminished by an excise tax from energy from renewable sources for the indicated period. The Company lodged appeals against the aforementioned decisions to the Director of the Customs Chamber in Warsaw who issued decisions upholding the decisions of the Head of the Customs Office in Radom declining the return of overpayment in the excise duty for the months of 2008 and defining tax liability for the aforementioned months in the amounts resulting from preliminary declarations of the Company diminished by the excise tax from green energy.

The Company lodged appeals to the Provincial Administrative Court in Warsaw against the decisions of the Director of the Customs Chamber in Warsaw upholding the decisions of the Head of the Customs Office in Radom declining the return of overpayment in the excise duty for the months of 2008 and defining tax liability for the aforementioned period.

Proceedings concerning overpayment for January and February 2009 - the Head of the Customs Office in Radom issued decisions specifying the overpayment of excise tax from electricity but only that generated from renewable sources for particular January 2009 and February 2009 in the total amount of PLN 247,000. 000. However within the scope resulting from inconsistency of the Polish tax regulations with the Community regulations he issued the decisions denying to return the overpayment redetermining the tax obligation in the values diminished by an excise tax from energy from renewable sources for the indicated period. The Company lodged appeals against the aforementioned decisions to the Director of the Customs Chamber in Warsaw who issued decisions upholding the decisions of the Head of the Customs Office in Radom declining the return of overpayment in the excise duty for January and February 2009 and defining tax liability for the aforementioned months in the amounts resulting from preliminary declarations of the Company diminished by an excise tax from energy from renewable sources for the indicated period.

The Company lodged appeals to the Provincial Administrative Court in Warsaw against the decisions of the Director of the Customs Chamber in Warsaw upholding the decisions of the Head of the Customs Office in Radom declining the return of overpayment in the excise duty for January and February 2009 and defining tax liability for the aforementioned period.

The Administrative Court in Warsaw, VIII Division in Radom passed sentences in which he took into account the appeals of Kozenice Power Plant and revoked decisions of the Director of the Customs Chamber in Warsaw and preceding decisions of the Head of the Customs Office in Radom concerning defining tax liabilities in excise duty for the period of: January 2006 - February 2009. Against these sentences the Director of the Customs Chamber in Warsaw files cessation appeals.

The Administrative Court in Warsaw, Division VIII Circuit in Radom, pronounced judgments in which the appeals of Kozenice Power Plant were granted and revoked the decisions of the Director of the Customs Chamber in Warsaw and its preceding decisions of the Head of the Customs Office in Radom in the cases concerning denial to return of the overpayment of excise tax for the following months: January 2006 - February 2009. Cessation appeals are under preparation.

Following initiated administrative proceedings, Kozenice Power Plant S.A. on 22 July 2010 obtained two decisions, 133/10/OS and 132/10/OS, issued by the Board Chairman of Mazowieckie Province in Warsaw on assessing charges for 2008 from the Power Plant, equal to the difference between due charges and charges resulting from the list provided by ELKO under the European Pollutant Release and Transfer Register (EPRTR). The Power Plant appealed against those decisions to the Local Government Appeal Committee in Warsaw. At the end of 2010 the Power Plant was served the decision of the Local Government Appeal Committee in



Warsaw upholding the disadvantageous decisions issued by the Province Board Chairman. The Power Plant paid accrued charges in the amount of: PLN 2,888,542 for the first half of 2008 and PLN 2,177,780 for the second half of 2008 (plus any due interest) and lodged an appropriate appeal to the Province Administrative Court in Warsaw. After filing on 16 June by the Koziernice Power Plant of cessation appeals to the Supreme Administrative Court challenging the both decisions of the Provincial Administrative Court issued in cases of file no IV SA/Wa 296/11 and IV SA/Wa 297/11 the Supreme Administrative Court has not yet set the dates of the cessation appeals.

ENEA Operator

ENEA Operator is a party to numerous explanatory and administrative proceedings run by the administrative authority. They in particular concern the question of connecting wind farms to the power grid of the Company.

4.1.25. Environmental Protection

Existing and changing conditions in the area of environmental protection may require us to incur additional investment expenditures and may also lead to our incurring liabilities, to penalties being imposed on us or to suspension of the operation of certain facilities.

Our activities have a significant effect on the natural environment and require possession of a series of permits to make use of the environment. In particular, in order for the Koziernice Power Plant to conduct its business, it must hold integrated permits, which we obtained under Decision of the Mazowiecki Provincial Administrator No WSR.I.6640/13/6/05 of 20 December 2005. The permit together with amending decisions (No ŚR.I.JB/6640/43/06 of 5 July 2007, No 55/08/PŚ.Z of 15 September 2008, No 40/10/PŚ.Z of 25 May 2010, No 60/10/PŚ.Z of 01 July 2010, No 117/10/PŚ.Z of 15 December 2010, No 106/11/PŚ.Z of 14 October 2011) and Decision PŚ.V/AT/7600-129/08 of 9 December 2011 is valid until 20 December 2015. Failure to comply with the provisions of permits, or rescission of those permits, can lead to our incurring liabilities, to penalties being imposed on us, or to suspension of the operation of certain facilities. Also, activities of ENEA Operator require regular measurements of electromagnetic field emissions when commissioning investments as well as certain permits to generate waste.

Legal conditions, including conditions set by the European Union concerning environmental protection, are subject to frequent changes, and there is a tendency to gradually increase requirements in the field of use of the environment, in particular in relation to entities in the power sector. These growing requirements may in the future create a need for us to incur additional investment outlays. Failure to comply with new legal provisions in the area of environmental protection may lead to significant financial penalties being imposed on us. The appearance of any of the above circumstances may significantly increase our costs and limit our ability to pursue our business.

4.1.26. Real estate

ENEA Operator does not hold legal title to part of the real property that it makes use of and, in addition, the properties used by ENEA Operator may be the subject of reprivatization claims.

In connection with the general electrification and nationalisation carried out after World War II, and due to the absence of an appropriate legal framework relating to the use of real estate for the purposes of developing distribution grids, ENEA Operator uses many real properties on which its electricity distribution equipment is located without an appropriate legal title.

This applies to approximately 30 per cent of all the real properties on which power infrastructure is located (except for power lines). As at 31 December 2011, the relevant figures are as follows:

- Network installations which we consider to be of key importance (high and medium voltage electrical distributors, transformer/switching stations) – ENEA Operator holds legal title to 94 per cent of the properties on which such installations are located,
- Enclosed medium and low voltage transformer stations – approximately 68 per cent of the almost 14,700 enclosed transformer stations are located on real properties for which ENEA Operator does not hold appropriate legal title, and
- In the case of non-network installations considered to be of key importance (management board, branch and regional office premises) - the Company holds legal title to 97 per cent of the properties on which such premises are located.



- power lines – according to our estimates, ENEA Operator does not hold appropriate legal title for the vast majority of real properties that is crossed by power lines.

The risk of regulating the legal status of properties used by the Company is associated with the fact that ENEA Operator does not for all facilities hold a legal title to use the land on which they are located. In the future, ENEA Operator may be obliged to pay further costs on account of non-contractual use of real properties, which will have an adverse effect on operations and financial performance. There is the risk of proceedings being initiated against the Company in order to prevent it from any further use of such properties, which might result in significant costs incurred by the Company.

A possibility of losing the assets is, however, very limited in that case. An unregulated legal status of properties under power facilities does not create the risk of loss of assets by the Distribution Network Operator (OSD), but only a threat of additional expenses associated with claimed compensation for the so-called non-contractual use of the land, lease charges or exceptionally, in occasional cases, demands to relocate facilities (restore the original condition of the land).

The total value of provisions against claims by title of non-contractual use being subject of the proceedings before the courts to which ENEA Operator was a party, as well as pre-court claims (potential claims) amounted to PLN 82,332.400 as at 31 December 2011.

The total value of provisions against claims before the courts to which ENEA S.A. was a party, as well as pre-court claims, amounted to PLN 29.7 million as at 31 December 2011.

Provisions for liabilities are valued at their justified, reliably estimated value. We do not create provisions for potential claims of owners of real properties that we use where we do not know the status of the real property, particularly where we are unable to determine the type of claim that may be asserted against us, as this prevents us from estimating the maximum amount of the potential claim. The amount of damages that we are ordered to pay in relation to such claims could be significant for us due to the number of real properties in question. However, we are unable to estimate the maximum amount of such damages.

The possibility cannot be ruled out that in the future we will be obliged to pay further costs on account of non-contractual use of real estate, which will have an adverse effect on our operations and the financial results that we achieve. There is also no guarantee that proceedings will not be initiated against us to prevent us from continuing to use real estate to which we do not have an appropriate legal title or to change the manner in which we use such real estate, which could make it necessary for us to incur substantial costs.

4.1.27. Modernisation and development

Development of the Group is performed within the three key strategic areas: i) development of the core operations of the Group; ii) improving the effectiveness of the functioning of the Group; iii) building a socially responsible business, as described in more detail in pt. 1.2 'Policy on directions of development of the Capital Group'.

Current maintenance and above all modernisation and expansion of the Kozienice Power Plant and of power lines require significant investment expenditures to be incurred regularly. We expect that our investment outlays during the coming years will be financed primarily from funds generated from operating activity and debt finance. Our ability to secure financing and the cost of capital depend on many factors, many of which are beyond our control, and in particular on: (i) general market conditions and the situation in capital markets; (ii) the availability of bank loans; (iii) investors' confidence; (iv) our financial situation, results and development prospects; and (v) tax regulations and regulations on trading in securities. Failure to raise capital on favourable terms may have a significant and negative influence on our modernisation and development capability and may thus reduce the efficiency of our activity.

The above sources of finance may be wholly unavailable or may not be available in the required amount, making it impossible to undertake all the investment expenditure planned by us. As a result, we cannot provide assurance that we will be able to generate sufficient cash flow or have access to sufficient alternative sources of finance to maintain or develop our present activity. The effect is that we may be obliged to delay or to give up planned investments, which may have a significant effect on our business, financial situation, financial results or development prospects.

In the future we may incur significant new indebtedness, which may significantly and negatively affect our financial situation, our ability to secure additional finance and our ability to react to changes in our business.



In implementing our development strategy we may seek to obtain additional loans and credits or other debt instruments. As a consequence, we may need to devote a significant part of our monetary receipts from operating activity to servicing interest costs and repaying the capital of loans received by us, which in the absence of alternative sources of finance will reduce our ability to finance working capital, capital spending and other general corporate purposes. If we are unable to fulfil obligations to our creditors, a whole or part of our indebtedness may become immediately repayable and if we are unable to refinance such indebtedness this may have a negative effect on our business, financial situation, operating results or development prospects.

Our indebtedness may also increase our susceptibility to unfavourable macroeconomic or economic trends and may also affect negatively our competitiveness relative to other companies. This may also limit our operational flexibility and in particular our ability to secure additional financing, which may be required for our development or to let us react to changes in our business or in the sector.

4.2. Development strategy

The implementation of a Group strategy is one of the basic essential factors for developing the ENEA Capital Group.

Actively monitoring the situation on the energy market in Poland, the Management Board of ENEA S.A. prepared a 10-year strategy to 2020 which considers Polish energy market trends of key importance to the Group - "Corporate Strategy of the ENEA Capital Group for 2010-2015 looking forward to 2020". The trends identified in the strategy are mainly: (i) growing demand for energy together with limited generation capacity available on the market; (ii) tighter EU policy on restricting CO₂ emissions; (iii) increasing competition in all operational areas of the Group; (iv) the development of the wholesale electricity trading market; (v) a growing number of customers changing their electricity suppliers and (vi) opportunities for developing renewable energy sources.

Our strategy is based on the mission of the Group, that is, to provide high-quality services to customers, to ensure a safe environment for our employees, and to build shareholder value while caring for the natural environment.

Our strategy is realised through:

Developing the core operations of the Group

In this area we focus on:

- developing and diversifying the generation capacity,
- developing and modernising the distribution network,
- developing wholesale trade operations,
- ensuring the security of bituminous coal supplies from optimal sources,
- increasing profit from electricity sales,
- ensuring technical and technological development.

Enhancement of the effectiveness of the Group functioning

In this area we focus on:

- optimising fundamental processes,
- optimising support functions,
- ensuring the operational integration of the Group,
- reorganising the operations of the Group's subsidiaries,

Construction of a socially responsible business

In this area we focus on:

- ensuring well-balanced human resource management,
- ensuring a dialogue with the local community and taking their voice into account in business operations,
- promoting environmentally beneficial solutions and behaviours.

An integral part of this strategy is the implementation of a new business model for the Group, which provides for the functioning of the following business areas:



- corporate centre,
- power generation based on fossil fuels and renewable sources,
- wholesale trading
- sales,
- distribution,
- shared services centre.

Creating, in addition to the core business areas, a corporate centre and a shared service centre divisions, should increase the efficiency of managing the Group and enable cost synergies to be obtained from the centralised management of Group operations and a shared customer service system.

In implementing our strategy, we assume a base variant of about PLN 18.7 billion till 2020 for investments in conventional generation, distribution and renewable energy sources and cogeneration.

Our main goal for conventional generation is to construct a new 1,000 MWe bituminous coal-fired supercritical power unit in Swierze Gorne (we assume an average construction cost of EUR 1.4 million per 1 MW). Start-up is planned for Q4 2016. We are currently going through the process of selecting a contractor to build the new 1,000 MWe unit. We are planning to select a contractor in the tender for "Construction of a bituminous coal-fired energetic unit for supercritical parameters with a net capacity of 900 MWe, maximum of 1,000 MWe in Kozienice Power Plant" conducted according to the provisions of the Act of 29 January 2004 - Law on Public Procurement on the turn of Q2 and Q3 2012. At the same time we are continuing modernisation of the remaining 200 MW and 500 MW units at the Kozienice Power Plant. We are also conducting studies with regard to the construction of another power unit up to 1,000 MWe which involves investment outlays, starting from 2012.

In the area of distribution, during the period covered by the strategy we are planning investment works and modernisation of the grid infrastructure, and essential refurbishment in connection with increasing demand for electricity and the need to connect renewable sources of energy. Investment and modernization activities should be reflected in the effectiveness of our network and limitation of network losses. They will also involve replacing those sections of distribution lines that have been in service the longest. These activities should substantially impact the increase in reliability of deliveries of electricity to customers.

Our investment expenditures within distribution are continually increasing. In 2011 ENEA Operator spent on investments above PLN 813 million realising the plans almost 100 per cent. It constitutes the increase in investment expenditures by more than 39 per cent as compared to 2010, by 65 per cent as compared to 2009 and 101 per cent as compared to 2008.

In 2011 the majority investment expenditures of ENEA Operator were related to modernisations and recovery of fixed assets connected with improvement of service quality and/or increase in demand for power. This tendency will continue through 2012.

In the area of renewable sources of electrical energy we plan to increase our generating capacity. By 2020 we are planning to achieve 250-350 MW of power installed in wind. We have also decided to invest into biogas capacity, planning to reach a capacity of approximately 40-60 MW in 2020. In 2011 the investment expenditures in renewable energy exceeded PLN 345 million, amounting to ca. sevenfold increase in comparison to 2010.

On 15 January 2010 ENEA S.A. completed the purchase of the first biogas power plant in Liszkowo (The Kujawsko-Pomorskie Province) with the capacity of 2.12 MWe. In Q2 2011 ENEA purchased 100 per cent of special purpose vehicle set up for the purpose of construction of a 1.6 MWe biogas power plant. In 2012 we are planning to purchase biogas power plants with the total capacity of 5.6 MWe.

On 30 March 2011, a subsidiary of ENEA S.A., Elektrownie Wodne, dedicated to, among other things, the extension of production capacity of the Group from Renewable Energy Sources purchased a wind farm located in Darzyno in Pomorze with installed capacity of 6 MW. This is the first undertaking of this kind in the Group. Purchase of the farm is the first step in acquiring significantly bigger sources of this type. The wind farm in Darzyno was built in 2008. It consists of modern Enercon E-82 wind turbines with the power of 2 MW each. It is located in the area of very favourable wind conditions.

On 1 June 2011 ENEA S.A. purchased from the French company Société Nationale d'Électricité et de Thermique (SNET) 69.58 per cent of Bialystok Heat and Power Plant's shares. Thanks to the transaction the Group holds almost 100 per cent of shares of the company from Bialystok. Bialystok Heat and Power Plant is one of the



biggest enterprises in the region. The attainable heat capacity of Bialystok Heat and Power Plant is 459.2 MW. Apart from the heat production Bialystok Heat and Power Plant produces also electric energy and process steam. Equipment of the heat and power plant can generate 350 GWh of electric energy, which is then sold on the wholesale market. The basic fuel used in the heat and power plant is coal. In 2008, in unit No I, a boiler fired exclusively with biomass was started. The new installation helped to limit the emission of gases and dusts harmful to the environment and decreased the number of waste from coal combustion. Commissioning of the biomass-fired installation enabled to decrease coal consumption by 120,000 tonnes per year and replace it with 270,000 tonnes of biomass. The capacity of this installation is 75.2 MW.

In June 2011 water power plant was commissioned on the Welna River in Oborniki Wielkopolskie. The building, which belongs to Elektrownie Wodne with the seat in Samociazek has the capacity of 330 kW. An estimated average annual volume of production of energy amounts to 1,440 MWh. The water power plant in Oborniki is the 21st installation of that kind belonging to ENEA Group.

In November 2011 ENEA S.A. executed a preliminary agreement for the purchase of 100 per cent of the shares of a special purpose vehicle implementing the project of construction of a wind farm with capacity of 50 MW. It is anticipated the farm will generate ca. 150,000 MWh of energy annually.

Depending on the market situation, our financial situation, results of performed technical and economic analyses, and capabilities of financing of the investment, it is possible that the basic investment program will be extended with additional investments in conventional generation in the amount of 1.4 bln EUR. The amount anticipates construction of another unit with the power of up to 1,000 MWe.

Moreover the Board does not exclude participation in the realisation of the investment connected with construction of an atomic power plant with the power of ca. 1,600 MWe.

In 2011 ENEA S.A. also started cooperation with Polskie Gornictwo Naftowe i Gazownictwo S.A. (PGNiG) analysing the ability to construct together an electric power generating source fuelled by gas. Within this cooperation we are performing actions aimed at selection of an optimum location for the gas-powered unit. Together with PGNiG we are planning to conduct detailed location and economic analyses for the selected locations and then make appropriate corporation decisions.

Taking into account the planned investments, from the point of view of ENEA S.A., the long-term development of the equity portfolio is essential to carry the burden of future investments. The funds from the profit could complement the sources of financing of investment expenses, particularly within investments connected with the growth of the Group, mainly investments in new generating capacity.

4.3. Assessment of the feasibility of implementing investment plans

The financial situation of the Company provides a solid foundation for carrying out its investment plans, which can be implemented through organic development and acquiring other entities. Our balance sheet, equity and balance of pecuniary funds provide a solid financial base for investment outlays, both from our own resources and external sources. In order to use its resources efficiently, in their further investment activities (particularly in the area of acquisitions) the companies of the Group intend to make use of debt financing so as to attain leverage.

4.4. Rating

Award for ENEA S.A. in April 2011 by Fitch Ratings agency of a long-term rating of the entity in domestic and foreign currency at the level of "BBB" and long-term domestic rating at the level of "A(pol)" is of key importance for the realisation of the investment objectives for the Group. Ratings perspective is stable.

The awarded rating reflects the strong position of ENEA S.A. on the domestic energy market and simultaneously confirms its very good economic standing, locating the Group among the entities of the greatest importance for that sector in central-eastern Europe. The results legitimise the validity of strategic actions undertaken in the enterprise and the shape of the current policy realised in ENEA S.A.

The fact of possessing the rating being the independent and objective estimate of the credit worthiness of the Company is of key importance to its clients. The rating opinion is an important tool of building of the entity image in the economic environment implying the multidimensional consequences for its holder.



The rating awarded to ENEA S.A. includes its vertically integrated position (the ENEA Group consisting of ENEA S.A. and subsidiaries) on the Polish power market, including the leading position on the domestic distribution and energy sales market, and an important position in the segment of power generation.

On 5 April 2012 in its announcement Fitch Ratings agency confirmed a long-term rating opinion given to the Company at the present level of „BBB” (on international scale) and A (on domestic scale).

4.5. Strategy of social responsibility of the business of the Capital Group

Strategic approach to social responsibility of the business:

The "Corporate Strategy for the ENEA Capital Group for the years 2010-2015 looking forward to 2020" indicates three areas which will contribute to achieving the business objective which is to build the value of the Capital Group:

1. Improving the effectiveness of how the Group functions
2. Developing the core operations of the Group
3. Building a socially responsible business

Pursuing the third of the above objectives is to be facilitated by the Strategy of social responsibility of the business of the Group. On 16 November 2010 the Supervisory Board of ENEA S.A. approved the Strategy of social responsibility of the business of the Group (CSR Strategy) which is fully integrated with the accepted Corporate Strategy. Earlier, on 26 October 2010 the CSR strategy was approved by the Board of ENEA S.A. The document constitutes a basis for consistently implementing socially responsible business practices in all companies belonging to the ENEA Capital Group. The strategy was elaborated with engagement and participation of the representatives of all the companies comprising the Group.

The strategy is intended to support, develop and clarify provisions of the Corporate Strategy in the area of: "Building a socially responsible business" including three individual objectives:

1. Ensuring well-balanced human resource management.
2. Ensuring a dialogue with clients and the local community and taking their voice into account in business operations.
3. Promoting pro-environmental practices and behaviours.

Such a tight combination of provisions concerning social responsibility of the business with the Corporate Strategy underlines a high priority for the implementation of CSR practices in all companies belonging to the Group.

How does the ENEA Group understand the social responsibility of the business?

The Group perceives the social responsibility of the business as a method of corporate management which considers expectations of the surrounding environment and makes it possible to rationally manage resources and permanently increase the value of the company through sustainable development measures. A socially responsible company accepts liability for the consequences of its activities and decisions and with its operations it contributes to the general social development.

All the issues which are currently covered by social responsibility of the business were handled by the Group a long time before that term appeared in the Polish business vocabulary. ENEA S.A. is a company historically associated with the region of Wielkopolska and has always been an active member of the community it originates from. Good partner relations with employees have always been a priority for our company. However, the growing scale of our activities has required a more systemic approach to planning and implementing responsible business practices.

Implementation of CSR activities in the ENEA Capital Group

The Strategy, as accepted by the Group, is a starting point for a more systemic view of existing actions and for the implementation of subsequent good practices in particular companies. The CSR Strategy is aimed at increasing the efficiency of ENEA Group operations in many key areas of its business. Implementing the CSR in a well thought out and comprehensive fashion includes, among other things, a wider vision for managing risks and opportunities the company is facing. It is also the development of permanent relations with its key stakeholders. Individual companies from the ENEA Group prepared their own Operating plans for 2011



detailing the scope of actions contributing to pursuing CSR Strategy objectives. Operating plans took into account the specific nature of each company but assume at the same time a common striving to perform the adopted strategic objectives of the ENEA Group.

Till the end of 2011 14 companies from the ENEA Group signed the "Agreement on approval and implementation in the Company of a Strategy of social responsibility of the ENEA Capital Group".

5. AUTHORITIES OF THE ENEA CAPITAL GROUP

5.1. Members, appointment and description of powers delegated to authorities of the parent company

The personal composition of the Company's authorities and the changes in it that have occurred in the course of the last financial year together with a description of the actions of the Company's management and supervisory bodies and their committees, and also a description of the principles relating to the appointment and recall of these people and their authority, and in particular to their right to take decisions on issuing or purchasing shares, is to be found in point 7 under the title "Declaration on the Application of the Principles of Corporate Governance".

5.2. Principles of remuneration

Till 29 June 2011 the Members of the Board of the Company were remunerated pursuant to the provisions of the Act of 3 March 2000 on the Remuneration of persons managing certain legal entities. Pursuant to Art. 8 item 3 of the Act the maximum amount of monthly remuneration of people employed in one-person companies established under commercial law by the State Treasury could not exceed six times the average monthly remuneration in the enterprise sector, net of payments of bonuses from profits, in the fourth quarter of the previous year as published by the President of the Central Statistical Office.

On 26 November 2010 an act was adopted on amendment of some acts connected with realisation of the budget act that among others amended the act of 3 March 2000 on the Remuneration of persons managing certain legal entities. The amendment consisted in adding after the Art. 29a of Art. 29b reading:

„1. In 2011 an average monthly remuneration in the enterprise sector net of payments of bonuses from profits, in the fourth quarter of the previous year mentioned in Art. 8 is set in the amount of the average monthly remuneration in the enterprise sector net of payments of bonuses from profits, in the fourth quarter 2009.

2. In 2011 an individual monthly remuneration of persons mentioned in Art. 2 shall be in the amount set in 2010. "

The amending Act mentioned above entered into force on 1 January 2011. In relation to the above change in 2011 the basis of remuneration' of the Members of the Board was a monthly remuneration in the enterprise sector net of payments of bonuses from profits, in the fourth quarter 2009.

Additionally Members of the Management Board could, by a justified motion of the Supervisory Board, be awarded an annual bonus amounting to no more than three times the average monthly remuneration of an employee in the year preceding award of bonuses.

Members of the Board under employment were covered by the provisions of the Corporate Collective Labour Agreement (ZUZP), except remunerating principles.

Members of the Board, apart from the basic remuneration and annual bonus, in case of dismissal or termination of the employment were entitled to a severance payment in the amount of a three times monthly remuneration.



Non-competition agreements were concluded between Members of the Management Board and the Company. Under this agreement the Employer undertook, for a period of six months, to pay an employee monthly compensation amounting to the value of monthly remuneration received during the last full month for which his or her contract of employment was in force so long as he or she refrains from undertaking activity that competes with the Company.

ENEA S.A. has not concluded any agreements with management that would provide for compensation in the event of their resignation or dismissal without citing a material reason, or where their recall or dismissal results from a merger of the issuer by way of a takeover.

In H2 2011 based on the Resolution of the Supervisory Board No 42/VII/2011 of 31 May 2011 changes were introduced in the method of remunerating the Members of the Board. As a result of introduced changes on 28 June 2011 all the Members of the Board of ENEA S.A. concluded with the Company agreements on provision of services within management mentioned in Art. 3 item 2 of the Act of 3 March on the Remuneration of persons managing certain legal entities. The amount of the remuneration of the Members of the Board with whom an agreement for management is concluded mentioned above was determined by the Supervisory Board. The managing persons at own expense insured against third party liability that may occur as a result of failure to perform or improper performance of the managing agreement.

The remuneration of the Members of the Supervisory Board is set on the basis of the Minister of the State Treasury's declaration of 20 June 2000 on establishing the remuneration of members of Supervisory Boards in one-person companies of the State Treasury and is set at the level of average monthly remuneration in the enterprise sector net of payments of bonuses from profits in the fourth quarter of the previous year as published by the President of the Central Statistical Office.

In connection with Art. 14 of the Act of 26 November 2010 on amendment of some acts connected with the realisation of the budget law the provisions of the act of 3 March 2000 on remunerating of persons managing some legal entities were novelised and Art. 29b was added which provides that in 2011 the average monthly remuneration in the enterprise sector net of payments of bonuses from profits in the fourth quarter 2009, i.e. PLN 3,454.58.

The principles of remunerating other Employees of the Company are contained in the Corporate Collective Labour Agreement for Employees of ENEA S.A. and its subsidiaries. The Corporate Collective Labour Agreement contains provisions concerning remunerating and benefits relating to employment, predicting the extensive catalogue of various benefits exceeding the level resulting from the commonly bidding labour law regulations.

5.3. Level of remuneration

Remuneration for members of the Management Board of ENEA S.A in period from 1 January 2011 to 29 June 2011 is presented in the following table:

Name	Position	Multiple *	Basic consideration **	Additional consideration ***	Energy tariff (pursuant to the Collective Labour Agreement)	Total
Owczarek Maciej	President of the Board	6	197 231.09	26 808.24	459.22	224 498.55
Rozpędek Hubert	Member of the Board	5.9	131 997.82	17 820.00	-	149 817.82
Górniak Maksymilian	Member of the Board	5.9	143 644.66	11 306.62	-	154 951.28



Zborowski Krzysztof	Member of the Board	3.9	87 252.76	4 752.00	-	92 004.76
TOTAL	-	-	560 126.33	60 686.86	459.22	621 272.41

* Multiple - defined as the multiple of the average monthly remuneration in the enterprise section net of payments of bonuses from profits in the fourth quarter of the previous year as published by the President of the Central Statistical Office. The amount of the multiple is derived from the Act on the Remuneration of Persons Managing Certain Legal Entities.

** Basic consideration, i.e.:

- monthly remuneration,
- annual bonus,
- severance pay following dismissal from membership of the Management Board,
- long-service bonus,
- equivalent payment for unused holiday.

*** Additional consideration - mean:

- reimbursement of part of the costs of using housing made available by the Company
- contributions made to the Employee Pension Plan.

The remuneration of persons composing the Board of ENEA S.A. in the period from 29 June 2011 to 31 December 2011 with whom the Company concluded the agreement on provision of services within management is presented in the table below:

Name	Position	Remuneration (gross with VAT with no deductions for natural person income tax)
Owczarek Maciej	President of the Board	160 478.70
Rozpędek Hubert	Member of the Board	160 478.70
Górniak Maksymilian*	Member of the Board	138 309.18
Zborowski Krzysztof	Member of the Board	160 478.70
TOTAL	-	619 745.28

* Mr. Maksymilian Górniak was a Member of the Board of ENEA S.A. till 5 December 2011

Remunerations for members of the Management Board of ENEA S.A. in 2011 for holding offices in governing authorities of subordinated entities is presented in the table below:

Name	Remuneration for sitting on the supervisory board of ENEA subsidiaries
Owczarek Maciej	27 400.00
Rozpędek Hubert	29 787.98
Górniak Maksymilian*	40 497.18

* Mr. Maksymilian Górniak was a Member of the Board of ENEA S.A. till 5 December 2011



Remuneration for a member of the Management Board of ENEA S.A. in 2011 for holding office in ENEA subsidiary is presented in the table below:

Name	Position	Remuneration for holding a position in the ENEA subsidiaries
Zborowski Krzysztof	President of the Board	502 356.63
Owczarek Maciej	Member of the Board	297 644.72
Rozpędek Hubert	Member of the Board	272 090.30
Górniak Maksymilian*	Member of the Board	324 000.00

* Mr. Maksymilian Górniak was a Member of the Board of ENEA S.A. till 5 December 2011

Remuneration for members of the Supervisory Board of ENEA S.A. in the financial year 2011 is presented in the following table:

No.	Name	2011
1	Dachowski Tadeusz	43 257.60
2	Pluciński Mieczysław	43 257.60
3	Chmielewski Wojciech	43 257.60
4	Wood Graham	43 257.60
5	Balcerowski Paweł***	25 349.88
6	Kowalewski Michał	43 257.60
7	Aniołek Małgorzata	43 257.60
8	Nowicki Bartosz*	21 508.64
9	Mordasewicz Jeremi	43 257.60
10	Lisiewicz Paweł	43 257.60
11	Mańkowska Agnieszka**	21 869.12

* Mr. Bartosz Nowicki was a Member of the Supervisory Board of ENEA S.A. till 29 June 2011

** Ms. Agnieszka Mańkowska was a Member of the Supervisory Board of ENEA S.A. from 29 June 2011

*** Mr. Paweł Balcerowski was a Member of the Board of ENEA S.A. till 1 August 2011



Members of the Supervisory Board of ENEA S.A during the financial year 2011 did not collect any remuneration for holding offices in the Supervisory Board. On 29 June 2011 a change was made in the composition of the Supervisory Board - in the place of the dismissed Mr. Bartosz Nowicki Mrs. Agnieszka Mańkowska was appointed. Moreover, from 1 August 2011 as a result of death of Mr. Paweł Balcerowski the composition of the Supervisory Board was diminished to 9 persons.

5.4. List of Shares in Entities that are Members of the ENEA Capital Group that are held by the Members of the Management and Supervisory Boards

Name	Position	Number of shares of ENEA S.A. held as at 31 December 2011 [in pcs.]	Nominal value of held shares of ENEA S.A. as at 31 December 2011 [PLN]
Tadeusz Dachowski	Member of the Supervisory Board	4 440	4 440
Mieczysław Pluciński	Member of the Supervisory Board	4 140	4 140
Maksymilian Górniak	Member of the Management Board for Commercial Affairs	*	*

* Mr. Maksymilian Górniak was a Member of the Board of ENEA S.A. till 5 December 2011. As of the publication date of the periodic report for Q3 2011, i.e. 15 November 2011 he hold 3,740 shares of the Company with the total nominal value of PLN 3,740.

As of the date of preparation of this report the aforementioned shareholding of managing and supervising persons remains unchanged according to the best knowledge of the Company.

As at 31 December 2011 and the publication date of this report the other Members of ENEA S.A.'s Management and Supervisory Boards did not hold ENEA S.A. shares.

As at 31 December 2011 and the publication date of this report Members of ENEA S.A.'s Management and Supervisory Boards did not own shares in subsidiaries of ENEA S.A.

6. THE SHAREHOLDING AND SHARE CAPITAL STRUCTURE OF THE PARENT COMPANY

6.1. Share capital structure

In connection with a public offer of series C shares, at a closed hearing on 13 January 2009 the District Court for Poznan-Nowe Miasto and Wilda in Poznan, 8th Commercial Division of the National Court Register, registered an increase in the Issuer's share capital from PLN 337,626,428 to PLN 441,442,578, by the issue of 103,816,150 series C ordinary bearer shares.

Upon registration of the increase, the amount of share capital of the Issuer was PLN 441,442,578. The total number of votes resulting from all issued shares of the Issuer is 441,442,578.

As at 31 December 2011 following the registration of the increase in the Issuer's share capital, the capital structure is as follows:

- 295,987,473 series A ordinary bearer shares, 67.05%
- 33,538,016 series B ordinary bearer shares, 7.59%
- 8,100,939 series B ordinary bearer shares 1.84%
- 103,816,150 series C ordinary bearer shares 23.52%



On 16 February 2012 statutory transferability limitations expired and it was possible to exchange them into bearer shares. As a result a conversion was performed of 30,981,380 shares of B series from registered shares to bearer shares based on § 6 item 3 of the Company's Statute. Based on the Resolution of the Board of the Warsaw Stock Exchange (WSE) of 27 February 2012 the Board of WSE decided to list starting from 5 March 2012 on the primary market 30,981,380 ordinary bearer shares of B series of the Company of the nominal value of PLN 1 each. Moreover, based on the Resolution of the Board on the National Depository for Securities (KDPW) of 29 February 2012 the Board of KDPW decided to perform on 5 March 2012 assimilation of 30,981,380 shares of the Company marked with code of PLENEA000070 with 407,904,562 shares of the Company marked with the code of PLENEA000013. The shares subject to assimilation receive the code of PLENEA000013.

As at the date of preparation of this report and following the registration of the increase in the Issuer's share capital, the capital structure is as follows:

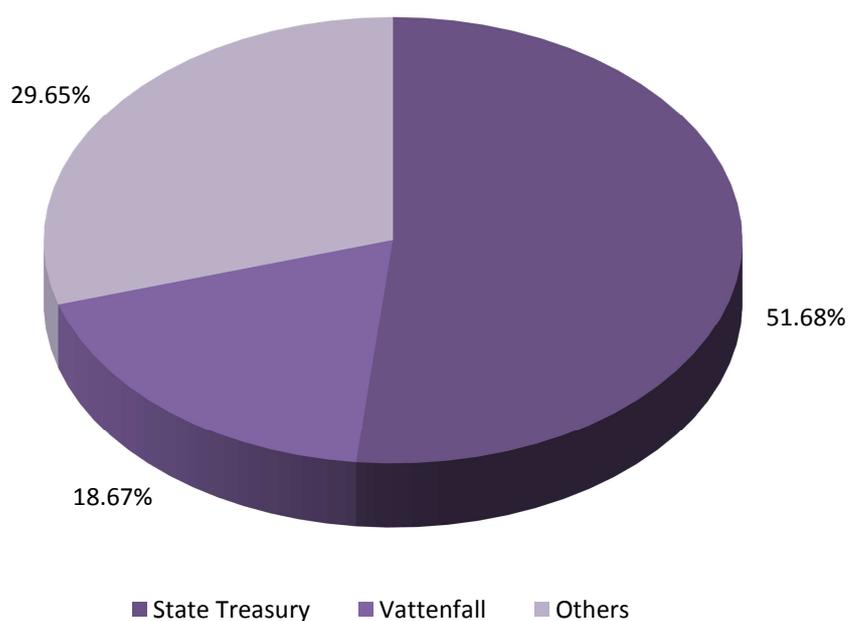
- 295,987,473 series "A" ordinary bearer shares, 67.05%
- 2,424,300 series "B" ordinary registered shares, 0.55%
- 39,214,655 series "B" ordinary bearer shares, 8.88%
- 103,816,150 series "C" ordinary bearer shares, 23.52%

6.2. Shareholding structure

As at 31 December 2011 of the report, the structure of shareholders holding more than 5 per cent of the total number of votes at ENEA S.A.'s General Meeting of Shareholders is as follows:

Shareholder	Number of shares	Share in share capital	Number of votes at the General Meeting of Shareholders	Share in the votes at the General Meeting of Shareholders
State Treasury	228 138 189	51.68%	228 138 189	51.68%
Vattenfall AB	82 395 573	18.67%	82 395 573	18.67%
Others	130 908 816	29.65%	130 908 816	29.65%
TOTAL	441 442 578	100.00%	441 442 578	100.00%





In the period from the expiry of the reporting period, i.e. 31 December 2011 till the approval of the annual report there was a small change in the shareholding of the key Shareholder of the Company, i.e. the State Treasury. The divergence in number of shares held by the State Treasury is connected with the specificity of the process of nil-paid rights to employee shares from the State Treasury by entitled employees and their heirs.

As at the date of preparation of the report, i.e. 10 April 2012, the structure of shareholders holding more than 5 per cent of the total number of votes at ENEA S.A.'s General Meeting of Shareholders is as follows:

Shareholder	Number of shares	Share in share capital	Number of votes at the General Meeting of Shareholders	Share in the votes at the General Meeting of Shareholders
State Treasury	227 818 935	51.61%	227 818 935	51.61%
Vattenfall AB	82 395 573	18.67%	82 395 573	18.67%
Others	131 228 070	29.72%	131 228 070	29.72%
TOTAL	441 442 578	100.00%	441 442 578	100.00%

Here, the Company reminds that on 15 February 2010 the State Treasury made the first transaction of sale of the Company's shares under general conditions the consequence of which was obtaining by entitled persons nil-paid rights to B series shares. A process being in progress of offering of the shares for free will be completed on 16 May 2012 (subject to the fact that in some specific situations a heir may sign nil-paid rights agreement for shares after the date indicated – more information may be found on www.enea.pl under the tag of "Employee shares").

Having in mind the term of limitation of sale of shares expiring on 15 February 2012 the Company's Board undertook indispensable steps aiming at enabling trading in the said shares on the Warsaw Stock Exchange (WSE). Dematerialisation and introducing for trading will cover all the shares subject to nil-paid rights from the State Treasury till 15 February 2012 inclusive. In relation to the above, on request of ENEA S.A., on 20 February 2012 the Board of WSE admitted 30,981,380 employee shares for exchange trading. Pursuant to the resolution



of the Board of the Warsaw Stock Exchange of 27 February 2012 employee shares were listed on the primary market on 5 March 2012.

The shares held by entitled people who appear for signing of an agreement of nil-paid rights to shares from the State Treasury after that date will be introduced for trading on WSE on a later date.

6.3. Potential changes in the shareholder structure

The Company does not know of any agreements that could result in future changes in the proportions of shares held by the existing shareholders.

However, please note that under the privatisation programme the Ministry of the State Treasury (MST) plans to dispose of its entire block of shares in ENEA S.A.

In accordance with the document "2008-2011 Privatisation Plan", adopted by the Council of Ministers on 22 April 2008, ENEA S.A. was identified as one of the energy groups to be privatised in the years 2008-2011. The first stage of the above process was the 2008 sale of a block of newly-issued shares of the Company in an IPO.

As announced in November 2009, in February 2010, the Ministry of the State Treasury (MST) carried out the next stage of the privatisation process of ENEA S.A. initiated in 2008. The privatisation of the MST entity was to involve selling shares in ENEA S.A. in a two-stage process – as part of transactions carried out via public markets (Stage I/February 2010), followed by the disposal of more than 50 per cent of the Company's shares to an industry investor (Stage II/mid-2010). The main purpose of Stage I was to increase the number of the Company's shares in free float (i.e. the number of shares held by shareholders whose holdings do not exceed five per cent in the Company's capital).

On 10 February 2010, the MST disposed of 70,851,533 shares in ENEA S.A. (constituting 16.05 percent of the Company's share capital). The sale was conducted on the Warsaw Stock Exchange. This was the second-largest transaction in the "fully-marketed offer" formula in the history of the WSE, and the largest in the preceding three years. The Company's shares were offered exclusively to domestic and foreign institutional investors. The price of the offered shares was set at PLN 16 per share. The total value of the offer amounted to PLN 1.134 billion.

As a result of the subscription, 80 per cent of the offering was taken up by domestic institutional investors, including 60 per cent that was acquired by pension funds. As a result of the transaction, the State Treasury's stake in the Company's share capital decreased from 76.48 to 60.43 per cent. The share of the second largest shareholder, Vattenfall AB, remained at 18.67 per cent, while 20.90 per cent of ENEA S.A. shares are in free float.

On 28 June 2010, the MST published an invitation to negotiate the purchase of 225,135,940 shares with a nominal value of PLN 1.00 each, owned by the State Treasury and accounting for 51 per cent of the Company's share capital. Multi-stage negotiations within this area (more details in e.g. The Report of the Management Board of ENEA S.A. on activities in 2010) were conducted till 1 April 2011 when the Minister of the State Treasury decided to close the sale process of 51 per cent of shares of ENEA S.A. with no conclusion. Initially, the deadline for potential investors to submit responses to the public invitation to negotiate was scheduled for 28 July 2010. However, on 23 July 2010 the MST extended this deadline until 13 August 2010. The next stage in the sale of shares in ENEA S.A. was to undertake negotiations with selected investors who submitted their initial offers for the purchase of 51 per cent of the Company's shares by 13 August 2010. Upon receiving the initial offers, the Minister of the State Treasury admitted five potential investors to the next stage. On 28 October, the MST decided to set a deadline for Kulczyk Holding S.A. (as the guarantor) and Elektron Sp. z o.o. (as the buyer) for exclusive negotiations as 3 November 2010. If the exclusivity period lapses ineffectively, the Minister of the State Treasury will undertake negotiations with another entity approved for the negotiations.

On 16 November 2010, the Ministry of the State Treasury announced in a bulletin that in view of the lapse of the negotiation exclusivity period granted to Kulczyk Holding S.A. and Elektron Sp. z o.o. in the ongoing process of selling 225,135,940 shares (51.00 per cent of the share capital) in ENEA S.A., it decided to resume parallel negotiations with entities approved for negotiations.

On 15 December 2010 in relation to the process of sale being in progress of 225,135,940 shares (51.00 per cent of the share capital) in ENEA S.A., it decided to determine for Electricité de France S.A. a term for exclusive negotiations. The MST intended to complete the privatisation process of ENEA S.A. by the end of the first quarter of 2011.



On 1 April 2011 the Minister of the State Treasury decided to terminate the sale procedure of 51 per cent of ENEA S.A. shares unresolved. According to an MST communique, when selling 51 per cent of ENEA S.A. shares MST, in compliance with recommendations of the European Commission, attempted to maximize the price. Other priorities were keeping the operating integrity of ENEA S.A, maintaining a clear shareholding structure and developing generation capacities in Koźienice Power Plant in compliance with the energy security policy for Poland. As stated in the communique, all submitted offers were thoroughly analyzed, and the term of the transaction was extended due to intensive negotiations concerning the a/m operating and investment priorities. Having received numerous offers, the Minister of the State Treasury did not approve any of them as they failed to satisfy the underlying conditions. Negotiations with a few prospective investors started on 28 June 2010. In the first stage of negotiations a part of the offers was rejected due to serious doubts as to the possibility of keeping the company's integrity, control over the same and the security of transaction financing. In the last stage, talks with a prospective investor did not succeed because of investment commitments required for Koźienice Power Plant.

In the a/m publication, MST states that "ENEA S.A. remains a stock-exchange listed company pursuing its own investment programme, including the development of new generation capacities in the Koźienice Power Plant. The Minister of the State Treasury, as key shareholder, will expect an acceleration of works on the implementation of that investment programme. MST intends to open anew the process for privatization of the company when such investment becomes an integral and unchallengeable part of ENEA S.A. business operations".

Here, ENEA S.A. points out that on 27 March 2012 the Council of Ministers accepted a document prepared by the Ministry of State Treasury "Privatisation Plan for 2012-2013" (further on referred to as Privatisation Plan) which presents key assumptions of the privatisation policy and list of entities with a share of the State Treasury which were selected to be covered with the ownership changes. According to the Privatisation Plan privatisation processes shall include the needs of the companies connected with investment projects of particular entities. They will be realised in accordance with the provisions of government documents: "Programme for the power industry" and "Energy Policy of Poland till 2030". The Privatisation Plan anticipates both the privatisation of companies wholly owned by the State Treasury and transfer of the title to packages of shares of the remaining companies from that industry with partial, including the minority stakes of the State Treasury. Ownership changes cover among others the following companies: Energa S.A., PGE Polska Grupa Energetyczna S.A., Zespół Elektrowni Patnow Adamow Konin S.A. or Zespół Elektrowni Wodnych Niedzica S.A. and ENEA S.A. Within the planned projects privatisation through the Warsaw Stock Exchange will be preferred.

6.4. Treasury shares

As at 31 December 2011, during the reporting period and as well as at the date of publication of this report, the Company did not hold any treasury shares.

Settlements of all sales transactions for previously held treasury shares purchased as a part of the price stabilization measures undertaken for the Company's series C shares on terms and conditions stipulated in the Prospectus published on 23 October 2008 were closed on 11 August 2009.

6.5. Information on the system of inspecting employee share programmes

In connection with the commercialisation and planned privatisation of the Company, existing employees of ENEA are entitled to acquire up to 15 per cent of the Shares from the State Treasury at no cost. In the case of Shares belonging to the State Treasury being transferred to another single-shareholder company of the State Treasury, employees will become entitled to obtain the equivalent of their rights to acquire Shares at no cost, in the form of remuneration due from the redemption of Shares paid out by the Company. The specific rules for employees acquiring shares at no cost are governed by the Act on Commercialisation and Privatisation. The above entitlements are granted to employees according to two criteria, i.e. that of being employed in a commercialised enterprise on the day of its deletion from the register, and that of the length of time worked in the commercialised enterprise.

Apart from the Act on Commercialisation and Privatisation, employee entitlements to acquire shares at no cost as part of the process of consolidation are regulated by the Act on the Rules for Acquiring Shares from the State Treasury in the Process of Consolidation of the Power Industry. In the case of the process of consolidating companies in the electricity sector, employees who meet the conditions set forth in the Act on the Rules for Acquiring Shares from the State Treasury in the Process of Consolidation of the Power Industry are entitled to



acquire shares at no cost or an equivalent from a consolidated or consolidating company. As a result of the consolidation of Kozenice Power Plant involving transfer of 100 per cent of the shares of Kozenice Power Plant to the share capital of ENEA, current and former employees of Kozenice Power Plant became entitled to obtain shares at no cost or their equivalent. 2,169 persons exercised their entitlement to obtain an equivalent, and 1,388 persons chose to acquire Shares at no cost. The equivalent of the right to acquire Shares at no cost constitutes remuneration due from the Share buy-back. On 1 August 2008, the General Meeting of Shareholders adopted a resolution on buying back 10,594,129 Shares belonging to the State Treasury, for total compensation of PLN 291,127,000.

As a result of the conversion made on 16 February 2012 of B series shares of ENEA S.A. the Board of the Warsaw Stock Exchange with a resolution of 27 February 2012 decided to, starting from 5 March 2012, list 30,981,380 employee shares on the primary market.

7. DECLARATION OF THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

7.1. The set of principles applied

The management board of ENEA S.A. declares that it is applying the principles of corporate governance which are described in the set of principles adopted by Resolution of the Board of the Warsaw Stock Exchange No. 17/1249/2010 of 19 May 2010, entitled: "Good Practices of Companies Listed on the WSE" (Good Practices, Corporate Governance Principles), and have been published on the website of the Warsaw Stock Exchange (<http://corp-gov.gpw.pl>). That set of Corporate Governance Principles contains a section entitled "Recommendations Regarding Good Practices of Listed Companies", which describes the good practice principles that the Issuer can decide to apply at its own discretion.

7.2. Principles which have not been applied

The Management Board of ENEA S.A. declares that in view of the factual status existing in the Company as at the date of this report, the following principle of Good Practices of Companies Listed on the WSE is not applied:

Principle No. 6 Part III of Good Practices:

"At least two members of the supervisory board should fulfil the criteria of independence from the company and from entities that have significant affiliations with the company. With regard to the independence criteria for members of the supervisory board, Annex II to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board should be applied. Irrespective of the provisions of Item b) of that Annex, a person who is an employee of the company or its subsidiary or affiliate cannot be deemed to fulfil the independence criteria referred to in that Annex. Furthermore, an affiliation with a shareholder excluding the independent status of a member of the supervisory board in the meaning of this principle is understood to mean an actual and significant affiliation with a shareholder which has the right to exercise five per cent or more of the total number of votes at the general meeting of shareholders."

The Management Board intended to comply with all the corporate governance principles, and it therefore recommended that the Shareholders appoint two independent members of the Supervisory Board. However, the Company's Extraordinary General Meeting of Shareholders of 25 February 2009, whose agenda included an item relating to the appointment of two new members of the Supervisory Board, only appointed one member of the Supervisory Board who fulfilled the independence criteria specified in the above-mentioned corporate governance principle, and at present only one of the members of the Supervisory Board fulfils those criteria.

The restoration of the application of the principle of Part III Item 6 of Good Practices depends on a decision being made by the Shareholders acting as the Company's General Meeting of Shareholders.

It is the Management Board's intention for the Company to apply all the principles set out in Good Practices in the future. However, please note that the final decision regarding compliance with individual principles of



Good Practices will belong to our shareholders, particularly with regard to the functioning of the audit committee within the Supervisory Board and the election of a certain number of Supervisory Board members who fulfil the criteria relating to independence from the Company and entities which have a significant affiliation with it. Our Statute does not require that the shareholders elect at least two independent members of the Supervisory Board, as is required by Good Practices. Under the provisions of the Company's Statute, starting from the date falling one month after the date of the first listing of the Shares on the regulated market, at least one member of the Supervisory Board from among those appointed by the General Meeting of Shareholders should: (i) fulfil the independence requirements; (ii) be elected by the General Meeting of Shareholders in a separate vote; and (iii) not be an employee of the Company or its subsidiaries or affiliates.

At the same time the Company notes that in 2011 it failed to comply with selected recommendations concerning good practices of listed companies contained in Part I of the Corporate Governance Principles.

Referring to recommendations referred to in point 1 of the a/m recommendations, under which the Company is supposed to keep a clear and effective information policy using traditional methods as well as modern technologies and state-of-the-art communication tools assuring swift, secure and efficient access to information, the Company hereby announces that in 2011 it failed to broadcast its general meetings through the Internet and failed to record the course of general meetings and failed to publish them on its website. The Issuer's failure to comply with the above-mentioned part of the recommendations resulted from technical problems and imperfections of the IT infrastructure necessary to carry out online live broadcasts of its general meetings.

However the Issuer declares that it is making its best efforts to ensure that the information policy of ENEA S.A. is fair, timely and clear. In pursuing the foregoing objective, the Company applies traditional forms of communication with shareholders and analysts (current and periodic reports as well as corporate governance reports) and uses its website with a dedicated Investor Relations section. It should be noted here that the website of ENEA S.A. was rewarded in the 1st stage of the 2010 competition for the best website of a listed company (Issuer's Golden Website) organized by the Association of Stock Exchange Issuers.

In addition, we would like to declare that the Issuer publishes information about all general meetings held, so that Shareholders have sufficient time in advance to get acquainted with all the issues included in the agenda for the meeting in question. Referring to the course of general meetings, the Issuer wants to note that information on resolutions adopted during the general meeting in question, on withdrawal from any of the points included on the agenda, as well as on protests raised and recorded in the minutes of the general meeting in question, is published in current reports pursuant to provisions of § 38 of the Regulation on current and periodic information [...].

At the same time the Issuer does not exclude the possibility that in the future it will fully comply with the aforementioned recommendation.

Referring to the recommendation contained in point 9 of the recommendations for the Corporate Governance Principles concerning the balanced participation of women and men holding office in management and supervisory authorities of public companies, the Company explains that currently balanced proportions of women and men in management and supervisory authorities of ENEA S.A. are not maintained. During the reporting period the composition of the Supervisory Board was as follows: Ms. Małgorzata Aniołek and Ms. Agnieszka Mańkowska. No women were present in the composition of the Management Board.

At the same time the Issuer announces that the selection and appointment of members to management and supervisory authorities in the Company is made on the basis of applications obtained from candidates. Candidates are selected for respective offices after a thorough analysis of the experience, competences, skills and professional background of each of them. The aforementioned factors are the only criteria considered in the course of recruitment for offices on the Company's Management Board and Supervisory Board. In the Company's opinion, criteria which are in place in order to evaluate candidates for offices in management and supervisory authorities permit the selection of candidates who guarantee creativity and innovativeness, as well as the development of ENEA S.A.'s operations.

7.3. Description of the main features of the internal control and risk management systems applied in the issuer's company

The Management Board of ENEA S.A. is responsible for the internal control system in the Company and its effectiveness in the process of drawing up financial statements and periodic reports. The task of an effective



internal control system in financial reporting is to ensure that the financial information set out in financial statements and periodic reports is appropriate and correct.

One of the basic elements of control in the process of drawing up financial statements of ENEA S.A. and the Group is the verification of the financial statements by an independent auditor. The tasks of the auditor include in particular: a review of the mid-year financial statements and an audit of the non-consolidated and consolidated annual financial statements. The independent auditor is selected by the Supervisory Board. Once the auditor has completed auditing the financial statements, they are sent to the members of the Company's Supervisory Board, which assesses the stand-alone and consolidated financial statements with regard to their compliance with the books of account, documents and the factual status. Under the provisions of the Accountancy Act, the members of the Management Board and the Supervisory Board are obliged to ensure that the financial statements and the report on operations fulfil the requirements set out in that act.

The financial data being the basis for financial statements and periodic reports and the monthly management and operational reporting carried out by ENEA S.A. is taken from the Company's financial and accounting system. After all the predetermined processes of closing the books of account at the end of each month have been carried out, detailed management reports on financial and operational matters are drawn up. Those reports are drawn up by the Control Office, with the participation of middle and senior managers from individual organisational units. With regard to completed reporting periods, the Company's financial results as compared with budget assumptions are subject to a detailed analysis, and any deviations are identified and appropriately clarified.

The Company also carries out annual reviews of business and financial strategies and plans. Middle and senior management personnel are engaged in the process of detailed planning and budgeting, which covers all the areas of the Company's operations. The financial and economic plan prepared by the Control Office for the next three years is accepted by the Company's Management Board and approved by the Supervisory Board. During the course of the year, ENEA S.A.'s Management Board analyses current financial results and compares them to the adopted financial plan, presenting the execution of the plan and any deviations to the Supervisory Board. This is constructed on the basis of the Company's adopted accounting policy (International Financial Reporting Standards) and applies the format and degree of detail of the financial data presented in the periodic financial statements of ENEA S.A. and the Group.

The Company applies consistent accounting principles and presents financial data in financial statements, periodic financial reports and other reports disclosed to the shareholders.

The Company regularly assesses the quality of its internal control and risk management systems with regard to the process of drawing up financial statements. On the basis of an assessment, the Management Board of ENEA S.A. confirms that as at 31 December 2011 there were no shortcomings that could significantly affect the effectiveness of internal control as it relates to financial reporting.

An important element of the internal control system is that of internal audits. Among the basic tasks of an internal audit are a review and evaluation of processes and the control mechanisms they contain, and monitoring of and recommendations for improvements in the risk management system and corporate governance. The ENEA S.A. internal audit is independent, and accountable to the Audit Committee acting as part of the Supervisory Board. Additional information on the Audit Committee can be found in pt. 7.12 of the section on the Supervisory Board.

The Group, being aware of the risk connected with conducting operations, has taken steps aimed at creating a formalized, integrated risk management system. The scope of works includes identifying key factors affecting financial and market risks, measuring such risks, carrying out the process of identification, assessment and in-depth analysis of business and operating risks and designing formal policies and procedures regulating the process for management of the market risk (including commodity, foreign exchange and interest rate risk), credit risk, risk of liquidity loss as well as business and operating risks.



7.4. Shareholders holding substantial blocks of shares

The shareholding structure as at 31 December 2011 was as follows:

Shareholder	Number of shares	Share in share capital	Number of votes at the General Meeting of Shareholders	Share in the votes at the General Meeting of Shareholders
State Treasury	228 138 189	51.68%	228 138 189	51.68%
Vattenfall AB	82 395 573	18.67%	82 395 573	18.67%
Others	130 908 816	29.65%	130 908 816	29.65%
Total	441 442 578	100.00%	441 442 578	100.00%

The shareholding as at the date of preparation of this report, i.e. 10 April 2012, subject to any immaterial divergences in the share of the State Treasury connected with the process of acquiring nil-paid employees shares (described in detail above) remains unchanged.

7.5. Holders of securities carrying special inspection rights

Till the date of preparation of this report ENEA S.A. has not issued any securities that could give special inspection rights with respect to the Issuer.

7.6. Restrictions on exercising voting rights

Till the date of preparation of this report there are no restrictions on exercising voting rights in the Company, other than those provided for in generally applicable provisions of law.

7.7. Restrictions on assigning the ownership title to securities

Till the date of preparation of this report the Company has no other than the ones described below limitations concerning transfer of the title to securities of the Issuer.

As a result of the ongoing privatisation of the Company, pursuant to the Act on Commercialisation and Privatisation of 30 August 1996, eligible employees acquired ENEA S.A. shares free of charge. There are specific time restrictions on the possibility of a further disposal of shares of ENEA S.A. acquired free of charge. Pursuant to Art. 38 item 3 of the Act on Commercialisation and Privatisation, shares acquired free of charge by employees/heirs of ENEA could not be traded before 16 February 2012, i.e. before the lapse of two years from the date when the State Treasury transfers the first shares on general principles, and shares acquired by employees performing the function of member of the Management Board of ENEA cannot dispose of their shares until three years have elapsed from the date when the State Treasury transferred the first shares on general principles, i.e. until 16 February 2013. Limitation in selling employee shares does not apply to the shares of ENEA S.A. acquired by authorised employees of the Koźienice Power Plant.

As at the date of this report, there are no restrictions in the Company on assigning the ownership title to the Issuer's securities.

7.8. Principles relating to appointing and recalling management personnel

Pursuant to § 12 item 1 of the Statute the Management Board of the Company consists of from 3 to 8 persons, including the President of the Management Board. Management Board members are appointed for a joint term of three years.



The Management Board members or the entire Management Board are appointed and recalled by the Supervisory Board. In appointing management and supervisory board members application is made of the principles contained in the regulation of the Council of Ministers of 18 March 2003 concerning qualification proceedings for management board members of certain commercial companies. Pursuant to § 16 item 1 of the Act of 30 August 1996 on the Commercialisation and Privatisation, if the annual average employee count in the Company exceeds 500 employees, the Supervisory Board will appoint one person elected by the employees to the Management Board for the term of the Management Board. § 14 item 7 of the Company's Statute lays down the following principles and procedure for electing the Management Board member elected by the employees.

1. Candidates can be persons nominated according to the procedure set out in items 2 and 3 below.
2. Candidates may be nominated by any membership organisations active within the Company and by employee groupings of at least 300 persons. Each employee can only support one candidate.
3. Candidates must be nominated in writing to the Main Election Committee, not later than seven days before the scheduled date of voting.
4. If a candidate is not elected in the first round of elections (for a Management Board Member to be elected in the first round of the elections, the candidate must obtain an absolute majority of votes, with at least 50 per cent of all the employees taking part in the elections), a second round of elections is held, in which the two candidates who obtained the greatest number of votes in the first round participate.
5. The second round of elections is carried out in accordance with the procedure established for the first round, taking into account the changes provided for in Item 4.
6. After the final results of the elections have been established, the Main Election Committee (appointed by the Supervisory Board) declares that they are valid and then makes an appropriate announcement and delivers the election documentation to the Supervisory Board.
7. As soon as it receives the election documentation, the Supervisory Board appoints the Management Board Member elected by the employees.

At the written request of at least 15 per cent of all of the Company's employees, the Supervisory Board will convene a vote on recalling an employee-elected Management Board member. The outcome of the vote will be binding for the Supervisory Board, provided that at least 50 per cent of all the employees take part in it and the same majority required for the Management Board Member to be elected is returned. A motion on recalling the Management Board Member elected by the employees should be submitted to the Management Board, which will then deliver it to the Supervisory Board (§ 16 of the Statute).

7.9. Powers of the Management Board members

The Board of Management of ENEA S.A. transacts business of the Company and represents it.

Pursuant to § 11 item 2 of the Statute resolutions of the Board are required on all the matters exceeding the scope of ordinary activities of the Company, and particularly:

1. adopting the Company's organisational regulations, subject to approval by the Supervisory Board,
2. creating and liquidating branches,
3. appointing an authorised signatory or an authorised representative, except for an attorney ad litem appointing an authorised signatory requires the consent of all the members of the Management Board,
4. taking out loans or credit facilities,
5. adopting annual material and financial plans, including investment plans, and long-term strategic plans, subject to approval by the Supervisory Board,
6. contracting conditional obligations, including the Company granting guarantees and sureties and issuing promissory notes,
7. acquiring, disposing of, or encumbering real property, perpetual usufruct or real property interest on the basis of one or more legal acts during twelve consecutive months with a value of at least the equivalent of EUR 50,000,
8. giving over the Company's real property under a leasing, tenancy, lease, lending or usufruct agreement or for any other use,
9. taking over real property under a leasing, tenancy, lease or usufruct agreement or for any other use, on the basis of one or more legal acts in a period of 12 consecutive months, where the value of the rent for 12 consecutive months is greater than or equal to the equivalent of EUR 50,000,



10. acquiring, disposing of or encumbering a fixed asset, except for real property, rights of perpetual usufruct or shares in real property, on the basis of one or more legal acts in a period of 12 consecutive months, with a value greater than or equal to the equivalent of EUR 50,000.
11. any instance of offering fixed assets, except for real property, for leasing, lease, rent, borrowing, usufruct or any other use,
12. taking over a fixed asset, except for real property, under a leasing, tenancy, lease or utilisation agreement or for any other use, on the basis of one or more legal acts in a period of 12 months, where the value of the rent for 12 consecutive months is greater than or equal to the equivalent of EUR,
13. matters that the Management Board requests that the Supervisory Board or General Meeting of Shareholders consider,
14. determining the manner in which the Company exercises its voting rights at the General Meeting of Shareholders or at shareholders meetings of Significant Subsidiaries, subject to §20 item 6(5) of the Statute.

Other than the provisions specified above, the Company's Statute contains no provisions that grant additional powers to the management board members, including powers to make decisions on the issuance or buy-back of shares.

7.10. Description of the principles governing the amendment of ENEA S.A.'s Statute

Pursuant to the Commercial Companies Code, the Company's Statute is amended by a resolution of the General Meeting of Shareholders and an entry in the register.

In accordance with § 32 item 2 of the Statute resolutions concerning the following matters can be adopted if at least half of the Company's share capital is represented at the General Meeting of Shareholders, and they will require a majority of four fifths of the votes when and if the State Treasury ceases to hold more than 50 per cent of the share capital:

1. the dissolution of the Company,
2. transferring the Company's registered office abroad,
3. changing the subject of the Company's business activities thereby limiting the possibility of it conducting the activities referred to in §5 item 1-4 of the Statute,
4. disposing of or leasing the Company's business undertaking or an organised part thereof, whose subject are the activities referred to in §5 item 1-4 of the Statute, or establishing a limited right in rem on the Company's business undertaking or an organised part thereof,
5. merging the Company by transferring all of its assets to a different company,
6. a demerger of the Company,
7. the Company's shares obtaining preferred status,
8. establishing, converting into or joining a European Company,
9. amendment of §32 of the Statute specifying the mode of adoption of resolutions on the aforementioned matters.

Other than those specified above, the Company's Statute contains no provisions that differ from the provisions of the Commercial Companies Code regulating the Statute amendment.

7.11. The procedure and basic powers of the General Meeting of Shareholders and a description of shareholders' rights and the procedure for exercising them

Pursuant to § 29 item 1 of the Statute of ENEA S.A. the Management Board convenes the General Shareholders Meeting in instances set out in the provisions of law and the provisions of the Statute, as well as upon the written request of the State Treasury shareholder.

In accordance with § 31(1) and (2) of the Statute the State Treasury, as long as it is the Company's shareholder and irrespective of its share in the Company's share capital, may, pursuant to Article § 400 item 1 of the Commercial Companies Code, request that an Extraordinary Shareholders Meeting be convened or that certain matters be included in the agenda of the next General Shareholders Meeting. The State Treasury must submit such a demand in writing to the Management Board not later than one month before the proposed date of the General Meeting of Shareholders. If the request is submitted after a General Shareholders Meeting is convened, it will be deemed a request for convening a subsequent Extraordinary Shareholders Meeting.



If the General Meeting is not convened within the deadline specified in par. 2, the State Treasury shareholder is entitled to convene the General Meeting pursuant to Article 354 item 1 of the Commercial Companies Code.

A scheduled General Meeting of Shareholders on whose agenda certain matters have been included at the request of entitled entities, or which was convened at the request of entitled entities, can only be cancelled with the consent of the parties that submitted the request. In other instances, a General Meeting may be cancelled if holding it at the original date would meet with extraordinary obstacles (force majeure) or would become pointless beyond reasonable doubt. Such cancellation is effected in the same way as convening a meeting, ensuring that the adverse effects for the company and the shareholders are minimised, and in any event not later than three weeks before the originally planned time of the meeting. The scheduled time of a General Meeting of Shareholders is changed by the same procedure as cancelling it, even if the proposed agenda of the meeting has not changed.

Pursuant to § 33 of the Statute, besides the matters specified in mandatory provisions of law, the powers of the General Meeting of Shareholders include:

1. Appointing and recalling members of the Supervisory Board, subject to the provisions of the Company's Statute authorising the shareholder being the State Treasury to appoint and recall one member of the Supervisory Board (under Article 354 item 1 of the Commercial Companies Code) in a situation when the State Treasury ceases to be the only shareholder of the Company.
2. Adopting the Regulations of the General Meeting of Shareholders laying down the detailed principles for conducting meetings and adopting resolutions.
3. Issuing convertible or exchangeable bonds and other instruments enabling the purchase or subscription of the Company's shares.

The purchase and disposal of real property, perpetual usufruct or real property interest, i.e. activities as set out in Article 393 item 4 of the Commercial Companies Code, do not require the approval of the General Shareholders Meeting.

Pursuant to § 36 of the Statute, as long as the State Treasury holds over the half of the total number of shares of the Company, the activities mentioned in Art. 18 item 2 require an approval of the General Meeting (incorporating of another company, acquiring or subscribing for shares of another company, sale of acquired or subscribed for shares of another company) of the Act of 30 August 1996 on commercialisation and privatisation, except:

1. Acts for which the Statute requires the consent of the Supervisory Board, provided that the Supervisory Board has granted such consent,
2. Other acts than those specified in Item 1 above, if those acts involve:
 - a) establishing or joining another company in the Republic of Poland if the purchase price for the share(s) or the advance on the contribution in a civil partnership does not exceed EUR 5,000,000,
 - b) subscribing to or purchasing shares whose nominal value does not exceed EUR 5,000,000,
 - c) selling or encumbering the shares purchased or held in another company if their nominal value does not exceed EUR 5,000,000,
 - d) purchasing shares for the Company's receivables in settlement, corporate recovery or bankruptcy proceedings.

Besides those specified above, the Company's Statute does not contain any provisions on the procedure of the General Meeting of Shareholders and its powers that are not directly provided for in provisions of law.

The Company has Regulations of the General Meeting of Shareholders, available at www.enea.pl

7.12. The composition of the management and supervisory boards of ENEA S.A., changes to it, and a description of their operations

Management Board

Pursuant to Art. 12 sec. 2 of the Statutes Management Board members are appointed for a joint term of three years.



Since the beginning of 2011 the Management Board operated in the following composition:

Name	Position
Maciej Owczarek	President of the Board
Krzysztof Zborowski	Member of the Management Board for Power Generation
Hubert Rozpędek	Member of the Management Board for Economic Affairs
Maksymilian Górniak	Member of the Management Board for Commercial Affairs

On 5 December 2011 the Supervisory Board of ENEA S.A. adopted a resolution on dismissal from the composition of the Board of the Company of a Member of the Management Board for Commercial Affairs - Mr. Maksymilian Górniak.

On 24 February 2012 the Supervisory Board of ENEA S.A. adopted a resolution on appointing, starting from 19 March 2012, Mr. Janusz Bil to the position of a Member of the Management Board for Commercial Affairs.

As at the date of preparation of this report, i.e. 10 April 2012, the Company's Board operates in the following composition:

Name	Position
Maciej Owczarek	President of the Board
Janusz Bil	Member of the Management Board for Commercial Affairs
Hubert Rozpędek	Member of the Management Board for Economic Affairs
Krzysztof Zborowski	Member of the Management Board for Power Generation

The Management Board directs the Company's operations and represents it in relations with third parties. Two Members of the Management Board acting jointly or one Member of the Management Board acting jointly with an authorised signatory are authorised to make declarations on behalf of the Company. The powers, organisation and operating principles of the Management Board are set out in the Statute, the Management Board Regulations, and the Commercial Companies Code.

Pursuant to Article 371 § 6 of the Commercial Companies Code, including § 11 of the Statute, the Company's Board adopts the Management Board Regulations specifying the mode of action of the Board, rules of transacting business of the Company by the Board and adoption of resolutions by the Board. The Management Board regulations are drafted by the Management Board on the basis of the guidelines set out by the Supervisory Board, adopted by a Management Board resolution, and approved by the Supervisory Board.

Presently the Management Board regulations are binding in the Company which were adopted with a resolution of the Board of 22 June 2010, approved by a resolution of the Supervisory Board of 12 July 2010.

Pursuant to § 6 item 1 and 2 of the Management Board regulations meetings of the Management Board take place at the registered office of the Company, on Tuesdays, unless the person referred to in the sentence below decides otherwise. Meetings of the Management Board of the Company are convened by the President



of the Management Board or a Management Board Member designated by him, at the President's own initiative or upon a motion by two Members of the Management Board. Supervisory Board members are required to justify their absence from a Meeting in writing. Absence during the Board meeting is substantiated by the meeting Chairman.

Employees of the Company, experts and external advisors can be invited to attend Management Board meetings.

The agenda and the necessary documents for a Management Board meeting are provided by the Management Board Office at least one business day before the meeting.

For valid reasons, a meeting can be convened immediately and without materials being provided. For a meeting to be held, all the members of the Management Board must be effectively notified of the meeting.

Decisions of the Management Board associated with conducting the Company's affairs, as referred to in § 11 item 2 of the Statute, are made in the form of Management Board resolutions. The Management Board can adopt resolutions if at least half of its members are present at the meeting and all of the members have been correctly notified of the meeting. The Management Board adopts resolutions by an absolute majority of votes, i.e. by a majority of more than half the votes cast. Abstentions are deemed to be votes cast against the resolution. In the event of an equal number of votes in adopting a management board resolution, the casting vote is held by the Management Board President. The Management Board can adopt resolutions in writing or remotely using a means of direct communication. Adopting resolutions in this manner requires a justification and that the draft resolution be presented in advance to all the members of the Management Board. Resolutions adopted in writing or remotely using a means of direct communication are presented at the next meeting of the Management Board with the outcome of the vote.

Pursuant to § 4 item 3 of the Management Board regulations the normal business of the Company not reserved for a decision of the Management Board (taken in the form of a resolution) is conducted by the President of the Management Board acting alone and by particular Members of the Management Board according to their individual internal division of competencies:

- **President of the Management Board** coordinates tasks in connection with the overall operations of the Company and the ENEA Capital Group.
- **Member of the Management Board for Commercial Affairs** supervises and coordinates the overall tasks in connection with the trade of electricity and customers services.
- **Member of the Management Board for Economic Affairs** supervises and coordinates the overall tasks in connection with economic, financial and accounting matters and risk-related issues in the Company and the ENEA Capital Group.
- **Member of the Management Board for Power Generation** supervises and coordinates the entirety of issues associated with the compilation of development strategies and their implementation, as well as exercises supervision over companies belonging to the ENEA Capital Group carrying out electrical and heat energy generation activities.

It does not however change a rule concerning making declarations of will on behalf of the Company mentioned in § 10 item 2 of the Company's Statute.

The full text of the Operating Rules for the Management Board of ENEA Spolka Akcyjna is available at www.enea.pl

Supervisory Board

Members of the Supervisory Board of ENEA S.A. for the 7th term were appointed by a resolution of the Ordinary General Meeting of Shareholders of 30 June 2009 for a joint three-year term, which ends on 30 June 2012. The mandates of the members of the Supervisory Board will expire not later than the date of the General Meeting of Shareholders that approves the financial statements of the Company for 2011.



Since the beginning of 2011, the Supervisory Board of the 7th term has been operating in the following composition:

Name	Position
Wojciech Chmielewski	Chairman of the Supervisory Board
Jeremi Mordasewicz	Vice-Chairman of the Supervisory Board
Michał Kowalewski	Secretary of the Supervisory Board
Małgorzata Aniołek	Member of the Supervisory Board
Paweł Balcerowski	Member of the Supervisory Board
Tadeusz Dachowski	Member of the Supervisory Board
Mieczysław Pluciński	Member of the Supervisory Board
Paweł Lisiewicz	Member of the Supervisory Board
Bartosz Nowicki	Member of the Supervisory Board
Graham Wood	Member of the Supervisory Board (independent member of the Supervisory Board)

On 29 June 2011 the Extraordinary General Meeting of Shareholders dismissed from the composition of the Supervisory Board Mr. Bartosz Nowicki and at the same time appointed to the composition of the Supervisory Board of VII term Ms. Agnieszka Mańkowska.

On 1 August 2011 as a result of death a term expired of the Member of the Supervisory Board Mr. Paweł Balcerowski.

On 12 March 2012 the Extraordinary General Meeting of Shareholders appointed Mr. Sławomir Brzeziński to the composition of the Supervisory Board of VII term.

As at the date of preparation of this report, i.e. 10 April 2012, the Supervisory Board of the Company is composed of ten members and operates in the following composition:

Name	Position
Wojciech Chmielewski	Chairman of the Supervisory Board



Jeremi Mordasewicz	Vice-Chairman of the Supervisory Board
Michał Kowalewski	Secretary of the Supervisory Board
Małgorzata Aniołek	Member of the Supervisory Board
Sławomir Brzeziński	Member of the Supervisory Board
Tadeusz Dachowski	Member of the Supervisory Board
Mieczysław Pluciński	Member of the Supervisory Board
Paweł Lisiewicz	Member of the Supervisory Board
Agnieszka Mańkowska	Member of the Supervisory Board
Graham Wood	Member of the Supervisory Board

The Supervisory Board continuously oversees the Company's activity in all its areas. The special duties of the Supervisory Board include assessing the Management Board report on the Company's operations and the financial statements for the previous financial year, to ensure their compliance with the books of account and documents and the factual status, and motions of the Management Board on the distribution of profits or covering of losses, as well as submitting an annual written report on the results of that assessment to the General Meeting of Shareholders. The powers, organisation and operating principles of the Supervisory Board's are set out in the Statute, *the Supervisory Board Regulations of ENEA S.A.* in Poznan and the Commercial Companies Code.

Pursuant to § 22 item 1, § 23 and § 24 of the Company's Statute the Supervisory Board is composed of six to fifteen members appointed by: (i) the General Meeting of Shareholders; (ii) the Company's employees - to the extent of their entitlement under the Act on Commercialisation and Privatisation (the employees can elect two, three or four members of the Supervisory Board if it has up to six, from seven to ten, or more than 11 members respectively); and (iii) the State Treasury - the State Treasury has the right to appoint one member of the Supervisory Board. Furthermore, under the provisions of §22 item 5 and 6 of the Company's Statute, starting from the date falling one month after the date of the first listing of the Shares on the regulated market, at least one member of the Supervisory Board from among those appointed by the General Meeting of Shareholders should: (i) fulfil the independence requirements; (ii) be elected by the General Meeting of Shareholders in a separate vote; and (iii) not be an employee of the Company or its subsidiaries or affiliates. The Supervisory Board member referred to in the previous sentence is elected by the General Meeting of Shareholders in a separate vote. Each of the Company's shareholders present at the General Meeting dedicated to electing a Supervisory Board member that represents at least 1 per cent of the total number of votes represented at this General Shareholders Meeting may nominate one candidate for such Supervisory Board member. If there are no nominations for candidates for independent members of the Supervisory Board, the Supervisory Board will nominate candidates and submit the nominations to the General Meeting of Shareholders for voting. The number of members of the Supervisory Board is determined by the General Meeting of Shareholders.

On 25 February 2009, in accordance with the above-mentioned provisions of the Statute, the Extraordinary General Meeting of Shareholders elected Mr. Graham Wood as independent Member of the Supervisory Board.



According to the Supervisory Board Regulations adopted with a resolution of the Supervisory Board of 15 December 2009, the Board holds meetings at least once every two months. Meetings of the Board are convened by the Chair or Deputy-Chair of the Board, who will also present a detail agenda. A Supervisory Board meeting should be convened at the request of any Supervisory Board member or at the request of the Management Board. A meeting of the Board will be convened within two weeks from the date when a request is received. For a meeting of the Board to be convened, all the members of the Board must be invited in writing at least seven days before the meeting. For valid reasons, the Chairman of the Board can reduce that notice period to two days, specifying the manner of delivering the invitations. In an invitation to a meeting of the Board, the Chair will specify the time and venue of the meeting and include a detailed draft agenda. He will also enclose materials with the invitation relating to the matters included on the agenda. A Supervisory Board meeting should be convened at the request of any Supervisory Board member or at the request of the Management Board.

Supervisory Board meetings are chaired by its Chairman, or, in his/her absence, by the Deputy Chairman or other Supervisory Board member appointed at the meeting. The proposed agenda can be changed if all the members of the Board are present at the meeting and no one objects to the agenda. Any matters that are not included on the agenda will be included on the agenda of the next meeting. Participation in Supervisory Board meetings is obligatory for Board members. Supervisory Board members are required to justify their absence from a Meeting in writing. Member absence reconciliation requires a resolution of the Supervisory Board.

The Supervisory Board can adopt resolutions if at least half of its members are present at the meeting and all of the members have been correctly notified of the meeting. The Supervisory Board adopts resolutions by an absolute majority of votes, i.e. by a majority of more than half the votes cast. Abstentions are deemed to be votes cast against the resolution. In the event of an equal number of votes in adopting a Supervisory Board resolution, the casting vote is held by the chairman of the Supervisory Board.

The Supervisory Board can also adopt resolutions in writing, by signing the same copy (or copies) or the draft resolution or separate documents with the same content, or by telephone or by other means of remote communication, in a manner that allows all the members participating in the meeting to directly communicate with each other. Adopting a resolution by this procedure requires that a justification for the resolution be drawn up in advance and that a draft resolution be presented to all the members of the Supervisory Board together with the justification. Resolutions cannot be adopted in writing or remotely using means of direct communication for elections of the Chair or Deputy-Chair of the Board, appointing a member of the Management Board or recalling or suspending those persons. Resolutions adopted in writing or remotely using means of direct communication are presented at the next meeting of the Supervisory Board with the outcome of the voting. Supervisory Board members may participate in adopting resolutions by casting votes in writing through another Supervisory Board Member, subject to Article 388 § 2 and 4 of the Commercial Companies Code.

The Supervisory Board Regulations of ENEA S.A. also provide for the appointment of two Committees of the Supervisory Board, i.e. the Audit Committee and the Nominations and Remuneration Committee.

Pursuant to the Supervisory Board Regulations, a committee consists of at least three members appointed by the Board from among its members for a period corresponding to the length of the Board's term. The members of the committee elect a chair of the committee from among their number. The chair of the committee directs and supervises the committee's work, particularly the organisation and procedure of committee meetings. Committee meetings are convened by the chair of the committee or, if he is absent, by a member of the Board indicated by him. Notifications of committee meetings are subject to the provisions on notifications of Board meetings, as appropriate. However, committee meetings should be held once per quarter, before the Company publishes its financial statements. Only persons invited by the chair can take part in committee meetings. Committee resolutions are adopted by an ordinary majority of votes. In the event of an equal number of votes, the chair of the committee has the casting vote. Committee resolutions are adopted at meetings or remotely using a means of direct communication. The chair of the committee submits resolutions, motions and reports on matters on the Board's agenda to the Board, as well as other motions, including motions regarding the need to draw up an expert opinion or an opinion concerning the scope of the committee's tasks for the needs of the committee or employ an adviser.

Pursuant to § 8 item 5 of the Supervisory Board Regulations the task of the Audit Committee is to advise the Board regarding the internal policy and budget procedures adopted by the Company and inspect them and advise on the Company's contacts with the certified auditor, in particular:



- (a) monitoring the accuracy of the financial information presented by the Company, particularly by reviewing the appropriateness and consistency of the application of the accounting methods adopted by the Company and its group (including the criteria for consolidating the financial statements of the companies in the group),
- (b) monitoring the process of financial reporting,
- (c) monitoring the effectiveness of internal control systems, internal audits and risk management,
- (d) monitoring the financial audit and presenting recommendations to the Board regarding the selection, appointment, re-appointment and dismissal of the external auditor by the authorised body and regarding the terms and conditions of his engagement,
- (e) monitoring the independence of the auditor and the entity authorised to audit the financial statements, including in the case of the provision of services as specified in Article 48 item 2. of the Act on Auditors,
- (f) evaluating and submitting an annual internal audit plan to the Supervisory Board for approval,
- (g) evaluating and submitting an annual internal audit unit budget to the Supervisory Board for approval,
- (h) evaluating and submitting changes in the scope of activities of the internal audit unit to the Supervisory Board for approval,
- (i) discussing any problems or reservations that might result from auditing financial statements,
- (j) discussing the nature and scope of the audit with the Company's certified auditors before the commencement of each audit of the annual financial statements and monitoring the coordination of work between the Company's certified auditors,
- (k) reviewing internal control and risk management systems at least once a year, in order to ensure that key risks (including those associated with compliance with applicable provisions of law and regulations) are correctly identified, managed and disclosed,
- (l) ensuring the effectiveness of the internal audit by expressing an opinion on the election, appointment or recall of the head of the internal audit department, as well as monitoring the reaction of the Management Board of the Company to its findings and recommendations,
- (m) issuing an opinion on withdrawing from the payment conditions (reducing the remuneration) of the Director of the Inspection and Audit Office,
- (n) analysing reports of the Company's internal auditors and the key conclusions of other internal analysts and the Management Board's response to those conclusions, including examining the degree of independence of internal auditors,
- (o) inspecting the nature and scope of non-auditing services, in particular on the basis of the external auditor disclosing the sum total of all fees paid by the Company and its group to the auditing firm and its chain, in order to prevent a material conflict of interests in that context,
- (p) reviewing the effectiveness of the external auditing process and monitoring the response of the Management Board to written recommendations presented to it by external auditors,
- (q) examining issues being the reason for dismissing an external auditor and issuing recommendations on required action,
- (r) cooperating with the Company's organisational units responsible for auditing and control and periodically assessing their work,
- (s) reviewing the Company's system of management accounting.

Pursuant to § 9 item 2 of the Supervisory Board Regulations the task of the Nominations and Remuneration Committee is to promote the achievement of the Company's strategic objectives by presenting opinions and motions to the Board regarding the structure of employment and the remuneration paid to the Company's personnel, particularly management personnel. The Committee's tasks include:

- (a) analysing Management Board policy concerning the nomination, election and appointment of high-level managerial personnel,
- (b) presenting proposals to the Board relating to the remuneration and forms of employment of members of the Management Board, taking into account their previous achievements,
- (c) presenting opinions to the Supervisory Board on the justification for awarding performance-based remuneration and on incentives based on realisation of tasks and goals of the Company and proposals in that respect,
- (d) assessing the Company's human resources management system,
- (e) periodically assessing the skills, knowledge and experience of individual members of the Management Board and management personnel and presenting the results of the assessment to the Board.



As at the date of preparation of this report, i.e. 10 April 2012, the composition of the Committees of the Supervisory Board of the Company is as follows:

1. Audit Committee:

- Graham Wood – Chairman,
- Małgorzata Aniołek - Deputy Chairman,
- Wojciech Chmielewski – Member,
- Agnieszka Mańkowska – Member.

2. Nominations and Remuneration Committee:

- Michał Kowalewski – Chairman,
- Tadeusz Dachowski - Deputy-Chairman,
- Paweł Lisiewicz – Member,
- Jeremi Mordasewicz – Member,
- Mieczystaw Pluciński – Member.

In 2011 the Audit Committee held three meetings and adopted seven resolutions.

Meetings of the Committee were devoted, among other things, to:

- a recommendation for the Supervisory Board of ENEA S.A. concerning the appointment of: Deloitte Audyt Sp. z o.o. as the auditor responsible for carrying out reviews and audits of financial statements of ENEA S.A. and of companies belonging to ENEA Capital Group for 2011,
- assessment of methods for auditing financial statements of the Company for the financial year 2010,
- adoption of "the Report on the activity of internal audit for the period from July 2010 to March 2011",
- recommendation for the Supervisory Board of ENEA S.A. concerning centralisation of the audit in the ENEA Capital Group,
- approval and acceptance of the report from results of work of the Negotiation Team and selecting, based on them, an auditor for ENEA S.A. for 2012-2014,
- approval of "Annual auditing plan for 2012", "Proposal of the Budget of the Inspection and Audit Office for 2012" and proposal of amendments to the Regulations of internal audit in the ENEA Capital Group,
- recommendation for the Supervisory Board of ENEA S.A. concerning estimate of the system of internal control of ENEA S.A.

In addition, the Audit Committee:

- reviewed the financial statements for the first half of 2011,
- reviewed completed internal audits and accepted final reports ,
- accepted the information on the current status of the implementation of the Project "Development and implementation of risk management system in the ENEA Capital Group",
- made estimates of the progress of works within reorganisation of the internal audit.

In 2011 the Nominations and Remuneration Committee held five meetings and adopted nineteen resolutions.

Meetings of the Committee were devoted, among other things, to:

- recommendations for the Supervisory Board of ENEA S.A. concerning approvals granted to Members of the Board of ENEA S.A. for holding positions of a member of a body in Boards and a member of a body in Supervisory Boards of companies composing the ENEA Capital Group,
- recommendation for the Supervisory Board of ENEA S.A. concerning award of an annual award for the President of the Board of ENEA S.A.,
- recommendation for the Supervisory Board of ENEA S.A. concerning determination of new rules of recruiting and remunerating members of the Board, including the President of the Board of ENEA S.A. concerning among others conclusion in lieu of the employment contract of a civil-law Agreement on provision of services within management,
- recommendation for the Supervisory Board of ENEA S.A. concerning changes to the template Agreement on provision of services within management concluded with Members of the Board of ENEA S.A. containing



among others specification of a catalogue of other justified expenses incurred in relation to the direct execution of the agreement, period of no competition bidding for the members of the Board after expiry or termination of the Agreement and amount of the fixed remuneration to which Members of the Board of ENEA S.A. are entitled to by title of its execution.

8. ADDITIONAL INFORMATION

8.1. The entity authorised to audit financial statements

By a resolution of the Supervisory Board of 17 January 2011, Deloitte Audyt Sp. z o.o. was chosen to conduct the audit of the non-consolidated and consolidated annual financial statements of ENEA S.A. for 2011 and to audit mid-year non-consolidated statements of ENEA S.A. and mid-year consolidated statements of ENEA Capital Group prepared as at 31 March 2011, 30 June 2011 and 30 September 2011. The financial statements audit agreement was signed on 1 March 2011.

Deloitte Audyt Sp. z o.o. with its registered office in Poznan is an entity entered into the list of entities authorised to audit financial statements kept by the National Chamber of Statutory Auditors from 7 February 1995, under the registry no 73.

The table below presents the net fees due to Deloitte Audyt Sp. z o.o. under services to ENEA S.A. concerning a given financial year (expressed in '000 PLN):

	01.01.2011 31.12.2011	01.01.2010 31.12.2010
Deloitte Audyt Sp. z o.o.'s remuneration for auditing and reviewing the non-consolidated and consolidated financial statements of ENEA S.A.	316	169
Deloitte Audyt Sp. z o.o.'s remuneration for other certification services provided to ENEA S.A. – including review of the financial statements	2	144
Deloitte Audyt Sp. z o.o.'s remuneration for tax advisory services	0	0
Deloitte Audyt Sp. z o.o.'s remuneration for other services	0	590
TOTAL	318	903

8.2. Achievements in the area of research and development

Substantially the Companies from the ENEA Capital Group do not have any important achievements within the area of research and development.

8.3. Environmental issues

Companies belonging to the ENEA Capital Group as business entities using the environment, considering the operating profiles of each of them, were required to comply with certain legal regulations. With regard to environmental protection, the Company was subject to the following basic legislation:

- The Environmental Protection Law of 27 April 2001, as amended (uniform text published in Journal of Laws No. 25, item 150 of 2008, as amended).
- Act of 27 April 2001 on wastes (Dz. No. 39, item 251 from 2005 as amended).
- The Water Law of 18 July 2001 (uniform text: Announcement of the Speaker of the Sejm of the Republic of Poland of 18 November 2005 Journal of Laws No. 239, item 2019 as amended).



- The Act of 28 April 2011 on the system of trading in allowances to emit greenhouse gases (Journal of Laws No. No. 122, item 695).
- The Act on Used Electrical and Electronic Equipment of 29 July 2005 (Journal of Laws No. 180, item 1495 from 2005).
- The Law on Making Information Available on the Environment, Environmental Protection, and Society's Participation in Environmental Protection and on Environmental Impact Assessments of 3 October 2008 (Journal of Laws No. 199, item 1227 from 2008).

ENEA S.A. owns office buildings and holiday centres. The Company uses the environment by:

- collecting water from its own intakes;
- disposing of sewage into a river,
- polluting the air by:
 - fuel combustion in the engines of the Company's vehicles,
 - fuel combustion in heating devices.

The boiler houses operated in ENEA S.A.'s facilities did not require permits and did not have to be notified to the county administrator in accordance with the Regulation of the Minister of the Environment of 22 December 2004 on types of installation whose operation requires notification (Journal of Laws No. No. 283, item 2839 from 2004).

Because ENEA S.A. fulfilled its obligations under environmental protection laws, in 2011 it was not threatened with any penal sanctions for failing to fulfil such requirements and it did not receive any penalties.

Specifications and nature of the operations of Kozenice Power Plant

Kozenice Power Plant is a condensation power plant in which the basic fuel utilised in the generation of electricity is bituminous coal.

The main impact of Kozenice Power Plant is in connection with emissions of atmospheric pollution, storage of combustion waste, intake of water and disposal of sewage. Main pollutants emitted into the atmosphere include sulphur dioxide, nitric oxide, dust and carbon dioxide.

Environmental Protection		
Emission [Mg]		
Pollution	2011	2010
DUST	1 048	1 078
SO ₂	31 279	35 145
NO _x	20 375	21 718
CO	994	1 437
CO ₂	10 299 069	10 835 725
Waste (mixture of ash and slag)	242 017	390 623

Reduction in the emission of pollutants

The power plant has fume anti-dust installations with high-efficiency electrostatic precipitators mounted on each of its energy units. Taken into account in the modernisation, renovation and investment cycle of the units is the need for the power plant to keep the permissible level of concentration of dust in the fumes from each



unit, which must not be higher than 50 mg/Nm³. The exchange of electrofilters during the last years was performed on unit no 1 (in 2006), unit no 1 (in 2007) unit no 6 (in 2008), unit no 10 (in 2010) and unit no 4 in 2011, and in June 2011 an agreement was concluded with Rafako for execution of this installation.

The power plant has in place installations for initial reduction of nitric oxides. Their role is to limit the concentration of nitric oxides to a guaranteed level of 500 mg/Nm³, utilising such devices as ROBTAS low-emission burners and a system of air nozzles installed on the front and rear walls of the furnaces above the burner zone (so-called OFA, SOFA nozzles).

Due to the restriction of emissions standards after 2015 with regard to nitrates to 200 mg/Nm³, it will be necessary to build a catalytic de-nitration system on individual power units. In 2010 a tender for fumes denitration installations on 5 units 200 MW No. 4-8 was published. In June 2011 an agreement was concluded with Rafako Raciborz for development of the installation of the catalytic denitrogenation of flue gases (SCR) on 200 Mw units no 4-8.

Restricting emissions of SO₂ is handled by fume desulphurisation installations using the wet limestone method: IOS I for 560 MW of installed power covering unit no 9, IOS III for 560 MW of installed power covering unit no 10, and IOS II for 800 MW of installed power covering the 200 MW units no 2-8.

In order to adjust the emission of SO₂ to the stricter norms resulting from implementation of Current community legal regulations in 2011 a concept was elaborated for localisation of the fue gas desulphurisation plant (IOS IV) for the power of 800 MW (units 4x 200 MW) with the functional and utility program enabling preparation and realisation of the investment till 2015 inclusive. Realisation of the project will allow for optimum utilisation of working time and production time of electricity from 200 MW units with keeping of the EU current standards of emission (Directive 2010/75/EU).

Waste management

Waste management is conducted in accordance with the applicable laws, i.e. the Waste Materials Act of 21 April 2001. The Company has an ash and cinder storage facility with an active storage area of 313 ha, consisting of 6 storage fields from which have also been delineated a burner waste warehouse and a storage facility and warehouse for gypsum from the Flue Gas Desulphurisation Plant.

In 2011, activities were undertaken aimed at making the greatest possible use of burner waste, with a waste use ratio of 72.62 per cent. In 2011 140.2 tonnes of gypsum from desulphurising system were utilised (the amount produced was 149,500 tonnes).

Important are also sales of: fly-ash 518,265.83 tonnes, microspheres (dry) 1,477.45 tonnes, ACM (wet) 23,676.35 tonnes and the purchase of a service for the management, removal and commercial use of ash and cinder mixture (ACM) from the ash and cinder storage facility in the quantity of 224,360.41 tonnes (wet).

In the vicinity of the waste storage facilities, systematic monitoring of the quality of the environment is carried out in accordance with the relevant binding regulations. The physical and chemical properties of the ash and cinders are tested, as is water quality. The results of tests carried out indicate only a small impact on the environment.

The power plant undertakes activity designed to avoid repeated spread of dust, through periodic sprinkling of fields, flooding of fields not in use and protecting surfaces with membrane-forming chemicals, maintenance and conservation works (maintaining green areas and the area of the storage facility, planting trees and bushes), and hydroseeding embankments.

Fuel management in terms of the requirements of the trade in entitlements to CO₂ emissions, generation of electricity in high-efficiency cogeneration, and production from renewable energy sources (RES).

As a result of the application of the requirements of Directives of the European Parliament and the Council of Europe to the Polish jurisdiction, including at the Koziencice Power Plant, tasks are being carried out as a result of introducing:

- CO₂ emission allowances trading scheme,
- production from renewable sources of energy,
- generation of electricity.



For the purposes of the emissions trading, CO₂ emissions are monitored using, since 2008, our own certified chemical laboratory. All annual reports, including that for 2010 (the fourth year of settlement period II), have been approved.

A solid biomass and coal co-burner installation built in 2007 for 200 MW units which was then modernised during 2009-2010 enabled the continuous production of electricity from RES – in 2011 in the amount of 393,077.915 MWh.

In 2011, 219,302.8 Mg of biomass was fired. That amount of biomass consumed results in a reduction in carbon dioxide emissions of 357,286.3 Mg.

Thanks to the conducted modernisation of the low compression part of the turbines on 200 MW and 500 MW units and of the high and low compression part of the turbines on 500 MW units we have successfully reduced the individual coal consumption and thus the emission of CO₂ to the atmosphere was reduced.

8.4. Information on employment

The table below shows ENEA S.A.'s employment level and average employment for the year 2011, divided into trade and other activities.

	State as at 31 December 2011	Annual average in 2011
Trade	136.00	221.20
Other activity	248.28	246.23
TOTAL	384.28	467.43

The employment status as at 31 December 2011 amounted to 384.28 full-time equivalents and at the end of the analogical period of the previous year it amounted to 519.13 full-time equivalents. A drop in the employment results from reorganisation changes connected with transfer of the so far employees of ENEA S.A. w in the mode of Art. 23¹ of the Labour Code to other companies of the Capital Group.

The table below shows employment at subsidiaries in 2011.

Item	Employment at the end of the month in FTEs	Annual average in 2011 cumulatively
Auto-Styl Sp. z o.o.	47.00	46.67
BHU Spolka Akcyjna	172.50	173.08
Kozienice Power Plant	2 327.38	2 342.00
Elektrownie Wodne	161.25	163.62
ENEA Operator	5 368.51	5 499.05
ENEOS Sp. z o.o.	123.25	121.95



ENEA Centrum S.A.	143.64	60.53
Energetyka Poznanska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o.	590.28	585.43
Energetyka Poznanska Zakład Transportu Sp. z o.o.	59.25	60.33
Energomiar Sp. z o.o.	198.25	199.11
Energo-Tour Sp. z o.o.	21.50	22.00
ENTUR Sp. z o.o.	5.00	5.00
FINEA Sp. z o.o.	0.00	0.50
Hotel EDISON Sp. z o.o.	22.00	21.06
ITSERWIS Sp. z o.o.	89.70	89.14
Kozienice II Sp. z o.o.	0.00	2.45
Miejska Energetyka Ciepła Pila Sp. z o.o. with its registered office in Pila	167.00	166.75
Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o.	80.00	81.72
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. z siedziba w Obornikach	37.00	35.75
Bialystok Heat and Power Plant	186.00	107.98
DOBITT ENERGIA Sp. z o.o.	2.00	1.20
Annacond Enterprises	2.00	0.72
COMPANIES TOTAL	9 803.51	9 786.04

8.5. Principles of preparation of an annual consolidated financial statement

This report on the activity of the Group for the financial year of 2011 was prepared in accordance with § 92 item 1(4) and § 92 item 3 in connection with §91 item 5-6 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions of



recognising as equivalent information required by legal regulations of a state not being a member state (Journal of Laws No 33, item 259 as amended).

Consolidated financial statement of the Capital Group included in the consolidated report of ENEA S.A. for the financial year of 2011 was prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) approved by the European Union.

Consolidated financial statement of the Capital Group was prepared with assumption of continuing of the economic activities by the Capital Group in the foreseeable future. The Company's Board states, as at the signature of the consolidated report, no facts or circumstances that could indicate any threats to the possibility of continuing of the activity during the period of 12 months after the balance sheet date as a result of a wilful or mandatory negligence or substantial limitation of the so far activities.

Financial data presented in this report, if not stated otherwise, were presented in thousands of PLN.

8.6. Glossary of industry terms

White certificates - full name "energy efficiency certificate" pursuant to the Draft Act on Energy Efficiency is an acknowledgement of declared energy savings resulting from a project aimed at improving energy efficiency.

Green certificates - certificate confirming generation of electric energy from renewable sources.

Red, yellow and violet certificates - energy certificate of origin acknowledging production of electric energy under highly efficient co-generation processes. A certificate of origin from cogeneration is issued separately for electricity produced in high-efficiency cogeneration in a cogeneration unit:

1. fuelled by gas or with a total installed electrical power of less than 1 MW - yellow certificates,
2. fuelled by methane released and captured at lower mining levels in bituminous coal mines that are active, being closed down or already closed down, or by gas obtained from biomass processing within the meaning of Article 2 item 1 2) of the Act on Biocomponents and Liquid Biofuels - violet certificates,
3. other than that mentioned in pt. 1 and 2 - red certificates.

Cogeneration - simultaneous production of heat and electrical or mechanical energy during the same technological process.

Statistical sales - non-invoiced sales estimated in the billing system when the date of billing readout does not fall on the last day of the settlement year in question.

Estimating volumes of energy sold and non-invoiced takes place on the basis of data contained in the last settlement invoice (or form) issued prior to the last day of the settlement year for the period directly preceding the period under evaluation

Balancing market - System market organized by the transmission or distribution system operator as a part of provided transmission or distribution services, involving balancing the demand for gas fuel or electrical energy with supplies of such fuels or energy

OH – Commercial Co-ordinator

OHT – Scheduling Co-ordinator

PPE –Polish Power Exchange



Signatures of the Management Board

The Report of the Management Board prepared on: 10 April 2012

The Report of the Management Board published on: 27 April 2012

Signatures:

President of the Board **Maciej Owczarek**

**Member of the Board
for Commercial Affairs** **Janusz Bil**

**Member of the Board
for Economic Affairs** **Hubert Rozpędek**

**Member of the Board
for Power Generation** **Krzysztof Zborowski**



