

Report of the Management Board

on the operations of the
ENEA Capital Group
in the first half of 2011
Poznan, 29 August 2011



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1. Description of the organisation of the issuer's capital group and consequences of changes in the structure of the Capital Group.

1.1. Composition of the ENEA Capital Group.

As at 30 June 2011 the Capital Group consisted of the parent company ENEA S.A. (the "Company", or "Parent Company"), 20 subsidiaries and two associated companies. Within the ENEA Capital Group (the "Group"), there are three leading companies: ENEA S.A. (trade in electricity), ENEA Operator Sp. z o.o. (distribution of electricity) and Elektrownia Koźienice S.A. (generation of electricity). The remaining entities provide support activities in relation to the above companies.

General information regarding ENEA S.A.:

Name (business name):	ENEA Spółka Akcyjna
Legal form:	Joint-stock company
Country of registration:	Republic of Poland
Registered office:	Poznan
Address:	ul. Nowowiejskiego 11, 60-967 Poznan
National Court Register - District Court in Poznan	KRS 0000012483
Telephone number::	(+48 61) 856 10 00
Fax:	(+48 61) 856 11 17
E-mail:	enea@enea.pl
Website:	www.enea.pl
Statistical classification number (REGON):	630139960
Tax identification number (NIP):	777-00-20-640

Besides activities carried on by the Parent Company (including trading in electricity), the ENEA Capital Group carries on the following business:

1. **ENEA Operator Sp. z o.o.** with its registered office in Poznan. 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 Sp. z o.o. as the operator of an electrical energy distribution system for the life of the licence.
2. **Elektrownia „Koźienice” S.A.** with its registered office in Swierze Gorne. The core business of Elektrownia Koźienice S.A. is the generation of electricity and heat co-generated with electricity.
3. **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.
4. **BHU S.A.** with its registered office in Poznan, trading in electrical power equipment, tools and materials.
5. **Hotel EDISON Sp. z o.o.** with its registered office in Baranow, engaged in the hotel, restaurant, training, sports and recreation business.
6. **Energetyka Poznanska Zaklad Transportu Sp. z o.o.** with its registered office in Poznan, established to provide road transport and vehicle maintenance services.
7. **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.



8. **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.
9. **Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o.** with its registered office in Inowroclaw, operating in the field of healthcare and physiotherapy.
10. **Elektrownie Wodne Sp. z o.o.** with its registered office in Samociazek, engaged in the generation of electricity from RES.
11. **Eneos Sp. z o.o.** with its registered office in Poznan, engaged in the operation and maintenance of street lighting.
12. **ENTUR Sp. z o.o.** with its registered office in Szczecin, engaged in recreation, hotel, tourism and restaurant services, as well as healthcare.
13. **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.
14. **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.
15. **Miejska Energetyka Ciepła 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.
16. **Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.** with its registered office in Oborniki, engaged in the generation, transmission and distribution of heat.
17. **Energetyka Poznańska Biuro Usług Technicznych S.A.** with its registered office in Poznan is preparing to commence conducting of customer service for the account of ENEA SA
18. **FINEA Sp. z o.o. w likwidacji** (in liquidation) with its registered office in Poznan, has been so far providing debt collection services on behalf of the ENEA Capital Group. After an amendment of its company objects it was to have engaged in the generation, transmission, distribution and trading in electricity and gaseous fuels from renewable sources using biogas technologies, but due to the change in the concept within this scope, on 11 June 2010 the company was placed in liquidation.
19. **Elektrociepłownia Białystok S.A.** with its registered office in Białystok is engaged with production of heat and power energy.
20. **DOBITT ENERGIA Sp. z o.o.** with its registered office in Gorzesław, municipality of Bierutów, is engaged in the investment consisting in the construction of a biogas plant.

In relation to affiliates the following activity is conducted:

1. **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.
2. **Przedsiębiorstwo Energetyki Ciepłej w Sremie S.A.** with its registered office in Srem - engaged in the generation and distribution of heat.

Subsidiaries.

The ENEA Capital Group includes 20 subsidiaries, in which ENEA S.A. holds shares with a total nominal value of PLN 5,540,586,980 thousand, and which, as at 30 June 2011, constituted 99.79 per cent of their total share capital of PLN 5,552,337,990.



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

Item	Company name and address	Share capital – nominal value [PLN '000]	Shareholding of ENEA S.A. [PLN '000]	Percentage of capital and voting rights held by ENEA S.A.
1	BHU Spółka Akcyjna ul. Strzeszyńska 58, 60-479 Poznań	16,375.10	15,155.2	92.55
2	Energetyka Poznanska Biuro Usług Technicznych S.A. ul. Sw. Wojciecha 7/9, 61-749 Poznan	1,973.70	1,973.70	100.00
3	Hotel EDISON Sp. z o.o. Baranowo k/Poznania, 62-081 Przeźmierowo	21,271.50	21,271.50	100.00
4	Energetyka Poznanska Zakład Transportu Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznan	4,975.50	4,975.50	100.00
5	ENERGOMIAR Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznan	2,749.00	2,749.00	100.00
6	Energetyka Poznanska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o. Gronowko 30, 64-111 Lipno k/Leszna	7,634.00	7,634.00	100.00
7	ENERGO-TOUR Sp. z o.o. ul. Marcinkowskiego 27, 61-745 Poznan	9,543.00	9,535.00	99.92
8	ENEA Operator Sp. z o.o. ul. Strzeszynska 58, 60-479 Poznan	4,678,050.00 *	4,678,050.00	100.00
9	Elektrownia „Kozienice” S.A. Swierze Gorne, gmina Kozienice, 26-900 Kozienice 1	462,482.44	462,482.44	100.00
10	ITSERWIS Sp. z o. o. ul. Zacisze 28, 65-775 Zielona Gora	6,364.00	6,364.00	100.00
11	Auto-Styl Sp. z o.o. ul. Zacisze 15, 65-775 Zielona Gora	2,200.00	2,200.00	100.00
12	FINEA Sp. z o.o. w likwidacji** (in liquidation) ul. Warszawska 43, 60-028 Poznan	5,323.00	5,323.00	100.00
13	Eneos Sp. z o.o. ul. Strzeszynska 58, 60-479 Poznan	19,559.00	19,559.00	100.00
14	ENTUR Sp. z o. o. ul. Malczewskiego 5/7 71-616 Szczecin	4,134.50	4,134.50	100.00
15	Elektrownie Wodne Sp. z o.o. Samociazek 92, 86-010 Koronowo	239,841.00	239,841.00	100.00
16	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o. ul. Wilkonskiego 2, 88-100 Inowroclaw	17,448.00	17,438.00	99.94
17	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. ul. Wybudowanie 56, 64-600 Oborniki	5,182.50	4,712.00	90.92
18	Miejska Energetyka Ciepła Sp. z o.o. ul. Kaczorska 20, 64-920 Piła	28,689.00	18,657.00	65.03
19	Elektrociepłownia Białystok S.A. ul. Gen. Andersa 3, 15-124 Białystok	18,442.75	18,432.14	99.94
20	DOBITT ENERGIA Sp. z o.o. Gorzeslaw 8, 56-420 Bierutów	100.00	100.00	100.00
	TOTAL	5,552,337.99	5,540,586.98	99.79



* 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 for in-kind contributions.

** FINEA Sp. z o.o. in liquidation was deleted from the National Court Register on 20 July 2011.

Affiliated companies

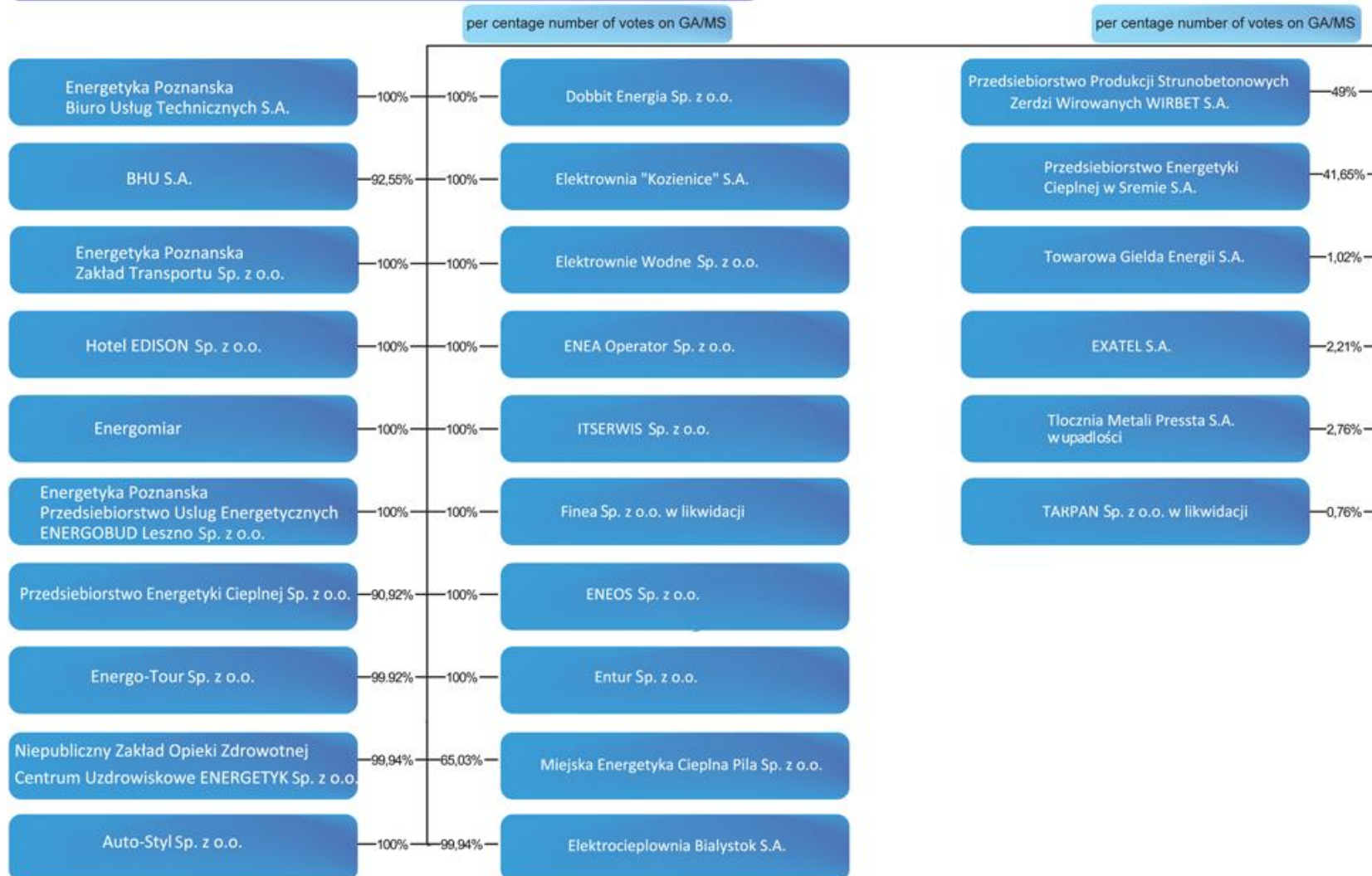
	Company name and address	Share capital – nominal value [PLN '000]	Shareholding of ENEA S.A. [PLN '000]	Per centage of capital and voting rights held by ENEA S.A.
1	Przedsiębiorstwo Produkcji Strunobetonowych Zerdzi Wirowanych WIRBET S.A. ul. Chlapowskiego 51, 63-400 Ostrow Wlkp.	5,490.00	2,690.00	49.00
2	Przedsiębiorstwo Energetyki Ciepłej w Sremie S.A. * ul. Staszica 6, 63-100 Srem	16,470.00	6,860.00	41.65

* Przedsiębiorstwo Energetyki Ciepłej w Sremie S.A. was sold on 13 July 2011.



The structure of the ENEA Capital Group as at 30 June 2011

ENEA S.A.



The structure of ENEA according to segments (as at 30 June 2011)



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:

- Developing the core operations of the Group;
- Improving the effectiveness of how the Group functions;
- Building a socially responsible business.

Within the strategic area concerning the development of the core operations of the Group, one of the long-term strategic directions is for the Group to gain access to its own sources of power generation with enough capacity to at least meet the electricity needs of all the Group's customers.

The first step towards carrying out that strategy was joining the Kozienice Power Plant, Poland's highest-capacity bituminous coal-fired power plant, to the ENEA Capital Group in October 2007.

Irrespective of the opportunities there may be to acquire additional generation capacity by acquiring existing entities, we are planning to increase our own generation capacity, including at the Kozienice Power Plant, where by 2016 we plan to construct a new power unit with a total capacity of approximately 1,000 MW. In addition, we are carrying out a preparatory analysis for the construction of another 1,000 MW power unit at the Kozienice Power Plant.

In connection with anticipated increases in the requirements for renewable and co-generated energy sources, we are taking action aimed at increasing our control over the costs of meeting the legal requirements. Towards this end, we plan to continue concluding long-term agreements for the purchase of energy certificates for energy production from renewable sources and cogeneration from external entities, as well as to carry out direct investments in such sources. Our intention is to invest in wind farm projects, agricultural biogas plants, already begun and at varying stages of advancement, by acquiring existing entities or investing in new projects in cooperation with external entities. There are four possible acquisition scenarios, depending on the stage of a given project: searching for projects that would in part be implemented by a third-party entity on a developer services basis, purchasing a project from a third-party entity before that entity has obtained a building permit, with independent further development of the project, purchasing projects/special purpose vehicles (set up by developers for the purpose of implementing a project) after a final building permit has been issued for the project/special purpose vehicle, or purchasing 'turnkey' completed wind farms and biogas plants.

Furthermore, in the near future we plan to acquire thermal plants. Acquired thermal plants will be modernized and transformed into thermal-electric plants, including those fuelled by biomass, which will generate electricity and heat through cogeneration, enabling us to obtain additional certificates of origin for energy. ENEA S.A. is also interested in acquisition of water power plants.

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. A fundamental task of this new model is to guarantee that the ENEA Capital Group will be able to function flexibly over the long term, thereby taking full advantage of the opportunities and meeting the challenges that arise in the Polish power industry.



1.3. Description of principal capital deposits and investments.

In implementing the Company's strategy for the development of the ENEA Capital Group, a number of capital investments were made in the first six months of 2011:

- On 27 December 2010 the Extraordinary General Meeting of Shareholders was held, during which the share capital of the company BHU S.A. was increased by PLN 2,072,000.00, by an issue of 20 720 series K shares, as private subscription, in return 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 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, the right of perpetual usufruct of the real estate and the ownership right to the buildings were transferred.
On 21 January 2011 the increased share capital of BHU S.A. (from PLN 14,303,100 by PLN 2,072,000 to PLN 16,375,100) was registered in the National Court Register.
- On 30 December 2010 the Extraordinary General Meeting of Shareholders of Miejska Energetyka Ciepna Pila 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 773,000.00 (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. On 24 February 2011 the increased share capital was registered in the National Court Register.
- On 7 February 2011 the increasing of the share capital of Elektrownie Wodne Sp. z o.o. was registered in the National Court Register, by PLN 26,000,000, i.e. to the amount of PLN 239,841,000. Any newly established shares in the share capital of the Company were taken up by the present shareholder – ENEA S.A. and paid in full with non-cash contribution (contribution in-kind) in the form of the organized part of the company of ENEA S.A. acting under the company: ENEA S.A. Oddzial Elektrownia Biogazowa Liszkowo.
- 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.
- Implementing the Strategy of ENEA S.A. predicting investments in energy renewable sources, including the acquisition and construction of a biogas plant, ENEA S.A. on 11 May 2011 purchased 100 per cent of the shares in DOBITT ENERGIA Sp. z o.o. with its registered office in Gorzeslaw, which is the owner of the building project and building permit for construction of an agricultural biogas plant with the power of 1.6 MWe and the owner of the land designated under the investment. The value of the transaction amounted to 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 is pending registration in the National Court Register.
- On 13 May 2011 the Extraordinary General Meeting of Shareholders of Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. with its registered Office in Oborniki, with the Resolution No. 1 approved purchase by ENEA S.A. of 1,234 employee shares for the amount of PLN 1,275.00 per each share 1, in four tranches
 - till 11 June 2011 – I tranche in the amount of 314 shares,
 - till 11 June 2012 – II tranche in the amount of 308 shares,
 - till 11 June 2013 – III tranche in the amount of 297 shares,
 - till 11 December 2013 – IV tranche in the amount of 315 shares.Within the realisation of the purchase of the first tranche of the shares ENEA S.A. purchased 304 employee shares in the amount of PLN 387,600.00. 10 shares remain to be purchased by ENEA S.A. within the first tranche.



- On 1 June 2011 ENEA S.A. purchased 1,283,214 shares of Elektrociepłownia Białystok 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.
- On 13 July 2011 ENEA S.A. sold 6,860 (*say: six thousand eight hundred and sixty*) shares in the share capital of Przedsiębiorstwo Energetyki Ciepłej w Śremie for the account of CENTROZAP S.A. with its registered office in Katowice. Thus, ENEA S.A. is no longer the shareholder of the aforementioned company.

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

In H1 2011 preparations were in progress to acquire the customer service in ENEA Group by Energetyka Poznańska Biuro Usług Technicznych S.A. Transfer of the activity within customer service to EP BUT SA and transfer of employees of ENEA S.A. constitute the completion of I stage of the project the objective of which is to improve the effectiveness of the action of the whole organization and adaptation of the Group's structure to the world's standards in the market of electric energy. The aim of the project is implementation of a uniform service of customers of ENEA Group. It will allow for concentration in that company of competences within service, specialisation within this field and responsibility for service quality and customer satisfaction. On 17 August 2011 the change of the name of the company to ENEA Centrum S.A. was registered.

On 30 March 2011 the merger of Elektrownia „Kozienice” S.A. (Continuing Company) with Kozienice II Sp. z o.o. (Target Company) was registered through the transfer of the total equity of the Target Company to the Continuing Company with a simultaneous increasing of the share capital of the Continuing Company, by issue of the shares directed to ENEA S.A. The share capital of Elektrownia „Kozienice” S.A. in effect of the merger of the companies was increased by PLN 12,482,440.00 to the amount of PLN 462,482,440.00, by issue of 1,248,244 ordinary bearer shares of B series, with the nominal value of PLN 10 each.

The objective of the merger is usage of the vast experience and potential of Elektrownia „Kozienice” S.A. within Power generation assets management and making investments in new generating powers.

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 Napieć in Poznań. The registration of the Division took place on 31 January 2011.

2. The operations of the ENEA Capital Group.

2.1. Information on basic products, goods and services.

As part of its basic activities, the ENEA Capital Group (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.



Generation

Elektrownia „Kozienice” S.A.

Within our Group, the generation of electricity is carried out by Elektrownia Kozienice S.A. (hereinafter the "Power Plant", "Kozienice Power Plant"), which became part of the Group in October 2007. The company is the largest professional power plant in Poland which is fired with bituminous coal. It possesses 10 highly efficient and modernised energetic units with the total attainable power capacity of 2.905 MW. The work of the Power Plant is characterised with a low CO₂ emissions ratio (in 2010 the ratio was 880 kg/MW, and in H1 2011 it amounted to 870.026 kg/MW) and one of the lowest ratio of coal consumption per MWh of generated electricity which in H1 2011 amounted to 0.401 Mg/MWh. The Kozienice Power Plant in H1 2011 reached a general gross generating efficiency of 38.7 per cent.

The volume of electricity generated by the Kozienice Power Plant in H1 during 2010/2011 in MWh gross:

Gross electricity produced by Kozienice Power Plant (in MWh)		
period	2010	2011
H1	5,909,791.4	5,821,202.5

The Kozienice Power Plant in H1 2011 generated 5,821,202.500 MW of gross electricity. This is a level that is slightly lower than the level of production reached in the analogical period of the previous year when the Power Plant generated 5,909,791.400 MWh of gross electricity. The lower production in H1 2011 results from increasing of the volume of sales transactions for electric energy within trading in electric energy in comparison to the analogical period of 2010.

In January 2008, the Kozienice Power Plant also began producing electricity from renewable sources through the co-combustion of biomass with conventional fuel (bituminous coal). In H1 2011 the Kozienice Power Plant recognized certificates of origin for energy from renewable sources in the amount of 188,900.528 MWh. For comparison, in H1 2010 the Kozienice Power Plant recognized certificates of origin for energy from renewable sources in the amount of 121,538.835 MWh. Comparing the both analogical periods an increase by 55 per cent in the amount of energy generated from renewable sources should be emphasised.

The Company intends to systematically increase the share of biomass in the fuel which in calculation into the generated energy is to amount in 2015 to 2.1 per cent according to the plan of cost diminishing (comparing to the present 1.5 per cent)

In H1 2011 the Kozienice Power Plant purchased 104.5 thousand tonnes of biomass for the purpose of production of renewable energy. Within H1 2010/2011 the purchase of biomass is as follows:

Purchase of biomass by the Kozienice Power Plant ('000 tonnes)		
period	2010	2011
H1	65,928	104,547

The production of electric energy from energy renewable sources is possible thanks to the installation for co-combustion of solid biomass. In 2011 it is planned to complete the construction of the installation for co-combustion of liquid biomass. In H1 2011 104,505.3 Mg of biomass was used for combustion.

Such a volume of combusted biomass results in an 'avoidance of emission' of carbon dioxide in the amount of 174,134.11 Mg.



Volume of biomass combusted by the Kozenice Power (in Mg)		
period	2010	2011
H1	65,936	104,505.3

Thanks to the conducted modernisation of the low compression part of the turbines on 200 MW and 500 MW units and of the high 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 the Kozenice Power Plant in H1 during 2010/2011 was as follows:

	Energy from ERS Green certificates [MWh]	Energy from cogeneration Red certificates [MWh]
H1 2010	121,538.835	38,701.368
H1 2011	188,900.528	35,310.906

Elektrownie Wodne Sp. z o.o.

Another subsidiary, Elektrownie Wodne Sp z. o.o., is also engaged in the generation of electricity from renewable resources. The volumes of energy generated from 21 hydroelectric plants, transferred into the grid and green certificates achieved by his title in H1 2010/2011 was as follows:

	Energy generated from ERS for which Hydroelectric Plants receive green certificates of origin for energy (MWh)	Energy transferred into the grid (MWh)
H1 2010	74,353.563	73,424.187
H1 2011	91,447.049	90,013.440

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 22.5 MW, for account of which the lands were secured, changes were made to the local spatial development plan of the municipality, the realization 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 for the I stage of the power of 10 MW. Till the end of this year it is planned to achieve the decisions on environmental conditions for the realization of the undertaking.

Based on the Resolution of the Meeting of Shareholders approving the correction of the Material and financial plan for 2010 – 2012, the 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 22.5 MW and a potential 'greenfield' project with the capacity of 30 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. After the due diligence examination, appraisal and price negotiations on 30 March 2011 an agreement was executed for the purchase of the investment. Non-biding offers of



purchase of projects of wind farm were made with the total capacity of 84 MW, possessing final building permits and anticipated for realisation during 2011-12. In Q3 this year it is planned to re-open the talks concerning the project of the capacity of 102 MW, which have been earlier suspended because of possible ownership changes in the company holding exclusive rights to the project.

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 Wielkopolski 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, 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 power plant as the first and experimental object of this type in Poland is constantly in 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 H1 2010/2011:

	Volume of production of energy and number of certificates of origin for energy (MWh)
H1 2010	4,086.744
H1 2011	4,462.952

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

	Volume of production of energy and number of certificates of origin for energy (MWh)
H1 2011	5,354.213

Elektrociepłownia Białystok S.A.

Elektrociepłownia Białystok S.A. is the largest producer of heat and electricity in the Podlaskie Province. From 1993 the company functioned as a sole-shareholder company of the State Treasury. At present the Białystok Heat Power Plant is a joint stock-company in which ENEA S.A. holds 99.94 per cent of the shares. The remaining 0.06 per cent is held by individual persons (employees, former employees or their heirs).

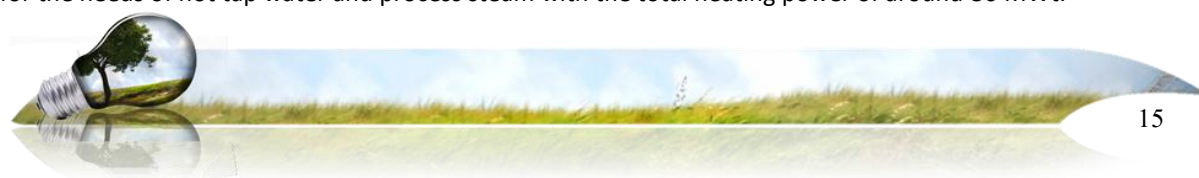
The key objective of the activity of EC Białystok S.A. is production of electricity for the National Power System and production of heat in the form of hot water for utility services recipients and of process steam for the industry.

The Basic units for production of electricity and heat are three heat units with the total heating power of 505.2 MWt and with generating capacity of 165.7 MWe. 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 Ciepłownia Zachod (Heat Power Plant) owned by the Municipal Heat Supply Company in Białystok (MPEC).

Production and sale of heat

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.

In the combined heat and power economy, 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 (in GJ)		
period	H1 2010	H1 2011
Water	1,994,951	1,866,103
Steam	217,606	213,278

Production and sale of electricity

The process of energy production in the 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 effective method of generation of heat and electric energy.

The efficiency of processing of a fuel chemical energy into effective energy in the Bialystok Heat and Power Plant amounts to over 80 %.

Efficiency (in %)		
period	2010	2011
H1	85.62	85.41

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 0.4kV to industrial plants located in the vicinity.

Production of electricity (in MWh)		
period	2010	2011
H1	239,830	289,282

Sale of electricity (in MWh)		
period	2010	2011
H1	203,174	250,321

Fuel consumption

For generation of energy the Bialystok Heat and Power Plant uses fine power coal and biomass since 2008.

An annual demand for fuels amounts to around 270,000 tonnes of biomass and around 220,000 tonnes of coal.

Due to a general repair of TZ1 turbine and closure of the biomass boiler, the consumption of biomass in H1 2010 was lower than the consumption in the analogical period of the current year.

Basic types of biomass used for energy generation:

- forest chips



- energetic willow chips
- pellet from sunflower seed husks

Fuel consumption (in Mg)		
	H1 2010	H1 2011
Coal [Mg]	119,839	122,061
Oil [Mg]	255	313
Biomass [Mg]	98,482	137,871

Property rights from ERS and CHP

In 2008 Elektrociepłownia Białystok S.A. 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 realized. Investment completion date - end of 2012.

In order to maximize energy production from ERS 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 1.0 MPa.

	Energy from ERS Green certificates [MWh]	Energy from cogeneration Red certificates [MWh]
H1 2010	55,679	239,830
H1 2011	92,537	289,282

Heat accumulator

A heat accumulator will be another, besides the TZ4 turbine and heat discharge system, element of the production infrastructure of Elektrociepłownia Białystok S.A. allowing for making generation of electricity in units with heating turbines independent from a temporal demand for heat. An energy accumulator, being presently at the stage of completion, will allow for increasing of the production of electricity in peak hours. In addition, the work of the accumulator will improve the effectiveness of production through enhancing of the efficiency of generation and will contribute to the reduction of fuel consumption and emission of harmful substances.

Environmental Protection

Elektrociepłownia Białystok S.A., as befits a company located in the area of the Green Lungs of Poland, performs its business compliant with bidding regulations and standards – possesses a certificate confirming functioning according to ISO 90001:2000 and 14001. Elektrociepłownia Białystok S.A. for many years, depending on the funds, conducts various works aiming at the minimisation of a negative impact on the environment within: emission of SPS and gases, sound emission, water and waste consumption, waste discharge and managing wastes.



Volume of emission [Mg]		
Pollution	H1 2010	H1 2011
SPS	64.509	40.227
SO2	780.551	772.77
NO2	754.213	731.689
CO	98.446	129.35
CO2 (from combustion of coal and oil)	267,885	266,149

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 ENEA Capital Group) the following project was performed - 'Construction of the Biomass Cogeneration Unit in ORC technology on the Regional Boiler House KR-Koszyce in Pila'. At present the procedure of selection of a contractor who will construct the Cogeneration Unit is in progress. The investment is to 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. ORC turbo generator with the heating power of 7.95 MWt and electric Power of 1.67 MWe, powered with the biomass fired boiler (wood chips) will generate electricity and heat energy from renewable sources, in combination being complaint with the requirements of a highly efficient cogeneration. The anticipated date of completion of the unit construction, being another source for achievement of energy certificates of origin in the ENEA Capital Group, is the end of 2013.

On 11 May 2011 ENEA S.A. purchased Dobitt Energia Sp. z o.o. 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. At present ground works and works connected with supply of water, electricity and temporary roads to the construction site are performed.

Commencement of actions to increase the volume of the production of electricity based on energy renewable sources is important to the Group in the scope that the legal regulations impose an obligation on us to achieve certificates of origin and present them for redemption to the President of ERO. These certificates must confirm: (I) generation of electric energy in renewable sources, and (II) generation of electricity in combination with heat generation (cogeneration), or in case the certificates of origin are not achieved and presented for redemption in a required quantity, to make compensatory payments. More information can be found in annual reports of ENEA S.A.

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 electricity distribution system. The Company operates in northwestern area of Poland (Provinces: Wielkopolskie, Zachodnio-pomorskie, Lubuskie, Kujawsko-pomorskie and in small part Dolnoslaskie and Pomorskie), on the area corresponding to the area of operation of ENEA S.A. ENEA Operator's distribution network covers an area of approximately 20 per cent of the country. ENEA Operator owns power lines with a total length of 109,796 km (including connections of 127,544 km). In addition the company possess 34,804 transmission stations of the total capacity of 14,035 MVA (the



information is valid as at 31 December 2010 - ENEA Operator elaborates it annually as reports for the needs of Agencja Rynku Energii (Energy Market Agency)).

On 2 February 2011 the Issuer and ENEA Operator Sp. z o.o. executed an annex to the agreement on the provision of energy distribution services the conclusion of which was announced by the Issuer in the Current Report No. 6/2010 of 15 January 2010. The agreement executed on 14 January 2010 on the provision of energy distribution services aims at ensuring provision and determination of the rules of performing of distribution services in order to realise comprehensive agreements and sales contracts concluded by the Issuer with recipients connected to the grid of ENEA Operator Sp. z o.o. The annex specified the payments for the total amount of PLN 1,8 bln net planned by title of the provision of distribution services in the period from 1 January 2011 to 31 December 2011. The amount of the payment may be corrected in the case of any discrepancies between the amount resulting from invoices and the actual due remuneration. The conclusion of the annex mentioned above was announced by the Company in the Current Report No. 10/2011 of 3 February 2011.

Trading

In H1 2011 within our Capital Group the wholesale of electricity and sale of electricity to retail users was in the major part attributed to ENEA S.A. In H1 2011 the total sales within trading in energy amounted to 7,976.6 GWh, including sales to retail users amounting to 7,530.8 GWh. The number of end users as at 30 June 2011 amounted to about 2.4 million individual users business users.

ENEA S.A., due to a small amount of local generation on the areas of ENEA Operator Sp. z o.o. covers the demand for electric energy of its customers almost in full on the energy wholesale market. In H1 2011 a substantial majority of the wholesale purchase of electricity were transactions concluded on the Polish Power Exchange and settled by the Warsaw Commodity Clearing House (Izba Rozliczeniowa Gield Towarowych S.A., IRGiT S.A.). 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 Act 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*). The remaining part of energy was purchased by ENEA S.A. from trading companies and producers (including also with the use of working brokerage platforms).

In H1 2011 Kozenice Power Plant sold the electricity generated by its entities on the Polish Power Exchange, which constituted 93.14 per cent of the sold production. In H1 2011 the total sale of the Kozenice Power Plant within the trading and generating of energy amounted to 6.5 TWh, including the sales to end users - 0,5 MWh, and sales within the possessed licence for trading in energy - 756.2 GWh.

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;
- the 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 activities (tourist destinations, healthcare).



2.2. Sales markets.

The portfolio of customers to whom we sell electricity is highly diversified. As at 30 June 2011 ENEA S.A. provided comprehensive services (consisting of the sale of electricity and provision of distribution services) or sold electricity to some 2.1 million individual customers and about 300,000 business clients.

In H1 2011, revenues from the sale of electricity to our largest client amounted to about 2.2 per cent of total revenues from the sale of electricity and provision of distribution services, and the share of the largest 10 clients amounted to ca. 11.4 per cent.

Sales to end users

We offer our customers 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 the voltage of the grid to which they are connected

This offer is directed to customers on the domestic market.

In practice, in 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, and cities and districts for street lighting, whereas in tariff group set G, settlements are made with end users using electricity to power households and related commercial premises.

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 Sp. z o.o., are most often concluded for a fixed term. The termination notice period in comprehensive contracts concluded for a fixed term is usually set for one month, and less often for two, three or six months.

Sales to other end users.

ENEA S.A. in participating in the domestic electricity market also sells on the wholesale market, including the Polish Power Exchange, and to other electricity traders. Wholesale sales volume results mainly from our efforts to optimise (at all hours of the trading day) the costs of covering the forecast demand for electricity by the Company's customers, at the same time limiting the Company's exposure risk on the balancing market.

Sales by value and type.

Electricity sales in particular tariff group sets on a quantitative basis (not including non-invoiced statistical sales) were as follows:



Item	Sales of energy [MWh]		
	H1 2010	H1 2011	Growth [%]
Tariff group set A	824,162	1,004,519	121.9
Tariff group set B	3,076,463	2,568,846	83.5
Tariff group set C	1,836,013	1,624,186	88.5
Tariff group set G	2,345,604	2,333,247	99.5
TOTAL	8,082,242	7,530,798	93.2

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

Item	Revenues on sales of electricity to end users ['000 PLN]		
	H1 2010	H1 2011	Growth [%]
Tariff group set A	193,116.8	231,703.8	120.0
Tariff group set B	810,715.7	678,861.7	83.7
Tariff group set C	539,952.4	477,355.4	88.4
Tariff group set G	572,179.2	615,969.9	107.7
TOTAL	2,115,964.1	2,003,890.8	94.7

2.3. Supply markets.

Purchase and sale of energy by ENEA S.A.

In H1 2011, a significant part of the electricity sold by ENEA S.A. constituted electricity purchased on the Polish Power Exchange. ENEA S.A. purchased the remainder on the basis of bilateral agreements (with producers, trading companies, and on trading platforms). In addition, ENEA entered into arbitrage transactions in particular market segments.

Sale of energy by the Kozenice Power Plant

From 9 August 2010 the Kozenice Power Plant is obliged to sell at least 15 per cent of the generated electricity on the Power Exchange - to which it is obliged by title of Art. 49 a item 1 Energy Law. Within realisation of the



obligation sales of generated electric energy on the Power Exchange during 1 January 2011 to 30 June 2011 constituted around 93.01 per cent of all the concluded contracts. Cumulatively, the value of the net electric energy sold by the Kozenice Power Plant on the Polish Power Exchange from 6 May 2010 to 30 June 2011 amounted to PLN 4,011,945,965.85.

Purchase of transmission services from PSE Operator

In H1 2011, ENEA Operator Sp. z o.o. bought transmission services from PSE Operator Sp z. o.o.

Coal supply

The key supplier of bituminous coal is Lubelski Wegiel Bogdanka S.A., which in H1 2011 delivered around 1.47 million tonnes, which constitutes almost 58 per cent of this commodity's volumes on a quantitative basis. Moreover, with regard to fuel coal supplies, the Power Plant works with Katowicki Holding Węglowy S.A., Jastrzebska Spolka Węglowa S.A., Kompania Węglowa S.A. PKN Orlen S.A. was the only supplier of starter fuel to Kozenice Power Plant in H1 2011. The supplied fuel is heavy fuel oil with a sulfur content up to 3 per cent.

Coal transport

We are dependent on a single railway carrier with regard to the transport of hard coal. A description of risks related to dependence on a single railway carrier is included in point 3.14 below.

2.4. Information on concluded agreements.

2.4.1. Agreements of significance to ENEA Capital Group operations.

Bituminous coal supply agreements (*concluded in H1 2011*)

Fuel coal sale agreement No. 45/KW/2011 of 28 February 2011 between the Kozenice Power Plant and Kompania Węglowa S.A.

Term of the agreement: 1 April 2011 to 30 September 2011. The subject of the above Agreement is the provision of power coal of specified quality parameters during the life of the Agreement from mines belonging to KW S.A. The agreement defines the prices, basic supply amounts, supply tolerance, coal quality parameter limits beyond which the Power Plant can impose contractual penalties in its monthly settlement, method of delivery, method of settlements, and specific conditions for settlements in terms of coal quantity and quality. The quality of the coal is assessed by Polcargo International Sp z. o.o. under an Agreement concluded between the Power Plant, Polcargo and Kompania Węglowa. Each of the parties may charge contractual penalties to another party for failing to deliver or to receive the quantities of coal set out in the schedule of the agreement. Coal prices are not indexed, but negotiated annually. Negotiations take place before new contracts are signed, and the results of such negotiations depend on the situation on the coal and power markets. The Agreement includes a clause that makes it possible for any of the Parties to request the initiation of renegotiation talks in order to adjust the provisions of the Agreement in the event of material changes to the business or legal environment.

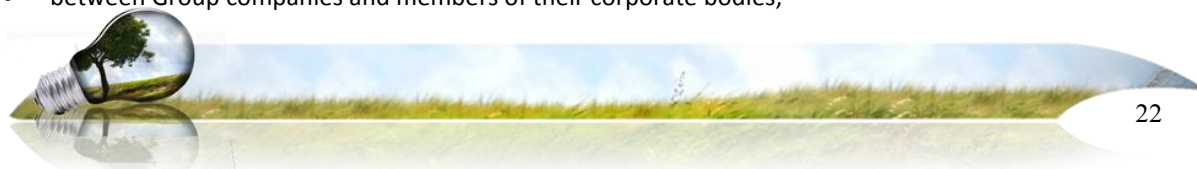
Agreement for the sale of power coal No. 1/DH/SE/2011 of 14 January 2011 between the Kozenice Power Plant and Jastrzebska Spolka Węglowa S.A.

The subject of the agreement is the sale and supply of coal by Jastrzebska Spolka Węglowa S.A. to Kozenice Power Plant. Prices, specific conditions and supply amounts are negotiated in concluding yearly agreements. Each of the parties may terminate the agreement with six months' notice. The agreement was concluded for the period from 1 January 2011 to 31 December 2011. The agreement defines 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 can impose contractual penalties, method of delivery, method of settlements, and specific conditions for settlements in terms of coal quantity and quality.

2.4.2 Significant transactions with affiliated entities.

The Company has concluded transactions 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 regarding transactions with affiliated entities are included in the abbreviated consolidated financial statements of the ENEA Capital Group for H1 2011, note No. 24.

2.4.3. Credit and loan agreements concluded and terminated.

In H1 2011 ENEA S.A. had five open working capital facilities: two from BZ WBK S.A., two from Pekao S.A. and a credit limit in PKO BP S.A.

The total limit on working capital facilities as at 30 June 2011 was PLN 100,000,000, and as at 30 June 2011 the Company had no debts pertaining to them.

In H1 2011 ENEA S.A. did not use working credit facilities for financing its current operations, but only drew them down in the event of a temporary need for funds. The Company did not take out any credit for a pledge, mortgage, ownership right transfer of fixed assets or ownership right transfer of an organised part of an enterprise.

In accordance with the credit agreements signed, security for open credit lines comprises the following: powers of attorney in respect of current accounts with the banks where ENEA S.A. holds current accounts as well as a declaration voluntary submission to enforcement. As at 30 June 2011 the subsidiaries have drawn down working credit facilities to the amount of PLN 90,327,000.

As at 30 June 2010, subsidiaries had drawn down loans of PLN 34,297,000.

The credit continued by ENEA S.A. in 2011 are presented in the table below.

No.	Creditor	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Debt on credit facilities as at 30 June 2011 [PLN '000]	Start date	End date	Repayment period
Working capital facilities drawn down by ENEA S.A.							
1	PKO BP S.A.	50,000.00	0.00	0.00	2006.04.25	x	5 years of the first usage of the credit
2	Bank Pekao S.A.	10,000.00	0.0	0.00	2007.04.12	2011.11.17	2011.11.17
3	Bank Zachodni WBK S.A.	40,000.00	2.8	0.00	2007.04.12	2011.11.17	2011.11.17
TOTAL			2.8	0.00			



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

	Creditor	Credit currency	Credit type	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Interest rate	Debt on credit facilities as at 30 June 2011 [PLN '000]	Start date	End date	Repay ment period
Credit agreements										
Auto Styl	Volkswagen Bank Polska	PLN	revolving facility	5,500.0	83.7	WIBOR 3M + 3.5	2576.2	31.03.2011	31.03.2012	1 year
Auto Styl	Volkswagen Bank Polska	PLN	revolving facility	700.0	0.0	WIBOR 3M + 2.5	0.0	30.06.2011	30.06.2012	1 year

2.4.4. Loans.

In H1 2011, both the parent company and the subsidiaries of the Capital Group granted no loans.

In H1 2011, the ENEA Capital Group did not grant any suretyships or guarantees.

The total value of off-balance sheet items from suretyships and guarantees granted by ENEA S.A. as at 30 June 2011 is PLN 195,300. Detailed information regarding suretyships and guarantees is shown in the tables below. 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 status of received guarantees as at 30 June 2011 is shown in the table below:

No.	Date security was granted	Date of security validity	Entity to which security is granted	Agreement type	Form of security	Secured amount
1	14-12-2010	13-12-2011	RONDO PROPERTY INVESTMENT Sp. z o.o. in Warsaw	premises lease agreement	bank guarantee	EUR 25,400 and PLN 20,400
2.	19-01-2011	17-11-2011	Izba Rozliczeniowa Gield Towarowych S.A. (Warsaw Commodity Clearing House)	The aim of securing the transaction and securing deposit 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 40,000,000



The status of granted guarantees and suretyships as at 30 June 2011 is shown in the table below.

No.	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 30 June 2011 [PLN '000]
1	For the purpose of meeting the statutory conditions for obtaining a licence to carry on for-profit transport operations						
	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 195,300 EUR 49,000*	-
Total:						PLN 195,300	-

* The average EUR exchange rate as at 30 June 2011 was 3.9866 - NBP table No. 125/A/NBP/2011 from 30 June 2011

Events occurring after the balance sheet date:

On 22 July 2011 ENEA S.A. signed an annex to the agreement on the working capital facilities with BZ WBK S.A. increasing thus the credit limit from PLN 40,000,000 to PLN 90,000,000.

On 27 July 2011 ENEA S.A. granted surety to the Warsaw Commodity Clearing House for the amount of PLN 50,000,000 in order to secure the obligations held by Elko Trading Sp. z o.o. in connection with the membership in Gieldowa Izba Rozrachunkowa (Stock Exchange Accounting Chamber) and purchasing of electricity and property rights. The surety was granted till 31 July 2012.

Other conditional liabilities granted by ENEA S.A. as at 30 June 2011				
	Type of liability	Entity for which security was granted	Value of security	Validity term of security
1.	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 liabilities of the ENEA Capital Group have been described in note 28 to the abbreviated consolidated financial statements for H1 2011.

2.4.5. Bond Issue Programme.

On 9 August 2011 ENEA S.A. (here as: Guarantor) concluded with ENEA Operator Sp. z o.o. (here as: Bond) and the Financial Authority (Paying Agent and Depository) an Agreement on the Bond Issue Programme for PLN 500,000,000 (say: five hundred million zlotys). On the same day ENEA S.A. (Guarantor) executed the Guarantee Agreement with ENEA Operator Sp. z o.o. (Bond Issuer). The aforementioned agreements were concluded for the term of 10 years.

Bonds issued within the Bond Issue Programme are bonds within the meaning of the Act on Bonds of 29 June 1995 (Journal of Laws of 2001 No. 120, item 1300, as amended). The Bond Issue Programme determined based on the aforementioned Agreement predicts multiple issues of Bonds performed by the Bond Issuer in the mode of directing of the proposal for purchase of the bonds to the Guarantor. The Bond Issuer will be entitled to issue Bonds within 1 (one) year of date of execution of the agreement. The subject of the Guarantee Agreement is the Guarantor's obligation to purchase Bonds issued by the Bond Issuer within the Bond Issue Programme. Bonds issued within the Bond Issue Programme have a floating rate of interest.



The funds received by ENEA Operator Sp. z o.o. from the issue of Bonds within the Bond Issue Programme will be dedicated for the financing of the capital expenditures connected with the extension and modernisation of the energetic infrastructure.

2.5. Presentation of the financial position of the ENEA Capital Group.

2.5.1. Discussion of key economic and financial figures disclosed in the financial statement.

2.5.1.1. Financial results.

Consolidated Profit and Loss Statement

Profit and loss statement in PLN '000	H1 2010	H1 2011	Change	Difference
Net sales revenues	3,917,827	4,745,676	121.1%	827,849
Cost of sales	3,505,156	4,305,531	122.8%	800,375
Other operating revenue	23,495	56,358	239.9%	32,863
Profit/(Loss) on sales and liquidation of tangible fixed assets	1,016	3,045	299.7%	2,029
Other operating expenses	43,669	61,319	140.4%	17,650
Operating profit (loss)	393,513	438,229	111.4%	44,716
Financial expenses	19,357	8,037	41.5%	-11,320
Financial revenue	78,231	82,942	106.0%	4,711
Share in (losses)/profits of affiliated entities accounted for using the equity method	4,500	8,459	188.0%	3,959
Profit (loss) before tax	457,583	522,334	114.2%	64,751
Income tax	92,891	108,221	116.5%	15,330
Net profit (loss) for the reporting period	364,692	414,113	113.6%	49,421
EBITDA	717,991	765,095	106.6%	47,104

The Group's net revenues from sales in the reporting period amounted to PLN 4,745,676,000, which in relation to H1 2010 constituted growth by PLN 827,849,000, i.e. by 21.1 per cent.



The breakdown below shows the value and structure of revenues on sales achieved in H1 2011.

Item	H1 2010		H1 2011		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Revenues from the sale of electricity	2,498,164	63.8	3,262,877	68.8	130.6%	764,713
Revenues from the sale of distribution services	1,263,808	32.3	1,305,865	27.5	103.3%	42,057
Revenues from the sale of goods and materials	52,505	1.3	46,773	1.0	89.1%	-5,732
Revenues from the sale of other services	57,298	1.4	91,605	1.9	159.9%	34,307
Revenues from certificates of origin	0	0.0	5,374	0.1	x	5,374
Recovery of stranded costs	15,580	0.4	0	0.0	0.0%	-15,580
Revenues from the sale of heat energy	30,472	0.8	33,182	0.7	108.9%	2,710
Total net revenues	3,917,827	100.0	4,745,676	100.0	121.1%	827,849

The Group's revenues mainly consist of revenues from sales of electricity and from sales of distribution services, which amount to 68.8 per cent and 27.5 per cent of total revenues, respectively.

- Revenues from the sale of electricity in H1 2011 amounted to PLN 3,262,877,000 and rose in relation to the first half of the previous year by 30.6 per cent. This stems mainly from an increase in the sale of electricity by the Koziernice Power Plant by PLN 867,748,000. At the same time sales of electricity by ENEA S.A. to end users declined by PLN 112,073,000, which resulted mainly from the lower volume of electricity sold by 551 GWh, with an average increase in price by 1.6 per cent. In addition, revenues from the sales of electricity to other entities declined by PLN 29,003,000, which stemmed mainly from lower volumes of electricity sold by 174 GWh.
- Revenues from the sale of distribution services in H1 2011 amounted to PLN 1,305,865,000 and were higher than in the same period of the preceding year by 42,057,000. The increase of those revenues was mainly caused by an increase in the amount of electricity supplied to end users by 168 GWh with a simultaneous increase in the average sale price of distribution services by 1.6 per cent;
- A drop by PLN 5,732,000 in revenues from sales of goods and materials was mainly due to a drop in sales within the companies IT Serwis and Energobud Leszno, with a simultaneous increase in sales of materials and goods in: BHU and Auto-Styl.
- The growth in revenues from sales of other services by PLN 34,307,000 stems from an increase in revenues under this item in the companies: Energobud Leszno, IT Serwis, Energomiary, Energetyk and Eneos. In addition, under this item the sale of free allowances for CO₂ emissions in the Koziernice Power Plant was included.



- Revenues from the sale of heat energy in H1 2011 amounted to PLN 33,182,000 and amounted to 0.7 per cent of sales revenues. The increase of these revenues by PLN 2,710,000 (change by 108.8 per cent) 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 H1 2011 PLN 5,374,000 and constitute revenues realized by EC Bialystok.

In H1 2011 the total costs of sales amounted to PLN 4,305,53,000 and increased by 22.8 per cent in relation to the previous year.

The breakdown below shows the value and structure of the costs of revenues from sales achieved in H1 2011.

Item	H1 2010		H1 2011		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Amortisation/depreciation	324,478	9.3	326,866	7.6	100.7%	2,388
Employee benefit costs	481,334	13.7	463,892	10.8	96.4%	-17,442
Consumption of materials and raw materials and value of goods sold	727,754	20.8	748,500	17.4	102.9%	20,746
Energy purchases for sales needs	1,359,393	38.8	2,124,106	49.3	156.3%	764,713
Transmission services	344,837	9.8	355,351	8.3	103.0%	10,514
Other external services	172,504	4.9	181,588	4.2	105.3%	9,084
Taxes and charges	94,856	2.7	105,228	2.4	110.9%	10,372
Total cost of revenues from sales	3,505,156	100.0	4,305,531	100.0	122.8%	800,375

The largest items in the Capital Group's costs are the costs of purchasing electricity and consumption of materials, as well as the value of goods sold, which constitute respectively 49.3 per cent and 17.4 per cent of the costs of revenues from sales.

- The purchase of energy for sales needs amounted in H1 2011 to PLN 2,124,106,000 and rose in relation to the same period of the previous year by 56.3 per cent, and this was mainly caused by an increase in the volume of electricity purchases on the external market. In H1 2011 61.8 per cent of the revenues from electricity sales by the Koziernice Power Plant constituted sales under contract to ENEA S.A., however, at present it amounts to 0. The drop in sales of electricity by the Koziernice 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 5.7 per cent in relation to H1 2010.
- The cost of use of materials, raw materials and the value of goods sold in H1 2011 PLN 748,500,000 and increased in relation to the analogical period of the previous year by PLN 20,746,000, which stems from the increase in the use of biomass by PLN 20,667,000 in relation to a higher production from biomass by 67 GWh and a higher average cost of biomass (including transport) by 7.8 per cent. In addition there was a growth in costs of other materials (by PLN 14,844,000), which follows from mainly higher costs of allowances for emissions of CO₂. At the same time, a decrease in the costs of the use of coal was noted (by



PLN 26,224,000) in result of lower production of electrical energy and lowering of coal prices (the average price of consumed coal decreased by 1.3 per cent). Additionally, the increase in costs is caused 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 it was an affiliate).

- The costs of transmission services in H1 2011 amounted to PLN 355,351,000 and are higher in relation to the previous year by PLN 10,514,000 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 H1 2011 amounted to 181,588,000 and increased in relation to the previous year by PLN 9,084,000, which mainly stems from incurring higher marketing costs, higher costs of grid operation and IT services.
- The costs of taxes and charges in H1 2011 amounted to PLN 105,228,000 and increased in relation to the previous year by PLN 10,372,000, which mainly stems from incurring of costs of taxes on civil and legal acts in relation to the acquisition of EC Bialystok and Darzyno Wind Power Station, and increase in real estate taxes in relation to increasing of the grid property. Moreover, the difference was impacted by decreasing of tax costs with tax on civil-legal acts performed in the consolidated financial statement for H1 2010 concerning separation of the distribution activity which was entirely included in the consolidated statement in 2007. ENEA Operator included these costs in its reports for 2007-2010.
- Employee benefit costs in H1 2011 amounted to PLN 463,892,000 and decreased in relation to the previous year by PLN 17,442,000, which stems from drop in provisions for employee benefits, mainly provisions for energy equivalent by PLN 15,821,000 and provisions for anniversary bonuses by PLN 8,520,000. At the same time, in the period under review the growth of average wages by 3.4 per cent with a simultaneous drop in average employment from 10,245.61 full-time equivalents in H1 2010 to 10,225.45 full-time equivalents in H1 2011.

In H1 2010, the ENEA Capital Group attained an operating profit of PLN 438,229,000, which was higher than the result attained in the previous year, by 11.4 per cent, that is, by PLN 44,716,000. This was due to increased revenues from operations by PLN 464,892,000, with a simultaneous increase in operational costs by PLN 408,650,000.

Consolidated profits before tax in H1 2011, i.e. after financial activities and shares in results of the affiliates had been taken into account, amounted to PLN 522,334,000 and was higher by PLN 64,751,000, that is by 14.2 per cent, relative to the previous year. This stemmed mainly from the higher operating profit generated, the increased financial results by PLN 16,031,000. The net profit generated by the Group in H1 2011 amounted to PLN 414,113,000 and was higher than the profit attained in H1 2010 by PLN 49,421,000, that is by 13.6 per cent.

Results from particular segments of activity:

Segments	H1 2010		H1 2011		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Trade	138,928	35.3	102,859	23.5	74.0%	-36,069
Distribution	180,656	45.9	189,485	43.2	104.9%	8,829
Generation	126,274	32.1	211,201	48.2	167.3%	84,927
Other activities	11,225	2.9	6,619	1.5	59.0%	-4,606
Exclusions	-16,940	-4.3	-18,731	-4.3	110.6%	-1,791



Undistributed costs (management costs)	-46,630	-11.8	-53,204	-12.1	114.1%	-6,574
Operating profit/(loss)	393,513	100.0	438,229	100.0	111.4%	44,716

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 551 GWh with a growth in the average price of sale by 1.6 per cent and the average price of purchase by 5.7 percent. At the same time, in H1 2011 estimate costs of unbalancing of the electricity were included in the amount of PLN 40,081,000. The first estimate of unbalancing was included in the financial statement fro 2010. Unbalancing of purchases with sales (meant as volumes resulting from invoices) in particular months is a normal situation resulting from settlements period longer than monthly on the side of sales and (for sets of tariff groups C1x and G) with settlements periods substantially not longer than 1 month on the side of purchases. From 1 January 2010 a simplified model of separation of units of ENEA and ENEA Operator was introduced which caused that only on the annual basis the balance sheet difference is the difference of sales and purchase invoices, yet on the basis of particular months it is distributed proportionally to the demanded electricity of the area of the grid of ENEA Operator. It results in unbalancing in particular months.

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 168 GWh and the increase in the average price of sold distribution services by 1.6 per cent.

Increase in results on the generation segment stems from an increase in revenues from sales of electricity mainly in the trade and an increase in revenues from achievement of certificates of origin for energy in the Koźienice Power Plant. In H1 2011 the Koźienice Power Plant realised a lower production of energy in relation to the previous year and substantially increased the volume of transactions realised within the trade in electricity. In Elektrownie Wodne company an increase of production of electricity (better hydrological conditions) and an increase in sales prices was reflected in greater revenues from sales of electricity and revenues by title of certificates of origin.

Decrease in results on the other activities segment stems from a lower result attained by the following companies: IT Serwis, ENEOS and FINEA in liquidation. At the same time, commencing from H1 2011 the companies of the heat sector are included in the generation segment.

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

2.5.1.2. Assets - structure of assets and liabilities in the consolidated balance sheet.

Consolidated balance sheet

Total assets in PLN '000	As at:		Change	Difference
	31 December 2010	30 June 2011		
Fixed assets	8,737,868	9,046,839	103.5%	308,971
Tangible fixed assets	8,308,650	8,678,883	104.5%	370,233
Perpetual usufruct right	29,208	71,809	245.9%	42,601
Intangible assets	145,141	197,894	136.3%	52,753



Investment properties	8,203	8,272	100.8%	69
Investments in associated entities, accounted for using the equity method	170,220	11,502	6.8%	-158,718
Available-for-sale financial assets	74,867	76,927	102.8%	2,060
Financial assets valued at fair value by the profit and loss account	1,411	1,377	97.6%	-34
Trade and other receivables	168	175	104.2%	7
Current assets	4,098,837	4,050,474	98.8%	-48,363
Inventories	242,058	316,285	130.7%	74,227
Trade and other receivables	922,460	949,017	102.9%	26,557
Current income tax assets	1,819	1,494	82.1%	-325
Held-to-maturity investments	250,934	479,563	191.1%	228,629
Financial assets valued at fair value by the profit and loss account	1,781,939	1,359,914	76.3%	-422,025
Cash and cash equivalents	899,627	944,201	105.0%	44,574
Total assets	12,836,705	13,097,313	102.0%	260,608

Total liabilities in PLN '000	As at:		Change	Difference
	31 December 2010	30 June 2011		
Total equity	9,876,471	10,098,640	102.2%	222,169
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	52,854	103.8%	1,932
Other reserves	-22,110	-21,722	98.2%	388
Retained earnings	4,458,944	4,678,658	104.9%	219,714



Minority interest in equity	23,897	24,032	100.6%	135
Total liabilities	2,960,234	2,998,673	101.3%	38,439
Non-current liabilities	1,373,976	1,423,626	103.6%	49,650
Current liabilities	1,586,258	1,575,047	99.3%	-11,211
Total equity and liabilities	12,836,705	13,097,313	102.0%	260,608

As at 30 June 2011, the balance-sheet total of the ENEA Capital Group was PLN 13,097,313,000 and increased by PLN 260,608,000, that is by 2.0 per cent relative to the situation as at 30 December 2010.

Fixed assets as at 30 June 2011 amounted to PLN 9,046,839,000 and increased in relation to the previous year by PLN 308,971,000, which mainly stems from the purchase of the shares of the Bialystok Heat and Power Plant, which on 1 June 2011 became a subsidiary of ENEA S.A. (so far an affiliate).

At the end of June 2011 the current assets amounted to PLN 4,050,474,000 and decreased in relation to the state as at the end of 2010 by PLN 48,363,000 (by 1.2 per cent). In current assets there was a drop in the item of financial assets valued at fair value by the profit and loss account mainly in relation to the purchase of the shares of EC Bialystok. In addition, there was an increase in financial assets held to maturity in the Kozenice Power Plant in relation to 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 the Kozenice Power Plant and receivables from trade and services, which is caused by a higher level of inter-group receivables at the end of 2010.

The dominant source of financing the assets of the Group is equity, which on 30 June 2011 amounted to PLN 10,098,640,000 and was higher than as at 31 December 2010 by PLN 222,169,000, that is by 2.2 per cent. The change is impacted by the profit gained in H1 2011 and the value of dividend for the shareholders.

As at 30 June 2011, the value of the Group's long-term liabilities was PLN 1,423,626,00 and increased by PLN 49,650,000, that is by 3.6 per cent in relation to the state as at 31 December 2010. It stems mainly from increasing of the reserve by title deferred income tax and employee benefits obligations in relation to the inclusion of EC Bialystok in the statement. In addition, the level of drawn credit facilities and loans increased in the company of Elektrownie Wodne, in relation to the loan from National Fund for Environmental Protection and Water Management for the construction of MEW Oborniki and provisions for anticipated losses and potential claims in ENEA Operator.

Short-term liabilities were at the level of PLN 1,575,047,000 and decreased by PLN 11,211,000 (by 0.7 per cent) in relation to the state as at the end of the previous year, mainly in result of the drop in liabilities by title of current income tax, decrease of the provisions for anticipated losses in ENEA Operator and decrease of the provisions by title of a fee for using of the environment in the Kozenice Power Plant. At the same time the liabilities from trade and services and other liabilities rose, which is connected with a higher level of liabilities inside the group at the end of 2010 and there was an increase of provisions for employee benefits in ENEA Operator.

2.5.1.3. Cash.

Consolidated cash flow statement

Cash flow statement in PLN '000	As at		Change	Difference
	30 June 2010	30 June 2011		
Net cash flows from operating activities	663,277	621,945	93.8%	-41,332



Net cash flows from investing activities	-383,292	-555,782	145.0%	-172,490
Net cash flows from financing activities	-188,160	-21,589	11.5%	166,571
Net increase (decrease) in cash and cash equivalents	91,825	44,574	48.5%	-47,251
Cash and cash equivalents at the end of the reporting	994,368	944,201	95.0%	-50,167

At the end of H1 2011 the ENEA Capital Group's balance of cash and cash equivalents amounted to PLN 944,201,000 and were PLN 50,167,000 lower than at the end of H1 2010 (PLN 994,368,000).

Operating cash flows amounted to PLN 621,945,000 at the end of H1 2011, a decrease of PLN 41,332,000 relative to the end of H1 2010 (PLN 663,277,000). The decrease was mainly due to increases in stocks, decrease in settlements of income by title of subsidies and connection fees, and other inventories in relation to the changes occurring in H1 2010.

Cash flows from investment activities amounted to PLN -555,782,000 at the end of H1 2011, changing by PLN 172,490,000 in relation to the end of H1 2010, when they amounted to PLN -383,292,000. This was mainly due to the increase in value of the acquisition of intangible assets.

Cash flow on financial operations amounted to PLN -21,589,000 at the end of H1 2011, and at the end of H1 2010 PLN -188,160,000. A change in the amount of PLN 166,571,000 resulted mainly from higher expenses related to the payment of dividend for the shareholders.

2.5.1.4. Ratio analysis.

Financial indicators

Item	performance	
	H1 2010	H1 2011
PROFITABILITY RATIOS		
ROE - return on equity		
<i>gross profit (loss)</i>	9.6%	10.3%
<i>equity</i>		
ROA - return on assets		
<i>operating profit (loss)</i>	6.4%	6.7%
<i>total assets</i>		
Net profitability		
<i>net profit (loss)</i>	9.3%	8.7%
<i>sales revenues</i>		



Operating profitability		
<u>operating profit (loss)</u>	10.0%	9.2%
<i>sales revenues</i>		
EBITDA		
<u>operating profit (loss) + amortisation and depreciation</u>	18.3%	16.1%
<i>sales revenues</i>		
LIQUIDITY AND FINANCIAL STRUCTURE RATIOS		
Current liquidity ratio		
<u>current assets</u>	3.1	2.6
<i>current liabilities</i>		
Equity-to-fixed assets ratio		
<u>equity</u>	114.6%	111.6%
<i>non-current assets</i>		
Total debt ratio		
<u>total liabilities</u>	22.2%	22.9%
<i>total assets</i>		
ECONOMIC ACTIVITY RATIOS		
Current receivables turnover in days		
<u>avg. net trade and other receivables x number of days</u>	43	35
<i>sales revenues</i>		
Turnover of trade and other payables in days		
<u>average trade and other liabilities x number of days</u>	59	51
<i>cost of products, goods and materials sold</i>		



Inventory turnover in days		
<u>average inventory x number of days</u>	17	14
<i>cost of products, goods and materials sold</i>		

In H1 2011 the ENEA Capital Group achieved a positive financial result and positive profitability ratios. EBITDA amounted to 16.1 per cent and was lower than that achieved in H1 2010 (18.3 per cent).

Net profitability achieved by the Group in H1 2011 amounted to 8.7 per cent and decreased by 0.6 percentage points from the level achieved in H1 2010 (9.3 per cent).

The efficiency of the Group's operations increased as measured by the ROE and ROA business activity ratios. In H1 2010 ROE was 9.6 per cent and increased to 10.3 per cent in H1 2011, as a result of a higher pretax profit in H1 2011 than in the previous year. ROA increased from 6.4 per cent in H1 2010 to 6.7 per cent in H1 2011 as a result of a higher operating profit.

The ENEA Capital Group is able to settle its current liabilities on time, which is confirmed by the level of the current liquidity ratio, which was 2.6 in H1 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.

As at 30 June 2011, the receivables turnover rate was at the lower level than in the previous year, and amounted to 35 days. Meanwhile the liabilities turnover indicator in H1 2011 was 51 days, and was thus 8 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 H1 2011 was 14 days, and was thus 3 days shorter than in the previous year.

At the end of H1 2011, the total debt ratio was 22.9 per cent. The ratio of shareholders equity to fixed assets was 111.6 per cent on 30 June 2011 (and 114.6 per cent in H1 2010).

2.5.2. Financial results forecasts.

The Management Board of ENEA S.A. did not publish any forecasts of its financial results for H1 2011 or for the 2011 financial year.

2.5.3. Financial resources management.

ENEA S.A. has 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 funds enables it 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. The occurring financial surpluses the Company invests into current assets in the form of fixed term deposits. Issue cash proceeds are managed by a specialist external companies. According to the agreements concluded they are invested in minimum risk instruments, i.e. debt instruments issued, secured or guaranteed by the State Treasury, and bank deposits.

In H1 2011 ENEA S.A. had open working capital facilities from BZ WBK S.A., Pekao S.A. and PKO BP S.A.

The total limit of the working capital facilities available to the ENEA Capital Group as at 30 June 2011 was PLN 100,000,000.

ENEA S.A. in H1 2011 only from time to time made a use of working capital facilities in order to finance current operations.

In accordance with the credit agreements signed, security for open credit lines comprises the following: powers of attorney in respect of current accounts with the banks as well as a declaration of voluntary submission to enforcement.



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.

The total unused limit of the working capital facilities available to the ENEA Capital Group as at 30 June 2011 was PLN 104,253,000.

Subsidiaries hold the following open lines of credit:

Company	Bank	Limit (PLN '000)	Amount drawn down as at 30.06.2011
BHU SA	BZ WBK SA	3,500	2,190
Hotel Edison Sp. z o.o.	BZ WBK SA	300	62
Auto-Styl Sp. z o.o.	Volkswagen Bank Polska	1,000	607
IT Serwis	BZ WBK	1,500	1,394

2.5.4. Information on financial instruments.

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.

At ENEA S.A., the following areas of risk may be identified:

1) *credit risk* - credit risk relates to the failure by a client or contractor being party to a financial instrument to carry out its contractual obligations. The main factors influencing the appearance of a credit risk in the case of the Company are:

- large number of minor customers having an influence on an increase in the 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.

The Management Board applies a credit policy according to which exposure to credit risk is monitored on an ongoing basis. An assessment of creditworthiness is made in relation to all customers in need of credit above a specific amount.

The Company carries out ongoing monitoring of the amount of outstanding receivables, and in justified cases raises legal claims and makes write-offs.

2) *risk of loss of financial liquidity* - the risk of loss of financial liquidity is the risk of a limitation or a lack of the Group's ability to repay its financial obligations when they become due on the basis of a regular activity with a typical profile of cash flows (structural liquidity risk) and occurrence of unpredicted concerning the term and volume of expenses in consequence of extraordinary or untypical events. The Company manages the liquidity risk adapting the profile of availability of the liquidity reserve, i.e. the volume and terms of available cash, to the profile of demand for cash resulting from the characteristics of the cash flows, simultaneously ensuring access to the funds in case unexpected expenses occur.

The Company's liquidity management is concentrated on a detailed analysis of the inflow of receivables, ongoing monitoring of bank accounts as well as the ongoing concentration of cash resources in consolidated accounts. The occurring financial surpluses the Company invests 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 Company will diversify the sources of external financing.

3) *exchange rate risk* - The Group is vulnerable to exchange rate risk, mainly in relation to foreign currency credit facilities held by Kozienice Power Plant.



4) *interest rate risk* - this exists mainly in relation to interest on credit facilities drawn and on interest from bank deposits. The interest rate is variable as it is calculated on the basis of the WIBOR rate.

Some risks cannot be avoided, due to the influence of legislative changes and changes in macroeconomic tendencies.

2.6. The financial results of ENEA S.A. in H1 2011 as compared to H1 2010.

Profit and loss statement of ENEA S.A.

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Sales revenues	3,385,427	2,987,565	88.2%	-397,862
Excise duty	137,556	115,925	84.3%	-21,631
Sales revenues	3,247,871	2,871,640	88.4%	-376,231
Other operating revenue	3,938	10,514	267.0%	6,576
Cost of sales	3,140,402	2,811,881	89.5%	-328,521
Other operating expenses	15,408	16,285	105.7%	877
Profit (loss) on sales of fixed assets	-349	215	x	564
Operating profit	95,650	54,203	56.7%	-41,447
Financial revenue	61,598	56,908	92.4%	-4,690
Dividend income	193,888	236,183	121.8%	42,295
Financial expenses	3,001	3,256	108.5%	255
Gross profit	348,135	344,038	98.8%	-4,097
Net profit	317,969	321,190	101.0%	3,221
EBIDTA	104,422	62,890	60.2%	-41,532

Sales revenues

The gross revenues of ENEA S.A. from sales in the reporting period amounted to PLN 2,987,565,000 which in relation to H1 2010 constituted a decrease of PLN 397,862,000, or 11.8 per cent.



The table below shows the value of sales revenues generated in H1 2011.

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Sales revenues	3,385,427	2,987,565	88.2%	-397,862
<i>including:</i>				
Revenues from sales of electricity and distribution services to end users	3,111,315	2,880,771	92.6%	-230,544
<i>including:</i>				
Sales of electricity to end users	2,115,964	2,003,891	94.7%	-112,073
Sales of distribution services to users holding comprehensive agreements	995,351	876,880	88.1%	-118,471
Sales of electricity to cover balancing differences and own needs	151,562	0	0.0%	-151,562
Sales of electricity to other entities	114,721	85,718	74.7%	-29,003
Sales of services	27,953	28,375	101.5%	422
Other revenue	-20,124	-7,299	36.3%	12,825

The decrease in ENEA S.A.'s sales revenues was caused mainly by:

- revenues from the sale of electricity to end users, which constitute 67.1 per cent of all sales revenues. In H1 2011 these revenues amounted to PLN 2,003,891,000, a decrease of PLN 112,073,000 or 5.3 per cent on the same period of the preceding year, which in turn stemmed from sold electricity volumes declining by 551 GWh and a 1.6 per cent increase in the average sale price. The most significant decreases of sold electricity volumes (by 327 GWh) and average sales prices (by 1.0 per cent) were noted for customers in tariff group sets A and B. In tariff group C the decrease in the volume was noted by 212 GWh, and in tariff group G the volume of sales slightly declined. The value of sales in tariff G grew by 7.7 per cent and the average price of sales by 8.2 per cent.
- revenues from sales of distribution services to users holding comprehensive agreements, which constitute 29.4 per cent of all sales revenues. In H1 2011 these revenues amounted to PLN 876,880,000, and were lower than in the same period of the preceding year by PLN 118,471,000 or 11.9 per cent. The level of the decrease was influenced mainly by separation of comprehensive agreements into the agreements of sale of energy and distribution services. The process stems from the increasing competition on the market which increases the commercial significance of customer service that in the case of comprehensive services is often second in place in connection with much greater problems resulting from rendering of distribution services (exceeding of capacities, quality standards, etc.). In addition, the decrease of revenues from sales results from the fact that part of users connected to the grid of ENEA Operator Sp. z o.o. changed the seller, and on the other hand ENEA S.A. achieved customers from the areas of other Distribution System Operators. The decrease in the volume of distribution services within a comprehensive service is a natural process and will deepen in the future.
- revenues from the sale of electricity to cover balance differences in 2010 concerned the agreement concluded with ENEA Operator which was not signed in 2011.



- revenues from electricity sales to other entities amounted to PLN 85,718,000, a reduction of PLN 29,003,000 or 25.3 per cent in comparison with H1 2010, which stemmed mainly from a drop in the amount of electricity sold by 174 GWh.

Cost of sales

In H1 2011, ENEA S.A.'s total cost of sales amounted to PLN 2,811,881,000 and decreased by PLN 328,521,000 or 10.5 per cent relative to the same period of the previous year.

The table below shows the value of the cost of sales achieved in H1 2011.

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Costs of electricity for resale	2,045,132	1,820,327	89.0%	-224,805
<i>including: purchase of certificates of origin</i>	<i>266,630</i>	<i>240,768</i>	<i>90.3%</i>	<i>-25,862</i>
<i>value of unbalanced energy</i>	<i>0</i>	<i>40,081</i>	<i>x</i>	<i>40,081</i>
Cost of providing distribution services for the performance of comprehensive agreements for the provision of electricity and distribution services	991,247	874,480	88.2%	-116,767
Depreciation and amortisation of fixed and intangible assets	8,772	8,687	99.0%	-85
Consumption of materials and energy and value of sold materials	2,065	2,700	130.8%	635
Other external services	61,520	71,347	116.0%	9,827
Employee benefit costs	26,380	28,763	109.0%	2,383
Taxes and charges	5,286	5,577	105.5%	291
Cost of sales	3,140,402	2,811,881	89.5%	-328,521

Differences in the costs of sales incurred by ENEA S.A. are mainly a result of:

- the costs of electricity for resale, which amounted to PLN 1,820,327,000, a reduction of PLN 224,805,000 or 11.0 per cent in comparison with H1 2010, mainly as a result of a decrease in the volume of purchased electricity by 1,485 GWh, and in relation to a lower demand of users for electricity and lack of electricity purchases for coverage of the balance difference for ENEA Operator. Simultaneously in H1 2011 there was an increase in the average electricity purchase prices by 5.7 per cent.
- the costs of providing distribution services for the performance of comprehensive services, which amounted to PLN 874,480,000, and were lower by PLN 116,767,000 or 11.8 per cent than in H1 2010, which stemmed from the lower performance of sales of distribution services to users with comprehensive agreements.
- employee benefit costs in H1 2011 amounted to PLN 28,763,000, an increase of PLN 2,383,000 or 9.0 per cent, which was mainly caused by increased costs of remuneration with derivatives by PLN 8,034,000, which results from the increase in the average employment (in full-time equivalents) from 385.07 in H1 2010 to 529.91 in H1 2011. As a result of amendments to the Energy Law, in March 2010 ENEA S.A. took over customer service activities from ENEA Operator together with the employees engaged in these tasks. At the



same time, the average remuneration increased by 1.0 per cent in relation to the same period of the previous year and the level of provisions for employee benefits decreased, mainly provisions for the energy equivalent by PLN 6,302,000.

- the costs of other external services amounted to PLN 71,347,000, an increase of PLN 9,827,000 or 16.0 per cent in comparison with the first half of the preceding year, which was caused by higher costs of marketing (by PLN 7,537,000) and costs of the agreement in customer service (PLN 1,523,000).

2.7. The financial results of ENEA Operator in H1 2011 as compared to H1 2010.

Profit and loss statement of ENEA Operator

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Sales revenues	1,312,975	1,355,133	103.2%	42,158
Cost of sales	1,130,563	1,164,847	103.0%	34,284
Other operating revenue	9,838	28,619	290.9%	18,781
Other operating expenses	8,715	21,313	244.6%	12,598
Profit (loss) on sales and liquidation of tangible fixed assets	1,135	2,802	246.9%	1,667
Operating profit (loss)	184,670	200,394	108.5%	15,724
Financial revenue	5,263	3,806	72.3%	-1,457
Financial expenses	5,428	5,783	106.5%	355
Gross profit (loss)	184,505	198,417	107.5%	13,912
Net profit (loss)	147,676	161,529	109.4%	13,853
EBITDA	367,763	376,240	102.3%	8,477

Sales revenues

ENEA Operator's net revenues from sales in the reporting period amounted to PLN 1,355,133,000, which in relation to H1 2010 constituted growth of PLN 42,158,000 or 3.2 per cent.

The table below shows the value of the cost of sales achieved in H1 2011.

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Sales revenues	1,312,975	1,355,133	103.2%	42,158



<i>including:</i>				
Revenues from sales of electricity and distribution services to end users, including:	1,201,758	1,244,648	103.6%	42,891
<i>comprehensive agreements</i>	995,348	876,867	88.1%	-118,481
<i>other agreements</i>	206,410	367,781	178.2%	161,371
Revenues from additional fees	1,540	1,696	110.1%	156
Sales of distribution services in the WO and DO settlement system	-2,455	-2,097	85.4%	359
Fees for customer grid connection	49,276	47,749	96.9%	-1,527
Revenues from the illegal collection of electricity	3,367	3,574	106.1%	207
Revenues from services	47,843	48,142	100.6%	299
Sales of distribution services to other entities	9,281	10,968	118.2%	1,687
Sales of goods and services and other revenues	2,365	453	19.1%	-1,913

ENEA Operator's sales revenues increase in the amount of PLN 42,158,000 was mainly due to:

- revenues from the sale of distribution services, which constitute 91.8 per cent of all sales revenues. In H1 2011 these revenues amounted to PLN 1,244,648,000, and were higher than in the same period of the preceding year by PLN 42,891,000 or 3.6 per cent. The level of those revenues was influenced mainly by the growth in the amount of electricity supplied to end users, by 168 GWh, with a simultaneous increase in the average sale price of distribution services of 1.6 per cent.
- revenues from the sale of distribution services to other entities, which amounted to PLN 10,968,000 and were higher than in the same period of the preceding year by PLN 1,687,000, which was mainly influenced by a greater amount of electricity given to the neighbouring Distribution Systems by 20 GWh, increase of the contracted power on the nodes of the low-voltage grid, increase of the prices and rates for the fixed and variable transmission fee in the Tariff for 2011 in relation to the previous year, increase of the prices of energy for losses; a higher volume is the result of the distribution of the energy in the grid resulting from other shares of the generation sources, autotransformers and transformers in the energy transferred to the grid.
- sales of materials and other revenues which in H1 2011 amounted to PLN 453,000 and decreased by PLN 1,913,000 in comparison with H1 2010 in relation with lower revenues from the balancing market of which the Company is a direct participant.
- Revenues from fees for grid connections in H1 2011 amounted to PLN 47,749,000 and decreased by PLN 1,527,000 which results from the acceptance to the equity of connections of a lower value.

Cost of sales

In H1 2011, ENEA Operator's total cost of sales amounted to PLN 1,164,847,000 and grew by 34,284,000 or 3.0 per cent relative to the same period of the previous year.

The table below shows the value of the cost of sales achieved in H1 2011.



data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Cost of sales	1,130,563	1,164,847	103.0%	34,284
including:				
Depreciation and amortisation of fixed and intangible assets	183,093	175,846	96.0%	-7,247
Employee benefit costs	267,574	258,889	96.8%	-8,685
Consumption of materials and energy and value of sold materials	22,772	24,617	108.1%	1,845
Purchase of energy for sale <i>including: sales of electricity to cover balancing differences</i>	170,527	195,452	114.6%	24,925
	162,872	179,022	109.9%	16,150
Costs of transmission services	343,744	354,309	103.1%	10,565
Other external services	85,279	97,369	114.2%	12,090
Taxes and charges	57,574	58,365	101.4%	791

Differences in the costs of sales borne by ENEA Operator are mainly a result of:

- purchase of energy for sale in relation to 2010 grew by PLN 24,925,000, which mainly results from corrections following from the rules of functioning of the Balancing Market and a higher purchase price of energy for the needs of the balance difference than in 2010.
- other external services that in the reporting period grew by PLN 12,090,000 and amounted to PLN 97,369,000, which was influenced by higher costs of grid operation and higher collection and IT services.
- Costs of transmission services higher by PLN 10,565,000, which was influenced by an increase of the contracted power on the nodes of the low-voltage grid, increase of the prices and rates for the fixed and variable transmission fee in the Tariff for 2011 in relation to the Tariff for 2010 and increase of the prices of energy for losses (decisive in relation payment to the Distribution System Operator).
- employee benefit costs in the reporting period decreased by PLN 8,685,000 mainly in result of a greater decrease of the provisions for energy equivalent than in H1 2010; at the same time, the average remuneration increased by 0.9 per cent the average employment (in full-time equivalents) decreased from 5,658.83 to 5,531.77 mainly as a result of taking over by ENEA S.A. of employees engaged in customer service activities from ENEA Operator (in relation to amendments to the Energy Law) in March 2010.
- amortisation and depreciation that was decreased by PLN 7,247,000, mainly in result of verification of amortisation and depreciation rates.



2.8. The financial results of Kozenice Power Plant in H1 2011 as compared to H1 2010.

Profit and loss statement of Kozenice Powers Plant

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Sales revenues	1,153,781	1,374,168	119.1%	220,387
Excise duty	3,596	-12	-0.3%	-3,608
Net sales revenues*	1,157,377	1,374,156	118.7%	216,779
Cost of sales	1,050,803	1,174,220	111.7%	123,417
Other operating revenue	7,374	13,766	186.7%	6,392
Other operating expenses	17,525	19,092	108.9%	1,567
Profit (loss) on sales and liquidation of tangible fixed assets	-264	-143	54.2%	121
Operating profit (loss)*	96,159	194,467	202.2%	98,308
Financial revenue	9,193	17,371	189.0%	8,178
Financial expenses	9,273	6,149	66.3%	-3,124
Gross profit (loss)	96,079	205,689	214.1%	109,610
Net profit (loss)	74,619	163,345	218.9%	88,726
EBITDA	216,578	318,207	146.9%	101,629

Sales revenues

Kozenice Power Plant's net revenues from sales in the reporting period amounted to PLN 1,374,168,000, which in relation to H1 2010 constituted an increase by PLN 220,387,000 and thus of 19.1 per cent.

The table below shows the value of sales revenues achieved in H1 2011.

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Gross sales revenues	1,153,781	1,374,168	119.1%	220,387
<i>including:</i>				



Revenues from the sale of electricity, including:	1,111,276	1,292,269	116.3%	180,993
<i>agreements with ENEA</i>	686,755	0	0.0%	-686,755
<i>other agreements</i>	424,521	1,292,269	304.4%	867,748
Revenues from compensation for stranded costs*	0	0	x	0
Revenues from the sale of certificates of origin	32,051	53,440	166.7%	21,389
Revenues from the sale of heat	3,305	3,153	95.4%	-152
Revenues from the sale of services	2,293	20,595	898.2%	18,302
Revenues from the sale of goods and materials	4,856	4,711	97.0%	-145

* in performance for H1 2010 the revenues in the amount of PLN 15,580,000 included in the consolidated statement of the ENEA Capital Group

Differences in the costs of sales borne by the Kozenice Power Plant are mainly a result of:

- revenues from the sale of electricity, which constitute 94.0 per cent of sales revenues and amounted to PLN 1,292,269,000 in H1 2011; in comparison to the same period of the preceding year, these revenues increased by PLN 180,993,000 or 16.3 per cent, which stemmed from increased sales of electricity to other recipients, i.e. companies with licences for trade in energy by PLN 867,748,000; from 9 August 2010 the novelized Energy Law imposes an obligation to sell electricity by the Kozenice Power Plant in the public mode, in connection to that fact in 2011 no sales of energy to ENEA S.A. take place; in H1 2011 the volume of sales of electricity amounted to 6,451 GWh and rose in relation to H1 2010 by 725 GWh. At the same time, the average sale price of electricity increased by 3.4 per cent.
- revenues from sales of certificates of origin were higher by PLN 21,389,000 than in H1 2010, which stemmed from higher (by 67 GWh) production of energy from renewable sources - combustion of biomass.
- Revenues from sales of services increased by PLN 18,302,000, which stems from realisation in H1 2011 of sales of free allowances for emission of CO₂ in the amount of PLN 18,283,000.

Cost of sales

In H1 2011, Kozenice Power Plant's total cost of sales amounted to PLN 1,174,220,000 and grew by 123,417,000 or 11.7 per cent relative to the same period of the previous year.

The table below shows the value of the cost of sales achieved in H1 2011.

data in PLN '000	performance		change	difference
	H1 2010	H1 2011		
Cost of sales	1,050,803	1,174,220	111.7%	123,417
<i>including:</i>				
Depreciation and amortisation of fixed and intangible assets	120,419	123,740	102.8%	3,321



Employee benefit costs	132,289	121,891	92.1%	-10,398
Consumption of materials and raw materials and value of goods sold	644,990	652,319	101.1%	7,329
Costs of purchases for resale	41,145	187,696	456.2%	146,551
Costs of transmission services	1,326	1,254	94.6%	-72
Other external services	79,749	56,255	70.5%	-23,494
Taxes and charges	30,885	31,065	100.6%	180

Differences in the costs of sales incurred by Kozenice Power Plant are mainly a result of:

- costs of purchase for sales which amounted to PLN 187,696,000 and rose by PLN 146,551,000 in relation to a greater volume of energy sold within the trading licence; the aforementioned situation is caused by increases in the activity within licences for trade in energy.
- costs of materials used, as well as the value of goods sold, which amounted to PLN 652,319,000 and increased by PLN 7,329,000 or 1.1 per cent. This situation is related to the increased costs of biomass use by PLN 20,667,000 in relation to a higher production from biomass by 67 GWh and higher average cost of biomass (including transport) by 7.8 per cent; in addition the costs of other materials increased (by PLN 14,844,000), which mainly results from higher costs of allowances for emissions of CO₂; simultaneously the decrease in the cost of use of coal was noted (by PLN 26,224,000) in result of lower production of electricity and decrease in coal prices (the average price of distributed coal decreased by 1.3 per cent).
- the costs of other external services amounted to PLN 56,255,000, and decreased by PLN 23,494,000 or 29.5 per cent in comparison with the first half of the preceding year, which was mainly caused by lower costs of coal transport (the average price of coal transport decreased by 15.9 per cent) and costs of repairs.
- employee benefit costs in H1 2011 amounted to PN 121,891,000 and decreased by PLN 10,398,000, i.e. by 7.9 per cent, which was mainly caused by decreases of provisions by PLN 22,736,000, including in particular: for anniversary awards (by PLN 7,214,000), energy equivalent (by PLN 6,008,000), contribution to the Company Social Benefits Fund for retired employees (by PLN 4,826,000), award for the Power Engineer's Day (by PLN 4,112,000), retirement severance pay (by PLN 698,000); in addition there was an increase in the average remuneration by 7.3 per cent and the average employment decreased from 2,385.25 full-time equivalents in H1 2010 to 2,357.00 full-time equivalents in H1 2011.

3. Development prospects and major threats and risks related to the remaining months of the reporting year.

The prospects for development of the ENEA Capital 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.



3.1. Legal regulation and tariffs.

The results we attain from operations are dependent on a number of regulations and decisions by the regulatory authorities, including in particular pertaining to setting charges and the rules for applying them according to which we can carry out settlements with customers for electricity distribution services, and pertaining to regulating electricity prices for customers from G tariff 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, as well as 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.

We are obliged to submit to the President of the ERO for approval tariffs relating to the sale of electricity to households and distributing power to customers connected to our distribution network. 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 nor 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. The President of the ERO also determines the length of regulatory periods (from three to five years) for which he lays down a model level of costs deemed to be justified in relation to power distribution. 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.

In the case where a new tariff is not approved by the President of the ERO after a given tariff period, we are in principle obliged to apply the existing tariff, unless the decision of the President of the ERO refusing to approve the new tariff is justified by the need to reduce prices and charges below those contained in the existing tariff, which might not take the costs of our activities into account. If such a situation occurs in the future, it could have an adverse effect on our operations, financial standing, financial results or development prospects.



3.2. 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. Considering that the free market for electricity in Poland has not been functioning long, it is difficult to foresee how electricity prices will develop in the future.

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. The amendment to the Energy Law in this respect entered into force as of 9 August 2010 which may have affected prices of transactions on the wholesale electricity market entered into after that period and for the next years.

3.3. Supplies and prices of bituminous coal and other fuels.

The Polish market for the supply of coal is highly monopolised by companies belonging to the State Treasury, our main shareholder, which control the vast majority of domestic coal supplies in terms of quantity, excluding the Lubelski Wegiel „Bogdanka” S.A., which became a private company in 2010. There is no guarantee that the currently binding coal supply agreements that we concluded with our main suppliers will not be terminated or that they will be extended after their term expires. Furthermore, under those agreements the price and quantity of coal delivered are determined annually by way of negotiations. There is no guarantee that the outcome of those negotiations will always be favourable for us. If we are unable to conclude agreements for the supply of coal to the Koziencice Power Plant or supplies of coal are suspended or interrupted for a different reason (e.g. as a result of a mine employees’ strike), the Koziencice Power Plant could be forced to import coal from further afield at higher prices, suspend or reduce its electricity production until the supply of coal is resumed, or adapt its production assets to utilise alternative fuels, which could cause an increase in its costs. An increase in the costs of the Koziencice Power Plant would be reflected in the prices of the electricity we sell, which could make our prices uncompetitive in relation to the prices of electricity sold by 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.

3.4. Obligations with respect to obtaining energy certificates of origin.

We, as an energy company trading in energy and selling the energy to end users, are required by law to obtain and present to the President of the ERO for redemption certificates of origin 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 obtained or 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. In principle, 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 merely enable us to carry out our obligations regarding the redemption of certificates of origin to a small extent. We are therefore forced to obtain certificates of origin from third parties or pay substitution charges, which significantly increase every year. Due to the inadequate potential of sources generating such energy in Poland, we must expect an increase in the prices of certificates of origin on the market, which can result in a significant increase in the costs of our activities. There is no guarantee that we will be able to reflect increased prices of such certificates or the substitution charges that we pay in the price of electricity sold to end users. If we are not able to obtain enough energy certificates on favourable terms, or if market conditions make it impossible to pass the higher costs incurred by us in relation to the acquisition of certificates of origin on to end users, this may have a negative effect on our cash flow and the margin we achieve.

Moreover, the Act of 8 January 2010 on Amending the Energy Law and on Amending Certain Other Laws (Journal of Laws No. 21 of 8 February 2010, item 104) introduces new units generating energy in cogeneration



("violet" certificates), which will be covered by a system of certificates. These are specified types of generation units fired with methane released and collected in underground mining works in active or closed bituminous coal mines, as well as available in the form of flammable gas produced in biomass processing. The system of certificates applicable to methane-fired units will be valid until 31 March 2019. Consequently, an obligation has been put in place to either obtain and submit for redemption a specified number of energy certificates of origin from methane-fired power units or pay appropriate substitute charges.

3.5. Limits of CO₂ emission allowances and their market prices.

Our electricity production operations depend on the quantity of allowances 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 allowances (2008–2012), the Kozenice Power Plant was granted allowances to emit 9.6 million tonnes of CO₂ per year, which represents 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 Kozenice Power Plant, that quantity of CO₂ emission allowances corresponds to the production of approximately 10.9 TWh gross of electricity per year, i.e. nearly 9.3 per cent less than the quantity of electricity that the Kozenice Power Plant generated in 2009. Starting from 2013, it is expected that free allocation of CO₂ emission allowances for the power sector will be completely ceased and replaced with a system of auctioning of emission allowances. There is a chance, however, that the energy sector will receive some allowances under free allocation which will have to be acquired through auctioning. It should be emphasised that, in order to obtain free allowances in 2013 - 2020, a series of very complex requirements will have to be met, including the development by the Polish government and the approval by the European Commission of a credible and reliable investment programme in connection with climate protection, in an amount corresponding to the price of possible free allowances. The costs of producing electricity will therefore increase substantially. We could also be forced to incur other unforeseeable costs in connection with emission allowances 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.

3.6. Long-term contracts (LTCs) for the sale of electricity.

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 those contracts. In accordance with the provisions of the Act on the Rules for Covering Costs Incurred by Producers in connection with the Early Termination of Long-term Agreements for the Sale of Power and Electricity of 29 June 2007 (the "LTC Termination Act"), the Group (Kozenice Power Plant) is entitled, as of 1 April 2008, to obtain compensation for stranded costs incurred as a result of the early termination of long-term contracts. Pursuant to the Act, the Group will be entitled to receive compensation until 2014.

The mechanism for settling LTCs is as follows:

- by 31 August of each year, companies submit applications for an advance against settlements,
- by 31 July of the following year, the President of the ERO determines the amount of the annual adjustment for stranded costs (adjustment of the advance),
- by 31 August of the year following the adjustment period, the President of the ERO sets the amount of the final adjustment (for the Group, this will be 31 August 2015).

The Group has prepared a calculation model based on which it will apply to the President of the ERO for the advances. Determination of the amounts due is not definitive, since it depends on a number of factors, including how the statutory regulations are interpreted.

The Group has decided to count as revenues only those amounts which result from the decision on the annual adjustment of stranded costs.

For 2008 Kozenice Power Plant obtained from the company Zarzadca Rozliczen S.A. advance payments towards stranded costs in the amount of PLN 93,132,000. Pursuant to the decision of the President of the ERO



of 31 July 2009 the amount of the adjustment to the yearly stranded costs for Koźienice Power Plant. for 2008 was set at PLN -89,537,000 (the amount of advance payments to be returned to Zarządca Rozliczeń S.A.). Koźienice Power Plant appealed against that decision to the Regional Court in Warsaw, Court of Competition and Consumer Protection. All the other actions carried out in 2009 relating to the annual adjustment to the stranded costs have been described in the 2010 financial statement.

In 2010 the following material events took place. On 3 August 2010 Koźienice Power Plant received a decision of the President of the ERO of 29 July 2010 setting the amount of the annual adjustment to the stranded cost for 2009 at PLN 15,580,000. Since the decision is unfavourable to Koźienice Power Plant, on 17 August 2010 an appeal against that decision was filed to the Court of Competition and Consumer Protection of the Regional Court in Warsaw. In the 2010 financial statement the revenues of PLN 15,580,000 were included in the statement of comprehensive income under the item "sales revenues" as an amount of probable revenues. On 30 September 2010 Koźienice Power Plant received from Zarządca Rozliczeń S.A. the amount of the annual adjustment for 2009 of PLN 15,580,000.

For 2010 Koźienice Power Plant applied for an advance towards stranded costs in the amount of PLN 0. In 2010 revenues from compensation for 2010 were not recognised (the statement only included the amount of the annual adjustment for 2009). On 4 August 2011 Koźienice Power Plant received the decision of the President of the ERO of 29 July 2011 setting the amount of the annual stranded cost adjustment for 2010 at PLN 2,471,700.

For 2011 Koźienice Power Plant applied for the advance payment for stranded costs in the amount of PLN 3,500,000. On 5 April 2011 Zarządca Rozliczeń S.A. made the advance payment for Q1 2011 of PLN 875,000, and on 5 July 2011 the advance payment for Q2 2011 of PLN 875,000 was made. In H1 2011, the revenues from compensation for 2011 were not recognised.

On 19 January 2011 a case hearing took place in relation to the appeal lodged by Koźienice Power Plant against the decision of the President of the ERO of 26 July 2010 on refusal to grant access to some documents from the records of the LTCs 2009 case. The Court in its judgment dismissed the appeal lodged by Koźienice Power Plant against the decision of the President of the ERO of 26 July 2010.

The Court of Appeals in Warsaw in its decision of 22 June 2011 rejected the appeal of Zarządca Rozliczeń S.A. against the decision of the Court of Competition and Consumer Protection of 21 October 2010 on refusal to allow Zarządca Rozliczeń S.A. to participate in the proceedings of the LTCs 2008 case as a party to the case. Therefore, Zarządca Rozliczeń S.A. did not obtain the status of a party to the LTCs 2008 case.

Also, formal and procedural actions are still taking place.

As of the date of preparation of these consolidated financial statements it is not possible to clearly determine the final amounts of annual adjustments for previous years on which the President of the ERO already issued decisions. Full amount of the permitted public aid granted for compensation of stranded costs will be determined in the decision of the President of the ERO setting the amount of the final adjustment which will be issued in 2015. As a result of the above, it must be stated that the revenues resulting from LTCs, recognised until now and based on annual adjustment set by the President of the ERO, may change as a result of the above-mentioned decision of the President of the ERO setting the amount of the final adjustment.

3.7. 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 the ERO disclosed that document as an official document laying down new principles for determining the amount of returns on capital for the purpose of calculating regulated revenue, together with a letter of 23 December 2008.



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).

In connection with the work of the above-mentioned Team updating the document "Method of Establishing the Regulatory Value of Assets and the Return on Invested Capital" and with the approval of the update by the Management Boards of Distribution System Operators, by letter of 8 July 2011, Ref. No. DTA-4201-1(1)/2011/KG, the President of the ERO approved and submitted the Annex No. 1 to the above-mentioned document "Method of Establishing the Regulatory Assets Base and the Return on Invested Capital".

In accordance with the guidelines included in the subject matter documents, the set initial value of RAB is updated annually, starting from 2010, according to the formula:

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

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,

AF_{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

AY_{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:

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

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

AF_{Wt-2} - actual amount of non-returnable aid funds and other sources of financing in tariff year t-2. For 2009 the value AF_{Wt-2} must be set to zero.

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 will be determined according to the formula:

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

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:

$$BA_{t-1} = BA(BO)_{t-1} + \frac{I_{t-1}}{2} rA_{t-1}$$

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 ERO 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 ERO in calculating the tariffs of network companies for year t-1

The return on capital for subsequent tariff years, starting from 2010, would be 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 $R(I)_t$ can be expressed by the formulae:

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

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

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 ERO in calculating the tariff for year j,
- CC_j - revenue from charges for connection to the network considered by the President of the ERO in calculating the tariff for year j,
- AF_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 values AF_t and AF_{Wt} must be set to zero.
- AI_j - level of amortisation of investments implemented after 31 December 2008,
- ΔI_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 j2 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 ERO in calculating the tariffs of network companies for year t.

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

$$R_t = RAB_t \cdot WACC_t$$

3.8. Risks relating to the process of generation.

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.

3.9. Risks relating to the distribution of electricity.

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 electricity 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 electricity infrastructure. A malfunction of the energetic system (including transmission or distribution grids and production assets belonging to third parties) or our power infrastructure could prevent or reduce the purchase or sale of electricity or system services and the provision of electricity distribution services. The risk of a malfunction is increased by the fact that nearly 51 per cent of our energetic lines and approx. 45 per cent of power stations are more than 30 years old. In the event of a malfunction in the distribution infrastructure caused by its current technical condition, problems related to it or events of force majeure, due to the fact that 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.



3.10. Electricity 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 the 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.

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 H1 2011, we sold about 0.9 TWh to such customers.

3.11. Purchasing electricity from external entities.

A significant part of the energy sold by ENEA S.A. is constituted by the electricity purchased at Polish Power Exchange ENEA S.A. purchases the remainder on the basis of bilateral agreements (with producers, trading companies, and on trading platforms). There is therefore a risk that if demand exceeds supply we will not be able to purchase power at competitive prices. This is related to the macroeconomic forecast of an increase in electricity consumption accompanied by an insufficient increase in production capacity in Poland, which in practice could lead to an increase in the price of electricity.

3.12. Dominant position on the local market.

We have a dominant position with regard to providing distribution services on the local market covering north-west 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.

3.13. Licences.

The expiry or withdrawal of our licences 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 trading in electricity valid until the end of 2025;
- (ii) ENEA Operator holds a licence for the distribution of electricity valid until the middle of 2017;
- (iii) Koziencice Power Plant holds a licence for the generation of electricity valid until the end of 2025 and for trading in electricity valid until the end of 2012;
- (iv) Elektrownie Wodne holds a licence for the generation of electricity valid until 31 December 2030.

The Energy Law grants the President of the ERO powers to withdraw a licence, particularly if a legally valid judgement is issued banning a company from performing economic activity covered by a licence, or if a company has permanently ceased to perform economic activity covered by a licence. The President of the ERO 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 licence 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.

3.14. Bituminous coal transportation.

We are dependent on a single railway carrier with regard to the transport of bituminous coal.

The basic means of transport used to deliver bituminous coal to the Koziernice Power Plant is rail transport. 100 per cent of deliveries of that raw material to the Koziernice Power Plant are carried out by the state carrier PKP Cargo, the largest rail carrier in Poland. The transport potential of the other carriers is in many cases insufficient to satisfy our coal transport needs. There is no guarantee that if unforeseen disruptions occur in PKP Cargo's activities or if our agreement with PKP Cargo is terminated we will be able to ensure the continuity of deliveries of bituminous coal to the Koziernice Power Plant, which could lead to us being forced, albeit temporarily, to reduce our electricity production, which in turn could have an adverse effect on our revenues.

3.15. Strategy implementation.

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 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 substitute charges. Our operations with respect to the development strategy depend also on the quantity of allowances allocated to us to emit CO₂ and other gases and substances for a particular 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 ENEA Capital 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.

3.16. Synergy.

The acquisitions and capital investments planned by us 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 acquisitions and investments that we have carried out. 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 or whether they will be performed 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.

3.17. The modernisation of our production 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.



3.18. 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 energetic system (including transmission or distribution grids and production assets belonging to third parties) or our power infrastructure could prevent or reduce the purchase or sale of electricity or system services and the provision of electricity distribution services.

The risk of a malfunction is increased by the fact that nearly 51 per cent of our power lines and approx. 45 per cent of power stations are more than 30 years old. In the event of a malfunction in the distribution infrastructure caused by its current technical condition, problems related to it or events of force majeure, due to the fact that 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.

3.19. Environmental protection.

Existing and changing conditions in the area of environmental protection may require us to incur additional investment outlays 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 Kozenice Power Plant to conduct its business, it must hold an integrated permit, which we obtained under Decision of the Voivode of the Mazowieckie Province No. WŚR.I.6640/13/6/05 of 20 December 2005. 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. In turn the activity of ENEA Operator requires measurement of emission of electromagnetic fields.

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.

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 the 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.



The amounts of pollutants emitted in H1 2011 are:

- SO₂ – 14.695 Mg
- NO_x – 10.052 Mg
- dust – 523.98 Mg
- CO – 475.05 Mg
- CO₂ – 5,064.597 Mg
- waste (mixture of ash and cinders) – 129,846.8 Mg.

Reduction of 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. In recent years, electrofilters have been replaced in unit No. 2 (in 2006), unit No. 1 (in 2007), unit No. 6 (in 2008), unit No. 10 (in 2010) together with the system and exhaust ducting, and exhaust ventilator elbow intakes.

In the current year, the electrofilter on the 200 MW unit No. 4 is being replaced, for 2012 the replacement of the electrofilter on the 200 MW unit No. 3 is planned. The guaranteed concentration of dust in exhaust behind electrofilters of units No. 3, 4 is determined at ≤30 mg/Nm³ (dry exhaust, 6 per cent O₂).

In the Power Plant, installations for initial reduction of nitric oxides are in operation. These limit the concentration of nitric oxides to a guaranteed limit of 500 mg/Nm³, utilising such devices as ROBTAS low emissions 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). In view of the tightening of emissions standards for nitric oxides to a level of 200 mg/Nm³ from 2015, it will be necessary to construct a catalytic denitrification installation on power units No. 4–10. In 2011, preparatory work associated with future investments in this respect continued, a contractor was selected (the company RAFAKO), and a contract with him was signed.

Reduction of SO₂ emissions is ensured 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 bring emissions of SO₂ in line with the tighter norms resulting from implementation of the provisions of relevant Community law, an investment project was started in 2008 for constructing IOS III fume desulphurisation installation using the wet limestone method for the 560 MW unit No. 10. The investment project was completed in December 2010.

Waste management.

Waste management is conducted in accordance with the binding regulations, i.e. pursuant to the Law on waste of 21 April 2001, as amended. The Company has an ash and cinder storage facility with an active storage area of 313 ha, consisting of 6 storage fields from which a burner waste warehouse and a storage facility and warehouse for gypsum from the Fume Desulphurisation Installation have also been delineated.

In the H1 2011 activities were undertaken to maximize the utilisation of burner waste, with a waste use ratio of 69.10 per cent. In the *H1 2011* 68,573.24 tonnes of gypsum from desulphuring system were utilised (the amount produced was 72,889.36 tonnes). The following sales are also important: fly-ash – 232,793.73 tonnes, microspheres – 972.36 tonnes, mixture of ash and cinders 56,633.02 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: - ACM 94,190.4133 tonnes.

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 Directive of the European Parliament and the Council of Europe in Polish jurisdiction, the energy sector, including Koziencice Power Plant, has been carrying out tasks resulting from the introduction of:

- CO₂ emissions trading scheme
- production from renewable sources of energy
- generation of electricity in cogeneration

For the purposes of the emissions trading, CO₂ emissions are monitored using, since 2008, our own, certified chemical laboratory.

The solid-state biomass co-firing system built in 2007 and expanded in 2009 made it possible to generate electricity from renewable resources in the amount of 188,900.528 MWh in the H1 2011. The planned start-up in the near future of a liquid biomass co-firing system will enable us to further increase the generation of energy from renewable resources.

In *H1 2011*, 104,505.3 Mg of biomass was fired. That amount of biomass consumed results in a reduction in carbon dioxide emissions of 174,134.11 Mg.

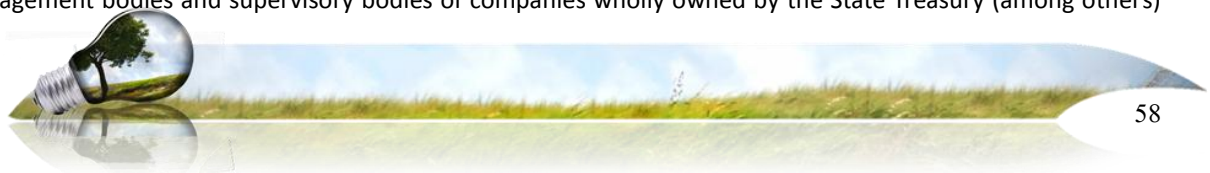
As a result of the completed modernisation of some low-pressure turbines on 200 MW and 500 MW units and some high-pressure turbines on 500 MW units, we have effectively reduced the coal unit consumption, and thus we reduced CO₂ emission to the atmosphere.

3.20. Insuring our operations.

Insurance policies concluded for our benefit may not cover losses borne as a result of our operations, as there are many risks associated with our operations. 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.

3.21. Management personnel.

We may have difficulties in recruiting and retaining appropriately qualified management personnel. The future success of our Group depends on its ability to employ and retain management personnel with wide experience of managing power companies and identifying, purchasing, financing and implementing energy projects, as well as technical personnel with an appropriate educational profile in the field of energy. Key factors in this respect are the increasing competition in the electricity sector and the fact that the companies in our Group are subject to the provisions of the Public Sector Salary Cap Act, which limits the remuneration of people holding certain managerial positions. On 13 June 2008, the *Sejm* (the lower chamber of parliament) adopted the Act Amending the Act on Commercialisation and Privatisation and Certain Other Acts, which was subsequently (on 26 June 2008) adopted without amendments by the Senate (the upper chamber of the parliament). Under the proposed amendments, the provisions of the Public Sector Salary Cap Act will not be applicable to members of management bodies and supervisory bodies of companies wholly owned by the State Treasury (among others)



as well as to companies in which the State Treasury's share exceeds 50 per cent. On 24 July 2008, the aforementioned act was vetoed by the President of the Republic of Poland. There is no guarantee that the act will be re-adopted by the *Sejm* and come into force.

If we do not manage to recruit and retain appropriate personnel, this could have an adverse effect on our operations, financial standing, financial results or development prospects.

3.22. Collective disputes and agreements.

Collective disputes with employees may cause disruptions to our business.

Approximately 70 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 the 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.

At present ENEA S.A. is involved in one collective dispute initiated on 7 September 2009. It concerns the planned privatisation of ENEA S.A. and the effects of a potential change to the shareholding structure on the Company's employees. The dispute has not been settled to date.

3.23. 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.

The following court and administrative proceedings are under way against ENEA S.A.:

1. Court proceedings.

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 Court of Competition and Consumer Protection. On 31 August 2009, the Court of Competition and Consumer Protection 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 Court of Competition and Consumer Protection 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. 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 ENEA filed an appeal on 20 April 2011 with the Court of Appeals in Warsaw, VI Civil Department.

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 by the President of the ERO 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 by the Court of Competition and Consumer Protection.

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.

2. Administrative proceedings.

On 31 May 2011 ENEA S.A. received Notification from the Office of Competition and Consumer Protection, Branch in Poznan on initiation of the administrative procedure (file no. RPZ 400/29/11/ŁD/3) in relation to the Decision of the President of the Office of Competition and Consumer Protection of 25 May 2011 concerning refusal to some entities of the territorial government to change the tariff group into C11o. On 30 June 2011 the company made exhaustive explanations on the subject matter. Till 18 August 2011 no other notifications were submitted from the Office of Competition and Consumer Protection on the subject matter.

On 1 August 2011 ENEA S.A. received Notification from the Office of Competition and Consumer Protection, Branch in Wroclaw on initiation of the administrative procedure (file no. RWR 61-24/11/AJ/1) in relation to the Decision No. 161/2011 of the President of the Office of Competition and Consumer Protection of 26 July 2011 concerning suspicion of applying by ENEA S.A. of practices infringing the collective interest of consumers.

Kozienice Power Plant is 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 44,768,476.50. Kozienice Power Plant returned advance payments in the amount of PLN 44,768,476.50, pursuant to the decision of the Court. On 19 May 2010 the Court of Appeals, Division VI (Civil) suspended the execution of the decision by the President of the ERO of 31 July 2009 on the annual correction of stranded costs also with regard to the sum of PLN 44,768,476.50. The Court of Appeals emphasised that the Court of Competition and Consumer Protection had no legal basis to decline the withholding of executing 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 Kozienice Power Plant asked Zarzadca Rozliczen S.A. to return the amount of PLN 40,577,000 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 40,577,000 with the interest due. With the letter dated 12 July 2010 Zarzadca Rozliczen S.A. upheld its previous standing in this case and refused to return the amount in question. On 1 December 2010 a trial on the case of LTCs 2008 took place before the Court of Competition and Consumer Protection. However, the court decided to adjourn it until the legally valid settlement by the Court of Appeals whether Zarzadca Rozliczen may obtain the status of the interested party in the proceedings. With the decision as at 22 June 2011 the Court of Appeals in Warsaw rejected the appeal of Zarzadca Rozliczen from the Court of Competition and Consumer Protection decision concerning declining the participation of Zarzadca Rozliczen in the proceedings concerning the case of LTCs 2008 as the interested party (Zarzadca Rozliczen did not therefore obtain the status of the party in the LTCs 2008 proceedings). As at 4 August 2011, the proceedings in the case have not been resolved.

On 3 August 2010 the Power Plant received a decision of the President of the ERO of 29 July 2010 establishing the annual correction for 2009 in the amount of + PLN 15,580,000. Since this decision is also unfavourable for the Power Plant, on 17 August 2010 an appeal was lodged against this decision to the Court of Competition and



Consumer Protection and Regional Court in Warsaw. In the financial statement for 2010 revenues in the amount of PLN 15,580,000 were included in the statement of total revenues under the sales revenues item. However, if the Court settles the dispute in favour of the Power Plant the amount of annual correction for 2009 can reach the maximum of PLN 111,084,000, it would therefore be more advantageous by PLN + 95,504,000. On 30 September 2010 the Power Plant received from Zarzadca Rozliczen S.A. the amount of the annual correction for 2009 in the amount of PLN 15,580,000. As at 4 August 2011, the proceedings in the case have not been resolved.

On 4 August 2011 the Power Plant received a decision from the President of the ERO of 29 July 2011 establishing the amount of annual correction of the stranded costs for 2010 which Kozenice Power Plant is to receive from Zarzadca Rozliczen S.A., to the amount of PLN 2,471,668.00.

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.

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 2008 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 2008.

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 2008 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.

Proceedings regarding 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.

Proceedings regarding overpayment for 2008 – 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 2008 and setting the tax liability for the period in question.

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.

Proceedings regarding overpayments for January and February 2009 – the Head of the Customs Office in Radom issued decisions setting the overpayment of excise duty on electricity, but only that generated from renewable resources for January and February 2009, in the total amount of PLN 247,000. Within the scope stemming from the incompatibility of Polish tax provisions with Community regulations he issued a decision declining to refund the overpayment, setting the tax liability in amounts decreased by the excise duty for electricity from renewable resources for the defined 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.

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 on 12 January 2011 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 months of: April 2007, May 2007, June 2007, October 2007 and August 2006.

The Administrative Court in Warsaw, VIII Division in Radom passed sentences on 15 June 2011, 30 June 2011, 6 July 2011 and 19 July 2011 in which it took into account the appeals of Kozenice Power Plant and revoked the 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 months: March 2008, May 2008, June 2008, July 2008, August 2008, September 2008, October 2008, November 2008, December 2008, January 2009 and February 2009.

As a result of proceedings pending, as at 4 August 2011 a return in excise duty overpayment was made for Kozenice Power Plant in the total amount of PLN 3,362,958.00. Claims pending.

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.

3.24. 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 33 per cent of all the real properties on which power infrastructure is located (except for power lines). As at 30 June 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 95 per cent of the properties on which such installations are located,
- enclosed medium and low voltage transformer stations – approximately 65 per cent of the almost 14,000 enclosed transformer stations are located on real properties for which ENEA Operator does not hold appropriate legal title, and
- 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.

Claims relating to the use of forest land managed by State Forests for the purposes of power lines owned by ENEA Operator belong to a special category.

With regard to real properties used by ENEA Operator without an appropriate legal title, we are exposed to a risk of their being returned to their owners and of third parties asserting claims relating to the non-contractual use of such properties. As at 30 June 2011, 426 court proceedings were pending against ENEA Operator Sp z. o.o. regarding the use of real properties without contract, for a total sum of PLN 27.16 million. The provision for claims (including claims associated with non-contractual use of real properties) that are the subject of pending court proceedings and pre-litigation claims against ENEA Operator amounted to a total of PLN 76.72 million as at 30 June 2011.



As at 30 June 2011 before public courts there were in total 131 cases pending against the Company to the total amount of PLN 37,986,000. ENEA created a reserve for these proceedings in the amount of PLN 24,139,000 and for pre-litigation claims in the amount of PLN 7,920,000.

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.

3.25. Modernisation and development.

The development of the ENEA Capital Group will be carried out in three basic 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 section 1 pt. 2 *'Policy on directions of development of the Capital Group'*.

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.

Current maintenance and above all modernisation and expansion of the Kozenice 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.

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.



3.26. 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.

The legal and regulatory environment in which we operate is subject to changes.

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. It was not long ago that Poland enacted the legislative framework that regulates the functioning of the power sector in its present form. 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. There exists, therefore, 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.

3.27. Growth strategy outline.

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

Actively observing the situation on the power market in Poland and the dynamic changes in the sector, the Management Board took action intended to verify the 10-year strategy until 2020 now under development (including planned investments) in order to take into consideration trends on the Polish energy market that are of key importance to the Group. The main trends identified include: (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, (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.

We intend to implement that strategy by:

- Developing the basic operations of the Group – areas in which we will concentrate on:
 - developing and diversifying 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,

• Improving the effectiveness of the functioning of the Group – areas in which we will concentrate on:

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

• Building a socially responsible business – in which we will concentrate on:

- ensuring the balanced management of human capital,
- 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,
- Generation based on fossil fuels and renewable sources,
- Wholesale trading,
- Sales,
- Distribution,
- Shared Services Centre.

Creating, in addition to the core business areas, the additional Corporate Centre and Shared Services Centre divisions should serve to increase the efficiency of the management of the Group and enable cost synergies to be made resulting from the centralised management of Group operations and a shared customer service system.

In implementing our strategy, we assume a base variant until 2020 of about PLN 18,700,000,000 for investments in conventional generation (about 39.4 per cent of all investment outlays), distribution (about 34.4 per cent of total investment outlays) and renewable energy sources and cogeneration (about 26.2 per cent of total investment outlays).

Our main goal for conventional generation is to construct a new 1,000 MW bituminous coal-fired power unit in Swierze Gorne (we assume an average construction cost of EUR 1,400,000 per 1 MW). We are planning to commission it by 2016. We are currently going through the process of selecting a contractor to design and build the new 1,000 MW unit. We are planning to select a contractor in Q1 2012. At the same time we are continuing the modernisation of other 200 and 500 MW units operating at the Kozienice Power Plant. We are also conducting preparatory analyses for the construction of a second 1,000 MW unit in Swierze Gorne, which will be connected with the necessity of incurring investment outlays, starting from 2012.

In the area of distribution, during the period covered by the strategy we are planning investment works, modernisation of the grid infrastructure, and essential refurbishment in connection with increasing demand for electricity and the necessity of connecting renewable sources of energy. Such investment and modernisation activities should result in increasing the functionality of our grid and in restricting grid losses. They will also involve replacing those sections of distribution lines which have seen the longest service. In 2010 investment outlays in the distribution area were PLN 583,300,000 in relation to the planned PLN 575,000,000. Then, in H1 2011 investment outlays in the distribution area were over PLN 217,500,000, which constitutes 99.7 per cent in relation to outlays planned at the end of Q2 2011 and 27.1 per cent of the total outlays planned to be realized in 2011.

In accordance with art. 16 item 6 of the Act on Energy Law of 10 April 1997, ENEA Operator filed a motion to the President of the Energy Regulatory Office to agree on the development plan draft within the area of fulfilling the present and future demand for electric energy, prepared for 2011-2015.



In December 2010 President of the ERO found the submitted project agreed within the subject matter including 2011, at the same time approving the so-called justified investment outlays level for that year in the amount of PLN 802,311,000. They are therefore, by almost 40 per cent higher than in the investment plan for 2010. In June 2011 however, the President of the ERO found the project of the Development Plan submitted by the Company agreed within the scope encompassing 2012-2015.

The investment plan for 2011 is the first investment plan of ENEA Operator in which the majority of investments will include modernisation and reconstruction of assets connected with the improvement of service quality and/or power demand increase. They will constitute over 50 per cent of the aforementioned amount in 2011. The remaining part of the outlays, in definite majority will be for connecting new users and sources of electric energy production. In previous plans the relation was opposite – the majority of outlays was connecting new users and sources.

In the area concerning renewable energy sources we assume extension of production capacity. We are planning to achieve, until 2020, 250350 MW of the installed power in wind. At the same time we made a decision to carry out investments in biogas power, planning to reach in this area the capacity of about 40-60 MW in 2020.

On 15 January 2010 ENEA S.A completed the purchase of the first biogas power plant in Liszkow (The Kujawsko-Pomorskie Province) with the capacity of 2.12 MWe. In 2011 we are planning to purchase biogas plants with the total capacity of 5 MWe. In Q2 2011 ENEA purchased 100 per cent of special purpose vehicle set up for the purposes of biogas power plant construction.

In March 2011 a company of ENEA Capital Group dedicated to, among other things, the extension of production capacity of the Group from Renewable Energy Sources (Elektrownie Wodne Sp. z o.o.) purchased a wind farm located in Darzyn 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 Darzyn was built in 2008. It consists of modern wind turbines Enercon E-82 with the power of 2 MW each. It is located in the area of very favourable wind conditions. Its productivity in 2010 was 14.7 GWh.

On 1 June 2011 ENEA S.A. purchased from French company Société Nationale d'Électricité et de Thermique (SNET) 69.58 per cent of Elektrociepłownia Białystok S.A. (Białystok Heat and Power Plant) shares. Thanks to the transaction the Group holds almost 100 per cent of shares of the company from Białystok (0.06 per cent belongs to the employees of the enterprise from Białystok). Białystok Heat and Power Plant is one of the biggest enterprises in the region. The attainable heat capacity of Białystok Heat and Power Plant is 459.2 MW. Apart from the heat production Białystok 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 firing. 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 Sp. z o.o. with the seat in Samociazek has the capacity of 330 kW. Estimated average annual production capacity of electric energy is 1,440 MWh. The water power plant in Oborniki Wlkp. is the 21st installation of that kind belonging to ENEA Group.

Depending on the market situation, our financial standing, technical and economic analyses carried out as well as the ability to finance investments, we do not rule out the possibility of expanding the base investment programme by additional investments in conventional generation facilities in the amount of approximately EUR 1,400,000,000. This amount takes into account the construction of another unit with the capacity of approximately 1,000 MW in Swierze Gorne. Moreover, the Management Board does not rule out a realisation of an investment connected with the construction nuclear power plant with the capacity of approximately 1,600 MW. In this case additional outlays shall be approximately PLN 14,400,000,000 (PLN 9,400,000,000 until 2020).



3.28. Planned investment outlays.

In 2011, as part of the activities of ENEA, ENEA Operator and the Koźienice Power Plant, we plan to make investment outlays of around PLN 1,607,905,000. The table below presents the planned investment outlays in the year ending 31 December 2011, broken down by type.

	Year ending 31 December 2011
	[PLN '000]
Investment outlays on distribution assets, including:	802,311
<i>Connecting new users and new sources and construction of new grids connected with it</i>	282,931
<i>Modernisation and reconstruction of the existing assets connected with improving the quality of services and/or power demand increase</i>	424,428
<i>Other investment outlays</i>	94,952
Investment outlays on generation assets, including:	257,797
<i>Investments in individual 200 MW units</i>	98,035
<i>Joint* investments in 200 MW unit</i>	9,435
<i>Construction of a power unit with the capacity of approx. 1,000 MW</i>	31,506
<i>Investments in individual 500 MW units</i>	1,825
<i>Joint* investments in 500 MW units</i>	13,291
<i>Joint* investments in 200 MW and 500 MW units</i>	95,545
<i>Purchase of ready investment goods</i>	8,160
Other investment outlays	547,797
Total	1,607,905

* Joint investments – cover investments in technological systems common to the operation of individual groups of units (i.e. joint investments for 200 MW units, joint investments for 500 MW units and joint investments for 200 MW and 500 MW units).

Distribution assets

The investment policy is intended to maintain the appropriate technical condition of the distribution assets, which must be able to provide electricity distribution services in an uninterrupted manner while maintaining the required technical parameters of its delivery.

ENEA Operator, as a power company engaged in the distribution of electricity, is obliged to prepare development plans for its operations with regard to satisfying current and future demand for electricity.



Growth plans must take into account local zoning plans and district development plans defined in the zoning studies of individual district. Drafts of growth plans must be consulted with the President of the ERO.

A significant portion of the investment plan for 2011-2015 is intended to implement tasks related to connecting both users and generators to the distribution grid. Another significant item of the investment plan is the implementation of tasks consisting of the modernisation, exchange and expansion of distribution grid elements in order to maintain the aforementioned technical parameters of supplied electricity for existing users. The investment programme also includes such tasks related to distribution support as, for instance, IT, telecommunications, tele-mechanics and measurement, as well as the purchase of existing investment assets, including vehicles, and tasks related to the support infrastructure, i.e. buildings and structures.

Generation assets

The investment and modernisation policy of Kozenice Power Plant will be implemented mainly in the following areas:

- adjusting generation units to achieve permissible standards of SO₂, NO_x and dust emissions that stem from EU directives and the provisions of the Accession Treaty,
- the longest and economically justified utilisation of existing power units, which will be used in a safe and effective manner while maintaining high availability and efficiency of the generation equipment,
- implementing further investment projects related to the co-firing of biomass on existing power boilers,
- constructing new generation units with supercritical parameters with a high efficiency of power generation.

In connection with increasingly restrictive environmental protection requirements, including those related to limits on carbon dioxide and other gas and substance emissions, the Kozenice Power Plant is modernising its generation units in light of the changing environmental protection requirements. In upcoming years, the Kozenice Power Plant intends to carry out the following modernisation projects: (i) by 2014 as part of modernisation intended to reduce dust emissions, it is planning to modernise electrofilters on units 3, 4, and 8 (ii) by 2018 in order to reduce NO_x emissions below 200 mg/Nm³ on units 1-10, it is planning to install selective catalytic reduction systems (SCR).

In 2016, we are planning to build and commission a unit with a power capacity of 1,000 MW at the Kozenice Power Plant. In March 2008 the Kozenice Power Plant obtained a zoning decision for this project from the Mayor of Kozenice District, and in December 2008 a connection agreement was signed with PSE Operator that set the terms of connection for a unit with a power capacity of about 1,000 MW to the national transmission grid. The estimated cost of this investment will amount to approximately EUR 1,400,000,000.

Other investment outlays

As part of the remaining investment outlays in the amount of PLN 547,800,000, the Company plans to spend funds in particular on cash capital investments in Group companies engaged in the generation of electricity and heat energy (including from renewable resources), modernisation of street lighting and IT and telecommunications projects.

We expect the planned investment outlays to be covered from available cash funds, funds from operations, and obtained debt financing.

Currently implemented investment outlays

We are currently implementing the investment plan for 2011, as part of which we are conducting/have conducted the following investment projects:



- investment in distribution assets, including the construction and modernisation of high, medium and low voltage grids, and connecting customers to the medium and low voltage power grids;
- investments in distribution assets to support distribution, including IT, telecommunications, tele-mechanics systems, as well as metering and billing systems;
- investments in purchases of power equipment (transformers and other apparatus used in stations), safety relays safeguarding against the consequences of short circuits, control and metering equipment, as well as vehicles;
- development of catalytic denitrogenation system for boilers no 4 to 8 in the Koziencice Power Plant;
- modernisation of unit 4 in the Koziencice Power Plant, based on, for example, replacement of electrofilter, modernisation of boiler, turbine set as well as modernisation of unit automation;
- the construction of a new compressor station 2 in the Koziencice Power Plant - completed;
- reconstruction of hydraulic transport trestle bridge of ash and slag as well as return water pipelines from the storage yard in the Koziencice Power Plant;
- the construction of desulphuring system IOS III for unit 10 in the Koziencice Power Plant - completed;
- acquiring majority interest of Elektrociepłownia Białystok S.A. – completed.

3.29. 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.

3.30. Description of the use of funds raised from the issue.

Means obtained by ENEA S.A. from the issue of shares are invested in instruments exhibiting minimal risk, i.e. issued debt instruments, secured by suretyship or guaranteed by the State Treasury or bank deposits. Revenues from completed investments amounted to PLN 43,403,000 in H1 2011. In accordance with the provisions of the Issue Prospectus the Company gives means obtained by the issue to the realization of investments.

4. The Corporate Bodies of ENEA S.A.

4.1. Personal composition.

As at the day on which this report was published, the Management Board composed of the following:

Name and surname	Position
Maciej Owczarek	President of the Management Board



Hubert Rozpędek	Member of the Management Board for Economic Affairs
Maksymilian Górniak	Member of the Management Board for Commercial Affairs
Krzysztof Zborowski	Member of the Management Board for Energy Generation

As at the day on which this report was issued, the Supervisory Board was composed of the following:

Name and surname	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
Tadeusz Dachowski	Member of the Supervisory Board
Paweł Lisiewicz	Member of the Supervisory Board
Agnieszka Mańkowska	Member of the Supervisory Board
Mieczysław Pluciński	Member of the Supervisory Board
Graham Wood	Member of the Supervisory Board

4.2. 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.

As at the day of issuing this report the state of shares' ownership has not changed in comparison with the previous report and is as follows:

Name and surname	Position	Number of shares owned in ENEA S.A. as at 30 June 2011
Tadeusz Dachowski	Member of the Supervisory Board	4,440
Mieczysław Pluciński	Member of the Supervisory Board	4,140
Maksymilian Górniak	Member of the Management Board for Commercial Affairs	3,740

As at the day of issuing this interim report other persons from the Management and Supervisory Board do not own ENEA S.A.'s shares.



At the date of issuing this report, Members of ENEA S.A.'s Management and Supervisory Boards did not own shares in subsidiaries of ENEA S.A.

5. The shareholding and share capital structure of ENEA S.A.

5.1. 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 is PLN 441,442,578. The total number of votes resulting from all issued shares of the Issuer is 441,442,578.

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,
- 41,638,955 series B ordinary bearer shares,
- 103,816,150 series C ordinary bearer shares,

Up to the date of publication of this report, the level and structure of ENEA S.A.'s share capital will remain unaltered.

5.2. Shareholder structure.

As at 30 June 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:

Item no	Shareholder	As at 30 June 2011		As at 16 May 2011	
		Number of shares/number of votes at the GM	Share in the share capital/share in the total number of votes	Number of shares/number of votes at the GM	Share in the share capital/share in the total number of votes
1	State Treasury	230,109,853	52.13 per cent	229,160,835	51.91 per cent
2	Vattenfall AB	82,395,573	18.67 per cent	82,395,573	18.67 per cent
3	Others	128,937,152	29.20 per cent	129,886,170	29.42 per cent
	Total	441,442,578	100.00 per cent	441,442,578	100.00 per cent

Within the period of submitting the report for Q1 2011 there were no changes in the ownership structure of significant shares packages of ENEA S.A.



According to information submitted by DI BRE, keeping the Share Register on behalf of ENEA S.A., the divergence of number of shares held by the State Treasury in the period between 16 May 2011 and 30 June 2011 is connected with the heirs' services specificity.

The process of heirs' service assumes that first of all they reach an agreement with the State Treasury – then the State Treasury ceases to be the owner of registered shares to which the agreement applies. However, the State Treasury still remains the shareholder entered in the Company's Share Register – crossing off takes place after filing an appropriate motion by the purchaser and having fulfilled conditions stipulated in the Code of Commercial Companies.

Documents connected with the purchase of shares are returned to DI BRE and only then the heir can re-report and file a motion to make an entry in the Share Register (disclosing the heir as the Company's shareholder with a simultaneous cross-off by the State Treasury as the shareholder of these shares). After this, there is a period of time to notify the State Treasury that it is going to be crossed off and then waiting at least 2 weeks, which are given to file an objection.

At present, about 700 heirs who reached an agreement with the State Treasury did not re-report in order to file a motion concerning an entry in the Share Register – the State Treasury is not the owner of shares acquired by them anymore, but it still appears in the Share Register.

6. Description of the principles according to which the abbreviated mid-year financial statement and the abbreviated consolidated financial statements were drawn up.

Abbreviated mid-year consolidated financial statement

The abbreviated mid-year consolidated financial statements for the period 1 January 2011 to 30 June 2011 was drawn up in accordance with the International Financial Reporting Standards, which were approved by the European Union (the "EU IFRS").

The abbreviated mid-year consolidated financial statements were drawn up according to the historical cost principle, except for financial assets valued at fair value through profit and loss, financial assets available for sale and payment in the form of shares.

The key accounting principles which are applied when drawing up the abbreviated mid-year consolidated financial statement of ENEA S.A. are presented in Note 3 on the financial statement of ENEA S.A. for the first six months of 2011. Those principles were applied consistently in all the periods presented.

Abbreviated mid-year financial statement

Description of key accounting principles

The key accounting principles which are applied when drawing up the abbreviated mid-year non-consolidated financial statement of ENEA S.A. are presented in Note 3 on the financial statement of ENEA S.A. for the first six months of 2011. Those principles were applied consistently in all the periods presented.

Basis of drawing up the financial statement

The abbreviated mid-year unconsolidated financial statements for the period between 1 January 2011 and 30 June 2011 were prepared in accordance with the requirements of the International Financial Reporting Standards as adopted by the European Union (the "EU IAS").



The abbreviated mid-year non-consolidated financial statements were drawn up according to the historical cost principle, except for financial assets valued at fair value through profit and loss, available-for-sale financial assets and payments in the form of shares.

7. Other information.

7.1. Entity entitled to audit performing reviews of financial statements.

The authorised entity is Deloitte Audyt Sp. z o.o., of Al. Jana Pawła II 19, 00-854 in Warsaw, entered on 7 February 1995 under evidentiary number 73 on the list of entities authorised to audit financial statements kept by the National Chamber of Statutory Auditors.

7.2. Other information which is significant for evaluating the Issuer's employment, asset or financial condition, its financial results and changes to them, as well as information that is significant for evaluating the Issuer's ability to meet its obligations.

Regardless of the information contained in other parts of the semi-annual report, in the opinion of the Board the following information should also be noted:

Corporate social responsibility

The year 2011 is our first year of implementation of the Corporate social responsibility strategy of ENEA Capital Group and preparing to issue a CSR report. We intend it to communicate openly about our environment that we take action and what we have achieved through them.

In this report, information about our internal standards related to monitoring the impact of ENEA on the environment and its protection through our daily actions and habits cannot be missed, as one of the overarching goals of CSR Strategy Group ENEA is: "Promoting pro-environmental practices and behaviors". This objective will allow us to be visible in Respect Index – the index of responsible companies listed on the Warsaw Stock Exchange, for which environmental issues are key.

To be credible in this area, we need to begin from working on ourselves. Therefore, *the Plan implementing the operational strategy of corporate social responsibility of the ENEA Capital Group* we set for eight actions to reduce our negative impact on the environment, including the operation of "Ensuring a system of segregation of waste (paper, plastic, glass, used batteries) in the office of ENEA S.A.". Without their implementation we will not be able to join the group of companies who care specifically about the environment in every area of their business. Entities competing with the ENEA in the energy industry, take more and more such actions. This applies both to large investments and daily operations of the company and its offices.

Because we believe that every, even small contribution to the care of the environment and sustainable development makes sense, we decided to start the educational campaign raising environmental awareness among employees. The first eco-practice is a waste segregation. In all the offices of ENEA S.A. in Poznan, Szczecin, Bydgoszcz and Zielona Gora Ovetto waste sorting bins will appear.

Bins will consist of three chambers, whose doors will differ in colours due to the type of waste (blue-paper, green-glass, yellow-plastic) and the inserted crusher for PET bottles in order to reduce their volume. This earlier division due to the material of which the waste thrown is made, ensure proper disposal and processing. The



whole bin will rotate around the axis, enabling easy access to all the containers. To identify more with the idea of sustainable development, the bins were produced in 40-70 per cent of recycled materials and packed in cartons from recycled materials as well.

Simultaneously with the appearance of bins in offices, in the back facilities of buildings appropriately marked containers for storage of segregated waste will be installed.

Offices are places where employees spend much of the day and where they perform a series of steps that relate to the impact on the environment – consumption of energy, water, paper, or waste production. It happens that those who, for economic reasons, economically manage power and other resources in their home, forget about their environmentally friendly habits, when they do not have to pay for electricity or water. On the other hand, some ecological habits acquired in the workplace (e.g. waste segregation) can be transferred to the family land - in this way environmental awareness gained in the office may be transferred to employees family members.

Launching the waste sorting project in the offices of ENEA S.A., we hope that this will be part of a larger educational campaign to increase awareness and ecological knowledge of employees of the Group. We hope that by making a daily habit of segregation an easy and pleasant one, we will contribute to the popularisation of waste sorting and respect for the environment not only in workers' families, but also throughout the society. We also hope that all the companies of the ENEA Group will want to join these just-initiated eco-practices.

CSR tab on the ENEA S.A.'s main website

In February 2011 ENEA S.A. launched a separate tab on the company's main website, dedicated to issues of corporate social responsibility.

In the last year a lot happened in both our Company and the entire Group in this area, of which we tried to keep you informed. In June 2010, a publication "Review of social involvement in ENEA S.A. for the years 2007-2009" was released. This publication provided an opportunity to effectively inform stakeholders about the company's existing social activities. From May to July last year, a workshop was held where representatives of the Group Companies have developed "Corporate Social Responsibility Strategy for the ENEA Capital Group", adopted by the Board of ENEA S.A. in October 2010, which was approved by the Supervisory Board of ENEA in November last year. We participated in the CSR Good Habits Fairs and thematic conferences. Even earlier, in 2009 we signed the industrial "Charter on Sustainable Development and Responsible Business."

Starting from today you can read on the new website about the historical background of corporate social responsibility in our Group, CSR strategy assumptions, undertaken pro-environmental and pro-social initiatives and how the ENEA Group understands the socially responsible business. Of course, individual sections will be constantly expanded with the development of activities and new emerging activities. Although more modules are still designed, in which over time we will inform about the directions of social commitment that the Group chooses to accept, the principles of cooperation with social organisations, the relationships with customers and business partners, on new initiatives, we decided to start the bookmark now.

All big global corporations have bookmarks on topics of corporate social responsibility. Also in Poland the mainstream firms have to communicate about CSR on their website.

In the light of publicly undertaken commitment to manage the ENEA Group according to the principles of CSR, this fact had to be reflected in the overall ENEA S.A.'s communication with the environment, especially in the primary communication channel of each company - the website. It is required by generally accepted standards of transparent communication about key, for stakeholders, objectives and activities of a socially responsible company. This information may affect their functioning and assessment of the possibilities and principles of cooperation with the Companies of the Group. Lack of basic information on the adopted CSR Strategy on the website may undermine credibility in the eyes of experts and stakeholders, especially those interested in issues of corporate social responsibility and the level of implementation of its principles by the ENEA Group. Communication of the adoption of CSR Strategy and its objectives, confirms the understanding of the socially responsible company of the priority of open and effective communication with key external stakeholders.

Lack of information on adoption of the CSR Strategy on the website which is the primary source of information about the company, could raise doubts as to the true intentions of the implementation of CSR strategy by ENEA. Lack of information about how the company that adopted CSR Strategy understands socially responsible



business, could lead to a negative assessment on the part of environmental experts and CSR practitioners and companies practicing CSR or to tarnishing of the company's reputation by presenting as bad practices in the nationwide press of the lack of consequence of the ENEA Group in communicating the objectives strategy.

Policy of social commitment

The Supervisory Board of ENEA S.A., on 21 April 2011 approved the "Policy of social commitment of the ENEA Capital Group," after many consultations and workshops carried out in cooperation with all the companies. It establishes, among others the main directions of activities of social involvement of companies in the Group, such as the environment and community.

The main change introduced by the Policy - and this is reflected in the new rules for the allocation of donations in ENEA S.A., which were approved by the Board of ENEA S.A. on 15 March 2011 - is that prospective beneficiaries have an obligation of applying for support with the use of properly prepared form.

The document provides guidance description of projects and activities for those organisations and institutions that apply for support. It is available online on the ENEA S.A.'s company website. Henceforth only applications filled in on this document will be considered by the Board.

In addition, the Policy introduces another form - the evaluation of applications. It contains guidelines for the evaluation of projects and of social involvement activities of the ENEA Group. It will be a tool for facilitating the selection of the applications so as to help choose projects that are valuable and comply with the directions of the policy.

The forms should also be implemented by the Group's companies providing any form of support. That was the idea of their appearance in the Policy. Data from the forms is to be used in common reporting by the Group companies on the projects in the field of social involvement (the environment and community), which will be conducted this year. This opens the opportunity to report on the basis of international GRI reporting system, which is adopted as a standard in the world. This allows the ENEA Group to be able to issue another Social Report and CSR Report. It will also improve planning, coordination and communication of projects outside the Group and facilitate the selection of social partners and projects.

An additional value of both documents is that they have been developed through workshops, discussions and joint arrangements with the companies of the ENEA Group.

The Staff Volunteering Support Program "The impulse of the heart"

Employees initiatives of help and of social involvement have been present in the culture of the ENEA Group for a long time. The employees have enormous potential, which ENEA, as a socially committed employer, strongly supports.

From 2011, the ENEA Group started actively involve their employees in social activities. "Framework for supporting staff volunteering" have been endorsed, which regulated hitherto staff activity in the pro-social sphere. Today, voluntary work is a new form of building relationships with stakeholders of the company.

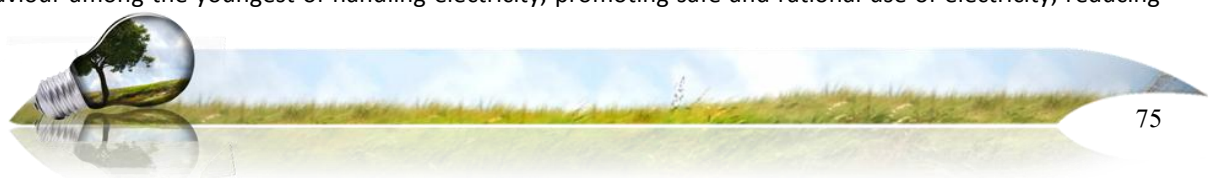
Employees in the ENEA Group personally engage in a gratuitous aid to those in need. Many actions of assistance are their own initiative. Without a doubt, the involvement in charitable activities stems from the awareness of the timeless value of help, but primarily from the personal satisfaction and joy brought by charity. Visible results of the support given to others is main motivation for further action. Their attitude is inspiring for the ENEA Group. In H1 2011 316 people reported the desire to engage in volunteer staff activity. More than 6,000 people benefited from their activities.

Volunteers take action for the local communities, as well as participate in two organized volunteer programs:

- Educational program "Power-not so scary"

Volunteers of ENEA Group educate the youngest in the safe handling of electricity. They visit primary schools and kindergartens, where they organise lessons, which show the movie "Power-not so scary," deliver a talk and solve the puzzles that help children to remember presented knowledge.

The objectives of the project are to improve the safety of children in contact with the equipment powered by electricity, building environmental awareness and energy conservation among the young, instill proper behaviour among the youngest of handling electricity, promoting safe and rational use of electricity, reducing



the risk of electric shock, or burns due to improper use of electrical appliances, to inspire parents and teachers to talk with children about safe handling of the devices connected to power, education - to explain how electricity is produced, environmental education, improving the ability to cooperate in a group.

The program "power - not so scary " is aimed at children aged 5-9 years and was developed in collaboration with teachers and methodologists. Patronage: Minister of Education, Superintendent of Schools of the Wielkopolskie Province, the Wielkopolskie Province Governor. Partner: Ashoka - Poland.

- First Aid with ENEA - premedical rescue

The program aims to provide people with knowledge of the provision of first aid and teaching its practical applications in the event they become witnesses to the accident. The teaching is delivered by volunteers of the ENEA Group - premedical rescuers who have had a range of professional training. Every year 40 thousand people in Poland lose consciousness and die from sudden cardiac arrest (SCA). This tragedy can be prevented by an immediate initiation of CPR breathing. The program in its main premise is to promote among the people an impulse to render first aid and knowledge that will effectively and safely rescue victims.

Our goal is: to spread knowledge on how to help an injured person, we would like to make automatic defibrillators available in the public places across the range of the ENEA Group activity - defibrillators are devices that trigger an electrical impulse to the heart muscle and restore normal heart function. We want people to know the places where such devices are installed and to know how to use them.

The „Coalition of volunteering Presidents” project

The "Coalition of volunteering Presidents 2011" was initiated by Maciej Owczarek - President of ENEA S.A. factually supported by Paweł Łukasiak - President of the Association of Academy for the Development of Philanthropy in Poland. Initiators wanted to form a coalition of the presidents of companies with experience in social commitment and volunteerism. People who recognise the need to popularise the idea of volunteering and social manifestation of personal involvement in the voluntary actions. The first joint action volunteering CEOs is the appeal - "business time, time to help " addressed to business leaders in Poland, in which they invite to join the works of the Coalition and to promote volunteering.

The task of the Coalition is to create a platform for cooperation and exchange of experiences on the social commitment of business and attitudes promoting volunteering in the business. It will be implemented by: supporting voluntary organizations of actions with the participation of CEOs; Coalition extension with new members; presentation of best practices for social commitment and volunteer business; education, social commitment in the business; exchange of knowledge, experience and skills between business leaders and leaders of social organisations; taking part in public debates of the European Year of Volunteering.

Modern applications in investor relations

ENEA S.A. as the first Polish listed company provides its shareholders with a constant access to information through a specially created application of Investor Relations on iPhone and iPad devices. Free ENEA IR application is available in App Store.

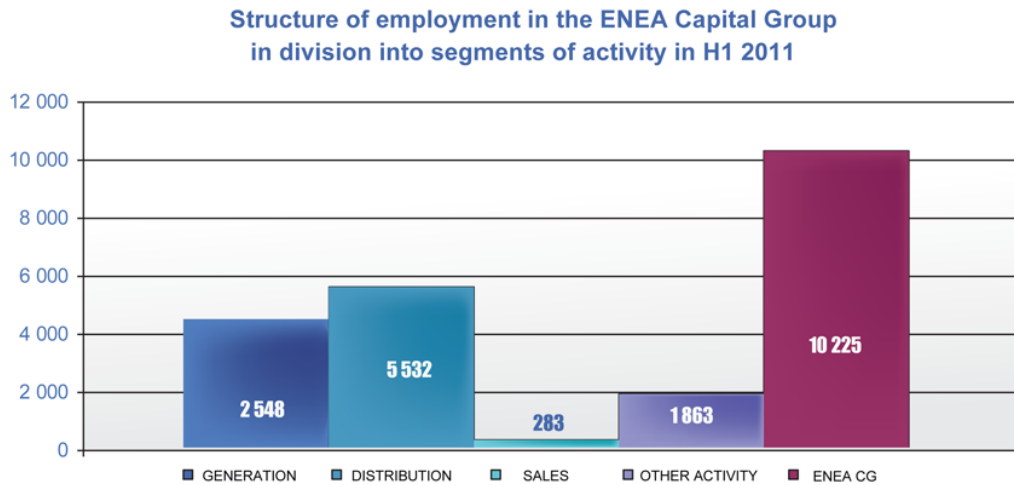
The application was created for ensuring a constant access for shareholders, investors and media to information on the Company. ENEA S.A. - one of the largest sellers of electric energy – is the first Company listed on the Warsaw Stock Exchange which provides mobile communication channel to investors. The application is available in Polish and English. Thus, ENEA, beside such global companies as Allianz, Nestle, or Marks&Spencer, joined the circle of pioneers of new communication channels in investor relations.

7.3 Information on transactions securing currency risk.

As part of its activities as at 30 June 2011 ENEA S.A. did not benefit from transactions securing currency risk. Among the subsidiaries forward securing transactions were concluded at Elektrociepłownia Białystok S.A.



7.4 Structure of employment in the ENEA Capital Group.



7.5. Awards, distinctions and achievements.

ENEA in the report "Responsible Business in Poland 2010. Good Practices"

Responsible Business Forum published on 31 March 2011 the ninth Report titled "Responsible Business in Poland 2010. Good Practices." ENEA S.A. dished out thereto for the first time with its two examples of responsible action. ENEA S.A. was among 117 distinguished practices submitted by 108 companies.

The report "Responsible Business in Poland 2010. Good practices" is the most important publication in the calendar year on CSR activities taken in Poland. For anyone looking for information on socially responsible companies it is like the Bible.

The report is divided into five areas: community, market, environment, workplace and management and reporting. Both reported good practices are included in the newly created area of the Report "Managing and reporting."

The fact was appreciated that the ENEA Group has approved a comprehensive, fully integrated with the Corporate Strategy and common to all the companies "Corporate social responsibility strategy of the ENEA Capital Group". CSR Strategy emphasises the problems associated with human capital management, dialogue with stakeholders, especially with the local community, as well as promoting pro-environmental practices and behaviours.

A group of experts positively assessed the fact that one of the first stages of the analysis of the situation in the company for the construction of the CSR Strategy was the review of social involvement and preparation of summary of measures undertaken in this sphere of activity. As a result of these actions "Overview of social involvement in ENEA S.A. in the years 2007-2009", was prepared according to the principles of reporting by the Global Reporting Initiative (GRI).

The report stresses that new trends are noticeable in the area of CSR: the increasing use by companies in CSR activities of social media and the growing number of activities for the employees of companies, including through education about what is CSR or organising competitions for initiative which the companies subsequently pursue. One can see clearly how involvement of small and medium-sized businesses in smaller cities increases.

ENEA on 3 June 2011 joined the Global Compact - UN Secretary General's initiative aimed at promoting business conducted responsibly towards society (CSR).

The Global Compact is the world's largest voluntary initiative for corporate responsibility and sustainable development, which have more than 8700 members from 130 countries. Inaugurated in 2000 by UN General Secretary Kofi Annan, it is a call addressed to the business to use the ten ethical principles of human rights, labour rights, the environment, combating corruption and promoting corporate social responsibility.



The company, which joins the initiative, in particular, commits to:

- 1) certain changes in business, so that the Global Compact and its principles become part of management, strategy, culture and daily activities;
- 2) annually publish a report (e.g. a sustainability report) describing the ways in which rules of Global Compact are supported, and its principles so that the "Global Compact principles become part of management, strategy, culture and daily operations the company";
- 3) publicly presenting their membership in the Global Compact and its principles of using communications tools such as press releases, speeches, website, etc.

ENEA, in joining the Global Compact publicly committed itself to respect these principles and turn them into active business. Joining the Global Compact is a consequence of the systematic development of a responsible approach to their activities in ENEA. After the adoption of the corporate social responsibility strategy in the Group social involvement became organised and directed. Henceforth ENEA is doing everything possible to carry out their activities in a responsible manner. It takes part in many social campaigns, engaging in projects supporting the development of the regions covered by the Company and the entire Poland. In particular, the company supports children, education, health care and the environment.

Membership in the Global Compact is another step confirming that ENEA a socially responsible company. Among the 80 companies, cities, universities and NGOs representing our country in this initiative, ENEA S.A. was next to, among others, PKN Orlen, Polish Telecom, LOTOS and PGNiG.

Acanthus Aureus Medal

On 24 May 2011 for the third time ENEA S.A. was awarded the Acanthus Aureus medal at the EXPOPOWER Fair held in Poznan. The award was granted for the stand being most conducive to the implementation of a marketing strategy. The stand of our company has been recognised for innovation and environmental performance as part of the gadgets was made of wood and paper. The uniqueness of our exposition was based on the fact that it had voices of wildlife and birds, interestingly, without any accompanying music. A list of natural sounds of the Polish forests with the creation around the stand where the trees ruled, gave an amazing effect. So much that visitors often looked up the exhibition hall in search of accidentally trapped winged singers.

The EXPOPOWER International Fair consists primarily of meetings and numerous discussions of specialists of the power industry on current topics and issues. It is also an opportunity and a chance to familiarise themselves with the latest products and innovative technology solutions for power. The guiding motto of EXPOPOWER 2011 was the energy of the future. The Fair's theme covered issues such as: generation, transmission and distribution of electricity and heat, machinery and electrical equipment, cables and connectors, controls and control, accessories of automation systems, lightning protection, energy construction and lighting. This year's edition was attended by the leading representatives from energy and electro technical industry (such as ABB, Apator Elektrobudowa, Elektromontaz Poznan, Lublin Elektromontaz, ENEA, Energa, Es System, Hager, Kromiss-Bis, LUG, Mikronika, Philips, Tauron). In total, at the energy fairs about 350 companies from several countries presented their offer. The EXPOPOWER organised also LIGHTING Exhibition – attended by companies offering professional presentation of the lighting industry. The exhibition was accompanied by a conference on "Energy efficiency in lighting". Like the last year the Polish Power Transmission and Distribution Association organised the II Electric Power Polish Forum during the fair. The conference was held under the slogan "New Energy Law needed right away." The offer of the EXPOPOWER fair was completed by, organised for the third time, the GREENPOWER International Fair for Renewable Energy and the AUTOMA International Trade Fair for Robotics, Automation and Control Equipment Measurement.

ENEA is the most environmentally friendly brand according to consumers

Consumers appreciated the ecological activities of ENEA, giving it the title of the Most Environmentally Friendly Brand in the category of A Supplier of energy. ENEA was selected on the basis of pan-European Trusted Brands survey 2011 conducted by Reader's Digest. The study included 33,005 respondents from sixteen countries. In Poland, the sample was 956 people. The study was carried out using an on-line questionnaire or a mail survey in August-October 2010.



Title of a Well-perceived Company

ENEA, as the company that implements the idea of a corporate social responsibility in the Wielkopolska Province in the best way, was awarded in the contest of 'Well-perceived Company'. The title is awarded to companies which, in the opinion of the environment, are distinguished by their activity in the area of CSR. The selection of the nominees for the title and the winners is done by the Regional Chapter of Contest set up in each province. They include representatives of employers, NGOs, media and local administration.



