

**Justification of the Board of Management of ENEA S.A.
to the proposed distribution of net profit
for the financial year
covering the period from 01.01.2010 to 31.12.2010**

Justifying the application on distribution of net profit of ENEA S.A. for the period from 01.01.2010 to 31.12.2010 we inform that what impacted the net financial result in the amount of 364,386 thousand PLN achieved in the financial year of 2010 was the earned income from the basic activity of the Company which is electric energy trading. Operating result amounted to 116,230 thousand PLN. Moreover, revenues were achieved from dividends in the amount of 193,888 thousand PLN and other financial revenues in the amount of 109,740 thousand PLN (gained mainly from interest on fixed-term deposits and Treasury bonds and notes).

Below is the justification of the proposed distribution of net profit:

1. Taking into account the plans presented in item 2 of this application concerning the realization of long-term strategy of ENEA Capital Group within production (including renewable energy sources) and distribution it is proposed to designate the amount of 109,316 thousand PLN, which constitutes 30% of net profit, for payment of dividends for shareholders and the remaining part of profit in amount of 255,070 thousand PLN designate for investment financing.

2. One of the basic factors substantial to the growth of the ENEA Capital Group (Group) and its perspectives is realization of a strategy based on realization of objectives in the three basic strategic areas:
 - development of the basic activity of the Group;
 - enhancement of the effectiveness of the Group functioning;
 - construction of a socially liable company.

Within the strategic area concerning the development of the basic activity of the Group, one of the long-term strategic directions is achievement of an access to own sources of energy production with a potential that would at least enable satisfaction of the demand for electric energy of all the clients of the Group.

The first step for realization of the strategy was inclusion into the ENEA Group in October 2007 of Elektrownia „Kozienice” S.A. (Kozienice Power Plant), the largest in Poland, in relation to the generating capacity, power plant fired with hard coal.

Notwithstanding the possibilities of achievement of additional generating capabilities through acquisitions of existing entities, it is planned to increase the generating capabilities of the Group, also on the area of Kozienice Power Plant, where till 2016 a new block with the aggregate generating capacity of ca. 1000 MW is to be built.

In relation to the anticipated increase in obligations of the sale of electric energy in Poland generated from the renewable sources of energy and in cogeneration, the Group undertakes activities aiming at the increase of control of costs related to the realization of the obligations resulting from the law regulations within this field. To this end, it is planned to continue execution of long-term contracts for purchase of certificates confirming generation of the electric energy in renewable energy sources and in cogeneration from external entities and making of direct investments in such sources. It is the objective of the Group to invest in projects of wind farms and biogas power plants which are already commenced, with a various level of progress, through acquisition of existing entities or investment in cooperation with external subjects. Four scenarios of purchase are possible – depending on the level of progress of the project: (i) searching for projects which in part would be realized by a third entity as a developer's service, (ii) purchase of a project from a third party before achievement by this party of a building permit and further individual development of the project, (iii) purchase of projects/special purpose companies (established by developers for realization of the project) after achievement of a final building permit for the project/special purpose company or (iv) purchase of finished turnkey wind farms and biogas power plants. Moreover, in upcoming years it is planned to acquire CHP plants. The heating plants already acquired by the Group are to be modernized and transformed into CHP

plants, including also those powered with biomass which will generate electric energy and heat energy in cogeneration, which will enable achievement of additional certificates of origin for the energy.

Within the area of improvement of the efficiency of functioning of the Group strategic objectives will be realized which are directed at the growth of revenues, reduction of costs and operating integration, which in consequence will increase the gained margin on the activity of ENEA Capital Group. Optimization activities will concern all the areas of business of the Group and will be realized among others through transfer of basic functions connected with the growth of the company to the level of corporate center of ENEA Capital Group, and also realization of synergies resulting from the activity of particular business areas within the whole Group.

Within the strategic area of construction of a company which is socially liable, objectives will be realized which will in the long run contribute to the growth of company's goodwill through placement of rules of responsible business in the Groups activities.

A successful realization of the policy within the direction of development of the Company, including the whole ENEA Capital Group depends on the implementation of a Group's new business model. The basic task of a new model is guaranteeing of a possibility flexible functioning of ENEA Capital Group for a long run, allowing in result for full usage of changes and facing of changeless that occur in the Polish electromagnetic sector.

What is indispensable for the realization of the strategy of the Group and its growth is financial means the ensuring of which is the key element of realization of the aforementioned investment plans and increasing of the Group's goodwill for shareholders with guarantying caring for a natural environment. It was assumed that realizing the Group's strategy the total of ca. 18.7 mld PLN will be designated till 2020 in the basic variant for investments in conventional generation (ca. 39,4% of total investment input), distribution (ca. 34% of total investment input) and renewable sources of energy and generating in congregation (ca. 26,2% total investment input).

Within conventional generating our main objective is building of a new block fired with hard coal with the power of ca. 1 000 MW in Świerże Górne (we anticipate the average costs of the construction of 1 MW at the level of 1.3 mln EUR). Its start-up is planned for 2016. At present the proceeding is in progress for the selection of a construction contractor of the new block with the power of ca. 1 000 MW, the completion of which is planned for the 4th quarter of 2011. Simultaneously with the construction of a new block modernization of the other 200 and 500 MW blocks is continued which function in Kozienice Power Plant. Analyses are also conducted within preparation of the construction of another block of ca. 1 000 MW in Świerże Górne, which is connected with the necessity to incur investment expenses.

Within distribution in the period covered with the strategy what is planned is investment and modernization works of the net infrastructure and necessary equipment in relation to the increase in demand for electric energy and necessity of connecting of renewable sources of energy. Investment and modernization activities should be reflected in the effectiveness of our network and limitation of network losses. Thanks to it the exchange of distribution lines with longest period of usage will take place. The level of investment input within distribution grows successively. Investment expenses increased in 2009 by 22% in relation to 2008 and in 2010 by 18% in relation to 2009. What is particularly important here is that we observe a visible increase of expenses for modernization and reconstruction of the existing wealth. In 2009 they increased by 31,6% in relation to 2008 and in 2010 by 65% in relation to 2009. In 2010 investment expenses in the field of distribution amounted to ca. 583 mln PLN in relation to the anticipated 575 mln PLN. Simultaneously, based on the draft project of development within satisfaction of the present and future demand for electric energy prepared for 2011-25 which was submitted to the President of the Energy Regulatory Office (ERO) by ENEA Operator Sp. z o.o. The ERO President approved the said document within the material scope covering 2011 approving simultaneously the so called level of justified investment input for this year in the amount of 802.311 thousand PLN. These are nearly by 40% higher than the anticipated in the investment plan for 2010. Most of investments will relate to modernization and reconstruction of the wealth connected with improvement of the quality of services and/or growth in demand for power. They will constitute 55% of the aforementioned amount. The remaining part will be in majority devoted to connection of new recipients and sources of generation of electric energy.

Within the scope of renewable sources of energy it is anticipated to extend the generation powers. By 2020 it is planned to achieve 250-350 MW of power installed in wind. Simultaneously a decision was made concerning realization of the investment in biogas powers with the anticipated achieving in 2020 of the power of ca. 40-60 MW within this field. In 2011 we are planning to purchase biogas power plants with the total capacity of 5 MWe.

In December 2010 ENEA S.A. executed a frame contract of cooperation, based on which it was granted a temporary exclusiveness within negotiation and preemptive right to buy shares of the group of special purpose companies being owners of projects of wind farms with the target installed power of 214 MWe.

Depending on the market situation, our financial situation, results of performed technical and economic analyses, and capabilities of financing of the investment, it is possible that the basic investment program will be extended with additional investments in conventional generation in the amount of 1.3 mld EUR. The amount anticipates construction of another block with the power of ca. 1 000 MW in Świerże Górne. Moreover the Group does not exclude realization of the investment connected with construction of an atomic power plant with the power of ca. 1 6000 MW. In this case additional expenses will amount to ca. 14.4 mld PLN (9.4 mld PLN till 2020).

An application for write-off of part of the profit to the remaining reserve capitals is a consequence of substantial developmental needs of the Group for which in the basic variant, according to the „Corporate Strategy of the ENEA Capital Group for 2010-2015 with a perspective till 2020” it was anticipated to spend the means in the amount of ca. 18.7 mld PLN. It was anticipated that during 2010-2015 ENEA S.A. will spend financial means at the total level of ca. 17.5 mld PLN (including cash capital investments). Therefore in ENEA S.A.’s opinion it is important to ensure long-term construction of a portfolio of own capitals, so that in the future it is possible to manage the investment realization. Obviously the funds from the profit will complement the sources of financing of investment expenses, particularly within investments connected with the growth of the Group, mainly investments in new generating capacity.

Below there is a characteristics of key investments planned for realization by ENEA S.A. during 2011-2013 influencing optimization of functioning of ENEA S.A. and growth of the Group, which obviously does not exhaust investment needs yet signals only main directions of the planned expenses of funds and will take place also in substantial amounts after 2013:

► Cash capital investments:

Since ENEA S.A. plays a role of a manager of ENEA Capital Group and its basic activity is sales of electric energy and in relation to the fact that most investments in fixed assets is conducted by subsidiaries if ENEA S.A., capital investments constitute a substantial and important element of its activity taking into account its functioning.

Having the above in mind ENEA S.A. plans to realize a range of capital cash investments covering the following tasks (as most important):

- capital rising of Kozenice Power Plant with contribution in cash for covering of costs of activity connected with construction of an energetic block for supercritical parameters with the power of ca. 1 000 MW. Within the task of construction of a new block of the power of ca. 1 000 MW capital rising is planned by ENEA S.A. during 2011-2013 of Kozenice Power Plant with contribution in cash in the total amount of up to ca. 430 000 thousand PLN. Moreover it is anticipated that the realization of the investment task will require incurring of substantial expenses beyond the aforementioned planning period. According to the original intents the process of construction of the block was planned by the special purpose company – Kozenice II Sp. z o.o., presently after merger of Kozenice Power Plant and Kozenice II Sp. z o.o., in connection with optimization of the process, the entity responsible for further realization of the construction of the block is Kozenice Power Plant. As mentioned earlier, start-up of the energetic block No. 11 is anticipated for the end of 2016;
- capital rising of Elektrownie Wodne Sp. o.o. with contribution in cash for covering of costs of activity connected with development of projects of construction of wind parks. One of the basic directions of investment for ENEA S.A. is engagement in projects

relating to generation of electric energy in renewable energy sources (RES). Realization of investments in this field is to ensure satisfaction of the condition of gaining of a mandatory amount of property rights resulting from the certificates of origin of electric energy produced in renewable sources. Taking into account the existing contracts, there is a shortage of certificates of origin which should be covered with engagement of ENEA S.A. in new undertakings within renewable energy so that ultimately avoid incurring of compensatory payments, in particular – direct the means designated so far for compensatory payments to the inside of the ENEA Capital Group. ENEA S.A. plans to make capital rises of Elektrownie Wodne Sp. z o.o. during 2011-2013 with contribution in cash in the total amount up to 235 000 thousand PLN devoted to covering of the costs of purchase of shares in special purpose companies established for realization of projects of wind farms of the total power of 102 MW. Purchase of shares is planned at the level of gaining building permits. We assume that investments will be realized with external financing, and the aforementioned financial means planned for capital rising will among others constitute security of own contribution for construction of wind farms and their connection to the network;

- acquisitions/construction of new renewable energy sources and cogeneration sources. For the realization of investment in this area during 2011-2013 the Company plans to spend funds of the total amount of up to ca. 380 000 thousand PLN devoted for achieving of new resources of renewable energy (biogas plants, bio-power stations and wind farms), cogeneration sources and modernization of acquired sources of generation of heat (heating stations) consisting in installment of units enabling production of electric energy generated in conjunction with generation of heat (CHP) for fulfillment of the obligation of gaining certificates of origin – certificates coming from production of electric energy from RSE and certificates coming from production of electric energy and heat in cogeneration. Within the planned means the Company plans to purchase shares in special purpose companies established by third entities for the needs of realization of RSE and cogeneration projects and purchase projects from the area of RSE and cogeneration.

► Teleinformation:

Within this area it is planned to realize during 2011-2013 of the seven main investment tasks which will serve the growth of ENEA S.A. for the total amount of ca. 128 000 thousand PLN, i.e.:

- Modernization and development of ERP software;
- Construction of the system of circulation of documents and platforms of business processes management;
- Construction of Integrated System of Customer Service;
- Consolidation of work resources;
- Development and implementation of IT policy, including the planning of IT architecture, security policies, quality of IT services, project management;
- Modernization and development of teleinformation network;
- System and technical infrastructure;

Moreover, it is anticipated that the realization of the aforementioned investment tasks will require incurring of expenses beyond the aforementioned planning period.

► Modernization of road lights:

For the realization of investment within this area during 2011-2013 the Company plans to incur expenses in the total amount of up to ca. 20 000 thousand PLN. ENEA S.A. anticipates that it will incur expenses for the modernization of road lighting till the end of 2011 since in IV quarter of 2011 its planed to transfer the lighting property owned by ENEA S.A. to ENEOS Sp. z o.o. (subsidiary dealing in the Group with the area of lighting). However it does not substantially change investment needs within this area, and only transfers the load of incurring expenses for modernization of road lighting to the subsidiary of ENEA S.A.

It must be emphasized that ENEA S.A. will not be able from own means realize the set, or even minimal development plan covered by the “Corporate Strategy of the ENEA Capital Group for 2010-2015 with perspective till 2020”, setting investment needs till 2020 at the level of ca. 18.7 mld PLN. The Board of ENEA S.A. is aware of the fact that financing of the

aforementioned investments with only own means is not an optimal solution, therefore it is important to gain external sources of investments co-financing.

3. The Board of the Company indicates that there are no premises justifying increase of contributions to the Company Social Benefits Fund from the worked profit for 2010. During the previous years the applied amount amounted to 1,000 PLN (say: one thousand) per each employee according to the status of employment at the end of financial year.