

2012

Other information

to the ENEA S.A.
extended consolidated report
for Q1 2012

Poznan, 14 May 2012



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1. Description of the organisation of the ENEA Capital Group

As at 31 March 2012 the Capital Group consisted of the parent company ENEA S.A. ("Company", "Parent Company"), 20 subsidiaries, 2 co-subsidiaries and 1 affiliated company. 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 "Kozienice" S.A. (generation of electricity). The other entities render supplementary services towards the aforementioned companies.

1.1. Description of changes within the organisation of the Group

In Q1 2012 the following events occurred which influenced present or potential changes to the ENEA Capital Group's organisation:

- On 23 December 2011 ENEA S.A. concluded an agreement for sale of 14,750 shares of Polish Power Exchange (further on: PPE) with the Warsaw Stock Exchange through Trigon Dom Maklerski S.A. On 29 February 2012 the transaction was closed and the aforementioned shares were transferred for the account of the Warsaw Stock Exchange. As a result ENEA S.A. ceased to be a shareholder of the PPE.
- On 16 February 2012 ENEA S.A. concluded an agreement for sale of 269,000 shares of Przedsiębiorstwo Produkcji Strunobetonowych Zerdzi Wirowanych WIRBET S.A. (WIRBET) with THC Fund Management Ltd. with its registered office in Nicosia, Cyprus, Vasillisis Olgas 0, Office 101, PC 2001 (THC), constituting 49 per cent of shares of the share capital of WIRBET. At the same time ENEA S.A., based on the authorisation granted to it on behalf of the other shareholders of WIRBET, i.e. Tauron Dystrybucja, ENERGA S.A., PGE Obrot S.A., within the aforementioned agreement sold also their shareholdings, i.e. 280,000 shares. The transfer of the title to THC and issue of share warrants took place on 22 March 2012.
- During 8-15 March 2012 share purchase agreements were concluded, based on which ENEA S.A. purchased a total of 984 (say: nine hundred eighty four) shares of Elektrociepłownia Białystok S.A. with its registered office in Białystok, of the nominal value of PLN 10 (say: ten) each.

1.2. Description of capital investments within the Group

On 13 March 2012 the Extraordinary General Meeting of Shareholders of Elektrownie Wodne Sp. z o.o. adopted a resolution on raising the share capital of the Company by PLN 49,000, from PLN 239,849,500 to PLN 239,898,500, through creation of 98 new shares that were offered to ENEA S.A. which took up all the newly created shares and covered them with contribution in kind being the rights of perpetual usufruct of the properties comprising plots of land located in Ptusza of the total area of 1.2798 ha and in Dobrzyca of the total area of 0.4924 ha, of the total value of PLN 49,000. The transfer of the aforementioned properties to the Company aims at, among others, organisation of the asset position of the ENEA Capital Group.

2. Description of the ENEA Capital Group's operations

As part of its core activities the Group is involved in generating, distributing and trading in electricity. The above activities are performed by companies from the Group on the basis of licences granted by the President of the Energy Regulatory Office ("ERO"), the body established to carry out regulatory tasks with regard to regulating of the trade in fuels and energy, and to encourage competition in the energy sector. The companies within the Group hold, specifically, the following licences:

- ENEA S.A. holds a licence to trade in electricity, valid until the end of 2025,
- ENEA Operator Sp. z o.o. holds a licence to distribute electricity, valid until mid-2017,
- Elektrownia "Kozienice" S.A. holds a licence to generate electricity, valid until the end of 2025, and a licence to trade in electricity, valid until the end of 2012,
- Elektrownie Wodne Sp. z o.o. holds a licence to generate electricity, valid till the end of 2030.

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

- construction, expansion, modernisation and repair of electric power equipment and networks,
- design, construction, production and sale of electrical and power equipment and apparatus,
- services related to the maintenance of street lighting and low-voltage grids,
- transport services (including the sale, servicing, repair and leasing of vehicles), and
- social activities (tourist destinations, healthcare).

2.1. Generation

2.1.1. Elektrownia "Kozienice" S.A.

The largest producer of electricity in the Group is Elektrownia "Kozienice" S.A. (further on: Kozienice Power Plant), which joined the Group in October 2007. It is Poland's largest professional hard coal-fired power plant. It comprises 10 high-performance, updated power units with a total generating capacity of 2,905 MW. The Power Plant emits low levels of carbon dioxide (in Q1 2011 the emission level was 865 kg/MWh, and in Q1 2012 835 kg/MWh) and has one of the lowest levels of coal consumption per MWh of generated electricity, reported at 0.396 Mg/MWh for Q1 2012. In Q1 2012 the Kozienice Power Plant had an overall gross efficiency of 39.9 per cent.

The volume of electricity generated by the Kozienice Power Plant in 2011-2012 in gross MWh for particular quarters is presented in the table below:

Electricity generated by the Kozienice Power Plant [MWh]		
Period	2011	2012
Q1	2 844 851	2 763 646

The Kozienice Power Plant in Q1 2012 generated 2,763,646 MWh of gross electricity. This is a small decrease compared to the same period last year, when the Kozienice Power Plant generated gross electricity of 2,884,851 MWh. Lower production in Q1 2012 in comparison with the same period of 2011 stems from the situation on the wholesale market where the prices, because of fundamental factors, are lower than variable costs of its generation in the Kozienice Power Plant generating units. It enables optimisation of purchase costs of energy which was already sold.

In January 2008 the Kozienice Power Plant also began generating power from renewable sources by co-firing biomass with conventional fuels (hard coal) thanks to the installation for co-firing of solid biomass with coal for 200 MW units.

In Q1 2012 the Kozenice Power Plant filed motions to the President of ERO for issue of certificates of origin for energy from renewable sources in the amount of 118,048 MWh. For comparison, in Q1 2011 the Kozenice Power Plant obtained certificates of origin for energy from renewable sources in the amount of 85,763 MWh.

Comparing the both analogical periods, in Q1 2012 an increase was reported by 38 per cent in the volume of energy generated from renewable sources.

A growth was noted by 38 per cent, quarter over quarter, in the amount of certificates of origin which were reported in the motions for issue to the President of ERO, in comparison with the same period of 2011.

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

In Q1 2012 the Kozenice Power Plant purchased 67,066.46 Mg biomass for generation of renewable energy.

Purchase of biomass by the Kozenice Power Plant [Mg]		
Period	2011	2012
Q1	47 989	67 066.46

In Q1 2012 66,005.35 Mg of biomass was fired. Such a volume of combusted biomass results in "avoidance of emissions" of carbon dioxide in the amount of 104,085 Mg.

Volume of biomass combusted by the Kozenice Power Plant [Mg]		
Period	2011	2012
Q1	47 503.2	66 005.35

Thanks to the conducted modernisation of the low compression part of the turbines on 200 MW units and of the high and the low compression part of the turbines on 500 MW units the efficiency of power generation increased which resulted in the reduction of 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 particular quarters during 2011-2012 was as follows:

Energy from RES Green certificates [MWh]		
Period	2011	2012

Q1	85 763	118 048
Energy from cogeneration Red certificates [MWh]		
Period	2011	2012
Q1	25 023	26 349

Environmental protection

Volume of emission [Mg]		
Pollution	Q1 2011	Q1 2012
DUST	245	191
SO ₂	8 135	8 092
NO _x	4 964	4 213
CO	244	223
CO ₂	2 541 220	2 411 341

2.1.2. Elektrownie Wodne Sp. z o.o.

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

The volumes of energy generated from 21 hydroelectric plants, transferred into the grid and green certificates achieved by this title in first quarters of 2011-2012 was as follows:

Energy generated from RES for which Elektrownie Wodne receive green certificates of origin for energy [MWh]		
Period	2011	2012
Q1	54 599	46 354

Energy transferred into the grid [MWh]

Period	2011	2012
Q1	53 709	45 562

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

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

Within the aforementioned works the purchase was finalised of an operating wind farm with the capacity of 6 MW located in the Pomorskie Province (Darzyno Wind Farm). The Company has also completed due diligence of the project of a wind farm of the capacity of 86 MW and is finalising price negotiations. Additionally a non-binding preliminary offer was made for the purchase of a wind farm of the capacity of 12 MW and its audit is planned for Q2 2012.

At the end of 2011, after termination of the maintenance service agreement with Agrogaz Sp. z o.o., Elektrownie Wodne Sp. z o.o. commenced works connected with the repair and maintenance of the equipment located on the area of the Biogas Power Plant in Liszkowo. Concurrently with the above works Elektrownie Wodne Sp. z o.o. performed operations aiming at elaborating of the composition of the fermenting mixture through conducting of detailed laboratory tests. After it was established a decision was made to gradually restore the fermenting mixture - to this end dosing of substrates that may be used in biogas production was commenced. Resuming fermenting process is a gradual process during which production of electricity grows slowly but systematically, which is reflected in the production in Q1 2012 (January 2012 - 0 MWh - during that month repair works were conducted preventing normal operation of the installation, February 2012 - 5.528 MWh and March 2012 - 177.416 MWh - a gradual dosing of substrates was commenced).

Below the volumes of production and number of energy certificates of origin from the Liszkowo Biogas Power Plant are presented for the first quarters of 2011-2012:

Volume of production of energy and number of certificates of origin for energy [MWh]

Period	2011	2012
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Q1	2 687	183
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The volume of production from the finalised transaction of purchase of the 6 MW wind power plant:

Energy generated by the Darzyno Wind Farm for which Elektrownie Wodne receive green certificates of origin for energy [MWh]	
Period	2012
Q1	5 033
Energy transferred into the grid [MWh]	
Period	2012
Q1	4 998

2.1.3. Elektrociepłownia Białystok S.A.

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

2.1.3.1. Heat generation and sales

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

The Białystok Heat and Power Plant concurrently 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 around 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 generation [GJ]		
Period	Q1 2011	Q1 2012
Water	1 354 741.451	1 366 054.672
Steam	131 581.980	109 963.951

2.1.3.2. Production and sale of electricity

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

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

Production of electricity [MWh]		
Period	2011	2012
Q1	187 413.378	171 769.352

Sale of electricity from own production [MWh]		
Period	2011	2012
Q1	162 924.271	147 705.822

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

Sale of energy to end users [MWh]		
Period	Q1 2011	Q1 2012
Sales 0.4 kV	183.923	171.566
Sales 15 kV	8 022.957	7 873.463
TOTAL	8 206.880	8 045.029

2.1.3.3. Proprietary interests from RES and CHP

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

In order to maximise energy production from RES generated in a hybrid system (coal boiler and 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.

Electricity generated in RES unit [MWh]*		
Period	2011	2012
Q1	48 006.903	49 119.546

Electricity generated in CHP cogeneration unit [MWh]**		
Period	2011	2012
Q1	187 413.378	171 769.352

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

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

2.1.4. Other sources

Additionally, within works connected with obtaining energy from renewable sources and cogeneration in MEC Pila (a company belonging to the Group) the following project was prepared - "Construction of the Biomass Cogeneration Unit in ORC technology on the Regional Boiler House KR-Koszyce in Pila" which obtained co-financing 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. A detailed analysis of the project which was conducted in the context of updated external and internal conditions demonstrated the validity of its modification through replacement of the ORC installation based on biomass with a cogeneration source fuelled with natural gas. The Company applied to the institution implementing and financing financial aids for an approval for project modification. The cogeneration installation fuelled with natural gas with electric power amounting to 10 MWe and heat power of 9 MW will produce electricity and heat in cogeneration compliant with the requirements of the highly-efficient cogeneration.

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

In November 2011 ENEA S.A. signed a preliminary agreement for the purchase of 100 per cent of the shares of a special purpose vehicle which is the owner of the 50 MW Bardy wind farm consisting of 25 Vestas turbines of 2 MW power each and own switching station. On 16 April 2012 a Transfer Agreement was signed based on which ENEA S.A. became the owner of 100 per cent of Windfarm Sp. z o.o. The Wind Farm is located a highly windy area. The annual production is anticipated for 150,000 MWh of electricity.

Commencement of actions to increase the volume of the production of electricity based on renewable energy 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 which 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.

Total generating capacity

The total generating capacity of the ENEA Capital Group amounts to 3,189.27 MW and covers:

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

**Production of energy in the ENEA Capital Group from renewable sources and cogeneration
for Q1 2012 in MWh**

Period	Q1 2012
Green Certificates	218 737.546
Red Certificates	198 118.352

2.2. Distribution

Within our Group, the distribution of electricity is the responsibility of ENEA Operator Sp. z o.o. ("ENEA Operator"), which acts as the operator of the power distribution system which it became on 30 June 2007 by the decision of the President of ERO. The Company distributes energy based on the licence granted to it by the regulatory body on 28 June 2007.

According to the *Energy Law*, ENEA Operator as an operator of the distribution system is responsible for, e.g.:

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

ENEA Operator supplies electricity to over 2,300,000 users in the western and north-western Poland. To this end it uses the distribution network covering an area of over 20 per cent of the country, including over 111,000 km of power lines (over 129,000 including connections). In addition the Company possesses over 35,000 transmission stations of the total capacity of 14,600 MVA (the information is valid as at 31 December 2011 - ENEA Operator elaborates it annually as reports for the needs of Agencja Rynku Energii (Energy Market Agency)).

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



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

ENEA Operator undertakes a range of activities aiming at the realisation of strategic objectives of the ENEA Capital Group: development of core activity, improvement of efficiency of functioning and building of a socially responsible business.

Within the development of the core operations the Company undertakes many initiatives ensuring technological and technical growth and development and modernisation of the distribution network realising simultaneously its statutory obligations as an operator of the distribution system connected with ensuring its customers with continuous and undisturbed supplies of energy with the possibly best quality parameters. It is possible thanks to gradually increasing investment outlays, which in turn enables among others faster modernisation of assets and ensures a possibility of connecting to the power grid of renewable energy sources (taking into account the safety of the grid operation).

Within improvement of the efficiency of functioning ENEA Operator realises operations within optimisation of functioning of basic processes, optimisation of support function and ensuring operational integration of the ENEA Capital Group. They are connected with the purchase and implementation of electronic platforms supporting processes, and with dividing of some structures of auxiliary functions.

Within building of a socially responsible business the Company undertakes activities aiming at the balanced management of human resources, ensuring a dialogue with local community.

2.3. Trade

In Q1 2012 within the Group the sale of electricity to retail users was attributed to ENEA S.A. The total sales within trading in energy amounted to 4,436.5 GWh, of which retail sales to about 4,107.6 GWh. The number of end users as at 31 March 2012 amounted to 2,400,000 business users and households.

Pursuant to the approval given by the Ordinary General Meeting of Shareholders of ENEA S.A. held on 29 June 2011, of which the Company informed in the current report No 19/2011, starting with 1 August 2011 a reorganisation was performed within the Group, in result of which competencies within wholesale were transferred to the special purpose vehicle - ELKO Trading Sp. z o. o. The

company is responsible towards ENEA for e.g. conducting a portfolio of electricity and sale of proprietary interests for account of the customers of ENEA S.A., purchase of energy on a wholesale market, settlements and it functions as a commercial coordinator.

Demand for electricity of customers of ENEA S.A. (due to a limited amount of local generation on the areas of ENEA Operator) is almost in full covered on the wholesale energy market. In Q1 2012 a substantial majority of the wholesale purchase of electricity were transactions concluded on the PPE and settled by Warsaw Commodity Clearing House (Izba Rozliczeniowa Gield Towarowych S.A., IRGiT S.A.). Such a direction of sales is a consequence of an increase of turnover on the stock exchange market as a result of changes imposing an obligation resulting from Art. 49a of the Energy Law on the energy companies dealing with generation (an energy company dealing with generation of electricity is obliged to sell not less than 15 per cent of electricity generated in a given year on commodity exchanges or on a regulated market subject to the fact that an energy company dealing with generation of electricity possessing the right to receive funds for coverage of stranded costs is obliged to sell the generated electricity in full in the way ensuring public and equal access to the electricity through an open tender on the Internet trading platform on the regulated market or on commodity exchanges). The remaining part of energy was purchased from trading companies and producers.

2.3.1. Purchase and sale of energy by ENEA S.A.

In Q1 2012 a substantial part of the electric energy sold by ENEA S.A. constituted electric energy purchased on PPE (mainly by ELKO Trading Sp. z o.o.). The remaining part of energy ENEA S.A. purchased based on bilateral agreements (with generating and trading companies).

2.3.2. Sale of energy by Kozenice Power Plant

In Q1 2012 the Kozenice Power Plant sold the electricity generated by its entities on the PPE, which constituted 97.5 per cent of the sold production.

In Q1 2012 the total sale of the Kozenice Power Plant within the trading and generating of energy amounted to 3,118.3 GWh, including the sales within the Balancing Market 63.5 GWh, sales to retail users - 0.3 GWh, and sales within the possessed licence for trading in energy - 322.3 GWh.

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. 49a item 1 of the Energy Law. Within realisation of this obligation the sales of the generated electricity on the PPE during the period from 1 January 2012 to 31 March 2012 constituted to around 97.5 per cent of sold own production of electricity, the remaining part of own production is the Balancing Market (ca. 2.49 per cent) and end users (0.01 per cent).

Cumulatively, the value of net electric energy sold by the Kozenice Power Plant on the PPE from 6 May 2010 till 31 March 2012 amounted to PLN 5,013,000,000.

3. Position of the Management Board in relation to the possibility of achieving previously published forecasts of the results for a given year

The Management Board of ENEA S.A. did not publish any forecasts of its financial results for Q1 2012 or for the whole 2012 financial year.

4. Shareholders holding five per cent or more of the votes at a general meeting of shareholders of ENEA S.A.

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:

No.	Shareholder	State as at 10 April 2012*		State as at 14 May 2012	
		Number of shares/number of votes during GM	Share in the share capital/share in the total number of votes	Number of shares/number of votes during GM	Share in the share capital/share in the total number of votes
1	State Treasury	227 818 935	51.61%	227 644 444	51.57 %
2	Vattenfall AB	82 395 573	18.67 %	82 395 573	18.67 %
3	Others	131 228 070	29.72 %	131 402 561	29.76 %
Total		441 442 578	100.00 %	441 442 578	100.00 %

* the date of preparation of the annual report for 2011

In the period from preparation of the annual report for 2011 there has been a slight change in the shareholding for the key Shareholder of the Company, i.e. the State Treasury. The divergence in the number of shares held by the State Treasury is connected with the specificity of the process of nil-paid rights to acquire employee shares from the State Treasury by entitled employees and their heirs.

5. Holders of shares of the Issuer or rights to them by people managing and supervising ENEA S.A.

Name	Position	Number of shares of ENEA S.A. held as at 10 April 2012	Number of shares of ENEA S.A. held as at 14 May 2012
Tadeusz Dachowski	Member of the Supervisory Board	4 440	4 440
Mieczysław Pluciński	Member of the Supervisory Board	4 140	4 140

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

As at the issuing date of this periodic report, persons managing or supervising do not hold shares or stock in the subsidiaries of ENEA S.A.

6. Proceedings underway before courts, bodies appropriate for arbitration proceedings or public administration bodies

6.1. Proceedings related to the Issuer's or its subsidiary's payables or debts, whose value is 10 per cent or more of the equity of ENEA S.A.

As at the date of issuing of this report, no proceedings are underway the party to which would be ENEA S.A. or its subsidiary, whose value would amount to 10 per cent or more of ENEA S.A.'s equity.

6.2. Two or more proceedings regarding payables and debt, whose total value corresponds to 10 per cent or more of the ENEA S.A.'s equity

As at the date of issuing of this report, no proceedings are underway the party to which would be ENEA S.A. or its subsidiary, whose total value would amount to 10 per cent or more of ENEA S.A.'s equity.

A description of pending proceedings other than those referred to above, to which ENEA S.A. or its Group companies are a party, is set out in Note 25.2-4 to the consolidated quarterly financial statement.

7. Information on transactions with affiliated entities

Entities constituting the Group in Q1 2012 did not conclude any substantial transactions with affiliates on non-market conditions.

A description of the other transactions concluded by the Issuer or its subsidiary with affiliates was presented in Note 21 to the consolidated quarterly financial statement.

8. Information on guarantees for credit facilities and loans and other guarantees

The Company and its subsidiaries did not grant any guarantees for credit facilities or loans, or sureties during the reporting period - totally to one entity or subsidiary of that entity whose total value would constitute an equivalence of at least 10 per cent of the Company's equity.

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

9.1. Discussion of key economic and financial figures disclosed in the financial statement for Q1 2012

9.1.1. Financial results

9.1.1.1. Consolidated Profit and Loss Statement

Profit and loss statement in PLN '000	Q1 2011	Q1 2012	Change	Difference
Net sales revenues	2 472 230	2 645 780	107.0%	173 550
Cost of sales	2 187 722	2 371 247	108.4%	183 525
Other operating revenue	25 452	30 104	118.3%	4 652
Profit/(Loss) on sales and liquidation of tangible fixed assets	-291	2 627	-902.7%	2 918
Tangible and intangible impairment write-off	0	106	x	106
Other operating expenses	26 874	22 007	81.9%	-4 867
Operating profit (loss)	282 795	285 151	100.8%	2 356
Financial expenses	6 963	10 164	146.0%	3 201
Financial revenue	34 142	45 457	133.1%	11 315
Dividend revenue	0	0	x	0
Share in (losses)/profits of affiliated entities accounted for using the equity method	1 872	-528	-28.2%	-2 400

Profit (loss) before tax	311 846	319 916	102.6%	8 070
Income tax	64 484	70 490	109.3%	6 006
Net profit (loss) for the reporting period	247 362	249 426	100.8%	2 064
EBITDA	439 440	489 586	111.4%	50 146

The Group's net revenues from sales in 2011 amounted to PLN 2,645,780,000, which in relation to Q1 2011 constituted a growth by PLN 173,550,000, i.e. by 7 per cent.

The breakdown below shows the value and structure of revenues on sales achieved in Q1 2012.

Item	Q1 2011		Q1 2012		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Revenues from the sale of electricity	1 720 393	69.6	1 794 074	67.8	104.3%	73 681
Revenues from the sale of distribution services	673 558	27.2	722 353	27.3	107.2%	48 795
Revenues from the sale of goods and materials	21 920	0.9	21 595	0.8	98.5%	-325
Revenues from the sale of other services	35 676	1.4	29 888	1.1	83.8%	-5 788
Revenues from certificates of origin	0	0.0	11 258	0.5	x	11 258
Recovery of stranded costs	0	0.0	0	0.0	x	0
Revenues from the sale of heat energy	20 683	0.9	66 612	2.5	322.1%	45 929
Total net sales revenues	2 472 230	100.0	2 645 780	100.0	107.0%	173 550

The Group's revenues mainly consist of revenues from sales of electricity and from sales of distribution services, which amount to 67.8 per cent and 27.3 per cent of total net revenues, respectively.

- Revenues from the sale of electricity in Q1 2012 amounted to PLN 1,794,074,000 and rose in relation to the previous year by 4.3 per cent. It mainly results from the growth of revenues from the sales of electricity to end users of ENEA S.A. by PLN 50,765,000, which stemmed mainly from higher volumes of electricity sold by 68 GWh with an increase of the average sale price by 3 per cent. In addition higher revenues from sales of electric energy to other entities by PLN 17,852,000 were generated, which stemmed mainly from higher volumes of electricity sold by 143 GWh. Moreover, the revenues from sales of electricity by the Bialystok Heat and Power Plant were included in the amount of PLN 10,179,000 (from 1 June 2011 the Bialystok Heat and Power Plant is demonstrated in the report of the capital group as a subsidiary). At the same time the revenues from sales of electricity decreased in the Kozienice Power Plant by PLN 2,022,000 (a drop in the volumes of sold electricity realised by the Kozienice Power Plant by 121 GWh with an increase of the average price by 3.4 per cent).
- Revenues from the sale of distribution services in Q1 2012 amounted to PLN 722,353,000 and were higher than in the preceding year by PLN 48,795,000. The increase of these revenues stemmed mainly from a growth of the average sale price of distribution services to end users by 3.8 per cent with a higher volume of supplied electricity by 32 GWh. Additionally, a growth was noted in estimated revenues from non-invoiced sales by PLN 9,979,000.
- The revenues from sales of heat energy in Q1 2012 amounted to PLN 66,612,000 and increased by PLN 45,929,000, which mainly stemmed from inclusion of the revenues from sales of heat energy of the Bialystok Heat and Power Plant in the amount of PLN 45,942,000 (from 1 June 2011 the Bialystok Heat and Power Plant is demonstrated in the report of the capital group as a subsidiary).
- Revenues from the sale of certificates of origin amounted to in Q1 2012 PLN 11,258,000 and constitute revenues realised by the Bialystok Heat and Power Plant.
- The decrease in revenues from sales of other services by PLN 5,788,000 stems from a decrease in revenues under this item in the companies: Energobud Leszno, IT Serwis and Energomiar.

In Q1 2012 the total costs of sales amounted to PLN 2,371,247,000 and increased by 8.4 per cent in relation to the comparative period.

The breakdown below shows the value and structure of the costs of revenues from sales achieved in Q1 2012.

Item	Q1 2011		Q1 2012		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Amortisation/depreciation	156 645	7.2	204 435	8.6	130.5%	47 790
Employee benefit costs	225 795	10.3	248 920	10.5	110.2%	23 125
Consumption of materials and raw materials and value of goods sold	361 077	16.5	412 249	17.4	114.2%	51 172
Costs of purchases for resale	1 134 437	51.9	1 174.453	49.5	103.5%	40 016

Transmission services	179 762	8.2	180 095	7.6	100.2%	333
Other external services	75 220	3.4	89 339	3.8	118.8%	14 119
Taxes and charges	54 786	2.5	61 756	2.6	112.7%	6 970
Total cost of revenues from sales	2 187 722	100.0	2 371 247	100.0	108.4%	183 525

The largest items in the Capital Group's costs are the costs of purchasing electricity and consumption of materials, raw materials as well as the value of goods sold, which constitute respectively 49.5 per cent and 17.4 per cent of the costs of revenues from sales.

- The cost of use of materials, raw materials and the value of goods sold in the reporting period amounted to PLN 412,249,000 and increased in relation to the previous year by PLN 51,172,000, which mainly stems from the inclusion of the costs of materials and raw materials demonstrated in the amount of PLN 49,358,000 by the Bialystok Heat and Power Plant and from an increase of this item in the Koziencice Power Plant, where the increase in the use of biomass by PLN 12,180,000 was noted (average costs of biomass with transport by 11.2 per cent). At the same time the decrease was noted in the Koziencice Power Plant of cost of other materials by PLN 6,230,000, which follows mainly from lower costs of redemption of allowances for emissions of CO₂ (lower production of electricity by 81 GWh). Moreover, a growth was noted in the costs of materials for ENEOS.
- The purchase of energy for resale in the reporting period amounted to PLN 1,174,453,000 and increased in relation to the previous year by 3.5 per cent which mainly stems from an increase in costs of purchases of ENEA S.A. as a result of a higher volumes of purchased energy by 247 GWh and an increase of the total average price of purchase of electricity by 5.5 per cent. At the same time, in Q1 2012 there was a decrease in the Koziencice Power Plant of costs of energy for sale in relation to lower scope of activity within licences for trading in comparison with Q1 2011.
- The employee benefit costs in Q1 2012 amounted to PLN 248,920,000 and increased in relation to the previous year by PLN 23,125,000, which mainly stems from motivation system for employees in ENEA Operator (PLN 12,182,000), from inclusion in the report of the capital group for Q1 2012 of costs of the Bialystok Heat and Power Plant (PLN 5,245,000) and increase of costs of employee benefits in the Koziencice Power Plant in relation to the increase of the basic remuneration from 1 April 2011 (by PLN 4,574,000). The average pay in the ENEA CG increased in Q1 2012 in relation to the average pay in Q1 2011 by 5.4 per cent. At the same time, a decision on increasing of the pension rate from 1 February 2012 impacted the level of costs of employee benefits incurred in Q1 2012.
- Costs of external services in Q1 2012 amounted to PLN 89,339,000 and increased in relation to the previous year by PLN 14,119,000, which mainly stems from incurring higher marketing costs, costs of subcontracting and inclusion of costs of the Bialystok Heat and Power Plant.
- The costs of taxes and charges in Q1 2012 amounted to PLN 61,756,000 and grew in relation to the previous year by PLN 6,970,000, which mainly stems from inclusion of the costs of the Bialystok Heat and Power Plant, increase of cost of tax from lines and energy connections and costs of utilising the road line.

- Amortisation and depreciation in the reporting period amounted to PLN 204,435,000 and was higher than in Q1 2011 by PLN 47,790,000 or 30.5 per cent. Increase of amortisation stems from inclusion of amortisation costs of the Bialystok Heat and Power Plant (PLN 19,803,000), increase of amortisation in the Kozenice Power Plant (by PLN 19,159,000) in relation to the commissioning of IOS III investment (flue gas desulphurisation plant) and from verification of the period of economic utilisation of fixed assets on 1 January 2012. In ENEA Operator the amortisation rose by PLN 7,771,000, which stems from the review of the amortisation rates, amortisation calculated on new fixed assets during November-December 2011 and of substantial intangible assets at the end of 2011.

PLN '000	Q1 2011	Q1 2012	Change	Difference
Other operating revenue	25 452	30 104	118.3%	4 652
Other operating expenses	26 874	22 007	81.9%	-4 867

In Q1 2012 the result on other operating activity amounted to PLN 8,097,000 and was higher than in the previous year by PLN 9,519,000, which mainly stems from higher calculated and received damages for breach of agreement terms mainly concerning supplies of coal and biomass and establishment of lower provisions for future obligations.

Consolidated profit before tax, i.e. after financial activities and shares in results of the affiliates in Q1 2012 amounted to PLN 319,916,000 and was higher by PLN 8,070,000 or by 2.6 per cent relative to the previous year. It mainly stems from achievement of a higher operating result and higher profits on the financial activity by PLN 8,114,000.

The net profit generated by the Group in Q1 2012 amounted to PLN 249,426,000 and was higher than the profit attained in Q1 2011 by PLN 2,064,000, i.e. by 0.8 per cent.

9.1.1.2. Results from particular segments of activity

Segments in PLN '000	Q1 2011	Q1 2012	Change	Difference
Trade				
Sales revenues	1 074 741	1 213 281	112.9%	138 540
EBIT	78 226	42 197	53.9%	-36 029
EBITDA	78 454	42 330	54.0%	-36 124
Distribution				

Sales revenues	671 703	722 121	107.5%	50 418
EBIT	126 724	145 652	114.9%	18 928
EBITDA	212 614	239 694	112.7%	27 080
Generation				
Sales revenues	695 978	818 827	117.7%	122 849
EBIT	106 015	134 136	126.5%	28 121
EBITDA	167 163	236 250	141.3%	69 087
Other activity				
Sales revenues	159 613	152 179	95.3%	-7 434
EBIT	1 555	8 952	575.7%	7 397
EBITDA	10 141	16 549	163.2%	6 408
Exclusions				
Sales revenues	-129 805	-260 628	200.8%	-130 823
EBIT	-7 624	-14 944	196.0%	-7 320
Undistributed costs (management costs)	-22 101	-30 842	139.6%	-8 741
Excluded amortisation and amortisation not distributed to segments	793	549	69.2%	-244

TOTAL				
Sales revenues	2 472 230	2 645 780	107.0%	173 550
EBIT	282 795	285 151	100.8%	2 356
EBITDA	439 440	489 586	111.4%	50 146

The decrease of a result on the segment of trade stems from the decrease of the first contribution margin on trading by PLN 29,274,000 (decrease of a unit margin in calculation into the unit of energy sold by 7.68 PLN/MWh). There was an increase in the volume of energy sold to end users by 68 GWh with an increase of the average sale price by 3 per cent and increase of the average purchase price by 5.5 per cent. At the same time, in Q1 2012 the costs of purchase of energy include the estimated costs of unbalancing of electricity which diminished the purchase costs by PLN 8,339,000 while in Q1 2011 they increased them by PLN 8,840,000. Unbalancing of purchases with sales adjusts purchase costs +/- in relation to the fact that the volume of energy invoiced as purchases and sales is not equal and in relation to adjustments made on the Balancing Market within 15-month settlement period. Moreover in the reporting period there was an increase of costs of purchase of certificates of origin by PLN 27,771,000. There was also an increase in own costs of trading in relation to incurring costs of services rendered by ELKO Trading and ENEA Centrum which did not occur in Q1 2011.

The increase of the result on the segment of distribution stems mainly from the increase in sales of distribution services, which is a result of the increase in the average selling price of distribution services by 3.8 per cent with an increased volume of supply of electricity to end users by 32 GWh. At the same time higher revenues from grid connection fees (by PLN 3,528,000) and higher estimated revenues from non-invoiced sales (by PLN 9,979,000).

The increase of the result on the segment of generation stems mainly from inclusion of the operations of companies from the heating sector in the segment of generation (the Bialystok Heat and Power Plant, MEC Pila, PEC Oborniki) and higher level of recognition of certificates of origin in the Koziernice Power Plant and attaining of a higher result on the other operating activity. Concurrently, there were higher costs of amortisation (resulting from the verification of the amortisation rates and commissioning of IOS III investment in the Koziernice Power Plant and from the revaluation of the Bialystok Heat and Power Plant to the fair value), costs of other external services and higher costs of employee benefits.

The increase of the result on the segment of the other activity stems mainly from the increase of the result on the other services in ENEA S.A. and ENEA Operator.

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

9.1.2. 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 2011	31 March 2012		
Fixed assets	9 796 900	9 936 304	101.4%	139 404
Tangible fixed assets	9 076 871	9 027 152	99.5%	-49 719
Perpetual usufruct right	69 496	70 256	101.1%	760
Intangible assets	267 176	243 925	91.3%	-23 251
Investment properties	32 219	30 084	93.4%	-2 135
Investments in associated entities, accounted for using the equity method	278 854	481 268	172.6%	202 414
Financial assets held for sale	70 490	81 830	116.1%	11 340
Financial assets valued at fair value by the profit and loss account	1 557	1 572	101.0%	15
Trade and other receivables	237	217	91.6%	-20
Current assets	3 902 994	3 716 108	95.2%	-186 886
Inventories	340 685	375 665	110.3%	34 980
Trade and other receivables	1 052 119	1 229 911	116.9%	177 792
Current income tax assets	15 004	11 566	77.1%	-3 438
Financial assets held-to-maturity investments	531 883	656 600	123.4%	124 717
Financial assets valued at fair value by the profit and loss account	723 439	555 329	76.8%	-168 110

Cash and cash equivalents	1 218 361	866 739	71.1%	-351 622
Fixed assets for sale	21 503	20 298	94.4%	-1 205
Total assets	13 699 894	13 652 412	99.7%	-47 482
	As at:			
Total liabilities in PLN '000	31 December 2011	31 March 2012	Change	Difference
Total equity	10 479 762	10 737 839	102.5%	258 077
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	49 565	58 216	117.5%	8 651
Other reserves	-21 710	-21 710	100.0%	0
Retained earnings	5 058 001	5 307 117	104.9%	249 116
Minority interest in equity	29 088	29 398	101.1%	310
Total liabilities	3 220 132	2 914 573	90.5%	-305 559
Non-current liabilities	1 447 783	1 459 918	100.8%	12 135
Current liabilities	1 772 349	1 454 655	82.1%	-317 694
Total equity and liabilities	13 699 894	13 652 412	99.7%	-47 482

As at 31 March 2012, the balance sheet total of the ENEA Capital Group amounted to PLN 13,652,412,000, a decrease of PLN 47,482,000, i.e. 0.3 per cent, relative to that as at 31 December 2011.

The fixed assets as at 31 March 2012 amounted to PLN 9,936,304,000 and increased in relation to the state as at the end of the previous year by PLN 139,404,000 which mainly stems from the increase in Investments in affiliates valued with equity method by PLN 202,414,000 in relation to the purchase of shares in Windfarm Polska with a concurrent decrease in the item of tangible assets by PLN 49,719,000 (verification of the period of economic utilisation of fixed assets) and decrease in intangible asset by PLN 23,251,000 (redemption of right for emission of CO₂).

As at 31 March 2012 the current assets amounted to PLN 3,695,810,000 and decreased in relation to the state as at the end of 2011 by PLN 185,681,000. In current assets there was a drop in the sum of items of financial assets valued at fair value by the profit and loss account and cash and cash equivalents, mainly in relation to the purchase of the shares of Windfarm Polska. In addition, there was an increase in financial assets held to maturity in the Koziernice Power Plant in relation to greater investing of cash with the maturity term exceeding 3 months. Additionally, reserves rose in result of a higher stock of coal with a lower stock of certificates of origin for energy in the Koziernice Power Plant and receivables from trade and services.

The dominant source of financing the assets of the Group is equity, which as at 31 March 2012 amounted to PLN 10,737,839,000, i.e. PLN 258,077,000 more than at the end of December 2011. The change is impacted by the profit generated in Q1 2012.

As at 31 March 2012, the value of the Group's long-term liabilities was PLN 1,459,918,000 and increased by PLN 12,135,000, in relation to the state as at 31 December 2011. It stems mainly from increasing of the reserve by title of deferred income tax and higher reserve for employee benefits obligations. In addition, settlement of income from subsidies and connection fees and loans and credits decreased.

Short-term liabilities were at the level of PLN 1,454,655,000 and decreased by PLN 317,694,000 in relation to the state as at the end of the previous year, mainly in result of the decrease in liabilities by title of deliveries and services, which stemmed from lower investment liabilities in ENEA Operator and higher adjustments of liabilities inside the Group.

9.1.3. Cash - Consolidated cash flow statement

Consolidated cash flow statement

Cash flow statement in PLN '000	As at		Change	Difference
	31 March 2011	31 March 2012		
Net cash flows from operating activities	272 887	176 321	64.6%	-96 566
Net cash flows from investing activities	-254 410	-519 461	204.2%	-265 051
Net cash flows from financing activities	-5 147	-8 482	164.8%	-3 335

Net increase/decrease in cash and cash equivalents	13 330	-351 622	x	-364 952
Cash and cash equivalents at the end of the reporting period	912 957	866 739	94.9%	-46 218

Cash and cash equivalents of the ENEA Capital Group as at 31 March 2012 amounted to PLN 866,739,000 and were lower by PLN 46,218,000 than the level achieved at the end of March 2011 (PLN 912,957,000).

Cash flows from operating activities amounted to PLN 176,321,000 in Q1 2012 and are lower by PLN 96,566,000 than in Q1 2011 (PLN 272,887,000). The decrease was mainly caused by an increase in reserves and receivables for deliveries and services and lower liabilities for deliveries and services.

Cash flows from investment activities amounted to PLN -519,461,000 in Q1 2012 and in Q1 2011 they amounted to PLN -254,410,000. The change in the amount of PLN 265,051,000 stems mainly from the purchase of shares in Windfarm Polska and higher purchases of tangible fixed assets.

Cash flows from financing activities amounted to PLN -8,482,000 in Q1 2012 and in Q1 2011 they amounted to PLN -5,147,000. The change in the amount of PLN -3,335,000 stemmed mainly from a loan from the National Fund for Environmental Protection and Water Management for investments in RES in Elektrownie Wodne.

9.1.4. Ratio analysis

Financial indicators

Item	Performance	Performance
	Q1 2011	Q1 2012
PROFITABILITY RATIOS		
ROE - return on equity		
<i>gross profit (loss)</i>	12.3%	11.9%
<i>equity</i>		
ROA - return on assets		
<i>operating profit (loss)</i>	8.8%	8.4%
<i>total assets</i>		
Net profitability		
<i>net profit (loss)</i>	10.0%	9.4%

<i>net sales revenues</i>		
Operating profitability		
<u><i>operating profit (loss)</i></u>	11.4%	10.8%
<i>net sales revenues</i>		
EBITDA		
<u><i>operating profit (loss) + amortisation and depreciation</i></u>	17.8%	18.5%
<i>net sales revenues</i>		
LIQUIDITY AND FINANCIAL STRUCTURE RATIOS		
Current liquidity ratio		
<u><i>current assets</i></u>	3.2	2.5
<i>current liabilities</i>		
Equity-to-fixed assets ratio		
<u><i>equity</i></u>	115.9%	108.1%
<i>fixed assets</i>		
Total debt ratio		
<u><i>total liabilities</i></u>	20.9%	21.3%
<i>total assets</i>		
ECONOMIC ACTIVITY RATIOS		
Current receivables turnover in days		
<u><i>average net trade and other receivables x number of days</i></u>	34	39
<i>net sales revenues</i>		
Turnover of trade and other payables in days		
<u><i>average trade and other liabilities x number of days</i></u>	44	48
<i>cost of products, goods and materials sold</i>		

Inventory turnover in days

<i>average inventory x number of days</i>		
<i>cost of products, goods and materials sold</i>	12	16

In Q1 2012 the ENEA Capital Group achieved a positive financial result and positive profitability ratios. EBITDA amounted to 18.5 per cent and was higher than that achieved in Q1 2011 (17.8 per cent).

Net profitability achieved by the Group in 2011 amounted to 9.4 per cent and was lower than the one achieved in Q1 of the previous year (10 per cent).

ROE in Q1 2012 amounted to 11.9 per cent and reached the lower level than ROE in Q1 2011 (12.3 per cent), and ROA amounted to 8.4 per cent in Q1 2012 (in Q1 2011 it was 8.8 per cent).

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 2.5 in Q1 2012. 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 WSE in financial assets.

In Q1 2012, the receivables turnover rate was at the level, comparing to Q1 2011, by 5 days higher and amounted to 39 days. Meanwhile the liabilities turnover indicator in Q1 2012 was 48 days, and was thus 4 days longer 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 Q1 2012 was 16 days, and was thus 4 days longer than in the same period of the previous year.

As at 31 March 2012 the total debt ratio was 21.3 per cent. The ratio of shareholders equity to fixed assets was 108.1 per cent on 31 March 2012 (and 115.9 per cent as at 31 March 2011).

9.2. Presentation of financial results of ENEA S.A. in Q1 2012

9.2.1. Profit and loss statement of ENEA S.A.

Data in PLN '000	Q1 2011	Q1 2012	Change	Difference
Sales revenues	1 608 175	1 667 405	103.7%	59 230
Excise tax	-57 790	-51 994	90.0%	5 796
Net sales revenues	1 550 385	1 615 411	104.2%	65 026
Cost of sales	1 491 717	1 606 488	107.7%	114 771
Other operating revenue	4 337	5 701	131.5%	1 364

Other operating expenses	6 489	14 077	216.9%	7 588
Profit (loss) on sales of fixed assets	112	2 190	1 955.4%	2 078
Tangible and intangible impairment write-off	0	0	x	0
Operating profit	56 628	2 737	4.8%	-53 891
Financial revenue	23 752	36 758	154.8%	13 006
Dividend revenue	0	0	x	0
Financial expenses	1 718	3 953	230.1%	2 235
Gross profit	78 662	35 542	45.2%	-43 120
Net profit	61 821	22 925	37.1%	-38 896
EBIDTA	61 009	6 875	11.3%	-54 134

9.2.2. Sales revenues

The gross revenues of ENEA S.A. from sales in the reporting period amounted to PLN 1,667,405,000 which in relation to Q1 2011 constituted an increase of PLN 59,230,000, or 3.7 per cent.

The table below shows the value of sales revenues achieved in Q1 2012.

Data in PLN '000	Q1 2011	Q1 2012	Change	Difference
Sales revenues	1 608 175	1 667 405	103.7%	59 230
Revenues from sales of electricity and distribution services to end users	1 540 043	1 561 661	101.4%	21 618
including:				

<i>Sales of electricity to end users</i>	1 077 066	1 127 831	104.7%	50 765
<i>Sales of distribution services to users holding comprehensive agreements</i>	462 978	433 831	93.7%	-29 147
Sales of electricity to other entities	34 834	52 686	151.2%	17 852
Sales of services	12 657	15 674	123.8%	3 017
Other revenue	20 641	37 384	181.1%	16 743

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

- Revenues from the sale of electricity to end users, which constitute 67.6 per cent of all sales revenues. In Q1 2012 these revenues amounted to PLN 1,127,831,000, an increase of PLN 50,765,000 or 4.7 per cent on the same period of the preceding year, which stemmed from sold electricity volumes increasing by 68 GWh and a 3 per cent increase in the average sale price. The increase in the volume of sold electricity (by 205 GWh) was noted in the group of clients of A and B tariff set groups and the decline in the volume was reported in the C group (by 126 GWh) and G group (by 11 GWh). However, the greatest growth of the average price was noted in groups C and G.
- Revenues from sales of distribution services to users holding comprehensive agreements, which constitute 26 per cent of all sales revenues. In Q1 2012 these revenues amounted to PLN 433,831,000, and were lower than in the same period of the preceding year by PLN 29,147,000 or 6.3 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 enhances 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. acquired 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 electricity sales to other entities amounted to PLN 52,686,000, an increase of PLN 17,852,000 or 51.2 per cent in comparison with Q1 2011, which stemmed mainly from higher amounts of electricity sold by 143 GWh with a simultaneous decline of the average price by 14.5 per cent.
- The remaining revenues are mainly influenced by estimated non-invoiced sales of electricity and distribution services resulting from WO and DO settlement system, which presents a difference between the state of non-invoiced sales at the end of a given reporting period and its state as at the beginning of the reporting period.

9.2.3. Cost of sales

In Q1 2012, ENEA S.A.'s total cost of sales amounted to PLN 1,606,488,000 and grew by 114,771,000 or 7.7 per cent relative to the same period of the previous year.

The table below shows the value of the cost of sales achieved in Q1 2012.

Data in PLN '000	Q1 2011	Q1 2012	Change	Difference
Cost of sales	1 491 717	1 606 488	107.7%	114 771
Costs of electricity for resale	967 504	1 080 351	111.7%	112 847
<i>including:</i>				
<i>purchase of certificates of origin</i>	<i>124 627</i>	<i>152 398</i>	<i>122.3%</i>	<i>27 771</i>
<i>value of unbalanced energy</i>	<i>8 840</i>	<i>-8 339</i>	<i>x</i>	<i>-17 179</i>
Cost of providing distribution services for the performance of comprehensive agreements for the provision of electricity and distribution services	468 962	447 406	95.4%	-21 556
Depreciation and amortisation of fixed and intangible assets	4 381	4 138	94.5%	-243
Consumption of materials and energy and value of sold materials	1 267	1 216	96.0%	-51
Other external services	29 365	54 807	186.6%	25 442
Employee benefit costs	16 825	15 313	91.0%	-1 512
Taxes and charges	3 413	3 257	95.4%	-156

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

- Costs of purchases of electricity for sales which amount to PLN 1,080,351,000 and increased in relation to Q1 2011 by PLN 112,847,000 or 11.7 as a result of a higher volume of purchased energy by 247 GWh. Simultaneously, in Q1 2012 there was an increase in the average electricity purchase prices by 5.5 per cent in relation to Q1 2011. At the same time, in Q1 2012 the costs of purchase of energy include the estimated costs of unbalancing of electricity which diminished the purchase costs by PLN 8,339,000 while in Q1 2011 they increased them by PLN 8,840,000. Unbalancing of purchases with sales adjusts purchase costs +/- in relation to the fact that the

volume of energy invoiced as purchases and sales is not equal and in relation to adjustments made on the Balancing Market within 15-month settlement period. Moreover in the reporting period there was an increase of costs of purchase of certificates of origin by PLN 27,771,000.

- Costs of the other external services amounted to PLN 54,807,000, an increase of PLN 25,442,000 or 86.6 per cent in comparison with Q1 of the preceding year, which was caused by higher costs of marketing (higher by PLN 5,566,000 or 203.7 per cent in relation to Q1 2011) and costs for account of: ENEA Centrum (PLN 6,929,000) and ELKO Trading (PLN 11,061,000), which is a result of separation on 1 August 2011 of activity connected with wholesale trade and customer service.

9.2.4. Other operating activity

PLN '000	Q1 2011	Q1 2012	Change	Difference
Other operating revenue	4 337	5 701	131.5%	1 364
Other operating expenses	6 489	14 077	216.9%	7 588

In Q1 2012 the result on the other operating activity amounted to PLN -8,376,000 and was lower than in the same period of the previous year by PLN 6,224,000 or 289.2 per cent, which mainly stems from higher costs of provisions for litigation.

9.2.5. Revenues and financial costs

PLN '000	Q1 2011	Q1 2012	Change	Difference
Financial revenue	23 752	36 758	154.8%	13 006
Financial expenses	1 718	3 953	230.1%	2 235

In Q1 2012 the result on the financing activity amounted to PLN 32,805,000 and was higher than in the same period of the previous year by PLN 10,771,000 or 48.9 per cent, which mainly stems from higher financial revenues connected with the sale of 269,000 shares of Przedsiębiorstwo Produkcji Strunobetonowych Zerdzi Wirowanych "WIRBET" S.A. (PLN 12,917,400).

9.3. Presentation of financial results of ENEA Operator in Q1 2012

9.3.1. Profit and loss statement of ENEA Operator

Data in PLN '000	Q1 2011	Q1 2012	Change	Difference
Sales revenues	697 302	746 376	107.0%	49 074

Cost of sales	577 135	602 879	104.5%	25 744
Other operating revenue	15 488	11 237	72.6%	-4 251
Other operating expenses	9 221	6 323	68.6%	-2 898
Profit/loss on sales and liquidation of tangible fixed assets	-336	2 335	-694.9%	2 671
Operating profit/ loss	126 098	150 746	119.5%	24 648
Financial revenue	1 898	1 091	57.5%	-807
Financial expenses	2 820	4 464	158.3%	1 644
Gross profit/ loss	125 176	147 373	117.7%	22 197
Net profit/ loss	101 140	119 806	118.5%	18 666
EBITDA	213 580	245 999	115.2%	32 419

9.3.2. Sales revenues

Revenues from sales of ENEA Operator in the reporting period amounted to PLN 746,376,000 which in relation to Q1 2011 constituted a growth by PLN 49,074,000 or 7 per cent.

The table below shows the value of sales revenues achieved in Q1 2012.

Data in PLN '000	Q1 2011	Q1 2012	Change	Difference
Sales revenues	697 302	746 376	107.0%	49 074
Revenues from sales of distribution services to end users, including:	640 621	670 074	104.6%	29 453
<i>comprehensive agreements</i>	462 978	433 819	93.7%	-29 159
<i>other agreements</i>	177 643	236 255	133.0%	58 612

Revenues from additional fees	832	790	95.0%	-42
Sales revenues from non-invoiced distribution services	5 074	15 053	296.7%	9 979
Fees for customer grid connection	18 395	21 923	119.2%	3 528
Revenues from the illegal collection of electricity	1 968	2 501	127.1%	533
Revenues from services	23 288	25 493	109.5%	2 205
Sales of distribution services to other entities	6 018	6 827	113.4%	809
Sales of goods and services and other revenues	1 106	3 715	335.9%	2 609

The sales revenues increase in Q1 2012 in the amount of PLN 49,074,000 in relation to the comparative period was mainly due to:

- Increase in revenues from the sale of distribution services to end users, which constitute 89.8 per cent of all sales revenues. Revenues from the sale of distribution services to end users in Q1 2012 amounted to PLN 670,074,000 and were higher than in the same period of last year by PLN 29,453,000, i.e. 4.6 per cent. The increase of these revenues stemmed mainly from a growth of the average sale price of distribution services to end users by 3.8 per cent with a higher volume of supplied electricity by 32 GWh. Additionally, a growth was noted in estimated revenues from non-invoiced sales by PLN 9,979,000.
- Increase of revenues from fees for grid connection which in Q1 2012 amounted to PLN 21,923,000 and grew in relation to the same period of 2011 by PLN 3,528,000, which results from inclusion of higher value connections in the assets.
- Increase of revenues from sale of goods and materials and other revenues, which in Q1 2012 amounted to PLN 3,715,000 and were higher than in Q1 2011 by PLN 2,609,000, which is mainly a result of higher revenues from settlements on the Balancing Market.
- Higher revenues from services which amounted to PLN 25,493,000 and were higher in relation to the previous year by PLN 2,205,000, which stems mainly from higher revenues from technical support within service of ENEA S.A.'s customers, non-licensed services within electricity and power works and maintenance of road lights.

9.3.3. Cost of sales

In Q1 2012 total costs of sales of ENEA Operator amounted to PLN 602,879,000 and increased by PLN 25,744,000 i.e. by 4.5 per cent in relation to the comparative period.

The breakdown below shows the value of costs on sales achieved in the reporting period.

Data in PLN '000	Q1 2011	Q1 2012	Change	Difference
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Cost of sales	577 135	602 879	104.5%	25 744
Depreciation and amortisation of fixed and intangible assets	87 482	95 253	108.9%	7 771
Employee benefit costs	124 190	136 372	109.8%	12 182
Consumption of materials and energy and value of sold materials	12 732	12 384	97.3%	-348
Costs of purchases for resale	98 391	102 414	104.1%	4 023
Costs of transmission services	179 289	179 798	100.3%	509
Other external services	42 966	40 583	94.5%	-2 383
Taxes and charges	32 085	36 075	112.4%	3 990

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

- Employee benefit costs which during the reporting period amounted to PLN 136,372,000 and were higher than in the comparative period of 2011 by PLN 12,182,000. The difference is mainly due to the creation of a reserve for the motivation system for employees and higher pension contributions.
- Amortisation grew by PLN 7,771,000 in relation to the comparative period, mainly due to verification of amortisation rates and amortisation calculated on new fixed assets during November-December 2011 and new intangible assets at the end of 2011.
- Purchase of energy for sale in relation to the comparative period grew by PLN 4,023,000, which mainly results from higher average purchase price of energy in 2011 by 3.3 per cent.
- Taxes and charges which grew by PLN 3,990,000 in relation to higher costs of tax from lines and power connections and costs of usage of the road line.
- Other external services that in the reporting period decreased by PLN 2,383,000 and amounted to PLN 40,583,000. It mainly results from lower costs of other services: activation of costs of legalisation of meters as investment outlays for fixed assets, incurring lower costs of failure repairs of the grid assets and utility services. Concurrently, higher costs were incurred of operation services on the power grid and non-contractual usage of properties.

9.3.4. Other operating activity

PLN '000	Q1 2011	Q1 2012	Change	Difference
Other operating revenue	15 488	11 237	72.6%	-4 251

Other operating expenses	9 221	6 323	68.6%	-2 898
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In Q1 2012 the other operating revenues amounted to PLN 4,914,000 and were lower than in the preceding year by PLN 1,353,000 which mainly stems from changes of reserves for damages and from lower write-downs.

Additionally the Company attained a profit on sales and liquidation of tangible assets in the amount of PLN 2,335,000 in relation to higher revenues from sales of fixed assets and right of perpetual usufruct of lands.

9.3.5. Revenues and financial costs

PLN '000	Q1 2011	Q1 2012	Change	Difference
Financial revenue	1 898	1 091	57.5%	-807
Financial expenses	2 820	4 464	158.3%	1 644

Financial revenues in Q1 2012 amounted to PLN 1,091,000 and were lower than in Q1 2011 by PLN 807,000, which results from achievement of lower revenues from deposit interests.

Financial costs in the reporting period amounted to PLN 4,464,000 and were higher in relation to higher costs of interest from external funding.

9.4. Presentation of financial results of the Kozenice Power Plant in Q1 2012

9.4.1. Profit and loss statement of the Kozenice Power Plant

PLN '000	Q1 2011	Q1 2012	Change	Difference
Sales revenues	675 613	686 586	101.6%	10 973
Excise tax	7	8	114.3%	1
Net sales revenues	675 606	686 578	101.6%	10 972
Cost of sales	574 689	586 106	102.0%	11 417
Other operating revenue	3 255	12 310	378.2%	9 055

Other operating expenses	9 484	996	10.5%	-8 488
Profit/loss on sales and liquidation of tangible fixed assets	9	4	44.4%	-5
Operating profit/loss	94 697	111 790	118.1%	17 093
Financial revenue	7 574	13 702	180.9%	6 128
Dividend revenue	0	0	x	0
Financial expenses	1 994	1 070	53.7%	-924
Gross profit/loss	100 277	124 422	124.1%	24 145
Net profit/loss	79 744	100 889	126.5%	21 145
EBITDA	153 052	189 304	123.7%	36 252

For comparative purposes the figures relating to Q1 2011 were presented after the merger with Koziernice II which took place on 1 April 2011.

9.4.2. Sales revenues

The gross sales revenues of the Koziernice Power Plant in Q1 2012 amounted to PLN 686,586,000 which in relation to Q1 2011 constitutes a growth by PLN 10,973,000 or 1.6 per cent.

The table below shows the value of gross sales revenues achieved in Q1 2012.

PLN '000	Q1 2011	Q1 2012	Change	Difference
Gross sales revenues	675 613	686 586	101.6%	10 973
Revenues from the sale of electricity, including:	647 487	645 465	99.7%	-2 022
<i>within licence for generation</i>	<i>555 420</i>	<i>580 029</i>	<i>104.4%</i>	<i>24 609</i>
<i>within licence for trading</i>	<i>92 067</i>	<i>65 436</i>	<i>71.1%</i>	<i>-26 632</i>

Revenues from compensation for stranded costs	0	0	x	0
Revenues from the sale of certificates of origin	23 786	34 708	145.9%	10 922
Revenues from the sale of heat	1 873	1 939	103.5%	66
Revenues from the sale of services and other revenues from sales	1 143	3 340	292.2%	2 197
Revenues from the sale of goods and materials	1 324	1 134	85.6%	-190

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

- Revenues from sales of electricity which constitute 94 per cent of the total sales revenues in the reporting period amounted to PLN 645,465,000 and were lower than in Q1 2011 by PLN 2,022,000 or 0.3 per cent. The volume of sales of electricity amounted to 3,118 GWh and in relation to the comparative period decreased by 121 GWh and at the same time the average sale price of electricity grew by 3.4 per cent. Production of electricity in Q1 2012 amounted to 2,764 GWh and was lower in relation to Q1 2011 by 81 GWh, with a simultaneous increase of production from renewable sources (biomass) by 32 GWh.
- Revenues from sales of certificates of origin were higher by PLN 10,922,000 than in Q1 2011, which was mainly caused by higher recognition of green certificates of origin by 32,286 MWh (as a result of higher production from renewable sources) and higher recognition of red certificates by 10,042 MWh (as a consequence of adjustment of certificates of origin for Q4 2011).
- Revenues from sales of services and other revenues from sales increased by PLN 2,197,000, which stemmed from realisation in the reporting period of sales of free allowances for CO₂ emissions.

9.4.3. Cost of sales

In Q1 2012, the Kozenice Power Plant's total cost of sales amounted to PLN 586,106,000 and grew by PLN 11,417,000 or 2 per cent in relation to the same period of 2011.

The table below shows the value of the cost of sales achieved in Q1 2012.

Data in PLN '000	Q1 2011	Q1 2012	Change	Difference
Cost of sales	574 689	586 106	102.0%	11 417
Depreciation and amortisation of fixed and intangible assets	58 355	77 514	132.8%	19 159

Employee benefit costs	57 090	61 664	108.0%	4 574
Consumption of materials and raw materials and value of goods sold	310 250	317 268	102.3%	7 018
Costs of purchases for resale	105 921	80 776	76.3%	-25 145
Costs of transmission services	628	0	0.0%	-628
Other external services	26 142	32 773	125.4%	6 631
Taxes and charges	16 303	16 111	98.8%	-192

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

- Amortisation costs which in Q1 2012 amounted to PLN 77,514,000 and grew by PLN 19,159,000 in relation to the comparative period which mainly stems from commissioning of IOS III investment (flue gas desulphurisation plant) and verification of the economical period of utilisation of fixed assets performed on 1 January 2012.
- Costs of materials used, as well as the value of goods sold, which amounted to PLN 317,268,000 and rose by PLN 7,018,000 or 2.3 per cent, which is related to the increased costs of biomass use by PLN 12,180,000 (in relation to a higher energy production from biomass) and higher average cost of biomass (including transport) by 11.2 per cent; at the same time the costs of other materials decreased by PLN 6,230,000, which mainly results from lower costs of redemption of allowances for emissions of CO₂, in relation to lower production of energy.
- Costs of purchase of energy for sale which amounted to PLN 80,776,000 and decreased by PLN 25,145,000 which resulted from lower activities within the licence for trade in electricity (lower volume and lower average price of purchased energy for sales within licence for trading), with a simultaneous increase of costs of purchase of energy on the balancing market (higher volume of purchase of energy and lower price of purchase).
- Costs of other external services amounted to PLN 32,773,000, an increase of PLN 6,631,000 or 25.4 per cent in relation to the comparative period, which was mainly caused by occurrence of costs of service of transactions by ELKO Trading.
- Costs of employee benefits in Q1 2012 amounted to PLN 61,664,000 and grew by PLN 4,574,000, which results from a growth of the average pay by 9.2 per cent with a simultaneous decrease in employment by 2 per cent. Higher costs of personal remuneration with surcharges in Q1 2012 in relation to the comparative period of 2011 were incurred in connection with a raise of the basic remuneration as of 1 April 2011 (in accordance with the Agreement concluded between the Company's Board and trade unions functioning in the Company).

9.4.4. Other operating revenues and costs

PLN '000	Q1 2011	Q1 2012	Change	Difference
Other operating revenue	3 255	12 310	378.2%	9 055
Other operating expenses	9 484	996	10.5%	-8 488

Other operating revenues in Q1 2012 amounted to PLN 12,310,000 and were higher than in the analogical period by PLN 9,055,000, which mainly stems from:

- higher by PLN 5,244,000 calculated and received damages for breach of contractual terms connected mainly with supplies of coal and biomass,
- lower by PLN 2,077,000 revenues from termination of liability reserves,
- lower by PLN 1,229,000 revenues from termination of receivables write-downs.

Other operating costs in Q1 2012 amounted to PLN 996,000 and were higher than in the analogical period by PLN 8,488,000, which mainly stems from:

- creation of lower by PLN 2,967,000 reserves for liabilities,
- creation of lower by PLN 2,831,000 write-downs (mainly receivables from contractual penalties),
- lower costs of litigation by PLN 1,918,000.

9.4.5. Revenues and financial costs

PLN '000	Q1 2011	Q1 2012	Change	Difference
Financial revenue	7 574	13 702	180.9%	6 128
Financial expenses	1 994	1 070	53.7%	-924

Financial revenues in Q1 2012 amounted to PLN 13,702,000 and were higher in relation to the comparative period by PLN 6,128,000, which stems from higher interest on cash deposited on fixed-term deposits and positive exchange rate differences from loans and credits.

9.5. Other significant information

Regardless of the information included above and in the remaining parts of the quarterly report, in the opinion of the Management Board, the following information regarding the ENEA Capital Group should be emphasised.

9.5.1. Strong market position

We have a strong market position in Poland in all segments of the power market in which we operate. We find ourselves among the four largest entities in Poland within the electricity generation, distribution and trade sector.

9.5.2. Rating

Awarding ENEA S.A. in April 2012 by the Fitch Ratings agency with a long-term rating of an entity in domestic and foreign currency at the level of "BBB" and a long-term domestic rating at the level of "A" is of a key importance as to the investment intentions of the Group. The perspective of the ratings is stable.

The awarded rating illustrates the strong position of ENEA on the domestic energy market and simultaneously confirms its very good economic standing, locating the Group among the entities of key importance for the sector in the Central and Eastern Europe. The results justify the appropriateness of both the strategic actions taken in the Company during the recent time and the shape of the current policy pursued by ENEA S.A.

The fact of holding the rating, being an independent and objective appraisal of the creditworthiness of the Company, is of key importance for its stakeholders. The credit rating is a substantial tool for building of the image of the entity in the economic environment implying multidimensional consequences for its holder.

The rating awarded to ENEA takes into account its vertically integrated position (the ENEA Group consisting of ENEA S.A. and its subsidiaries) on the Polish power market, including the leading position on the domestic electricity distribution and sales market as well as its strong position in the segment of electricity generation.

On 5 April 2012 the Fitch Ratings agency in their announcement maintained the long term rating issued for the Company on the present level of BBB (in the international scale) and A (in the domestic scale).

9.5.3. Efficient generation assets

The Kozenice Power Plant, which forms part of the Group, is one of the most efficient bituminous coal-fired power plants in Poland. It has updated generation units that produce electricity with awareness of the natural environment surrounding the company's facilities and in observance of environmental laws. Nevertheless, it must be noted that our activity significantly affects the environment and requires a number of approvals for the use of its resources. The Kozenice Power Plant holds integrated permits, obtained pursuant to Decision of the Mazowieckie Province Administrator of 20 December 2005, as amended. The principal ways in which the Kozenice Power Plant affects the environment are in areas related to releasing pollution into the atmosphere, coal combustion waste storage, water supply and sewage removal. The most harmful pollutants emitted into the atmosphere include sulphur dioxide, nitric oxide, dust and carbon dioxide.

A key element of generation assets of the Capital Group is the Bialystok Heat and Power Plant. The company, which was an affiliate, in result of purchase of 1,283,214 shares by ENEA S.A. on 1 June 2011 for the amount of PLN 347,751,000 became a subsidiary.

The Bialystok Heat and Power Plant is the largest producer of power and heat energy in the Podlaskie Province. The key objective of the activity of the Bialystok Heat and Power Plant 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.

9.5.4. Reduction of emission of pollutants

The Kozenice Power Plant reduces emission of pollutants through proper usage of protective devices. Dust pollutants are limited in high-performance electrofilters and flue gas desulphurisation installations which guarantee the second level of dust extraction. At present another stage is in

progress for replacement of these equipments. In 2010 the electrofilter on 500 MW unit No. 10 and in 2011 the electrofilter of 200 MW unit No. 4 were replaced. Presently the electrofilter of 200 MW unit No. 3 is being replaced. Reduction of emissions of sulphur dioxide is ensured by three high-performance flue gas desulphurisation installations with the installed capacity of 1,920 MWe. At present they guarantee keeping permissible norms being in force. Emissions of nitric oxides at the level of current standards are ensured by installations realised during previous years for initial reduction – low-emission burners. In 2011 the Koziernice Power Plant commenced realisation of another stage of nitric oxide emissions reduction – development of the catalytic flue gas denitrating installation for 200 MW units No (4-8) till 2016, which will allow for further reduction of these pollutants to the level of standards binding after 2015.

9.5.5. Waste management

Within waste management the Koziernice Power Plant realises activities aiming at the highest possible utilisation of generated waste. In Q1 2012 around 63 per cent of generated burner waste was utilised and around 71 per cent of gypsum resulting from the process of flue gas desulphurisation. The Koziernice Power Plant realises a systematic monitoring of the environment quality in the vicinity of the waste storage facility. Actions are also conducted preventing repeated spread of dust through protecting surfaces with membrane-forming chemicals, sprinkling of fields and flooding of fields.

As a result of the implementation of the requirements of the Directive of the European Parliament and the Council of Europe into the Polish jurisdiction, the energy sector, including the Power Plant has been carrying out tasks resulting from the introduction of:

- CO₂ emission allowances trading scheme,
- production from renewable sources of energy,
- integrated prevention of pollutions and their controlling (IED).

For the purposes of the emissions trading CO₂ emissions are monitored using (since 2008) the weighing systems for continuous measurements of amounts of consumed coal and our own certified chemical laboratory.

The system of co-firing solid biomass with conventional fuel (bituminous coal) made it possible to generate electricity from renewable resources for 200 MW units.

In Q1 2012 66,005 Mg of biomass was fired. Such a volume of combusted biomass results in "avoidance of emissions" of carbon dioxide in the amount of 104,085 Mg. The value of allowances corresponding to the avoided emissions is an amount of around PLN 3,371,240 (the average quarterly price EUA=7.65 EUR/Mg; average quarterly rate of EUR: 1€=PLN 4.2339).

9.5.6. Investments presently realised in the Koziernice Power Plant

In Q1 2012 the realisation of the investment plan was continued within which the following investments were performed:

- modernisation of the lighting installation of buildings for carburising of 200 MW units within Stage I of the investment,
- continuation of the construction of an in-house archives building,
- commencement of modification of the ash and slag hydraulic transport flyover,
- completion of the installation of the filtration press of the flue gas desulphurisation plant IOS II,

- commencement of Stage I of the modernisation of the ash loading installation,
- commencement of the modernisation of the carburising system within control (RWC, RWD switch boards),
- continuation of the modernisation of the slurry pump station No II,
- continuation of construction of roads on the slag and ash waste heap,
- completion of modernisation of unit No 5, including modernisation of pressure part of the boiler, and replacement of air steam heaters,
- commencement of modernisation of unit No 3, including replacing of electrofilter, modernisation of pressure part of the boiler, modernisation of the turbine set and unit automatics.

9.5.7. New supercritical power unit with a capacity of up to 1,000 MW

The Kozenice Power Plant is one of Poland's first power plants to take action in order to develop a new supercritical power unit with a capacity of up to 1,000 MW. To this end, in 2008, ENEA S.A. and the Kozenice Power Plant established a special purpose vehicle Kozenice II Sp. z o.o., whose primary objective was to prepare the investment and to develop a new power block using hard coal as the primary fuel.

On 30 March 2011 "Kozenice II" spolka z ograniczona odpowiedzialnoscia was incorporated into the Kozenice Power Plant. In relation to the incorporation the Merging Company (the Kozenice Power Plant) in consequence on the date of the merger acquired all the rights and obligations of the Merged Company (Kozenice II Sp. z o.o.). The merger of the companies will enable achievement of both organisational and economic benefits.

Within the newly established Department for Unit Construction proceedings are being conducted for granting of a sector tender in the mode of negotiations with a notice for "Construction of a hard coal-fired energetic unit for supercritical parameters with a net capacity of 900 MWe, maximum of 1,000 MWe", according to the provisions of the Act of 29 January 2004 - Law on Public Procurement.

The new unit will be the eleventh unit in the Kozenice Power Plant. The unit will be designed and built using high-performance technology that involves the combustion of coal in a supercritical power furnace that meets the most recent requirements of the BAT directive, and will feature a fume purification system with the required environmental components: electrofilter, denitrating plant and flue gas desulphurisation plant. The unit will feature a closed cooling system with a cooling tower.

The new unit will be prepared to become a CO₂ capture-ready plant. The net electric capacity of the unit will be minimum 900 MW, and its net efficiency will reach the value of minimum 44.5 per cent.

On 28 September 2011 the Kozenice Power Plant obtained the decision No. 487/2011 issued by the Powiat Starosty in Kozenice approving the building project and granting permit to construct the Power Unit No. 11 of up to around 1,000 MWe capacity.

On the turn of Q2 and Q3 2012 a selection of the winner is planned in the tender for "Construction of a bituminous coal-fired energetic block for supercritical parameters with a net capacity of 900 MWe, maximum of 1,000 MWe in Elektrownia "Kozenice" S.A." conducted according to the provisions of the Act of 29 January 2004 - Law on Public Procurement.

The realisation of the investment is planned for the period of Q3 2012 – Q4 2016.

On 23 January 2012 the Board of the Kozenice Power Plant concluded a new multiannual contract with Lubelski Węgiel "Bogdanka" S.A. for supplies of fuel coal for the needs of the newly constructed

unit. The Contract was concluded for the period from the execution date till 31 December 2036 with physical commencement of deliveries of fuel coal in the first calendar quarter of 2017. The Contract anticipates 20 calendar years of deliveries of coal for the needs of the newly constructed unit of the Kozienice Power Plant.

9.5.8. Diversified customer portfolio

The portfolio of customers to whom we sell electricity is highly diversified. As at 31 March 2012, ENEA S.A. provided end-to-end services (which involved the sale of electricity and distribution services) or supplied electricity to more than 2,100,000 retail customers and approximately 300,000 corporate customers.

In Q1 2012 the proceeds from supplying electricity to our largest customer accounted for 4.1 per cent of the overall value of electricity and distribution sales, and the share of the ten largest customers amounted to 14.3 per cent.

9.5.9. Convenient location for developing wind farms

Investments in renewable wind power are a crucial element of our strategy. Our distribution network covers the north-western part of Poland that, due to the prevailing atmospheric conditions in this part of the country - plenty of wind - is a good location for building wind farms. As estimated, the windiness with the annual average wind speed of over 6 m/s is characteristic of the seaside region recognised as extremely advantageous for the construction of wind farms. In Q1 2012 we performed further actions aiming at acquiring projects of wind farms at various stages of advancement in order to extend the wind capacities in the Group and achieve within this scope 250 to 350 MW of installed power till 2020. Currently Elektrownie Wodne dedicated, among others, to developing generating capacities from Renewable Sources of Energy develops or is interested in purchasing projects of wind farms at various stages of development with the total installed capacity of around 180.8 MW. In addition, in December 2010 ENEA S.A. concluded a frame agreement on cooperation, based on which it achieved a temporary exclusivity for negotiations and pre-emptive right to buy shares of special purpose vehicles being owners of wind farm projects with the target installed capacity of 214 MWe.

9.5.10. Risks relating to the Company's activity and its environment

Notwithstanding the above positive factors in the evaluation of the staffing, property and financial situation and the financial result of the Issuer and its Group, a series of factors exist that are identifiable as risks relating to the activity conducted by the Company and the environment in which it takes place. Among them, we must point out the potential effect of the events and occurrences set out in the Management Report on the operations of the Group published as part of the consolidated annual report on 27 April 2012 and in Note 25.5-6 to the consolidated quarterly financial statement.

9.5.11. Bank guarantees and loans

During the reporting period ENEA S.A. had access to three credits in the current account in BZ WBK S.A. for the total amount of PLN 90,000,000 and in Pekao S.A. for the total amount of PLN 10,000,000 and a working capital facility in PKO Bank Polski S.A. in the amount of PLN 50,000,000.

The total limit on working capital facilities as at 31 March 2012 was PLN 150,000,000, and as at 31 March 2012 the Company had no debts pertaining to them.

9.5.12. Tariffs

ENEA S.A. supplies electricity to customers in tariff groups A, B and C (institutional buyers) and in tariff group G (households).

The supply of electricity to group A, B and C customers is governed by the "Electricity Tariff" implemented on 1 August 2011 under Resolution of the Management Board of ENEA S.A. No. 383/2011 of 14 June 2011.

The sale of electricity to end users in tariff groups G connected to the network of ENEA Operator is carried out on the basis of the "Electricity Tariff" approved by the President of the ERO for the period ending on 31 December 2011. Under Resolution of the Management Board of ENEA S.A. No. 877/2010 of 21 December 2010, the tariff came into force on 1 January 2011. The cost bracket recognised as reasonable by the President of the ERO in that tariff is lower than the costs incurred by the Company under its power supply contracts.

9.5.13. 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 voltage of the grid to which they are connected

This offer is directed to customers on the domestic market.

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

Typically, ENEA S.A. concludes comprehensive agreements for an indefinite term, but agreements for the sale of energy (without energy distribution services), including agreements with customers connected to networks of distribution system operators other than ENEA Operator, are most often concluded for a fixed term. The termination notice period in comprehensive contracts concluded for an indefinite term is usually set for one month, and less often for two, three or six months.

9.5.14. Sales to other end users

Balancing of BM unit of ENEA S.A. is connected to selling electricity on the wholesale market. Wholesale 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.

9.5.15. Sales by value and volume

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

Item	Sales of electricity [MWh]	
	Q1 2011	Q1 2012
Tariff group set A	570 395	807 667
Tariff group set B	1 323 354	1 291 790
Tariff group set C	898 825	772 627
Tariff group set G	1 246 788	1 235 501
TOTAL	4 039 362	4 107 585

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

Item	Sales of electricity ['000]	
	Q1 2011	Q1 2012
Tariff group set A	132 873	192 370
Tariff group set B	355 665	352 893

Tariff group set C	264 889	241 826
Tariff group set G	323 637	340 742
TOTAL	1 077 064	1 127 831

9.5.16. Collective labour disputes

At present, ENEA S.A. is a party to one collective dispute initiated on 7 September 2009, which concerns the proposed privatisation of ENEA S.A. and the effect of the potential shareholder change on the status of its employees. The dispute has not been settled to date.

Additionally as at the date of preparation of this report the subsidiary, ENEA Operator, is a party to a collective dispute with five trade unions (of which the Issuer informed in the current report CR 10/2012 on 7 March 2012), concerning increase of remunerations.

9.5.17. Long-Term Power Purchase Agreements (LTPPA)

As the European Commission has found that long-term contracts with the state-owned company PSE S.A. regarding the sale of power and electricity constitute prohibited public aid, the Polish Parliament has adopted an act intended to terminate these contracts. Under the Act on Covering Costs Incurred by Power Companies due to the Early Termination of Long-Term Power Purchase Agreements of 29 June 2007 (the "LTPPA Termination Act"), the Group (Kozienice Power Plant), starting from 1 April 2008, is entitled to compensation for the stranded costs it has incurred as a result of the early termination of long-term power purchase agreements. Pursuant to the Act, the Group will be entitled to compensation until 2014.

The LTPPA compensation mechanism is as follows:

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

The Group developed a calculation model on the basis of which it requests advance payments and annual settlements from the President of the ERO. The calculation of the amounts due is not unequivocal as it is determined by numerous factors, including the interpretation of statutory provisions.

The Group has decided to enter as proceeds only amounts stipulated in the decision concerning the annual adjustment of stranded costs.

For 2008 the Kozienice Power Plant obtained advance payments towards stranded costs from the company Zarzadca Rozliczen S.A. in the amount of PLN 93,132,000. In the decision by the President of the ERO of 31 July 2009 setting the amount of the adjustment to the yearly stranded costs (i.e. advance payments received from Zarzadca Rozliczen S.A.) for the Kozienice Power Plant for 2008 was

set at the level of PLN -89,537,000. The Power Plant filed an appeal against this decision with the Regional Court in Warsaw, at the Court of Competition and Consumer Protection. Any other activities in 2009 concerning annual adjustment of stranded costs were described in the financial statement for 2010.

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

For 2010 the Power Plant applied for the advance towards stranded costs in the amount of PLN 0. In 2010 the revenues from compensations for 2010 were not recognised (the report included only the amount of the annual adjustment for 2009). On 29 July 2011 the President of ERO determined the amount of the annual adjustment of stranded costs for 2010 in the amount of PLN 2,472,000. Since also this decision is disadvantageous for the Power Plant on 18 August 2011 it filed an appeal against this decision with the Regional Court in Warsaw, at the Court of Competition and Consumer Protection. On 30 September 2011 the Power Plant received the amount of the annual adjustment for 2010 in the amount of PLN 2,472,000 from Zarzadca Rozliczen S.A.

At present formal and procedural activities are still in progress.

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

For 2012 the Power Plant applied for the advance towards stranded costs in the amount of PLN 0. In Q1 2012 the revenues from compensations for 2012 were not recognised.

On 1 December 2010, the case for 2008 LTPPA was heard before the Court for Competition and Consumer Protection. However, the court decided to defer it until a legally valid decision is issued by the Court of Appeals as to whether Zarzadca Rozliczen can be granted the status of an interested party in the proceedings. Another hearing on the appeal against the decision of the President of ERO determining the annual adjustment for 2008 had been set by the Court of Competition and Consumer Protection for 20 February 2012. This hearing was postponed and another date was set for 20 April 2012.

On 20 April 2012 the Regional Court in Warsaw, Court for Competition and Consumer Protection made a judgement in the case for annual adjustment of stranded costs for 2008. With this judgement the Decision of the President of ERO of 31 July 2009 was amended in such a way that the amount of the annual adjustment of stranded costs for the Power Plant for 2008 was set at the level of PLN -4,192,000 instead of the original amount of PLN -89,537,000. The total costs of the proceedings were charged to the President of ERO.

In relation to the fact that on 30 September 2009 the Board of the Power Plant decided to return the advance payment in the amount of PLN 44,768,000, i.e. the part of the amount resulting from the

Decision of the President of ERO of 31 July 2009 not suspended by the Court with the decision of 23 September 2009, after the decision becomes final the Power Plant should receive a refund of PLN 40,577,000. In the future a final judgement may mean an increase on the financial result of a given year by PLN 85,345,000.

The date of the hearing concerning annual adjustment for 2009 was set on 13 June 2012, and the date of the hearing on the annual adjustment for 2010 has not been yet determined.

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

9.5.18. Used financial instruments

During the reporting period ENEA S.A. concluded forward transactions the objective of which was securing of currency exchange risk (EUR/PLN) connected with the realisation of the agreement concerning the purchase of assets. All the above forward transactions were settled in the reporting period.

Additionally the transactions securing the currency risk in the form of forward and non-deliverable forward is conducted by one of the subsidiaries - the Bialystok Heat and Power Plant. The concluded transactions concerned securing of the currency risk within purchases of fuel and sales of allowances for emissions of CO₂. The result on unsettled transactions as at 31 March 2012 is negative and amounts to PLN 1,756,000. The result and the value of forward contracts concluded by the Bialystok Heat and Power Plant is substantial in the light of the Bialystok Heat and Power Plant's results but immaterial for the Group's results. The result is also material in relation to equity of the Bialystok Heat and Power Plant.

9.5.19. Coal supplies

The key supplier of bituminous coal for the Power Plant is Lubelski Wegiel "Bogdanka" S.A., which, during Q1 2012, supplied around 980,000 tonnes, which constitutes over 76 per cent of the material supplied on the quantitative basis. Additionally the Power Plant cooperates within coal supplies with Katowicki Holding Weglowy S.A., Jastrzebska Spolka Weglowa S.A., Kampania Weglowa S.A. The only supplier of the light-up fuel to the Kozienice Power Plant in Q1 2012 was PKN ORLEN S.A. The supplied fuel is heavy oil with sulphur content up to 3 per cent.

The Polish market of coal supplies is a market highly monopolised by companies belonging to the State Treasury, our key shareholder, which control a substantial part of domestic supplies of coal on the quantitative basis, excluding Lubelski Wegiel "Bogdanka" S.A., which in 2010 became private. It is uncertain whether the contracts in force for supply of coal which we concluded with our key suppliers will not be terminated or prolonged after their term. Moreover, according to these contracts, the price and quantity of delivered coal are determined during negotiations each year. It is not certain that the result of such negotiations will be always advantageous for us. If we are not able to execute contracts for supply of coal to the Kozienice Power Plant or the deliveries are suspended or disrupted for any other reason (i.e. as a result of strikes at mines), the Kozienice Power Plant may be forced to purchase coal from more distant places at higher prices, suspend or limit generation of electricity till

the supplies of coal are resumed or adjust own generating assets to use alternative fuels, which may result in increases in its expenditures. Increase of costs in the Kozenice Power Plant would be reflected in the prices of electricity we sell which could lead to a situation that our price become uncompetitive in relation to the prices of electricity sold by our competitors on the market. Moreover, lack of ability to keep stocks of bituminous coal at an appropriate level required by law may in turn result in administrative penalties being imposed on us in the amount of up to 15 per cent of our revenues from licensed activity during the previous tax year.

9.5.20. Coal transport

The basic means of transport used to deliver bituminous coal to the Kozenice Power Plant is rail transport. In Q1 2012 100 per cent of deliveries of that raw material to the Kozenice Power Plant were carried out by the state carrier PKP Cargo S.A., selected for the purpose in an open public procurement procedure. PKP CARGO has the greatest share in bulk commodities railway transport in Poland.

10. Factors that, in the issuer's opinion, will influence the results it will achieve within at least the next quarter

10.1. Implementation of the Company strategy

One of key factors that will affect the growth of ENEA S.A. is the implementation of the Company strategy which is reflected in the activities realised in the whole the ENEA Capital Group.

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 core operations of the Group - areas in which we will concentrate on:**
 - developing and diversifying the generation capacity,
 - developing and modernising the distribution network,
 - developing wholesale trade operations,
 - ensuring the security of bituminous coal supplies from optimal sources,
 - increasing profit from electricity sales,
 - ensuring technical and technological development.
- **Improving the effectiveness of the Group functioning – area 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 – area in which we will concentrate on:**
 - ensuring well-balanced human resource management,
 - ensuring a dialogue with the local community and taking their voice into account in business operations,
 - promoting environmentally beneficial solutions and behaviours.

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

- Corporate Centre,
- Generation based on fossil fuels and renewable sources,
- Wholesale trading,
- Sales,
- Distribution,
- Shared Services Centre.

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

As part of the Group's strategic area that involves core business development, one of the long-term strategic courses of action to be taken by the Group is gaining access to own sources of energy generation of the potential enabling at least satisfaction of the demand for electricity of all the customers of the Group. The first step towards carrying out that strategy was joining the Koźienice Power Plant, Poland's highest-capacity bituminous coal-fired power plant, to the ENEA Capital Group in October 2007. Irrespective of what opportunities there may be to acquire additional generation capacity by acquiring existing entities, we are planning to increase our own generation capacity, including at the Koźienice Power Plant, where by 2016 we plan to construct a new power unit with a total capacity of up to 1,000 MWe. 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, we undertake activities aiming at the increase of control of costs related to the realisation of the obligations resulting from the law regulations within this field. To this end, we plan to continue concluding long-term agreements for the purchase of energy certificates for energy produced from renewable sources and cogeneration from external entities, and to carry out direct investments in such sources. Our intention is to invest in wind farm and biogas plants projects which are already commenced and at various stages of development, by acquiring existing entities or investing in new projects in co-operation with external entities. Four scenarios of purchases are possible, depending of the stage of the project: searching for projects which in part would be realised by a third entity as a developer's service, purchase of a project from a third party before achievement by this party of a building permit and further individual development of the project, purchase of projects/special purpose companies (established by developers for realisation of the project) after achievement of a final building permit for the project or purchase of finished turnkey wind farms and biogas power plants. Heretofore acquired thermal plants will be modernised and transformed into thermal power plants, also into ones powered with biomass which will generate electricity and heat in cogeneration, enabling us to obtain additional certificates of origin for the energy.

Within the area of improvement of the efficiency of functioning of the Group strategic objectives will be realised 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 the Group. Optimisation activities will concern all the areas of business of the Group and will be realised among others through transfer of basic functions connected with the growth of the company to the level of corporate centre of the Group, and also realisation of synergies resulting from the activity of particular business areas within the whole Capital Group.

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

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

What is indispensable for the realisation of the strategy of the Group and its growth is financial means the ensuring of which is the key element of realisation of the aforementioned investment plans and increasing of the Group's values for shareholders. In implementing our strategy, we assume a base variant of about PLN 18.7 billion till 2020 for investments in conventional generation, distribution and renewable energy sources and cogeneration.

Our main goal for conventional generation is to construct a new 1,000 MWe bituminous coal-fired supercritical power unit in Swierze Gorne (we assume an average construction cost of EUR 1,400,000 per 1 MW). Start-up is planned for Q4 2016. We are currently going through the process of selecting a contractor to build the new 1,000 MWe unit. We are planning to select a contractor in the tender for "Construction of a bituminous coal-fired energetic unit for supercritical parameters with a net capacity of 900 MWe, maximum of 1,000 MWe in Kozenice Power Plant conducted according to the provisions of the Act of 29 January 2004 - Law on Public Procurement on the turn of Q2 and Q3 2012. At the same time we are continuing modernisation of the remaining 200 MW and 500 MW units at the Kozenice Power Plant. We are also analysing the capacities of construction of another power unit with the power of up to 1,000 MWe.

In the area of distribution, during the period covered by the strategy we are planning investment works and modernisation of the grid infrastructure, and essential refurbishment in connection with increasing demand for electricity and the need to connect renewable sources of energy. Such investment and modernisation activities should result in increasing the functionality of our grid and in reducing grid losses. Thanks to it the exchange of distribution lines with longest period of usage will take place. These activities should substantially impact the increase in reliability of deliveries of electricity to customers.

Our investment expenditures within distribution are continually increasing. In 2011 ENEA Operator spent on investments above PLN 813,000,000 realising the plans almost 100 per cent. It constitutes the increase in investment expenditures by more than 39 per cent as compared to 2010, by 65 per cent as compared to 2009 and 101 per cent as compared to 2008.

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

In the area of renewable sources of electrical energy we plan to increase our generating capacity. By 2020 we are planning to achieve 250-350 MW of power installed in wind. We have also decided to invest into biogas capacity, planning to reach a capacity of approximately 40-60 MW in 2020. In 2011 the investment expenditures on renewable energy sources exceeded PLN 345,000,000, amounting to ca. sevenfold increase in comparison to 2010.

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

In March 2011, a subsidiary of ENEA S.A., Elektrownie Wodne, dedicated to, among other things, the extension of production capacity of the Group from Renewable Energy Sources purchased a wind farm located in Darzyno in Pomorze with installed capacity of 6 MW. This is the first undertaking of this kind in the Group. Purchase of the farm is the first step in acquiring significantly bigger sources of

this type. The wind farm in Darzyno was built in 2008. It consists of modern Enercon E-82 wind turbines with the power of 2 MW each. It is located in the area of very favourable wind conditions. In Q1 2012 the farm generated 5,032.5 MWh of electricity.

On 1 June 2011 ENEA S.A. purchased from the French company Société Nationale d'Électricité et de Thermique (SNET) 69.58 per cent of the Bialystok Heat and Power Plant's shares. Thanks to the transaction the Group holds almost 100 per cent of shares of the company from Bialystok. The Bialystok Heat and Power Plant is one of the biggest enterprises in the region. The attainable heat capacity of the Bialystok Heat and Power Plant is 459.2 MW. Apart from the heat production the Bialystok Heat and Power Plant produces also electric energy and process steam. Equipment of the heat and power plant can generate 350 GWh of electric energy, which is then sold on the wholesale market. The basic fuel used in the heat and power plant is coal. In 2008, in unit No. 1, a boiler fired exclusively with biomass was started. The new installation helped to limit the emission of gases and dusts harmful to the environment and decreased the number of waste from coal combustion. Commissioning of the biomass-powered installation enabled to decrease coal consumption by 120,000 tonnes per year and replace it with 270,000 tonnes of biomass. The capacity of this installation is 75.2 MW.

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

In November 2011 ENEA S.A. signed a preliminary agreement for the purchase of 100 per cent of the shares of a special purpose vehicle which is the owner of the 50 MW Bardy wind farm consisting of 25 Vestas turbines of 2 MW power each and own switching station. On 16 April 2012 a Transfer Agreement was signed based on which ENEA S.A. became the owner of 100 per cent of Windfarm Sp. z o.o. The Wind Farm is located a highly windy area. The annual production is anticipated for 150,000 MWh of electricity.

Depending on the market situation, the Group's financial situation, results of performed technical and economic analyses, and capabilities of financing the investment, we do not rule out that the basic investment program will be extended with additional investments in conventional generation in the amount of EUR 1.4 bln. The amount anticipates construction of another unit with the power of up to 1,000 MWe.

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

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

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

Investment expenditures planned by ENEA S.A. for 2012-2014 amount to ca. PLN 1.94 bln.

Below we have defined the key items of the Company's 2012-2014 investment plan that affect optimum efficiency of ENEA S.A. and growth of the Group, which obviously does not exhaust

investment needs but only indicates the primary allocation of spending and will take considerable amounts also after 2014.

10.1.1. Cash capital investments

Since ENEA S.A. plays a role of a manager of the 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 of ENEA S.A., capital investments constitute a substantial and important element of its activity taking into account its functioning.

Therefore, ENEA S.A. intends to carry out a number of monetary equity investments, which will include (first and foremost) the following tasks set out below:

- Recapitalising Elektrownie Wodne with a cash contribution to cover the costs of developing renewable energy projects (in particular wind farm and hydroelectric plants). 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). Realisation 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 Group. ENEA S.A. plans to recapitalise Elektrownie Wodne in the years 2013-2014 with a cash contribution dedicated to cover the cost of purchase of shares in special purpose companies set up for realisation of wind farm and water power plant projects. The purchase of shares is planned for the stage of gaining building permits. We assume that the funds obtained from recapitalisation will supplement funds obtained from other sources (e.g. loans, bonds) and will constitute among others hedging of own contribution for construction of renewable energy projects and their connection into the grid.
- Development of new renewable energy and cogeneration sources. For the realisation of investments within this field in 2012-2014 the Company planned to spend funds dedicated for gaining new renewable energy sources (biogas plants, biopower plants and wind farms), cogeneration sources and modernisation of acquired sources of heat generation (heating plants) consisting in installation of units enabling production of electricity generated in combination with heat generation (CHP). Within the planned means the Company plans to purchase shares in special purpose companies established by third entities for the needs of realisation of RES and cogeneration projects and purchase projects from the area of RES and cogeneration.

As we assume, the funds planned for spending within capital and monetary investments may cover just part of expenditures necessary for the realisation of investments by the companies from the ENEA Capital Group. In connection with the above we do not rule out a supplementary way of financing of the aforementioned investments, namely loans taken by the Group companies or funds obtained within intra-Group bond issue programmes.

10.1.2. Telecommunications and IT

Within this area during 2012-2014 seven main investment tasks are planned for realisation which will serve the growth of ENEA S.A.

- Updating and developing the ERP software,

- Construction of the system of circulation of documents and platforms of business processes management,
- Developing an Integrated Customer Management System,
- Consolidation of work resources,
- Development and implementation of IT policy, including the planning of IT architecture, security policies, quality of IT services, project management,
- Modernisation and development of teleinformation network,
- System and technical infrastructure.

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

10.1.3. Modernisation of road lights

ENEA S.A. anticipates the transfer of street light assets to ENEOS Sp. z o.o. (a subsidiary dealing with the area of lights in the Group). It does not however substantially change investment needs within this field but transfers the burden of expenditures for modernisation of street lighting to the subsidiary of ENEA S.A.

It must be noted that ENEA S.A. will not have sufficient funds to implement the adopted development plan (even in its minimum scope) covered by "Corporate Strategy of the ENEA Capital Group for 2010-2015 looking forward to 2020" that anticipates investment needs of approximately PLN 18.7 bln till 2020. The Management Board of ENEA S.A. realises that financing the above projects using its equity only is not the best solution, so it is essential to obtain external funding for these investments. At present we are in the process of operations and analyses connected with the possibility to obtain external funding for development investments of the Group that should be finished on the turn of Q2 and Q3 2012.

In addition to the factors related to the implementation of the growth strategy and the proposed investments, another factor that may affect the Group's performance are the actions aimed at amendment to the Energy Law and enactment of a new Act on renewable energy sources (in particular with regard to the provisions changing the system of support for renewable energy source investments). The progress of work on the final text of the aforementioned act at present does not allow assessing unequivocally what impact the changes resulting from enactment of the discussed acts will have on the Group's operation.

10.1.4. Financing sources of the investment programme

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

In addition ENEA S.A. took actions with the purpose of obtaining funds from multilateral institutions. At present the Company conducts talks with the European Investment Bank ("EIB") concerning the possibility to obtain financing in the form of loan for implementation of the investment programme of the Group with regard to the area of electricity distribution. The aforementioned financing is planned as long-term. The total amount of financing ENEA S.A. applies for with the EIB is estimated at PLN 950,000,000.

Moreover ENEA S.A. conducts parallel talks with the European Bank for Reconstruction and Development ("EBRD") concerning the possibility to obtain a maximum of PLN 800,000,000 of a long-term unsecured loan (up to 15 years) for implementation of the investment programme of the Capital Group with regard to the area of electricity distribution.

It is planned that the funds would be obtained from the EIB and EBRD in H2 2012 and used gradually during the availability period established with the Banks.

The funds ENEA S.A. applies for with the EIB and EBRD would constitute one of the main sources of financing the investment programme in the years 2012-2015 and as estimated would amount to PLN 3.2 billion in the area of electricity distribution.

Investments in the area of distribution among others concern expansion of the grid, reduction of grid power losses, improvement in quality of distribution and allowing for connection of new producers of renewable energy to the grid. In the next few years ENEA Operator anticipates connection of more than 500 MW of renewable energy to the grid.

An important meaning for acquiring funding from the investment programme is the strong position of the Group on the Polish power market and reasonable policy within financing confirmed on 14 April 2011 by the Fitch Ratings agency which issued for ENEA S.A. high long-term ratings of the entity in domestic and foreign currency at the level of "BBB" and a long-term domestic rating at the level of "A" with stable perspective (maintained in April 2012).

10.2. The overall condition of the economy

Our business may be affected by the macroeconomic factors in Poland's economy. In particular our business is affected by: interest rates, the zloty exchange rate vs. other currencies, inflation, unemployment, Polish GDP and changes in Poland's economic policy. In addition to factors related to Poland's economy, our business is also affected by the macroeconomics of other countries, in particular the other European Union Member States.

Factors related to conducting business in Poland, i.e. changes in Poland's economic, political and legal situation.

Poland's energy policy and structural and ownership decisions affecting state-owned power generating companies may have a significantly adverse effect on the proceeds from electricity sales and distribution services, in particular for retail consumers. 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. As a result, there is no developed, unified interpretation of the law in this area. There is, therefore, considerable uncertainty as to how issues relating to our activities will be resolved if they become the subject of court proceedings. Therefore, there is a risk of unexpected and unfavourable decisions that could have a negative effect on our activity, financial results, financial situation or development prospects.

10.3. Synergy results

The planned acquisitions and capital investments may not produce the expected results. The valuation of our future acquisitions and investments will depend on market conditions, as well as on other factors that are beyond our control, and it might turn out that we are unable to correctly assess the value of the acquisitions and investments that we have carried out. Furthermore, the results achieved by companies in which we invest might turn out to be worse than our initial estimates, which could result in the rate of return from those transactions being lower than initially

anticipated. Moreover, the restructuring of these entities may prove to be a time-consuming and costly process.



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