

**Extended consolidated half-yearly report
of the ENEA Group
for the first half-year of 2010**

Poznań, 27 August 2010

Selected consolidated financial data of the ENEA Capital Group

	in PLN '000		in EUR '000	
	6 months ended	6 months ended	6 months ended	6 months ended
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Net sales revenue	3 917 827	3 591 926	978 429	794 955
Profit/loss on operating activities	393 513	423 928	98 275	93 823
Profit/loss before tax	457 583	492 337	114 276	108 963
Net profit/loss for the reporting period	364 692	391 906	91 077	86 736
Net cash flows from operating activities	663 277	331 458	165 645	73 357
Net cash flows from investing activities	(383 292)	(2 205 794)	(95 722)	(488 180)
Net cash flows from financing activities	(188 160)	(30 698)	(46 991)	(6 794)
Total net cash flows	91 825	(1 905 034)	22 932	(421 617)
Weighted average number of shares	441 442 578	441 442 578	441 442 578	441 442 578
Net earnings per share (in PLN per share)	0.83	0.89	0.21	0.20
Diluted earnings per share (in PLN/EUR)	0.83	0.89	0.21	0.20
	Balance as of	Balance as of 31	Balance as of	Balance as of 31
	30 June 2010	December 2009	30 June 2010	December 2009
Total assets	12 305 286	12 229 688	2 968 133	2 976 897
Total liabilities	2 733 407	2 857 060	659 320	695 453
Non-current liabilities	1 444 937	1 450 377	348 530	353 044
Current liabilities	1 288 470	1 406 683	310 789	342 409
Equity	9 571 879	9 372 628	2 308 813	2 281 444
Share capital	588 018	588 018	141 835	143 133
Book value per share (in PLN/EUR)	21.68	21.23	5.23	5.17
Diluted book value per share (in PLN/EUR)	21.68	21.23	5.23	5.17

The above financial data for the first half of 2010 and 2009 were translated into EUR in line with the following principles:

- individual assets and liabilities – at the average exchange rate as of 30 June 2010– PLN/EUR 4.1458 (as of 31 December 2009– PLN/EUR 4.1082);
- individual items from the income statement and the cash flow statement – at the arithmetic mean of the average exchange rates determined by the National Bank of Poland as of the last day of each month of the financial period from 1 January to 30 June 2010 - PLN/EUR – 4.0042 (for the period from 1 January to 30 June 2009 – PLN/EUR 4.5184).

**Independent auditor's report
on the review of the condensed interim consolidated financial statements
for the period from 1 January 2010 to 30 June 2010**

To the Management Board and Supervisory Board of ENEA S.A.

We have reviewed the attached condensed interim consolidated financial statements of the ENEA S.A. Capital Group with ENEA S.A. having its registered office in Poznań, Nowowiejskiego 11 Street, as the Parent, including: consolidated balance sheet prepared as of 30 June 2010, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, prepared for the period from 1 January 2010 to 30 June 2010 and notes to the condensed interim consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

Compliance of these condensed interim consolidated financial statements with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union ("MSR 34") and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Parent.

Our responsibility was to review the condensed interim consolidated financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the financial statements are free from material misstatement. Our review has been conducted mainly based on an analysis of data included in the condensed interim consolidated financial statements, examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Parent.

The scope and methodology of a review of interim financial statements differ significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached condensed interim consolidated financial statements may be issued.

Based on our review, we have not identified any issues which would prevent us from concluding that the condensed interim consolidated financial statements have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 “Interim Financial Reporting” as endorsed by the European Union.

.....
Piotr Waliński
Key certified auditor
conducting the review
No. 4254

.....
represented by

.....
entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 27 August 2010

The above auditor’s report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**Condensed interim consolidated financial statements of
the ENEA Capital Group
for the period from 1 January to 30 June 2010**

Poznań, 27 August 2010

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These condensed interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, as endorsed by the European Union (EU), and approved by the Management Board of ENEA S.A.

Members of the Management Board

Chairman of the Management Board **Maciej Owczarek**

Member of the Management Board **Maksymilian Górniak**

Member of the Management Board **Hubert Rozpędek**

Member of the Management Board **Krzysztof Zborowski**

Poznań, 27 August 2010

Consolidated balance sheet

	Note	As of	
		30.06.2010	31.12.2009
ASSETS			
Non-current assets			
Property, plant and equipment	8	8 049 658	8 060 674
Land perpetual usufruct right		28 975	28 090
Intangible assets	9	43 090	47 985
Investment property	10	5 975	6 091
Investments in associates measured using the equity method	11	178 928	189 938
Financial assets available for sale		43 035	39 346
Financial assets measured at fair value through profit or loss		1 307	1 219
Trade and other receivables		190	1 330
		8 351 158	8 374 673
Current assets			
Inventories	13	239 059	300 830
Trade and other receivables		929 254	925 513
Current income tax assets		1 153	12 828
Financial assets held to maturity		48 202	55 734
Financial assets measured at fair value through profit or loss		1 742 092	1 652 523
Cash and cash equivalents		994 368	902 543
		3 954 128	3 849 971
Non-current assets held for sale		-	5 044
Total assets		12 305 286	12 229 688

ENEA Capital Group

Condensed interim consolidated financial statements for the period from 1 January to 30 June 2010

(all amounts in PLN '000, unless stated otherwise)

EQUITY AND LIABILITIES	Note	As of	
		30.06.2010	31.12.2009
Equity			
Equity attributable to shareholders of the parent			
Share capital		588 018	588 018
Share premium		3 632 464	3 632 464
Share-based capital	15	1 144 336	1 144 336
Revaluation reserve (financial instruments)		23 063	20 756
Other capitals		(22 110)	(22 110)
Retained earnings		4 181 634	3 985 386
		9 547 405	9 348 850
Minority interest		24 474	23 778
Total equity		9 571 879	9 372 628
LIABILITIES			
Non-current liabilities			
Credit facilities and loans	16	86 946	107 056
Trade and other liabilities		19	58
Finance lease liabilities		2 301	2 291
Settlement of income due to subsidies and connection fees	17	782 207	791 296
Deferred income tax liability	18	85 760	112 366
Liabilities due to employee benefits		445 599	407 093
Provisions for other liabilities and charges	20	42 105	30 217
		1 444 937	1 450 377
Current liabilities			
Credit facilities and loans	16	46 403	46 609
Trade and other liabilities		853 218	991 482
Finance lease liabilities		1 366	1 178
Settlement of income due to subsidies and connection fees	17	42 819	41 856
Current income tax liabilities		51 532	71 359
Liabilities due to employee benefits		144 886	125 542
Liabilities due to an equivalent of the right to acquire shares free of charge		594	618
Provision for certificates of origin	19	78 382	46 539
Provisions for other liabilities and charges	20	69 270	81 500
		1 288 470	1 406 683
Total liabilities		2 733 407	2 857 060
Total equity and liabilities		12 305 286	12 229 688

The consolidated balance sheet should be analyzed together with the notes, which constitute an integral part of the condensed interim consolidated financial statements.

Consolidated statement of comprehensive income

	6 months ended	6 months ended
	30.06.2010	30.06.2009
Sales revenue	4 051 787	3 718 657
Excise duty	(133 960)	(126 731)
Net sales revenue	3 917 827	3 591 926
Other operating revenue	23 495	37 510
Amortization/Depreciation	(324 478)	(318 921)
Costs of employee benefits	(481 334)	(386 920)
Consumption of materials and raw materials and costs of goods sold	(727 754)	(712 335)
Energy purchase for sale	(1 359 393)	(1 179 001)
Transmission services	(344 837)	(333 481)
Other external services	(172 504)	(142 272)
Taxes and charges	(94 856)	(86 625)
Profit/(loss) on sale and liquidation of property, plant and equipment	1 016	1 157
Impairment loss on property, plant and equipment	-	(7 517)
Other operating expenses	(43 669)	(39 593)
Operating profit	393 513	423 928
Financial expenses	(19 357)	(24 652)
Financial revenue	78 927	84 292
Share in (losses)/profits of associates measured using the equity method	4 500	8 769
Profit before tax	457 583	492 337
Income tax	(92 891)	(100 431)
Net profit for the reporting period	364 692	391 906
Other items of comprehensive income		
Measurement of financial assets available for sale	2 848	22 097
Income tax related to other items of comprehensive income	(541)	(4 204)
Other items of net comprehensive income	2 307	17 893
Comprehensive income for the period	366 999	409 799
Including net profit:		
attributable to shareholders of the Parent	363 996	391 485
attributable to minority interest	696	421
Including comprehensive income:		
attributable to shareholders of the Parent	366 303	409 378
attributable to minority interest	696	421
Net profit attributable to shareholders of the Parent	363 996	391 485
Weighted average number of ordinary shares	441 442 578	441 442 578
Net earnings per share (in PLN per share)	0.83	0.89
Diluted earnings per share (in PLN per share)	0.83	0.89

The consolidated statement of comprehensive income should be analyzed together with the notes, which constitute an integral part of the condensed interim consolidated financial statements.

ENE Capital Group

Condensed interim consolidated financial statements for the period from 1 January to 30 June 2010

*(all amounts in PLN '000, unless stated otherwise)***Consolidated statement of changes in equity**

		Share capital (face value)	Revaluation of share capital	Total share capital	Treasury shares	Share-based capital	Share premium	Revaluation reserve (financial instruments)	Other capitals	Retained earnings	Equity attributable to minority interest	Total equity
	Note											
Balance as of	01.01.2010	441 443	146 575	588 018	-	1 144 336	3 632 464	20 756	(22 110)	3 985 386	23 778	9 372 628
Comprehensive income								2 307		363 996	696	366 999
Dividends	21									(167 748)	-	(167 748)
Balance as of	30.06.2010	441 443	146 575	588 018	-	1 144 336	3 632 464	23 063	(22 110)	4 181 634	24 474	9 571 879

		Share capital (face value)	Revaluation of share capital	Total share capital	Treasury shares	Share-based capital	Share premium	Revaluation reserve (financial instruments)	Other capitals	Retained earnings	Equity attributable to minority interest	Total equity
	Note											
Balance as of	01.01.2009	441 443	146 575	588 018	(17 396)	1 144 336	3 632 464	(1 099)	(28 226)	3 675 078	31 078	9 024 253
Comprehensive income								17 893		391 485	421	409 799
Dividends	21									(203 281)	(6)	(203 287)
Balance as of	30.06.2009	441 443	146 575	588 018	(17 396)	1 144 336	3 632 464	16 794	(28 226)	3 863 282	31 493	9 230 765

The consolidated statement of changes in equity should be analyzed together with the notes, which constitute an integral part of the condensed interim consolidated financial statements.

Consolidated cash flow statement

	6 months ended 30.06.2010	6 months ended 30.06.2009
Cash flows from operating activities		
Net profit for the reporting period	364 692	391 906
Adjustments:		
Income tax disclosed in the income statement	92 891	100 431
Amortization/Depreciation	324 478	318 921
(Profit)/loss on sale and liquidation of property, plant and equipment	(1 016)	(1 157)
Impairment loss on property, plant and equipment	-	7 517
(Profit)/loss on sale of financial assets	(110)	(3 486)
Interest income	(75 918)	(60 386)
Dividend income	(696)	(2 335)
Interest expense	5 522	5 404
Share in the (profit)/loss of associates	(4 500)	(8 769)
Exchange (gains)/losses on credit facilities and loans	(2 031)	6 788
Other adjustments	2 042	(3 771)
	340 662	359 157
Income tax paid	(133 864)	(62 917)
Interest received	25 578	56 497
Interest paid	(3 542)	(5 783)
Changes in working capital		
Inventories	63 690	(74 639)
Trade and other receivables	1 454	(59 295)
Trade and other liabilities	(69 872)	(45 363)
Liabilities due to employee benefits	54 979	(27 976)
Settlement of income due to subsidies and connection fees	(11 977)	29 694
Change in provisions for certificates of origin	31 843	(91 095)
Change in liabilities due to the equivalent of the right to acquire shares free of charge	(24)	(162 465)
Change in provisions	(342)	23 737
	69 751	(407 402)
Net cash flows from operating activities	663 277	331 458
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(370 752)	(311 595)
Proceeds from disposal of property, plant and equipment	7 194	7 526
Acquisition of financial assets	(59 783)	(1 942 020)
Proceeds from disposal of financial assets	30 083	35 478
Dividends received	14 321	7 801
Other payments	(4 355)	(2 984)
Net cash flows from investing activities	(383 292)	(2 205 794)
Cash flows from financing activities		
Credit facilities and loans obtained	841	221
Credit facilities and loans repaid	(19 118)	(28 671)
Dividends paid to the shareholders of the Parent	(167 748)	-
Payment of finance lease liabilities	(2 124)	(1 823)
Other adjustments	(11)	(425)
Net cash flows from financing activities	(188 160)	(30 698)
Net increase/(decrease) in cash	91 825	(1 905 034)
Opening balance of cash	902 543	2 620 659
Closing balance of cash	994 368	715 625

The consolidated cash flow statement should be analyzed together with the notes, which constitute an integral part of the condensed interim consolidated financial statements.

Notes to the condensed interim consolidated financial statements

1. General information about ENEA S.A. and the ENEA Capital Group

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

Main activities of the ENEA Capital Group (“Group”, “Capital Group”) are:

- production of electricity (Elektrownia “Kozienice” S.A., Elektrownie Wodne Sp. z o.o.);
- trade in electricity (ENEA S.A.);
- distribution of electricity (ENEA Operator Sp. z o.o.).

As of 30 June 2010 the shareholder structure of the Parent was as follows (an increase in the share capital as a result of issuance of shares under a public offering was registered in the National Court Register on 13 January 2009): the State Treasury of the Republic of Poland – 60.43% of shares, Vattenfall AB – 18.67%, other shareholders – 20.90%.

As of 30 June 2010 the statutory share capital of ENEA S.A. equaled PLN 441,443 thousand (PLN 588,018 thousand upon adoption of IFRS-EU and considering hyperinflation and other adjustments) and was divided into 441,442,578 shares.

As of 30 June 2010, the Capital Group consisted of the parent – ENEA S.A. (“Company”, “Parent”), 24 subsidiaries and 3 associates.

These condensed interim consolidated financial statements have been prepared on the going concern basis in foreseeable future. There are no circumstances indicating that the Group’s ability to continue as a going concern might be at risk.

2. Statement of compliance

These condensed interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, as endorsed by the European Union (IFRS-EU), and approved by the Management Board of ENEA S.A.

The Management Board of the Parent has used its best knowledge as to the application of standards and interpretations as well as measurement methods and principles applicable to individual items of the condensed interim consolidated financial statements of the ENEA Capital Group in accordance with IFRS-EU as of 30 June 2010. The presented statements and explanations have been determined using due diligence. These condensed interim consolidated financial statements have been reviewed by a certified auditor.

3. Accounting principles applied

These condensed interim consolidated financial statements have been prepared in accordance with accounting policies consistent with those applied during the preparation of the most recent annual consolidated financial statements, except for changes in standards and interpretations endorsed by the European Union which apply to the reporting periods beginning after 1 January 2010.

Accounting policies applied by the Group were presented in the consolidated financial statements of the ENEA Capital Group for the financial year ended 31 December 2009.

Polish zloty has been used as the measurement and reporting currency of these condensed interim consolidated financial statements. The data in the condensed interim consolidated financial statements have been presented in PLN thousand (PLN '000), unless stated otherwise.

These condensed interim consolidated financial statements should be read together with the consolidated financial statements of the ENEA Capital Group for the financial year ended 31 December 2009.

4. New accounting standards and interpretations

The following new standards endorsed by the EU, which the Group complied with in the preparation of these condensed interim consolidated financial statements, apply to annual periods beginning after 1 January 2010:

- IFRIC 18 "Transfers of Assets from Customers"

The interpretation was adopted by the Company on 1 January 2010. It applies to contracts based on which a customer transfers to an entity property, plant and equipment, which is subsequently used either to connect the client to the grid or to provide the client with continuous access to goods or services, or for both these purposes. Further, the interpretation applies to contracts based on which customers provide the entity

with cash used for manufacturing or purchasing of property, plant and equipment. The entity receiving the funds recognizes an item of property, plant and equipment if it meets the definition of an asset. Revenue is recognized in correspondence with the asset. The time of recognizing the revenue depends on the relevant facts and circumstances of the concluded contract. As a result of application of IFRIC 18, the revenue generated by the Group in the first half of 2010 increased by approx. PLN 35 534 thousand, while its profit by approx. PLN 35 407 thousand.

5. Material estimates and assumptions

The preparation of these condensed interim consolidated financial statements in conformity with IFRS-EU requires the Management Board to make certain judgments, estimates and assumptions that affect the application of the adopted accounting policies and the amounts reported in the condensed interim consolidated financial statements and notes thereto. The adopted assumptions and estimates are based on the Management Board's best knowledge of the current and future activities and events. The actual figures, however, can be different from those assumed. The estimates adopted for the needs of preparation of these condensed interim consolidated financial statements are consistent with the estimates adopted during preparation of the consolidated financial statements for the previous financial year. The estimates presented in the previous financial years do not exert any significant influence on the current interim period.

6. Composition of the Capital Group – list of subsidiaries, associates and jointly-controlled entities

No.	Name and address of the Company	ENEA S.A. percentage share in the total number of votes 30.06.2010	ENEA S.A. percentage share in the total number of votes 31.12.2009
1.	ENERGOMIAR Sp. z o.o. <i>Poznań, ul. Strzeszyńska 58</i>	100	100
2.	BHU S.A. <i>Poznań, ul. Strzeszyńska 58</i>	91.32	87.97
3.	Energetyka Poznańska Biuro Usług Technicznych S.A. in liquidation <i>Poznań, ul. Dziadoszańska 10</i>	100	100
4.	Hotel "EDISON" Sp. z o.o. <i>Baranowo near Poznań</i>	100	100
5.	Energetyka Wysokich i Najwyższych Napięć "EWiNN" Sp. z o.o. <i>Poznań, ul. Strzeszyńska 58</i>	100	100
6.	Energetyka Poznańska Zakład Transportu Sp. z o.o. <i>Poznań, ul. Strzeszyńska 58</i>	100	100
7.	COGEN Sp. z o.o. <i>Piła, ul. Kaczorska 20</i>	100	100
8.	EnergoPartner Sp. z o.o. <i>Poznań, ul. Warszawska 43</i>	100	100
9.	Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych Energobud Leszno Sp. z o.o. <i>Lipno, Gronówko 30</i>	100	100
10.	ENERGO-TOUR Sp. z o.o. <i>Poznań, ul. Marcinkowskiego 27</i>	99.92	99.92
11.	ENEOS Sp. z o.o. <i>Poznań, ul. Strzeszyńska 58</i>	100	100
12.	ENTUR Sp. z o.o. <i>Szczecin, ul. Malczewskiego 5/7</i>	100	100

ENEA Capital Group

Condensed interim consolidated financial statements for the period from 1 January to 30 June 2010

(all amounts in PLN '000, unless stated otherwise)

13.	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o. <i>Inowrocław, ul. Wilkońskiego 2</i>	99.94	99.94
14.	Elektrownie Wodne Sp. z o.o. <i>Samociążek, 86-010 Koronowo</i>	100	100
15.	Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o. <i>Gorzów Wlkp., ul. Energetyków 4</i>	100	100
16.	“PWE Gubin” Sp. z o.o. Sękowice 100, municipality of Gubin	-	50
17.	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. Oborniki, ul. Wybudowanie 56	87.99	87.99
18.	“ITSERWIS” Sp. z o.o. <i>Zielona Góra, ul. Zacisze 28</i>	100	100
19.	“Auto – Styl” Sp. z o.o. <i>Zielona Góra, ul. Zacisze 15</i>	100	100
20.	FINEA Sp. z o.o. in liquidation <i>Poznań, ul. Warszawska 43</i>	100	100
21.	Przedsiębiorstwo Energetyki Ciepłej – Gozdnicza Sp. z o.o. <i>Gozdnica, ul. Świerczewskiego 30</i>	100	100
22.	ENEA Operator Sp. z o.o. <i>Poznań, ul. Strzeszyńska 58</i>	100	100
23.	Elektrownia “Kozienice” S.A. <i>Świerże Górne, municipality of Kozienice, Kozienice 1</i>	100	100
24.	Miejska Energetyka Ciepła Piła Sp. z o.o. <i>64-920 Piła, ul. Kaczorska 20</i>	63.396	63.396
25.	Kozienice II Sp. z o.o. <i>Świerże Górne, municipality of Kozienice, Kozienice 1</i>	100	100
26.	Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET S.A. <i>Ostrów Wlkp., ul. Chłapowskiego 51</i>	49	49
27.	Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A. <i>Śrem, ul. Staszica 6</i>	41.65	41.65
28.	Elektrociepłownia Białystok S.A. <i>Białystok, ul. Gen. Andersa 3</i>	30.36	30.36

Changes in the Capital Group structure in the period covered by these condensed interim consolidated financial statements

On 28 January 2010 the Extraordinary Shareholders’ Meeting adopted Resolution No. 1 to increase the share capital of ENTUR Sp. z o.o. up to PLN 4 134.5 thousand, i.e. by PLN 100 thousand by way of issuing 200 new shares with the face value of PLN 500 each. The new shares in the Company’s share capital were acquired by ENEA S.A. for a contribution in cash.

On 4 February 2010 the Extraordinary Shareholders’ Meeting adopted Resolution No. 1 to increase the share capital of Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o. o. by PLN 1 710 thousand to PLN 17 448 thousand by way of issuing 3 420 new shares with the face value of PLN 500 each. The new shares in the Company’s share capital were acquired by ENEA S.A. for a contribution in cash.

On 22 December 2009 and on 2 February 2010 the Extraordinary Shareholders’ Meeting adopted Resolutions to increase the share capital of BHU S.A. with its registered office in Poznań up to PLN 14 302.5 thousand, i.e. by PLN 4 164.1 thousand by way of issuing 41 641 new shares with the face value of PLN 100 each. The new shares in the Company’s share capital were acquired by ENEA S.A. for a contribution in cash

and a contribution in kind. The increased share capital was registered in the National Court Register on 8 June 2010.

On 22 December 2009 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of ENERGOBUD Leszno Sp. z o.o. with its registered office in Gronówko up to PLN 5 676 thousand, i.e. by PLN 2 151.5 thousand by way of issuing 4 303 new shares with the face value of PLN 500 each. The new shares in the Company's share capital were acquired by ENEA S.A. for a contribution in kind. The increased share capital was registered in the National Court Register on 2 April 2010.

Pursuant to a Resolution of 15 December 2009, the Management Board of ENEA S.A. agreed to sell the shares in PWE Gubin Sp. z o.o. with its registered office in Sękowice held by ENEA S.A. The shares were sold based on the agreement for the sale of shares of 9 February 2010.

On 19 April 2010 the Extraordinary Shareholders' Meeting adopted a resolution on putting Energetyka Poznańska Biuro Usług Technicznych S. A. into liquidation as of 1 May 2010. Mr. Jacek Pałka appointed as Chairman of the Management Board assumed the function of the official receiver.

On 11 June 2010 the Extraordinary Shareholders' Meeting adopted a resolution on putting Finea Sp. z o. o. into liquidation. Ms. Katarzyna Mińkowska was appointed the official receiver.

On 12 April 2010 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of Eneos Sp. z o.o. up to PLN 20 189.5 thousand, i.e. by PLN 630.5 thousand by way of issuing 1 261 new shares with the face value of PLN 500 each. The new shares in the Company's share capital will be acquired by ENEA S.A. for a contribution in kind.

On 29 June 2010 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of ENERGOBUD Leszno Sp. z o.o. with its registered office in Gronówko up to PLN 6 216 thousand, i.e. by PLN 540 thousand by way of issuing 1 080 new shares with the face value of PLN 500 each. The new shares in the Company's share capital will be acquired by ENEA S.A. for a contribution in kind.

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*(all amounts in PLN '000, unless stated otherwise)***7. Segment reporting**

Segment reporting for the period from 1 January to 30 June 2010 is as follows:

	Trade	Distribution	Production	All other segments	Exclusions	Total
Net sales revenue	2 068 057	1 264 260	464 614	120 896	-	3 917 827
Inter-segment sales	153 944	-	735 596	198 469	(1 088 009)	-
Total net sales revenue	2 222 001	1 264 260	1 200 210	319 365	(1 088 009)	3 917 827
Total expenses	(2 083 073)	(1 083 604)	(1 073 936)	(308 140)	1 071 069	(3 477 684)
Segment profit/loss	138 928	180 656	126 274	11 225	(16 940)	440 143
Unassigned Group costs (general and administrative expenses)						(46 630)
Operating profit						393 513
Financial expenses						(19 357)
Financial revenue						78 927
Net share in the profit/loss of associates						4 500
Income tax						(92 891)
Net profit						364 692
Share in the profit of minority interest						696

ENEA Capital Group

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(all amounts in PLN '000, unless stated otherwise)

Segment reporting for the period from 1 January to 30 June 2009 is as follows:

	Trade	Distribution	Production	All other segments	Exclusions	Total
Net sales revenue	2 249 305	1 098 669	104 675	139 278	-	3 591 926
Inter-segment sales	138 267	-	1 104 692	201 925	(1 444 884)	-
Total net sales revenue	2 387 572	1 098 669	1 209 367	341 203	(1 444 884)	3 591 926
Total expenses	(2 270 674)	(986 351)	(985 169)	(331 446)	1 429 292	(3 144 348)
Segment profit/loss	116 898	112 318	224 198	9 757	(15 592)	447 578
Unassigned Group costs (general and administrative expenses)						(23 650)
Operating profit						423 928
Financial expenses						(24 652)
Financial revenue						84 292
Net share in the profit/loss of associates						8 769
Income tax						(100 431)
Net profit						391 906
Share in the profit of minority interest						421

ENEA Capital Group

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*(all amounts in PLN '000, unless stated otherwise)***Segment reporting (cont'd)**

Other segment reporting information as of 30 June 2010:

	Trade	Distribution	Production	All other segments	Exclusions	Total
Property, plant and equipment	19 082	4 671 586	2 838 845	351 446	(75 723)	7 805 236
Trade and other receivables	460 827	321 205	247 868	114 707	(347 038)	797 569
Total:	479 909	4 992 791	3 086 713	466 153	(422 761)	8 602 805
ASSETS excluded from segmentation						3 702 481
- including property, plant and equipment						244 422
- including trade and other receivables						131 875
TOTAL: ASSETS						12 305 286
Trade and other liabilities	315 389	388 412	312 645	110 421	(347 038)	779 829
Equity and liabilities excluded from segmentation						11 525 457
- including trade and other liabilities						73 408
TOTAL: EQUITY AND LIABILITIES						12 305 286
Capital expenditure for fixed assets and intangible assets	-	144 192	129 266	26 339	(8 781)	291 016
Capital expenditure for fixed assets and intangible assets excluded from segmentation						19 102
Amortization/depreciation	174	179 773	125 590	17 273	(394)	322 416
Amortization/depreciation excluded from segmentation						2 062
Revaluation write-downs on receivables as of 30 June 2010	82 546	11 645	54 760	5 095	-	154 046

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*(all amounts in PLN '000, unless stated otherwise)***Segment reporting (cont'd)**

Other segment reporting information as of 31 December 2009:

	Trade	Distribution	Production	All other segments	Exclusions	Total
Property, plant and equipment	19 609	4 724 365	2 832 857	340 394	(68 090)	7 849 135
Trade and other receivables	528 425	355 886	268 461	157 840	(389 342)	921 270
Total:	548 034	5 080 251	3 101 318	498 234	(457 432)	8 770 405
ASSETS excluded from segmentation						3 459 283
- including property, plant and equipment						211 539
- including trade and other receivables						5 573
TOTAL: ASSETS						12 229 688
Trade and other liabilities	426 258	404 541	289 852	144 341	(389 342)	875 650
Equity and liabilities excluded from segmentation						11 354 038
- including trade and other liabilities						115 890
TOTAL: EQUITY AND LIABILITIES						12 229 688
Capital expenditure for fixed assets and intangible assets	-	412 015	302 369	80 009	(32 352)	762 041
Capital expenditure for fixed assets and intangible assets excluded from segmentation						70 688
Amortization/depreciation	353	345 190	246 344	59 964	3 381	655 232
Amortization/depreciation excluded from segmentation						6 113
Revaluation write-downs on receivables as of 31 December 2009	81 976	8 971	53 916	5 769	-	150 632

Segment revenue is generated from sales to external clients and transactions with other segments, which are directly attributable to a given segment with a relevant portion of the Group's revenue that may be reasonably attributed to a given segment.

Segment costs include costs of goods sold to external clients and costs of transactions with other Group segments, which result from operations of a given segment and may be directly allocated to a given segment with a relevant portion of the Group's costs that may be reasonably allocated to a given segment.

Market prices are used in inter-segment transactions, which allows individual entities to earn a margin sufficient to carry out independent operations the market. Prices specified in the Energy Law of 10 April 1997 and the related secondary legislation apply to trade in electricity and provision of transmission services.

Supplementary reporting – geographical segments

The Group operates in one geographical region, in Poland, and therefore it does not distinguish geographical segments.

8. Property, plant and equipment

During the 6-month period ended 30 June 2010 the Group acquired property, plant and equipment for the total amount of PLN 306,470 thousand (PLN 823,383 thousand during the period of 12 months ended 31 December 2009).

During the 6-month period ended 30 June 2010 the Group sold and liquidated property, plant and equipment for the total net amount of PLN 11,516 thousand (PLN 17,177 thousand during the period of 12 months ended 31 December 2009).

As of 30 June 2010 the total revaluation write-down on the carrying amount of property, plant and equipment amounted to PLN 1,532 thousand (PLN 16,726 thousand as of 31 December 2009).

Impairment test (property, plant and equipment)

Property, plant and equipment related to distribution was tested by the Group for impairment on 31 December 2008 for the last time.

Based on the test, as of 31 December 2008 no impairment of property, plant and equipment related to distribution was identified. As of 31 December 2009 no circumstances indicating the necessity to test property, plant and equipment related to distribution for impairment were identified. In Q4 2010 the Group will again verify whether any circumstances indicating a risk of distribution asset impairment exists.

9. Intangible assets

During the 6-month period ended 30 June 2010 the Group acquired intangible assets for the total amount of PLN 1,016 thousand (PLN 9,346 thousand during the period of 12 months ended 31 December 2009).

During the 6-month period ended 30 June 2010 the Group did not sell or liquidate any considerable intangible assets (during the period of 12 months ended 31 December 2009 the Group did not sell or liquidate any considerable intangible assets, either).

10. Investment property

During the 6-month period ended 30 June 2010 the Group did not acquire any investment property (during the period of 12 months ended 31 December 2009 the Group acquired investment property of PLN 163 thousand).

11. Investments in associates and jointly-controlled entities

During the 6-month period ended 30 June 2010 the Group did not acquire shares in associates (during the period of 12 months ended 31 December 2009 the Group acquired shares in associates and jointly-controlled entities for the total amount of PLN 5,500 thousand).

During the 6-month period ended 30 June 2010 the Group disposed of shares in a jointly-controlled entity - PWE Gubin Sp. z o. o. (as of 31 December 2009 the above shares were disclosed as "non-current assets held for sale"). The related gain was PLN 545 thousand.

12. Revaluation write-downs on trade and other receivables

	30.06.2010	31.12.2009
Opening balance of revaluation write-down on receivables	150 632	124 232
Created	14 286	63 641
Released	(10 581)	(31 462)
Applied	(291)	(5 779)
Closing balance of revaluation write-down on receivables	154 046	150 632

During the 6-month period ended 30 June 2010 the revaluation write-down on the carrying amount of trade and other receivables increased by PLN 3,414 thousand (during the period of 12 months ended 31 December 2009 the revaluation write-down increased by PLN 26,400 thousand).

13. Inventories

As of 30 June 2010 the total revaluation write-down on the carrying amount of inventories was PLN 9,312 thousand (PLN 6,277 thousand as of 31 December 2009).

During the 6-month period ended 30 June 2010 the revaluation write-down on the carrying amount increased by PLN 3,035 thousand (during the period of 12 months ended 31 December 2009 the revaluation write-down increased by PLN 1,411 thousand).

14. Investment portfolio

As ENEA S.A. fulfilled the conditions necessary to release funds from the ESCROW account due to the issuance of shares at the WSE, a specialized financial institution professionally manages its funds, which amounted to PLN 1 742 092 thousand as of 30 June 2010. In accordance with the Agreement, transferred funds are invested only in safe securities (treasury bills and bonds of PLN 1 426 239 thousand) and deposits (in banks specified by the Company – PLN 315 853 thousand), based on the following scheme:

Type of assets	Minimum exposure	Maximum exposure
Debt instruments underwritten or guaranteed by the State Treasury and the National Bank of Poland	0%	100%
Bank deposits	0%	30%

The investment portfolio is treated as financial assets measured at fair value through profit or loss. The selected strategy is to maximize profit at minimum risk.

15. Equity related to share-based payments and liabilities due to an equivalent of the right to acquire shares free of charge

On the basis of the Act on Commercialization and Privatization dated 30 August 1996 (Act on Commercialization and Privatization) employees of the ENEA Capital Group are entitled to acquire 15% of the shares in ENEA S.A. free of charge (“plan”).

Employees eligible to acquire shares free of charge are individuals who were employed by the ENEA S.A. Capital Group at the time of commercialization (i.e. in 1993 and 1996) and filed a written declaration to acquire shares within 6 months of the commercialization date.

As the first share was sold on general terms to investors by the State Treasury on 10 February 2010, after the lapse of three months the eligible individuals acquired the right to receive shares free of charge.

Pursuant to Resolution No. 441/2010 of 29 June 2010 the Management Board of ENEA S.A. determined the number of ENEA shares disposed free of charge for the benefit of eligible individuals, attributable to each group specified based on the length of service as per Article 11 of the Ordinance of the Minister of State Treasury of 29 January 2003 laying down detailed principles for classification of eligible employees into groups, determining the number of shares attributable to each group and the conditions for acquisition of shares by eligible employees. In compliance with the aforementioned Ordinance, the Management Board

of the Company provided the Minister of State Treasury with a list of eligible individuals and the number of shares assigned. The Minister of State Treasury will make an announcement regarding the disposal of employee shares in a national and local newspaper and enter into agreements for the sale of shares free of charge with eligible individuals.

The Management Board of ENEA S.A. assigned 33 239 235 shares to eligible individuals. The lockup period for the shares acquired by eligible individuals free of charge is two years starting from the date of disposal of the first shares on general terms by the State Treasury.

Pursuant to IFRS 2, the costs of the plan should be recognized in the period when eligible employees perform work and the cost of work should be determined as of the Grant Date, i.e. as of the date when all significant conditions for granting shares to employees are determined.

The value of the employee stock ownership plan was determined by the Company based on the measurement of shares in ENEA S.A. as of the date of drawing up the consolidated financial statements for the financial years ended 31 December 2007, 31 December 2006 and 31 December 2005, included in the prospectus of ENEA S.A. The value of the plan was estimated at PLN 901 million. The ENEA SA Capital Group recognized the total costs of the plan as a previous years' adjustment in equity of the earliest period presented in the consolidated financial statements, i.e. as of 1 January 2005, and it did not revalue the costs as of any of the dates ending the subsequent financial periods.

According to the Management Board, IFRS do not lay down detailed principles for accounting for a plan displaying the features specified in the Act on Commercialization and Privatization. In particular, they do not allow for unambiguous interpretation of a situation where the total number of shares due to staff employed at the moment of commercialization, i.e. before the Grant Date, was determined but the number of shares to be granted to particular employees was not specified. In such a case an employee working in subsequent periods, by the Grant Date, is likely to be granted a higher number of shares. This, however, will not take place by way of issuance of additional shares but as a result of a reduction of the number of shares for other staff members.

Moreover, according to the Management Board, the key purpose of the plan was to grant employees compensation for work before the date of commercialization of the enterprise (i.e. in the past). Consequently, the total fixed number of shares for employees was determined and could not be changed with relation to work in subsequent periods.

Considering the above, the Management Board of ENEA S.A. decided that the value of the plan would not be changed. As a result, the value of the plan as of 30 June 2010 remained at the level of PLN 921 million.

Pursuant to the Act of 7 September 2007 on the acquisition of shares from the State Treasury as a result of the energy sector consolidation process, the Eligible Employees of Elektrownia "Kozienice" S.A. were supposed to submit a declaration of the intention to exchange the equivalent for the right to acquire shares in ENEA S.A. free of charge by 18 January 2008. Following the examination of the declarations submitted as well as the result of the complaint procedure, the value of shares to be accounted for as an equivalent was

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PLN 291 127 thousand (PLN 514 920 thousand as of 31 December 2007). Exchange of the value of the equivalent for subscription rights worth PLN 224 042 thousand was disclosed in the Company's equity under "Share-based capital".

As of 30 June 2010, a part of the equivalent was paid to the Eligible Employees of Elektrownia "Kozienice" S.A.

As of 30 June 2010 the remaining liability due to the equivalent amounted to PLN 594 thousand

(PLN 618 thousand as of 31 December 2009).

16. Credit facilities and loans

	30.06.2010	31.12.2009
	Carrying amount	Carrying amount
Long-term		
Bank credit facilities	86 295	102 312
Loans	651	4 744
	86 946	107 056
Short-term		
Bank credit facilities	37 717	37 634
Loans	8 686	8 975
	46 403	46 609
Total	133 349	153 665

During the 6-month period ended 30 June 2010 the net decrease in the carrying amount of credit facilities and loans was PLN 20,316 thousand (during the period of 12 months ended 31 December 2009 the carrying amount of credit facilities and loans decreased by PLN 51,725 thousand).

17. Settlement of income due to subsidies and connection fees

	30.06.2010	31.12.2009
	Carrying amount	Carrying amount
Long-term		
Deferred income due to subsidies	207 021	216 061
Deferred income due to connection fees	575 186	575 235
	782 207	791 296
Short-term		
Deferred income due to subsidies	15 314	14 640
Deferred income due to connection fees	27 505	27 216
	42 819	41 856
Deferred income schedule		
	30.06.2010	31.12.2009
Up to 1 year	42 819	41 856
1 to 5 years	101 436	99 694
Over 5 years	680 771	691 602
	825 026	833 152

During the 6-month period ended 30 June 2010 the carrying amount of the settlement of income due to subsidies and connection fees decreased by PLN 8,126 net (in the period of 12 months ended 31 December 2009 the carrying amount increased by PLN 39,559 thousand).

18. Deferred income tax

Changes in the deferred tax liability (considering the net-off of asset and liability):

	30.06.2010	31.12.2009
Opening balance	112 366	123 480
Amount charged/(credited) to profit	(26 065)	(16 240)
Amount charged/(credited) to other items of comprehensive income	(541)	5 126
Closing balance	85 760	112 366

During the 6-month period ended 30 June 2010 the Group's profit before tax was credited with PLN 26,065 thousand as a result of a decrease in the deferred tax liability (during the period of 12 months ended 31 December 2009 the Group's profit before tax was credited with PLN 16,240 thousand due to a decrease in the liability).

19. Certificates of origin

	30.06.2010	31.12.2009
Certificates of origin	(101 190)	(45 437)
Advance payments for certificates of origin	(1 872)	(1 259)
Provision for the costs of redemption of certificates of origin	181 444	93 235
Provision for certificates of origin	78 382	46 539

20. Provisions for liabilities and other obligations

Provision for projected losses due to compensation proceedings

	30.06.2010	31.12.2009
Opening balance	87 738	81 028
Increase in provisions	1 279	21 979
Applied provisions	(45)	(11 407)
Decrease in provisions	(1 548)	(3 862)
Closing balance	87 424	87 738

Provisions for liabilities are determined in reasonable, reliably estimated amounts. Individual provisions are recognized for projected losses related to court action brought against the Group. The provisions are created in the amount of the claim, considering the probability of losing the case, based on a legal opinion. The cost of provisions is recognized under other operating expenses.

A description of material claims and the related contingent liabilities has been presented in notes 26.2, 26.4, 26.5 and 26.6.

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During the 6-month period ended 30 June 2010 the provision for projected losses due to compensation proceedings decreased by PLN 314 thousand (during the period of 12 months ended 31 December 2009 it increased by PLN 6,710 thousand).

Other provisions

	30.06.2010	31.12.2009
Opening balance	23 979	36 909
Increase in provisions	35 885	67 789
Applied provisions	(33 829)	(68 824)
Release of unused provision	(2 084)	(11 895)
Closing balance	23 951	23 979

During the 6-month period ended 30 June 2010 the value of other provisions decreased by PLN 28 thousand (during the period of 12 months ended 31 December 2009 the provisions decreased by PLN 12,930 thousand).

Provision for land reclamation

After closing or filling a slag and ash dump, the Group is obliged to carry out appropriate land reclamation. As the Group has large unfilled dumps, land reclamation is planned for 2060. Future estimated costs of land reclamation were discounted to their present value using a 5.59% discount rate. The value of the provision for land reclamation is reviewed as of 31 December and 30 June, unless significant changes in estimation assumptions occur.

As of 30 June 2010 the provision amounted to PLN 9,038 thousand (PLN 7,629 thousand as of 31 December 2009).

Provision for the cost of disposal or storage of ash and slag mixture

The Group produces two types of waste in the process of burning coal: ash and ash and slag mixture. As the Group incurs costs related to mixture disposal, it recognizes a relevant provision. Future estimated costs of disposal or storage of ash and slag mixture were discounted to their present value using a 5.59% discount rate. The provision for costs of disposal or storage of ash and slag mixture is reviewed as of 31 December and 30 June, unless significant changes in estimation assumptions occur.

As of 30 June 2010 the provision amounted to PLN 2,440 thousand (PLN 4,107 thousand as of 31 December 2009).

Provision for purchasing CO₂ emission rights

As of 30 June 2010 the value of the provision determined based on the market price of CO₂ emission rights was PLN 2,535 thousand (PLN 11,109 thousand as of 31 December 2009).

21. Dividend

On 20 April 2010 the General Meeting of Shareholders of ENEA S.A. adopted Resolution No. 7 on distribution of the net profit for the reporting period from 1 January 2009 to 31 December 2009, pursuant to which

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the amount of PLN 167,748 thousand was allocated to dividend payment for the shareholders (PLN 0.38 per share). The dividend had been paid by 30 June 2010.

Pursuant to the Act on profit-sharing payments in companies wholly owned by the State Treasury of 1 December 1995 ENEA S.A. made quarterly profit-sharing payments (defined as the gross profit less the current income tax) in the amount of 15%, which is recognized as dividend payment. The Company ceased to be subject to the above obligation as of the end of the month in which the capital increase resulting from the public offering in 2008 (13 January 2009) was registered, i.e. as of 1 February 2009.

22. Related party transactions

The Capital Group companies subject to consolidation conclude the following related party transactions:

- the Capital Group companies subject to consolidation – transactions are eliminated at the consolidation stage;
- transactions concluded between the Group and Members of its governing bodies fall within three categories:
 - resulting from employment contracts with Members of the Management Board of the Parent and related to the appointment of Members of Supervisory Boards;
 - resulting from loans from the Company's Social Benefit Fund granted to Members of the Management Board of the Parent and Supervisory Boards employed by ENEA S.A.
 - resulting from civil law agreements;
- transactions with entities whose shares are held by the State Treasury of the Republic of Poland.

Transactions with members of the Group's governing bodies:

Item	Management Board		Supervisory Board	
	01.01.2010 - 30.06.2010	01.01.2009 - 30.06.2009	01.01.2010 - 30.06.2010	01.01.2009 - 30.06.2009
Remuneration under employment contracts	607	551	-	-
Remuneration relating to appointment of members of management and supervisory bodies	-	-	208	74
Remuneration due to the position held in supervisory boards of subsidiaries	148	159	-	-
Remuneration due to other employee benefits (electricity allowance)	91	28	-	-
TOTAL	846	738	208	74

Members of the Management Board and Supervisory Board are subject to the provisions of the Act of 3 March 2000 on remuneration of persons managing certain legal entities (companies with the majority interest of the State Treasury). Pursuant to the Act, the maximum monthly remuneration cannot exceed six average monthly remunerations in the enterprise sector, excluding profit bonuses in Q4 of the preceding year, announced by the President of the Central Statistical Office. The amount of the annual bonus cannot exceed three average monthly remunerations in the year preceding bonus granting.

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Transactions related to loans from the Company's Social Benefits Fund:

Corporate body	Balance as of 01.01.2010	Granted on 01.01.2010	Maturing on 30.06.2010	Balance as of 30.06.2010
Management Board	21	-	(21)	-
Supervisory Board	29	10	(7)	32
TOTAL	50	10	(28)	32

Corporate body	Balance as of 01.01.2009	Granted on 01.01.2009	Maturing on 31.12.2009	Balance as of 31.12.2009
Management Board	42	-	(21)	21
Supervisory Board	7	47	(25)	29
TOTAL	49	47	(46)	50

Other transactions resulting from civil law agreements concluded between the Parent and Members of the entity's governing bodies concern only private use of company cars by Members of the Management Board of ENEA S.A.

The Group also concludes business transactions with entities of the central and local administration and entities controlled by the State Treasury of the Republic of Poland.

The transactions concern mainly:

- purchase of coal, electricity and property rights resulting from certificates of origin as regards renewable energy and energy produced the CHP system, transmission and distribution services provided by the Group to companies whose shares are held by the State Treasury;
- sale of electricity, distribution services, connection to the grid and other related fees, provided both to central and local administration bodies (sale to end users) and entities whose shares are held by the State Treasury (wholesale and retail sale to end users);

Such transactions are concluded under arm's length terms and their conditions do not differ from those applied in transactions with other entities. The Group does not keep a register which would allow it to aggregate the values of all transactions with state institutions and entities whose shares are held by the State Treasury.

23. Long-term contracts for the sale of electricity (LTC)

As the European Commission recognized long-term contracts for the sale of power and electricity (LTC) concluded with a state entity – PSE S.A. as disallowed public aid, the Polish Parliament passed an act in order to eliminate such contracts. Pursuant to the provisions of the Act on principles of funding costs incurred by producers following early termination of long-term contracts for the sale of power and electricity of 29 June 2007 ("LTC Termination Act"), since 1 April 2008 the Group (Elektrownia "Kozienice" S. A.) has been entitled to compensation for stranded costs resulting from early termination of long-term contracts. Based on the aforementioned Act, the Group will be entitled to compensation until 2014.

The LTC settlement mechanism is as follows:

- by 31 August each year companies file applications for advance payments relating to the settlements;

- by 31 July of the following year the President of the Energy Regulatory Office determines the value of the annual stranded cost adjustment (adjustment of advance payments);
- by 31 August of the year following the end of the adjustment period the President of the Energy Regulatory Office determines the value of the final adjustment (31 August 2015 in the case of the Group).

The Group has developed a calculation model based on which it applies to the President of the Energy Regulatory Office for advance payments and annual settlements. Determination of the amounts due is not unambiguous, as it depends on a number of factors, including interpretation of statutory provisions.

The Group decided to recognize only amounts resulting from the decision on the annual stranded cost adjustment as revenue.

a/ 2008 settlements

In 2008 Elektrownia "Kozienice" S. A. received advance payments for stranded costs of PLN 93,132 thousand from Zarządca Rozliczeń S. A. The amount of PLN 80,976 thousand was recognized in the 2008 financial statements as revenue due to compensation. On 5 August 2009 Elektrownia "Kozienice" S.A received a Decision of the President of the Energy Regulatory Office dated 31 July 2009 determining the amount of the annual stranded cost adjustment (i.e. advance payments received earlier from Zarządca Rozliczeń S. A.) for Elektrownia "Kozienice" S. A. for 2008. Pursuant to the Decision, the amount of the annual stranded cost adjustment (i.e. the amount of advance payments to be returned to Zarządca Rozliczeń S.A.) was PLN 89,537 thousand, which implies that revenue due to compensation for 2008 is lower than recognized by Elektrownia "Kozienice" S.A. in its financial statements for the year 2008 (and thus, in the consolidated financial statements of the ENEA Capital Group) by the amount of PLN 77,381 thousand.

According to the Management Board of Elektrownia "Kozienice" S.A. and ENEA S.A., the majority of assumptions made by the President of the Energy Regulatory Office in his Decision and the interpretation of the Act on principles of funding costs incurred by producers following early termination of long-term contracts for the sale of power and electricity of 29 June 2007 are incorrect or inappropriately applied. Consequently, on 19 August 2009 Elektrownia "Kozienice" S.A. filed an appeal to the Regional Court in Warsaw - Court of Competition and Consumer Protection. The appeal also contains an application for suspension of decision enforcement until the case is decided. On 23 September 2009, the Regional Court in Warsaw - Court of Competition and Consumer Protection issued a decision by which it suspended enforcement of the decision appealed against in excess of the amount of PLN 44,768 thousand and dismissed the motion for the further amount. Therefore, on 30 September 2009, the Management Board of the Company decided to return the advance payment in the amount resulting from the Decision of the President of the Energy Regulatory Office which had not been suspended by the Court.

On 2 October 2009 Elektrownia "Kozienice" S. A. lodged a complaint against the above decision to the Court of Appeals in Warsaw, VI Civil Division. On 19 May 2010 the Court of Appeals changed the decision of the Court of Competition and Consumer Protection of 23 September 2009 and suspended enforcement of the decision of the President of the Energy Regulatory Office of 31 July 2009 on the annual stranded cost adjustment in whole. The Court of Appeals emphasized that the Court of Competition and Consumer Protection

did not have legal grounds to refuse suspending enforcement of the decision in part. Therefore, if it had found grounds for suspending enforcement of the decision, it should have suspended the enforcement of the decision in whole. Consequently, on 27 May 2010 Elektrownia "Kozienice" S. A. requested Zarządca Rozliczeń S. A. to return PLN 40 577 thousand with interest due. However, Zarządca Rozliczeń refused to do so claiming that the only legal basis for the return might be a change of the decision of the President of the Energy Regulatory Office of 31 July 2009. On 5 July 2010 Elektrownia "Kozienice" S. A. filed the final out-of-court demand for payment of PLN 40 577 thousand with interest due to Zarządca Rozliczeń S. A. In its letter dated 12 July 2010 Zarządca Rozliczeń S. A. upheld its original decision and refused to return the amount in question.

The Management Board of Elektrownia "Kozienice" S.A. decided not to recognize further revenue from compensation and to adjust the revenue from compensation recognized in 2008 by PLN 77,380 thousand. The above adjustment was recognized in the statement of comprehensive income for the period from 1 January to 31 December 2009 as sales revenue (amount reducing sales revenue). If in the future the Court issues a decision on the appeal against the decision of the President of the Energy Regulatory Office obliging Elektrownia "Kozienice" S.A. to return an amount lower than that specified in the decision of the President of the Energy Regulatory Office, it will increase the financial profit of the Group.

b/ 2009 settlements

On 29 July 2010 the President of the Energy Regulatory Office issued a decision pursuant to which the amount of the annual stranded cost adjustment for 2009 to be received by Elektrownia "Kozienice" S. A. from Zarządca Rozliczeń S. A. is PLN 15 580 thousand. The above amount has been recognized in these condensed interim consolidated financial statements as sales revenue and receivables.

Assuming that decisions obtained by Elektrownia "Kozienice" S.A. regarding the appeals against the decisions issued by the President of the Energy Regulatory Office determining the amounts of the annual adjustments for 2008 and 2009 are favorable for the Company:

- the annual adjustment for 2009 is estimated at the level of PLN 111 100 thousand (+);
- the annual adjustment for 2010 is estimated at the level of PLN 78 600 thousand (+) (the estimate has been based on the realization for the first half of 2010 and the plan for the second half of 2010).

As no judicial decisions have been issued with respect to the appeals filed by the Company, the possibility to determine the probability of obtaining the aforementioned amounts (estimated based on the current knowledge and available data) in relation to the annual stranded cost adjustments is limited.

Therefore, the amount of revenue disclosed in the financial statements has been determined using the best knowledge of the Management Board and in line with the prudence principle.

24. Future liabilities under contracts concluded as of the balance sheet date

Contractual obligations assumed as of the balance sheet date, not yet recognized in the balance sheet:

	30.06.2010	31.12.2009
Acquisition of property, plant and equipment	419 955	415 833
Acquisition of intangible assets	20 859	12 547
	440 814	428 380

25. Explanations of the seasonal and cyclical nature of the Capital Group's business

Sales of electricity during the year are subject to seasonal fluctuations. They increase during the winter months and decrease in summer. This depends on the temperature and the length of the day. The extent of fluctuations depends on low temperature and shorter days in winter as well as higher temperature and longer days in summer. Seasonal sales of electricity apply to a more considerable degree to small clients (43.89% of the sales value), rather than to the industrial sector.

26. Contingent liabilities and proceedings before courts, arbitration or public administration bodies

26.1. Guarantees for credit facilities and loans as well as other sureties granted by the Company and its subsidiaries

The Company and its subsidiaries did not grant any guarantees for credit facilities or loans, or sureties during the reporting period.

26.2. Pending proceedings before common courts of law

Actions brought by the Group

Actions which ENEA S.A. and ENEA Operator Sp. z o.o. brought to common courts of law refer to claims for receivables due to provision of electricity (the so-called electricity cases) and claims for other receivables - illegal consumption of electricity, connections to the grid and other specialized services (the so-called non-electricity cases).

The majority of actions which Elektrownia "Kozienice" S.A. brought to common courts of law refer to claims for receivables due to default under freight forwarding contracts.

As of 30 June 2010, the total of 6,112 cases brought by the Group were pending before common courts of law for the total amount of PLN 40,690 thousand (6,063 cases for the total amount of PLN 38,496 thousand as of 31 December 2009).

None of the cases can significantly affect the Group's financial profit/loss.

Actions brought against the Group

Actions against the Group are brought both by natural and legal persons. They mainly refer to such issues as compensation for interrupted delivery of electricity, identification of illegal electricity consumption and compensation for the Group's use of real property where electrical devices are located. The Group considers actions concerning non-contractual use of real property not owned by the Group as particularly important (note 26.5).

Actions brought against Elektrownia "Kozienice" S.A. are related to claims resulting from the flying ash sales agreement (demand for Elektrownia "Kozienice" S.A. to pay fees for loading delay, calculated by the buyer). The liability was settled on 2 April 2010 under an amicable agreement. Court proceedings against Elektrownia "Kozienice" S.A. are also related to claims of Gospodarstwo Ogrodnicze w Ryczywole Kamila Lewek Wiśniewska Jacek Pospieszyl spółka cywilna. The claim concerns remedying damages resulting from the operation of the plant owned by Elektrownia located on the land adjacent to the plot of Gospodarstwo Ogrodnicze, by way of paying PLN 5,082 thousand. Other proceedings include e.g. the claim of Centrum Konsultingu Menedżerskiego Gordion Sp. z o.o to institute amicable proceedings - the amount claimed is PLN 2,695 thousand. Settlement was not reached during a meeting of 17 June 2010.

As of 30 June 2010 there were 467 cases pending before common courts of law which have been brought against the Group for the total amount of PLN 32,808 thousand (351 cases for the total amount of PLN 25,102 thousand as of 31 December 2009). Provisions related to the court cases have been presented in note 20.

26.3. Arbitration proceedings

As of 30 June 2010 there were no pending proceedings before competent arbitration bodies.

26.4. Proceedings before public administration bodies

Pursuant to a decision of the President of the Office of Competition and Consumer Protection of 12 September 2008 which closed the proceedings for charging customers with a double subscription fee for January 2008, ENEA S.A. was obliged to pay a fine of PLN 160 thousand. The Company appealed against the decision on 30 September 2008. On 31 August 2009 the Regional Court in Warsaw – Court of Competition and Consumer Protection reduced the fine to PLN 10 thousand. On 25 September 2009, ENEA appealed against the judgment issued by the Court of Competition and Consumer Protection to the Court of Appeals in Warsaw applying for reversal of the decision in whole. On 27 April 2010 the Court reversed the judgment and remanded the case for reconsideration.

Pursuant to a decision of the President of the Office of Competition and Consumer Protection of 30 September 2008 which closed the proceedings for abuse of market position by not keeping deadlines related to connection decisions and determining the impact of the designed wind power station on the electricity system, ENEA Operator Sp. z o.o. was obliged to pay a fine of PLN 11,626 thousand. ENEA Operator Sp. z o.o. lodged an appeal against the decision. As of the date of preparation of these condensed interim consolidated financial statements the appeal had not been examined. As of 30 June 2010, the Group recognized a provision in the total amount of the aforementioned fine.

On 27 November 2008 the President of the Energy Regulatory Office issued a decision on ENEA's failure to comply with the obligation to purchase electricity produced in the CHP system in 2006, imposing a fine of PLN 7,594 thousand on the Company. On 17 December 2008, ENEA filed an appeal to the District Court in Warsaw - the Court of Competition and Consumer Protection. On 15 December 2009 the Court of Competition and Consumer Protection issued a judgment favorable for the Company, changing the decision of the President of the Energy Regulatory Office of 27 November 2008 and discontinuing the administrative proceedings. The President of the Energy Regulatory Office appealed against the decision to the Court of Appeals in Warsaw. As of 30 June 2010, the Group recognized a provision in the total amount of the aforementioned fine.

On 28 December 2009 the President of the Energy Regulatory Office issued a decision on ENEA's failure to comply with the obligation to purchase electricity produced in the CHP system in the first half of 2007, imposing a fine of PLN 2,150 thousand on the Company. On 19 January 2010, ENEA filed an appeal against the decision of the President of the Energy Regulatory Office to the District Court in Warsaw - the Court of Competition and Consumer Protection. As of 30 June 2010, the Group recognized a provision in the total amount of the aforementioned fine.

On 11 February 2009 Elektrownia Kozienice applied to the Customs Office in Radom for ascertainment and refund of overpaid excise duty in the amount of PLN 694.6 million for the period from January 2006 to December 2008. Having examined the application, on 26 August 2009 the Head of the Customs Office denied the refund of the overpaid excise duty for the period from January 2006 to June 2006 and on 10 November 2009 further denials were issued with regard to the period from July 2006 to December 2006 inclusive, whereas on 12 November 2009 denials regarding refund for the period from January 2007 to December 2007 inclusive. At the same time, on 26 August 2009 the Head of the Customs Office in Radom issued decisions assessing the liability due to excise duty for the period from January 2006 to June 2006 and on 10 November 2009 decisions were issued with regard to the liability for the period from July 2006 to December 2006 inclusive, whereas on 12 November 2009 decisions regarding the liability for the period from January 2007 to December 2007 inclusive, assuming the amounts disclosed by the Company in its original tax returns before application of amended returns and the application for refund as the tax liability. The Company appealed against the above decisions to the Head of the Customs Chamber in Warsaw. As regards the overpayment for 2008, the Head of the Customs Office in Radom issued decisions determining the overpaid amount of excise duty only with respect to electricity generated from renewable sources for individual months of 2008 in the total amount of PLN 2.6 million. As for the period when Polish regulations were inconsistent with those of the EC, he refused returning overpaid tax and specified tax liabilities in amounts reduced by the excise duty on energy from renewable resources for the period in question. As of 30 June 2010 Elektrownia Kozienice S. A. appealed against the decisions to the Head of the Customs Chamber in Warsaw. Additionally, on 24 November 2009 Elektrownia Kozienice S. A. applied to the Customs Office in Radom for ascertainment and refund of overpaid excise duty on electricity in the amount of PLN 34.6 million for January and February 2009. The Head of the Customs Office in Radom issued decisions determining the overpaid amount of excise duty only with respect to electricity generated from renewable sources for January and February 2009 in the total amount of PLN 247 thousand. As for the period when Polish regulations were inconsistent with those of the EC,

he refused returning overpaid tax and specified tax liabilities in amounts reduced by the excise duty on energy from renewable resources for the period in question.

Due to the nature of the Group's business, there were numerous other proceedings pending before public administration bodies as of 30 June 2010.

A vast majority of the proceedings have been instigated at the request of the Group, which has applied to relevant administration bodies for:

- instigation of administrative enforcement in order to recover receivables for illegal consumption of electricity;
- building permits with respect to new facilities and modernization of the existing ones;
- permit for occupation of a road lane by electricity equipment;
- determination of fees for perpetual usufruct of land;
- designation of land for electrical devices.

Some of the proceedings are complaints submitted to government and local government administration bodies or administrative courts with respect to decisions issued in the above cases.

The result of these proceedings is unlikely to have a significant impact on the Group's net profit.

Due to the nature of operations of ENEA Operator Sp. z o.o. (operations in the regulated monopoly market) there have been numerous court actions brought against the Company by the President of the Energy Regulatory Office and the President of the Office for Competition and Consumer Protection at the request of buyers of electricity supplied by the Group.

The President of the Energy Regulatory Office, as a key central administration body appointed to regulate operations of companies in the energy sector, settles disputes related to a refusal to conclude agreements for connection to the grid or provision of transmission services, or to the provisions thereof.

As of 30 June 2010 the President of the Energy Regulatory Office conducted a number of explanatory and administrative proceedings against the Group.

The result of these proceedings is unlikely to have a significant impact on the Group's net profit.

26.5. Risk related to the legal status of property used by the Group

The risk related to the legal status of the property used by the Group results from the fact that the Group does not have all legal titles to use the land where transmission networks and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future.

Considering the legal status, there is a risk of additional costs related to compensation claims for non-contractual use of land, rental fee or, rarely, claims related to the change of facility location (restoring land to its previous condition).

Claims against the Group are of the nature of claims for payment (compensation for non-contractual use of property, impairing the value of property, lost benefits) and claims for discontinuing infringement of ownership rights (demand to remove devices).

Decisions related to these issues are important as they considerably affect the Group's strategy towards persons who lodged out-of-court claims related to devices located on their land in the past and the approach to the legal status of devices in case of new investments.

The Group recognized a provision for all claims lodged by owners of property located near transmission networks and devices based on best estimates of expenditures necessary to settle the claims adopted by the Management Board. The Group does not recognize provisions for possible claims which have not been filed yet by owners of land used non-contractually. Possible claim amounts may be significant for the Group, considering the area of non-contractually used land where the Group's transmission networks or the related devices are located. The Group does not keep any record and it has no knowledge of the legal status of land, therefore is it unable to reliably estimate the maximum amount of possible claims arising from non-contractual use of land.

26.6. Risk related to participation in costs incurred due to the use of woodland managed by the National Forests for the needs of electricity lines

As of 30 June 2010 there were no regulations in this respect and the Group did not recognize provisions for potential claims due to the use of woodland managed by the National Forests for the needs of its electricity lines. On 29 November 2006 a meeting was held initiated by the Minister of Environment and attended by representatives of the National Forests, the Ministry of State Treasury, PSE-Operator Sp. z o.o. and Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej representing distribution companies. The National Forests' proposal to conclude agreements for the lease of land where the lines are located was not accepted. Consequently, a more general solution based on legislative changes is required. Currently, it is not possible to estimate a provision for participating in the costs of the National Forests related to property tax for the land owned by the State Treasury. The value of the potential claims may be significant, considering the area of land.

Regardless of the aforementioned actions aimed at general regulation of the legal status of land owned by the National Forests, individual forest district offices lodged claims against the Group due to its non-contractual use of land. The claims have been accounted for in the provision referred to in note 20.

27. Opening of negotiations concerning acquisition of Zespół Elektrowni Pątnów-Adamów-Konin S.A.

In 2008 the Parent started negotiations with the receiver in bankruptcy of Elektrim S.A. concerning the acquisition of 45.95% of shares in Zespół Elektrowni Pątnów-Adamów-Konin S.A. (ZE PAK). The Group would submit the offer after a number of conditions have been met. These include satisfactory results of the legal, financial, tax, technical, environmental and operational review of ZE PAK and its capital group, negotiating all conditions of the sales agreement and positive settlement of the claims with respect to shares in ZE PAK filed by the creditors of Elektrim S.A. After a due diligence analysis had been conducted, ENEA S.A. decided not to take part in the subsequent stage of the tender announced by the Ministry of State Treasury.

28. Actions aimed at acquiring a coal mine

The Company has taken steps aimed at acquiring an organized part of a coal mine – Kopalnia Węgla Kamiennego “Brzeszcze – Silesia” Ruch II Silesia and made an informal acquisition offer to the existing shareholder. As of the date of preparation of these consolidated financial statements, the Management Board of ENEA S.A. decided to withdraw from acquisition of a part of Kompania Węglowa S. A. named Ruch II Silesia KWK „Brzeszcze-Silesia”. ENEA S.A. does not rule out further talks and defining new frameworks of cooperation with Kompania Węglowa, which is the owner of the KWK Silesia mine. In the case of the KWK Silesia mine, the decision making process is in progress and ENEA S.A. is considering other forms of investments.

29. Changes in excise duty

On 1 March 2009, an amendment to the Act on Excise Duty of 23 January 2004 came into force. Polish excise duty regulations required an amendment in order to comply with the EU laws. Based on the amendment, the excise duty obligation arises when electricity is supplied to end customers (not at the time of electricity production). Consequently, since 1 March 2009 ENEA S.A. has been obliged to pay excise duty (while before it was paid by Elektrownia “Kozienice” S.A.).

On 12 February 2009 the European Court of Justice issued a judgment stating that the previous Polish regulations determining the tax point for excise duty on electricity did not comply with the regulations of the EU Energy Directive.

On 11 February 2009 Elektrownia Kozienice applied to the Customs Office in Radom for ascertainment and refund of overpaid excise duty in the amount of PLN 694.6 million for the period from January 2006 to December 2008. Additionally, on 24 November 2009 the Company applied to the Customs Office in Radom for ascertainment and refund of overpaid excise duty on electricity in the amount of PLN 34.6 million for January and February 2009. The related administrative proceedings have been presented in detail in note 26.4.

As the outcome is not certain, the excise duty refund applied for has not been recognized in these condensed interim consolidated financial statements.

30. Negotiations concerning acquisition of shares

On 28 June 2010 the Minister of State Treasury in Warsaw, acting on behalf of the State Treasury based on the Act on Commercialization and Privatization (Journal of Laws of 2002, No. 171, item 1397, as amended) on a detailed procedure for disposal of shares held by the State Treasury (Journal of Laws of 2009, No. 34, item 264), invited investors to negotiations concerning the acquisition of 51% of shares in ENEA S.A. The State Treasury intends to sell 225,135,940 shares with the face value of PLN 1 each. At present, the State Treasury holds 60.43% of the Company’s shares but 9.43% are employee shares.

Written replies to the public invitation to negotiations concerning the acquisition of shares by potential investors who received the Investment Memorandum were to be submitted by 28 July 2010. On 23 July the Minister of State Treasury announced that the deadline had been extended until 13 August 2010.

31. Post balance sheet events

On 1 July 2010 two subsidiaries of ENEA S. A. were combined: Elektrownie Wodne Sp. z o. o. with its registered office in Samociążek (the acquirer) and Energopartner Sp. z o. o. with its registered office in Poznań (the acquiree). As a result of the business combination, a new entity was established under the name of Elektrownie Wodne Sp. z o.o. with its registered office in Samociążek.

Selected separate financial data

	in PLN '000		in EUR '000	
	6 months ended 30 June 2010	6 months ended 30 June 2009	6 months ended 30 June 2010	6 months ended 30 June 2009
Net sales revenue	3 247 871	3 523 286	811 116	779 764
Profit/loss on operating activities	95 650	89 927	23 887	19 902
Profit/loss before tax	348 135	232 136	86 942	51 376
Net profit/loss for the reporting period	317 969	199 461	79 409	44 144
Net cash flows from operating activities	56 064	(308 071)	14 001	(68 181)
Net cash flows from investing activities	(2 125)	(1 948 233)	(531)	(431 178)
Net cash flows from financing activities	(169 183)	(1 474)	(42 251)	(326)
Total net cash flows	(115 244)	(2 257 778)	(28 781)	(499 685)
Weighted average number of shares	441 442 578	441 442 578	441 442 578	441 442 578
Net earnings per share (in PLN per share)	0.72	0.45	0.18	0.10
Diluted earnings per share (in PLN/EUR)	0.72	0.45	0.18	0.10
	Balance as of 30 June 2010	Balance as of 31 December 2009	Balance as of 30 June 2010	Balance as of 31 December 2009
Total assets	10 937 465	10 914 041	2 638 204	2 656 648
Total liabilities	954 796	1 081 593	230 304	263 277
Non-current liabilities	122 946	122 662	29 656	29 858
Current liabilities	831 850	958 931	200 649	233 419
Equity	9 982 669	9 832 448	2 407 899	2 393 371
Share capital	588 018	588 018	141 835	143 133
Book value per share (in PLN/EUR)	22.61	22.27	5.45	5.42
Diluted book value per share (in PLN/EUR)	22.61	22.27	5.45	5.42

The above financial data for the first half of 2010 and 2009 were translated into EUR in line with the following principles:

- individual assets and liabilities – at the average exchange rate as of 30 June 2010– PLN/EUR 4.1458 (as of 31 December 2009– PLN/EUR 4.1082);
- individual items from the income statement and the cash flow statement – at the arithmetic mean of the average exchange rates determined by the National Bank of Poland as of the last day of each month of the financial period from 1 January to 30 June 2010 - PLN/EUR – 4.0042 (for the period from 1 January to 30 June 2009 – PLN/EUR 4.5184).

**Independent auditor's report
on the review of the condensed interim separate financial statements
for the period from 1 January 2010 to 30 June 2010**

To the Management Board and Supervisory Board of ENEA S.A.

We have reviewed the attached condensed interim separate financial statements of ENEA S.A. ("the Company") with its registered office in Poznań, Nowowiejskiego 11 Street, including: separate balance sheet prepared as of 30 June 2010, separate statement of comprehensive income, separate statement of changes in equity, separate statement of cash flows, prepared for the period from 1 January 2010 to 30 June 2010 and notes to the separate financial statements, comprising a summary of significant accounting policies and other explanatory information.

Compliance of these condensed interim financial statements with the requirements laid down in IAS 34 "Interim Financial Reporting" as endorsed by the European Union and with other regulations in force is the responsibility of the Management Board and Supervisory Board of the Company.

Our responsibility was to review the condensed interim separate financial statements.

Our review has been conducted in accordance with the national auditing standards issued by the National Council of Statutory Auditors. These Standards require that we plan and conduct the review in such a way as to obtain reasonable assurance that the financial statements are free from material misstatement. Our review has been conducted mainly based on an analysis of data included in the condensed interim separate financial statements, examination of the accounting records as well as information provided by the management and the financial and accounting personnel of the Company.

The scope and methodology of a review of interim financial statements differ significantly from an audit, which serves as the basis for expressing an opinion on compliance of annual financial statements with the applicable accounting principles (policy) and an opinion on their fairness and clarity. Therefore, no such opinion on the attached condensed interim separate financial statements may be issued.

Based on our review, we have not identified any issues which would prevent us from concluding that the condensed interim financial statements have been prepared, in all material respects, in compliance with the requirements laid down in IAS 34 “Interim Financial Reporting” as endorsed by the European Union.

.....
Piotr Waliński
Key certified auditor
conducting the review
No. 4254

.....
represented by

.....
entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 27 August 2010

The above auditor’s report on the review is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**Condensed interim separate financial statements
of ENEA S.A.
for the period from 1 January to 30 June 2010**

Poznań, 27 August 2010

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These condensed interim separate financial statements have been prepared in compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, as endorsed by the European Union (EU), and approved by the Management Board of ENEA S.A.

Members of the Management Board

Chairman of the Management Board **Maciej Owczarek**

Member of the Management Board **Maksymilian Górniak**

Member of the Management Board **Hubert Rozpędek**

Member of the Management Board **Krzysztof Zborowski**

Poznań, 27 August 2010

Separate balance sheet

	Balance as of	
	30.06.2010	31.12.2009
ASSETS		
Non-current assets		
Property, plant and equipment	225 652	211 217
Land perpetual usufruct right	1 834	3 213
Intangible assets	4 452	1 405
Investments in subsidiaries, associates and co-subsidiaries	7 851 195	7 844 884
Deferred tax asset	46 216	27 366
Financial assets available for sale	4 748	3 866
Financial assets measured at fair value through profit or loss	1 307	1 219
	8 135 404	8 093 170
Current assets		
Trade and other receivables	873 791	850 247
Current income tax receivables	-	11 090
Financial assets measured at fair value through profit or loss	1 742 092	1 652 523
Cash and cash equivalents	186 178	301 422
	2 802 061	2 815 282
		5 589
Non-current assets held for sale		
TOTAL ASSETS	10 937 465	10 914 041
	Balance as of	
	30.06.2010	31.12.2009
EQUITY AND LIABILITIES		
EQUITY		
Share capital	588 018	588 018
Share premium	4 627 673	4 627 673
Share-based capital	1 144 336	1 144 336
Revaluation reserve (financial instruments)	(3 847)	(3 847)
Reserve capital	892 198	754 841
Retained earnings	2 734 291	2 721 427
Total equity	9 982 669	9 832 448
LIABILITIES		
Non-current liabilities		
Credit facilities and loans	-	-
Finance lease liabilities	4 800	5 882
Settlement of income due to subsidies and connection fees	32 449	33 194
Liabilities due to employee benefits	85 697	83 586
	122 946	122 662
Current liabilities		
Credit facilities and loans	-	-
Trade and other liabilities	647 935	836 574
Finance lease liabilities	2 873	2 845
Settlement of income due to subsidies and connection fees	2 251	2 244
Current income tax liabilities	10 963	-
Liabilities due to employee benefits	11 172	8 701
Liabilities due to an equivalent of the right to acquire shares free of charge	594	618
Provision for certificates of origin	113 167	65 611
Provisions for other liabilities and charges	42 895	42 338
	831 850	958 931
Total liabilities	954 796	1 081 593
TOTAL EQUITY AND LIABILITIES	10 937 465	10 914 041

Separate statement of comprehensive income

	For the period of	
	6 months ended 30 June 2010	6 months ended 30 June 2009
Sales revenue	3 385 427	3 615 407
Excise duty	(137 556)	(92 121)
Net sales revenue	3 247 871	3 523 286
Other operating revenue	3 938	14 686
Amortization/Depreciation	(8 772)	(7 116)
Costs of employee benefits	(26 380)	(11 523)
Consumption of materials and raw materials and costs of goods sold	(2 065)	(1 388)
Energy purchase for sale	(2 045 132)	(2 272 753)
Transmission and distribution services	(991 247)	(1 068 567)
Other external services	(61 520)	(56 824)
Taxes and charges	(5 286)	(5 139)
Gain/(loss) on disposal and liquidation of property, plant and equipment	(349)	727
Impairment loss on property, plant and equipment	-	(7 517)
Other operating expenses	(15 408)	(17 945)
Operating profit	95 650	89 927
Financial expenses	(3 001)	(4 753)
Financial revenue	61 598	68 065
Dividend income	193 888	78 897
Profit before tax	348 135	232 136
Income tax	(30 166)	(32 675)
Net profit for the reporting period	317 969	199 461
Other items of comprehensive income:		
Measurement of financial assets available for sale	-	-
Income tax related to other items of comprehensive income	-	-
Other items of net comprehensive income	-	-
Comprehensive income	317 969	199 461
Earnings attributable to the Company's shareholders	317 969	199 461
Weighted average number of ordinary shares	441 442 578	441 442 578
Net earnings per share (in PLN per share)	0.72	0.45
Diluted earnings per share (in PLN per share)	0.72	0.45

ENE S.A.

Condensed interim separate financial statements for the period from 1 January to 30 June 2010

*(all amounts in PLN '000, unless stated otherwise)***Separate statement of changes in equity**

	Share capital (face value)	Revaluation of share capital	Total share capital	Treasury shares	Share premium	Share-based capital	Revaluation reserve (financial instruments)	Reserve capital	Retained earnings	Total equity
Balance as of 1 January 2010	441 443	146 575	588 018	-	4 627 673	1 144 336	(3 847)	754 841	2 721 427	9 832 448
Total profit									317 969	317 969
Dividends									(167 748)	(167 748)
Distribution of the financial profit								137 357	(137 357)	-
Change in the fair value of the employee stock ownership plan										
Issuance of shares										
Treasury shares acquired under the stabilization option										
Balance as of 30 June 2010	441 443	146 575	588 018	-	4 627 673	1 144 336	(3 847)	892 198	2 734 291	9 982 669

The separate statement of changes in equity should be read together with the notes, which constitute an integral part of the condensed interim separate financial statements

ENE S.A.

Condensed interim separate financial statements for the period from 1 January to 30 June 2010

(all amounts in PLN '000, unless stated otherwise)

	Share capital (face value)	Revaluation of share capital	Total share capital	Treasury shares	Share premium	Share-based capital	Revaluation reserve (financial instruments)	Reserve capital	Retained earnings	Total equity
Balance as of 1 January 2009	441 443	146 575	588 018	(17 396)	4 627 673	1 144 336	(3 847)	754 425	2 619 709	9 712 918
Total profit									199 461	199 461
Dividends									(203 281)	(203 281)
Distribution of the financial profit								416	(416)	-
Change in the fair value of the employee stock ownership plan										
Issuance of shares										
Treasury shares acquired under the stabilization option										
Balance as of 30 June 2009	441 443	146 575	588 018	(17 396)	4 627 673	1 144 336	(3 847)	754 841	2 615 473	9 709 098

The separate statement of changes in equity should be read together with the notes, which constitute an integral part of the condensed interim separate financial statements

Separate cash flow statement

	6 months ended 30.06.2010	6 months ended 30.06.2009
Cash flows from operating activities		
Net profit for the reporting period	317 969	199 461
Adjustments:		
Income tax disclosed in the income statement	30 166	32 675
Amortization/Depreciation	8 772	7 116
Costs of benefits due to share-based payments	-	-
Loss on disposal and liquidation of property, plant and equipment	349	748
Impairment loss on property, plant and equipment	-	7517
(Gain)/loss on disposal of financial assets	746	(92)
Interest income	(61 598)	(50 775)
Dividend income	(193 888)	(78 897)
Interest expense	3 001	2 782
Exchange (gains)/losses related to credit facilities and loans	-	-
	(212 452)	(78 926)
Income tax paid	(32 267)	(45 717)
Interest received	11 213	49 605
Interest paid	(888)	(2 782)
Changes in working capital		
Inventories	-	-
Trade and other receivables	109 862	(48 243)
Trade and other liabilities	(188 919)	(132 931)
Liabilities due to employee benefits	4 582	(5 499)
Settlement of income due to subsidies and connection fees	(1 125)	(1 107)
Change in provisions for certificates of origin	47 556	(78 357)
Change in liabilities due to the equivalent of the right to acquire shares free of charge	(24)	(162 465)
Change in provisions	557	(1 110)
	(27 511)	(429 712)
Net cash flows from operating activities	56 064	(308 071)
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(24 842)	3 658
Proceeds from disposal of property, plant and equipment and intangible assets	853	-
Proceeds from disposal of financial assets	5 589	-
Acquisition of financial assets	(42 300)	(1 936 520)
Acquisition of subsidiaries, associates and a jointly-controlled entity	(5 336)	(23 249)
Dividends received	63 804	7 801
Other payments for/proceeds from investing activities	107	77
Net cash flows from investing activities	(2 125)	(1 948 233)
Cash flows from financing activities		
Dividends paid	(167 748)	-
Payment of finance lease liabilities	(1 435)	(1 474)
Net cash flows from financing activities	(169 183)	(1 474)
Net increase/(decrease) in cash	(115 244)	(2 257 778)
Opening balance of cash	301 422	2 321 386
Closing balance of cash	186 178	63 608

Notes to the separate financial statements

1. General information about ENEA S.A.

Name (company):	ENE A Spółka Akcyjna
Legal form:	joint-stock company
Country of jurisdiction:	Poland
Registered office:	Poznań
Address:	ul. Nowowiejskiego 11, 60-967 Poznań
National Court Register – District Court in Poznań	KRS 0000012483
Telephone:	(+48 61) 856 10 00
Fax:	(+48 61) 856 11 17
E-mail:	ene a@ene a.pl
Website:	www.ene a.pl
Statistical number (REGON):	630139960
Tax identification number (NIP):	777-00-20-640

ENE A S.A., operating under the business name Energetyka Poznańska S.A, was entered in the National Court Register at the District Court in Poznań under KRS number 0000012483 on 21 May 2001.

As of 30 June 2010 the shareholder structure of ENE A S.A. was as follows (an increase in the share capital as a result of issuance of shares under a public offering was registered in the National Court Register on 13 January 2009): the State Treasury of the Republic of Poland – 60.43% of shares, Vattenfall AB – 18.67%, other shareholders – 20.90%.

As of 30 June 2010 the statutory share capital of ENE A S.A. equaled PLN 441,443 thousand (PLN 588,018 thousand upon adoption of IFRS-EU and considering hyperinflation and other adjustments) and was divided into 441,442,578 shares.

Trade in electricity is the core business of ENE A S.A. (“ENE A”, “Company”).

ENE A S.A. is the parent in the ENE A Capital Group. As of 30 June 2010 the Group comprised also 24 subsidiaries and 3 associates.

These condensed interim separate financial statements have been prepared on the going concern basis in foreseeable future. There are no circumstances indicating that the ability of ENE A S.A. to continue as a going concern might be at risk.

2. Statement of compliance

These condensed interim separate financial statements have been prepared in compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, as endorsed by the European Union (IFRS-EU), and approved by the Management Board of ENEA S.A.

The Management Board of the Company has used its best knowledge as to the application of standards and interpretations as well as measurement methods and principles applicable to individual items of the condensed interim separate financial statements of ENEA S.A. in accordance with IFRS-EU as of 30 June 2010. The presented statements and explanations have been determined using due diligence. These condensed interim separate financial statements have been reviewed by a certified auditor.

3. Accounting principles applied

These condensed interim separate financial statements have been prepared in accordance with accounting policies consistent with those applied during the preparation of the most recent annual separate financial statements, except for changes in standards and interpretations endorsed by the European Union which apply to the reporting periods beginning after 1 January 2010.

Accounting policies applied by the Company were presented in the separate financial statements of ENEA S.A. for the financial year ended 31 December 2009.

Polish zloty has been used as the measurement and reporting currency of these condensed interim separate financial statements. The data in the separate financial statements have been presented in PLN thousand (PLN '000), unless stated otherwise.

These condensed interim separate financial statements should be read together with the separate financial statements of ENEA S.A. for the financial year ended 31 December 2009.

4. New accounting standards and interpretations

The standards applicable to annual periods beginning after 1 January 2010 as endorsed by the EU have been revised. However, the changes have not had any effect on the preparation of these condensed interim separate financial statements.

5. Material estimates and assumptions

The preparation of these condensed interim separate financial statements in conformity with IFRS-EU requires the Management Board to make certain judgments, estimates and assumptions that affect the application of the adopted accounting policies and the amounts reported in the condensed interim separate financial statements and notes thereto. The adopted assumptions and estimates are based on the Management Board's best

knowledge of the current and future activities and events. The actual figures, however, can be different from those assumed. The estimates adopted for the needs of preparation of these condensed interim separate financial statements are consistent with the estimates adopted during preparation of the separate financial statements for the previous financial year. The estimates presented in the previous financial years do not exert any significant influence on the current interim period.

6. Composition of the Capital Group – list of subsidiaries, associates and jointly-controlled entities

	Name and address of the Company	ENEA S.A. percentage share in the total number of votes 30.06.2010	ENEA S.A. percentage share in the total number of votes 31.12.2009
1.	ENERGOMIAR Sp. z o.o. Poznań, ul. Strzeszyńska 58	100	100
2.	BHU S.A. Poznań, ul. Strzeszyńska 58	91.32	87.97
3.	Energetyka Poznańska Biuro Usług Technicznych S.A. in liquidation Poznań, ul. Dziadoszańska 10	100	100
4.	Hotel "EDISON" Sp. z o.o. Baranowo near Poznań	100	100
5.	Energetyka Wysokich i Najwyższych Napięć "EWiNN" Sp. z o.o. Poznań, ul. Strzeszyńska 58	100	100
6.	Energetyka Poznańska Zakład Transportu Sp. z o.o. Poznań, ul. Strzeszyńska 58	100	100
7.	COGEN Sp. z o.o. Piła, ul. Kaczorska 20	100	100
8.	EnergPartner Sp. z o.o. Poznań, ul. Warszawska 43	100	100
9.	Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych Energobud Leszno Sp. z o.o. Lipno, Gronówko 30	100	100
10.	ENERGO-TOUR Sp. z o.o. Poznań, ul. Marcinkowskiego 27	99.92	99.92
11.	ENEOS Sp. z o.o. Poznań, ul. Strzeszyńska 58	100	100
12.	ENTUR Sp. z o.o. Szczecin, ul. Malczewskiego 5/7	100	100
13.	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o. Inowrocław, ul. Wilkońskiego 2	99.94	99.94
14.	Elektrownie Wodne Sp. z o.o. Samociżek, 86-010 Koronowo	100	100
15.	Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o. Gorzów Wlkp., ul. Energetyków 4	100	100
16.	"PWE Gubin" Sp. z o.o. Sękowice 100, municipality of Gubin	0	50
17.	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. Oborniki, ul. Wybudowanie 56	87.99	87.99
18.	"IT Serwis" Sp. z o.o. Zielona Góra, ul. Zacisze 28	100	100
19.	"Auto – Styl" Sp. z o.o. Zielona Góra, ul. Zacisze 15	100	100
20.	FINEA Sp. z o.o. in liquidation Poznań, ul. Warszawska 43	100	100
21.	Przedsiębiorstwo Energetyki Ciepłej – Gozdnicza Sp. z o.o. Gozdnica, ul. Świerczewskiego 30	100	100
22.	ENEA Operator Sp. z o.o. Poznań, ul. Strzeszyńska 58	100	100
23.	Elektrownia "Kozienice" S.A. Świerże Górne, municipality of Kozienice, Kozienice 1	100	100
24.	Miejska Energetyka Ciepła Sp. z o.o. 64-920 Piła, ul. Kaczorska 20	63.396	63.396

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Condensed interim separate financial statements for the period from 1 January to 30 June 2010

(all amounts in PLN '000, unless stated otherwise)

25.	Kozienice II Sp. z o.o. <i>Świerże Górne, municipality of Kozienice, Kozienice 1</i>	80.56	80.56
26.	Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET S.A. <i>Ostrów Wlkp., ul. Chłapowskiego 51</i>	49	49
27.	Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A. <i>Śrem, ul. Staszica 6</i>	41.65	41.65
28.	Elektrociepłownia Białystok S.A. <i>Białystok, ul. Gen. Andersa 3</i>	30.36	30.36

Changes in the structure of the ENEA S.A. Capital Group in the period covered by these interim financial statements

On 28 January 2010 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of ENTUR Sp. z o.o. up to PLN 4 134.5 thousand, i.e. by PLN 100 thousand by way of issuing 200 new shares with the face value of PLN 500 each. The new shares in the Company's share capital were acquired by ENEA S.A. for a contribution in cash.

On 4 February 2010 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowiskowe ENERGETYK Sp. z o. o. by PLN 1 710 thousand to PLN 17 448 thousand by way of issuing 3 420 new shares with the face value of PLN 500 each. The new shares in the Company's share capital were acquired by ENEA S.A. for a contribution in cash.

On 22 December 2009 and on 2 February 2010 the Extraordinary Shareholders' Meeting adopted Resolutions to increase the share capital of BHU S.A. with its registered office in Poznań up to PLN 14 302.5 thousand, i.e. by PLN 4 164.1 thousand by way of issuing 41 641 new shares with the face value of PLN 100 each. The new shares in the Company's share capital were acquired by ENEA S.A. for a contribution in cash and a contribution in kind. The increased share capital was registered in the National Court Register on 8 June 2010.

On 22 December 2009 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of ENERGOBUD Leszno Sp. z o.o. with its registered office in Gronówko up to PLN 5 676 thousand, i.e. by PLN 2 151.5 thousand by way of issuing 4 303 new shares with the face value of PLN 500 each. The new shares in the Company's share capital were acquired by ENEA S.A. for a contribution in kind. The increased share capital was registered in the National Court Register on 2 April 2010.

Pursuant to a Resolution of 15 December 2009, the Management Board of ENEA S.A. agreed to sell the shares in PWE Gubin Sp. z o.o. with its registered office in Sękowice held by ENEA S.A.. The shares were sold based on the agreement for the sale of shares of 9 February 2010.

On 19 April 2010 the Extraordinary Shareholders' Meeting adopted a resolution on putting Energetyka

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Condensed interim separate financial statements for the period from 1 January to 30 June 2010

(all amounts in PLN '000, unless stated otherwise)

Poznańska Biuro Usług Technicznych S. A. into liquidation as of 1 May 2010. Mr. Jacek Pałka appointed as Chairman of the Management Board assumed the function of the official receiver.

On 11 June 2010 the Extraordinary Shareholders' Meeting decided to put Finea Sp. z o. o. into liquidation. Ms. Katarzyna Mińkowska was appointed the official receiver.

On 12 April 2010 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of Eneos Sp. z o.o. up to PLN 20 189.5 thousand, i.e. by PLN 630.5 thousand by way of issuing 1 261 new shares with the face value of PLN 500 each. The new shares in the Company's share capital will be acquired by ENEA S.A. for a contribution in kind.

On 29 June 2010 the Extraordinary Shareholders' Meeting adopted Resolution No. 1 to increase the share capital of ENERGOBUD Leszno Sp. z o.o. with its registered office in Gronówko up to PLN 6 216 thousand, i.e. by PLN 540 thousand by way of issuing 1 080 new shares with the face value of PLN 500 each. The new shares in the Company's share capital will be acquired by ENEA S.A. for a contribution in kind.

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Condensed interim separate financial statements for the period from 1 January to 30 June 2010

*(all amounts in PLN '000, unless stated otherwise)***7. Segment reporting**

Segment reporting for the period from 1 January to 30 June 2010 is as follows:

	Trade	Production	All other segments	Exclusions	Total
Net sales revenue*	3 219 918		27 953		3 247 871
Inter-segment sales	-	1 522	-	(1 522)	
Total net sales revenue	3 219 918	1 522	27 953	(1 522)	3 247 871
Total expenses**	(3 080 173)	(1 385)	(25 555)	1 522	(3 105 591)
Segment profit/loss	139 745	137	2 398	-	142 280
Unassigned general and administrative expenses					(46 630)
Operating profit					95 650
Financial expenses					(3 001)
Financial revenue					61 598
Dividend income					193 888
Income tax					(30 166)
Net profit					317 969

* - net sales revenue under Trade also includes net revenue from sales of distribution services of PLN 991,172 thousand, which was presented separately in the condensed interim consolidated financial statements of the ENEA Group under Distribution

** - total expenses:

- include the costs of sales of distribution services of PLN 991,247 thousand, which were presented separately in the condensed interim consolidated financial statements of the ENEA Group under Distribution

- include also other operating revenue and expenses

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Condensed interim separate financial statements for the period from 1 January to 30 June 2010

(all amounts in PLN '000, unless stated otherwise)

Segment reporting for the period from 1 January to 30 June 2009 is as follows:

	Trade	All other segments	Total
Net sales revenue*	3 497 078	26 208	3 523 286
Inter-segment sales	-	-	-
Total net sales revenue	3 497 078	26 208	3 523 286
Total expenses**	(3 383 931)	(25 777)	(3 409 708)
Segment profit/loss	113 147	431	113 578
Unassigned general and administrative expenses			(23 651)
Operating profit			89 927
Financial expenses			(4 753)
Financial revenue			68 065
Dividend income			78 897
Income tax			(32 675)
Net profit			199 461

* - net sales revenue under Trade also includes net revenue from sales of distribution services of PLN 1,068,459 thousand, which was presented separately in the condensed interim consolidated financial statements of the ENEA S.A. Group under Distribution

** - total expenses:

- include the costs of sales of distribution services of PLN 1,068,567 thousand, which were presented separately in the condensed interim consolidated financial statements of the ENEA S.A. Group under Distribution

- include also other operating revenue and expenses

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Condensed interim separate financial statements for the period from 1 January to 30 June 2010

*(all amounts in PLN '000, unless stated otherwise)***Segment reporting (cont'd)**

Other segment reporting information as of 30 June 2010:

<u>Balance as of 30 June 2010</u>	Trade	Production	All other segments	Total
Property, plant and equipment	19 082	25 220	132 966	177 268
Trade and other receivables	735 296	-	6 620	741 916
Total:	754 378	25 220	139 586	919 184
ASSETS excluded from segmentation				10 018 281
- including property, plant and equipment				48 384
- including trade and other receivables				131 875
TOTAL: ASSETS				10 937 465
Trade and other liabilities	589 858	-	5 146	595 004
Equity and liabilities excluded from segmentation				10 342 461
- including trade and other liabilities				52 931
TOTAL: EQUITY AND LIABILITIES				10 937 465
Capital expenditure for fixed assets and intangible assets	-	24 814	3 206	28 020
Capital expenditure for fixed assets and intangible assets excluded from segmentation				430
Depreciation/amortization of fixed assets/intangible assets	174	668	7685	8527
Depreciation/amortization of fixed assets/intangible assets excluded from segmentation				245
Revaluation write-down on receivables as of 30.06.2010	82 546	-	733	83 279

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Condensed interim separate financial statements for the period from 1 January to 30 June 2010

*(all amounts in PLN '000, unless stated otherwise)***Segment reporting (cont'd)**

Other segment reporting information as of 31 December 2009:

<u>Balance as of 31 December 2009</u>	<u>Trade</u>	<u>All other segments</u>	<u>Total</u>
Property, plant and equipment	19 609	131 335	150 944
Trade and other receivables	840 691	6 694	847 385
Total:	860 300	138 029	998 329
ASSETS excluded from segmentation			9 915 712
- including property, plant and equipment			60 273
- including trade and other receivables			2 862
TOTAL: ASSETS			10 914 041
Trade and other liabilities	776 385	5 630	782 015
Equity and liabilities excluded from segmentation			10 132 026
- including trade and other liabilities			54 559
TOTAL: EQUITY AND LIABILITIES			10 914 041
Capital expenditure for fixed assets and intangible assets	-	20 488	20 488
Capital expenditure for fixed assets and intangible assets excluded from segmentation			8 966
Depreciation/amortization of fixed assets/intangible assets	353	12 308	12 661
Depreciation/amortization of fixed assets/intangible assets excluded from segmentation			625
Revaluation write-down on receivables as of 31.12.2009	81 970	653	82 623

Segment revenue is generated from sales to external clients and transactions with other segments, which are directly attributable to a given segment with a relevant portion of the Company's revenue that may be reasonably attributed to a given segment.

Segment costs include costs of goods sold to external clients and costs of transactions with other Group segments, which result from operations of a given segment and may be directly allocated to a given segment with a relevant portion of the Company's costs that may be reasonably allocated to a given segment.

Market prices are used in inter-segment transactions, which allows individual entities to earn a margin sufficient to carry out independent operations the market. Prices specified in the Energy Law of 10 April 1997 and the related secondary legislation apply to trade in electricity and provision of transmission services.

Supplementary reporting – geographical segments

The Company operates in one geographical region, in Poland, and therefore it does not distinguish geographical segments.

8. Property, plant and equipment

During the 6-month period ended 30 June 2010 the Company acquired property, plant and equipment for the total amount of PLN 28,450 thousand (PLN 29,454 thousand during the period of 12 months ended 31 December 2009).

During the 6-month period ended 30 June 2010 the Company sold and liquidated property, plant and equipment for the total net amount of PLN 9,181 thousand (PLN 5,870 thousand during the period of 12 months ended 31 December 2009).

During the 6-month period ended 30 June 2010 the Company reduced its property, plant and equipment by a contribution of assets with the total net book value of PLN 2,549 thousand to BHU Sp. z o.o. and ENERGOBUD Leszno Sp. o.o.

As of 30 June 2010 the total revaluation write-down on the carrying amount of property, plant and equipment amounted to PLN 770 thousand (PLN 15,998 thousand as of 31 December 2009).

Impairment test (property, plant and equipment)

The Company's property, plant and equipment was tested for impairment as of 31 December 2009. Based on the test, as of 31 December 2009 no impairment of property, plant and equipment was identified.

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Condensed interim separate financial statements for the period from 1 January to 30 June 2010

*(all amounts in PLN '000, unless stated otherwise)***9. Intangible assets**

During the 6-month period ended 30 June 2010 the Company did not acquire intangible assets (the value of acquired intangible assets was PLN 0 thousand during the period of 12 months ended 31 December 2009).

During the 6-month period ended 30 June 2010 intangible assets of PLN 2,632 thousand were transferred from fixed assets under construction (PLN 773 thousand during the period of 12 months ended 31 December 2009).

During the 6-month period ended 30 June 2010 the Company did not sell or liquidate intangible assets (the value of intangible assets sold or liquidated was PLN 0 thousand during the period of 12 months ended 31 December 2009).

On 15 January 2010 ENEA S. A. acquired a biogas power plant in Liszków. As a result of a difference between the acquisition price and the fair value of the acquired net assets goodwill of PLN 668 thousand arose.

10. Investments in subsidiaries, associates and jointly-controlled entities

	<u>30.06.2010</u>	<u>31.12.2009</u>
Gross value		
Opening balance	7 877 256	7 793 965
Acquisition of investments	7 301	89 291
Reclassification to non-current assets held for sale		(6 000)
Closing balance	7 884 557	7 877 256
Revaluation write-down		
Opening balance	(32 372)	(13 724)
Write-down created	(990)	(19 365)
Write-down released		717
Closing balance	(33 362)	(32 372)
Net value opening balance	7 844 884	7 780 241
Net value closing balance	7 851 195	7 844 884

During the 6-month period ended 30 June 2010 the Company acquired shares in subsidiaries - BHU S. A. in Poznań, Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o. o. in Inowrocław, ENERGOBUD Leszno Sp. o. o. with its registered office in Gronówko and ENTUR Sp. z o.o. in Szczecin for the total amount of PLN 7,301 thousand (the value of shares in subsidiaries acquired during the period of 12 months ended 31 December 2009 was PLN 89,291 thousand).

During the 6-month period ended 30 June 2010 the Company disposed of shares in a jointly-controlled entity - PWE Gubin Sp. z o. o. (as of 31 December 2009 the above shares were disclosed as "non-current assets held for sale").

During the 6-month period ended 30 June 2010 and during the period of 12 months ended 31 December 2009

ENEA S.A.

Condensed interim separate financial statements for the period from 1 January to 30 June 2010

(all amounts in PLN '000, unless stated otherwise)

the Company did not dispose of its investments in associates.

11. Revaluation write-downs on trade and other receivables

	30.06.2010	31.12.2009
Opening balance of revaluation write-down on receivables	82 623	93 519
Created	7 126	12 544
Released	(6 463)	(23 452)
Applied	(7)	12
Closing balance of revaluation write-down on receivables	83 279	82 623

During the 6-month period ended 30 June 2010 the revaluation write-down on the carrying amount of trade and other receivables increased by PLN 656 thousand (during the period of 12 months ended 31 December 2009 the revaluation write-down decreased by PLN 10,896 thousand).

12. Investment portfolio

As ENEA S.A. fulfilled the conditions necessary to release funds from the ESCROW account due to the issuance of shares at the WSE, a specialized financial institution professionally manages its funds, which amounted to PLN 1 742 092 thousand as of 30 June 2010. In accordance with the Agreement, transferred funds are invested only in safe securities (treasury bills and bonds of PLN 1 426 239 thousand) and deposits (in banks specified by the Company – PLN 315 853 thousand), based on the following scheme:

Type of assets	Minimum exposure	Maximum exposure
Debt instruments underwritten or guaranteed by the State Treasury and the National Bank of Poland	0%	100%
Bank deposits	0%	30%

The investment portfolio is treated as financial assets measured at fair value through profit or loss. The selected strategy is to maximize profit at minimum risk.

13. Equity related to share-based payments and liabilities due to the equivalent of the right to acquire shares free of charge

On the basis of the Act on Commercialization and Privatization dated 30 August 1996 (Act on Commercialization and Privatization) employees of the ENEA Capital Group are entitled to acquire 15% of the shares in ENEA S.A. free of charge (“plan”).

Employees eligible to acquire shares free of charge are individuals who were employed by the ENEA S.A. Capital Group at the time of commercialization (i.e. in 1993 and 1996) and filed a written declaration to acquire shares within 6 months of the commercialization date.

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As the first share was sold on general terms to investors by the State Treasury on 10 February 2010, after the lapse of three months the eligible individuals acquired the right to receive shares free of charge.

Pursuant to Resolution No. 441/2010 of 29 June 2010 the Management Board of ENEA S.A. determined the number of ENEA shares disposed free of charge for the benefit of eligible individuals, attributable to each group specified based on the length of service as per Article 11 of the Ordinance of the Minister of State Treasury of 29 January 2003 laying down detailed principles for classification of eligible employees into groups, determining the number of shares attributable to each group and the conditions for acquisition of shares by eligible employees. In compliance with the aforementioned Ordinance, the Management Board of the Company provided the Minister of State Treasury with a list of eligible individuals and the number of shares assigned. The Minister of State Treasury will make an announcement regarding the disposal of employee shares in a national and local newspaper and enter into agreements for the sale of shares free of charge with eligible individuals.

The Management Board of ENEA S.A. assigned 33 239 235 shares to eligible individuals. The lockup period for the shares acquired by eligible individuals free of charge is two years starting from the date of disposal of the first shares on general terms by the State Treasury.

Pursuant to IFRS 2, the costs of the plan should be recognized in the period when eligible employees perform work and the cost of work should be determined as of the Grant Date, i.e. as of the date when all significant conditions for granting shares to employees are determined.

The value of the employee stock ownership plan was determined by the Company based on the measurement of shares in ENEA S.A. as of the date of drawing up the consolidated financial statements for the financial years ended 31 December 2007, 31 December 2006 and 31 December 2005, included in the prospectus of ENEA S.A. The value of the plan was estimated at PLN 901 million. The ENEA SA Capital Group recognized the total costs of the plan as a previous years' adjustment in equity of the earliest period presented in the consolidated financial statements, i.e. as of 1 January 2005, and it did not revalue the costs as of any of the dates ending the subsequent financial periods.

According to the Management Board, IFRS do not lay down detailed principles for accounting for a plan displaying the features specified in the Act on Commercialization and Privatization. In particular, they do not allow for unambiguous interpretation of a situation where the total number of shares due to staff employed at the moment of commercialization, i.e. before the Grant Date, was determined but the number of shares to be granted to particular employees was not specified. In such a case an employee working in subsequent periods, by the Grant Date, is likely to be granted a higher number of shares. This, however, will not take place by way of issuance of additional shares but as a result of a reduction of the number of shares for other staff members.

Moreover, according to the Management Board, the key purpose of the plan was to grant employees compensation for work before the date of commercialization of the enterprise (i.e. in the past). Consequently,

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the total fixed number of shares for employees was determined and could not be changed with relation to work in subsequent periods.

Considering the above, the Management Board of ENEA S.A. decided that the value of the plan would not be changed. As a result, the value of the plan as of 30 June 2010 remained at the level of PLN 921 million.

Pursuant to the Act of 7 September 2007 on the acquisition of shares from the State Treasury as a result of the energy sector consolidation process, the Eligible Employees of Elektrownia "Kozienice" S.A. were supposed to submit a declaration of the intention to exchange the equivalent for the right to acquire shares in ENEA S.A. free of charge by 18 January 2008. Following the examination of the declarations submitted as well as the result of the complaint procedure, the value of shares to be accounted for as an equivalent was PLN 291 127 thousand (PLN 514 920 thousand as of 31 December 2007). Exchange of the value of the equivalent for subscription rights worth PLN 224 042 thousand was disclosed in the Company's equity under "Share-based capital".

As of 30 June 2010, a part of the equivalent was paid to the Eligible Employees of Elektrownia "Kozienice" S.A. As of 30 June 2010 the remaining liability due to the equivalent amounted to PLN 594 thousand (PLN 618 thousand as of 31 December 2009).

14. Deferred income tax

Changes in the deferred tax asset (considering the net-off of the asset and liability):

	30.06.2010	31.12.2009
Opening balance	(27 336)	(39 701)
Amount debited/(credited) to profit	(18 850)	12 335
Amount debited/(credited) to other items of comprehensive income	-	-
Closing balance	(46 216)	(27 366)

During the 6-month period ended 30 June 2010 the Company's profit before tax was debited with PLN 18,850 thousand as a result of a decrease in the deferred tax asset (during the period of 12 months ended 31 December 2009 the Company's profit before tax was credited with PLN 12,335 thousand due to an increase in the value of the asset).

15. Certificates of origin

	30.06.2010	31.12.2009
Certificates of origin	(71 743)	(26 218)
Advance payments for certificates of origin	(537)	(1 259)
Provision for costs of redemption of certificates of origin	185 447	93 088
Provision for certificates of origin	113 167	65 611

16. Provisions for liabilities and other charges

Provision for projected losses due to compensation proceedings

	30.06.2010	31.12.2009
Opening balance	42 338	42 268
Increase in provisions	1 226	3 898
Decrease in provisions	(669)	(3 828)
Closing balance	42 895	42 338

Other provisions

	30.06.2010	31.12.2009
Opening balance	-	1 609
Increase in provisions	-	315
Decrease in provisions	-	(1 924)
Closing balance	-	-

Provisions for liabilities are determined in reasonable, reliably estimated amounts. Individual provisions are recognized for projected losses related to court action brought against the Company. The provisions are created in the amount of the claim, considering the probability of losing the case, based on a legal opinion. The cost of provisions is recognized under other operating expenses. A description of material claims and the related contingent liabilities has been presented in note 21.2.

During the 6-month period ended 30 June 2010 the provision for projected losses due to compensation proceedings increased by PLN 557 thousand (during the period of 12 months ended 31 December 2009 the provision for projected losses due to court proceedings and other provisions decreased by PLN 1,539 thousand).

17. Dividend

On 20 April 2010 the General Meeting of Shareholders of ENEA S.A. adopted Resolution No. 7 on distribution of the net profit for the reporting period from 1 January 2009 to 31 December 2009, pursuant to which the amount of PLN 167,748 thousand was allocated to dividend payment for the shareholders (PLN 0.38 per share). The dividend had been paid by 30 June 2010.

Pursuant to the Act on profit-sharing payments in companies wholly owned by the State Treasury of 1 December 1995 ENEA S.A. made quarterly profit-sharing payments (defined as the gross profit less the current income tax) in the amount of 15%, which is recognized as dividend payment. The Company ceased to be subject to the above obligation as of the end of the month in which the capital increase resulting from the public offering in 2008 (13 January 2009) was registered, i.e. as of 1 February 2009.

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*(all amounts in PLN '000, unless stated otherwise)***18. Related party transactions**

The Company concludes transactions with the following related parties:

(i) Companies from the ENEA S.A. Capital Group

	30.06.2010	31.12.2009
Purchases, including:	1 767 756	4 569 444
investment purchases	2 530	23 861
materials	352	717
services	858 752	2 168 382
Other (including energy)	906 122	2 376 484
Sales, including:	158 509	402 142
energy	153 945	385 107
materials and goods	-	-
services	637	1 579
other	3 927	15 456
	30.06.2010	31.12.2009
Receivables	159 793	61 291
Liabilities	409 446	556 104

(ii) Transactions concluded between the Company and members of its governing bodies fall within three categories:

- resulting from employment contracts with Members of the Management Board of the Parent and related to the appointment of Members of Supervisory Boards;
- resulting from loans from the Company's Social Benefit Fund granted to Members of the Management Board of the Parent and Supervisory Boards employed by ENEA S.A.
- resulting from other civil law agreements.

The value of transactions falling within the scope of the first category has been presented below:

Item	Management Board of the Company		Supervisory Board of the Company	
	01.01.2010 - 30.06.2010	01.01.2009 - 30.06.2009	01.01.2010 - 30.06.2010	01.01.2009 - 30.06.2009
Remuneration under employment contracts	607	551	-	-
Remuneration relating to appointment of members of management or supervisory bodies	-	-	208	74
Remuneration due to the position held in supervisory boards of subsidiaries	148	159	-	-
Remuneration due to other employee benefits, including: electricity allowance	91	28	-	-
TOTAL	846	738	208	74

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Members of the Management Board and Supervisory Board are subject to the provisions of the Act of 3 March 2000 on remuneration of persons managing certain legal entities. Pursuant to the Act, the maximum monthly remuneration cannot exceed six average monthly remunerations in the enterprise sector, excluding profit bonuses in Q4 of the preceding year, announced by the President of the Central Statistical Office. The amount of the annual bonus cannot exceed three average monthly remunerations in the year preceding bonus granting.

Transactions related to loans from the Company's Social Benefits Fund:

No.	Body	Balance as of 01.01.2010	Granted on 01.01.2010	Maturing on 30.06.2010	Balance as of 30.06.2010
1.	Management Board	21	-	(21)*	-
2.	Supervisory Board	29	10	(7)	32
	TOTAL	50	10	(28)	32

No.	Body	Balance as of 01.01.2009	Granted on 01.01.2009	Maturing on 31.12.2009	Balance as of 31.12.2009
1.	Management Board	42	-	(21)**	21
2.	Supervisory Board	7	47	(25)	29
	TOTAL	49	47	(46)	50

* - PLN 21 thousand concerns elimination of the loan granted to Piotr Koczorowski, who was dismissed from the position of Member of the Management Board as of 16 April 2010.

** - PLN 18 thousand concerns elimination of the loan granted to Czesław Kolterman, who was dismissed from the position of Member of the Management Board as of 1 September 2009.

Other transactions resulting from civil law agreements concluded between ENEA S.A. and members of the Company's governing bodies concern only private use of company cars by Members of the Management Board of ENEA S.A.

(iii) Transactions with entities whose shares are held by the State Treasury of the Republic of Poland

ENEA S.A. also concludes business transactions with entities of the central and local administration and entities whose shares are held by the State Treasury of the Republic of Poland.

The transactions concern mainly:

- purchase of electricity and property rights resulting from certificates of origin as regards renewable energy and energy produced the CHP system from companies whose shares are held by the State Treasury;
- sale of electricity, distribution services and other related fees, provided by the Company both to central and local administration bodies (sale to end users) and entities whose shares are held by the State Treasury (wholesale and retail sale to end users).

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Such transactions are concluded under arm's length terms and their conditions do not differ from those applied in transactions with other entities. As the Company does not keep a record of the aggregate value of all transactions concluded with all state institutions and entities controlled by the State Treasury, the turnover and balances of transactions with related parties disclosed in these condensed interim separate financial statements do not include data related to transactions with entities controlled by the State Treasury.

19. Future liabilities under contracts concluded as of the balance sheet date

Contractual obligations assumed as of the balance sheet date, not yet recognized in the balance sheet:

	30.06.2010	31.12.2009
Acquisition of property, plant and equipment	10 496	13 053
Acquisition of intangible assets	160	160
	10 656	13 213

20. Explanations of the seasonal and cyclical nature of the Company's business

Sales of electricity during the year are subject to seasonal fluctuations. They increase during the winter months and decrease in summer. This depends on the temperature and the length of the day. The extent of fluctuations depends on low temperature and shorter days in winter as well as higher temperature and longer days in summer. Seasonal sales of electricity apply to a more considerable degree to small clients (43.89% of the sales value), rather than to the industrial sector.

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*(all amounts in PLN '000, unless stated otherwise)***21. Contingent liabilities and proceedings before courts, arbitration or public administration bodies****21.1 Guarantees for credit facilities and loans as well as other sureties granted by the Company****Guarantees and sureties as of 30 June 2010**

No.	Name of entity to which a guarantee or surety was given	Total liabilities for which the guarantee or surety was given	Term	Relationship between the Company and the entity which assumed the liability
1.	EP Zakład Transportu Sp. z o.o.	PLN 203 thousand (EUR 49 thousand)	31-08-2017	subsidiary

Guarantees and sureties as of 31 December 2009

No.	Name of entity to which a guarantee or surety was given	Total liabilities for which the guarantee or surety was given	Term	Relationship between the Company and the entity which assumed the liability
1.	EP Zakład Transportu Sp. z o.o.	PLN 201 thousand (EUR 49 thousand)	31-08-2017	subsidiary

In the reporting period the Company did not give any guarantees or sureties for credit facilities or loans.

21.2 Pending proceedings before common courts of law

Actions brought by the Company

Actions which ENEA S.A. brought to common courts of law refer to claims for receivables due to provision of electricity (the so-called electricity cases) and claims for other receivables - illegal consumption of electricity, connections to the grid and other specialized services provided by the Company (the so-called non-electricity cases).

As of 30 June 2010, the total of 5,211 cases brought by the Company were pending before common courts of law for the total amount of PLN 14,887 thousand (5,054 cases for the total amount of PLN 12,435 thousand as of 31 December 2009). None of the cases can significantly affect the Company's financial profit/loss.

Actions brought against the Company

Actions against the Company are brought both by natural and legal persons. They mainly refer to such issues as compensation for interrupted delivery of electricity, identification of illegal electricity consumption and compensation for the Company's use of real property where electrical devices are located. The Company considers actions concerning non-contractual use of real property not owned by the Company as particularly important (note 21.5).

As of 30 June 2010 there were 123 cases pending before common courts of law which have been brought against the Company for the total amount of PLN 9,890 thousand (126 cases for the total amount of PLN 11,835 thousand as of 31 December 2009). Provisions related to the court cases have been presented in note 16.

21.3 Arbitration proceedings

As of 30 June 2010 there were no pending proceedings before competent arbitration bodies.

21.4 Proceedings before public administration bodies

Pursuant to a decision of the President of the Office of Competition and Consumer Protection of 12 September 2008 which closed the proceedings for charging customers with a double subscription fee for January 2008, ENEA S.A. was obliged to pay a fine of PLN 160 thousand. The Company appealed against the decision on 30 September 2008. On 31 August 2009 the Regional Court in Warsaw – Court of Competition and Consumer Protection reduced the fine to PLN 10 thousand. . On 25 September 2009, ENEA appealed against the judgment issued by the Court of Competition and Consumer Protection to the Court of Appeals in Warsaw applying for reversal of the decision in whole. On 27 April 2010 the Court reversed the judgment and remanded the case for reconsideration.

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On 27 November 2008 the President of the Energy Regulatory Office issued a decision on ENEA's failure to comply with the obligation to purchase electricity produced in the CHP system in 2006, imposing a fine of PLN 7,594 thousand on the Company. On 17 December 2008, ENEA filed an appeal to the District Court in Warsaw - the Court of Competition and Consumer Protection. On 15 December 2009 the Court of Competition and Consumer Protection issued a judgment favorable for the Company, changing the decision of the President of the Energy Regulatory Office of 27 November 2008 and discontinuing the administrative proceedings. The President of the Energy Regulatory Office appealed against the decision to the Court of Appeals in Warsaw. As of 30 June 2010, ENEA recognized a provision in the total amount of the aforementioned fine.

On 28 December 2009 the President of the Energy Regulatory Office issued a decision on ENEA's failure to comply with the obligation to purchase electricity produced in the CHP system in the first half of 2007, imposing a fine of PLN 2,150 thousand on the Company. On 19 January 2010, ENEA filed an appeal against the decision of the President of the Energy Regulatory Office to the District Court in Warsaw - the Court of Competition and Consumer Protection. As of 30 June 2010, ENEA recognized a provision in the total amount of the aforementioned fine.

21.5 Risk related to the legal status of property used by the Company

The risk related to the legal status of the property used by the Company (currently used by ENEA Operator Sp. z o.o.) results from the fact that the Company does not have all legal titles to use the land where transmission networks and the related devices are located. In the future the Company may have to incur costs related to non-contractual use of property, which was the case in the past until the unbundling of ENEA Operator Sp. z o.o.

Considering the legal status, there is a risk of additional costs related to compensation claims for non-contractual use of land, rental fee or, rarely, claims related to the change of facility location (restoring land to its previous condition).

Claims against the Company are of the nature of claims for payment (compensation for non-contractual use of property, impairing the value of property, lost benefits) and claims for discontinuing infringement of ownership rights (demand to remove devices).

Court decisions related to these issues are important as they considerably affect the Company's strategy towards persons who lodged out-of-court claims related to devices located on their land in the past and the approach to the legal status of devices in case of new investments.

The Company recognized a provision for all claims lodged by owners of property located near transmission networks and devices based on best estimates of expenditures necessary to settle the claims adopted by the Management Board. Since the date of unbundling of the distribution system operator such claims have also been filed to ENEA Operator Sp. z o.o., which is currently the owner of the transmission networks and the related devices.

The Company does not recognize a provision for claims which have not been filed yet by owners of land used non-contractually. The value of the potential claims may be significant, considering the area of land used non-contractually. The Company does not keep any record and it has no knowledge of the legal status of land, therefore is it unable to reliably estimate the maximum amount of possible claims arising from non-contractual use of land.

21.6 Risk related to participation in costs incurred due to the use of woodland managed by the National Forests for the needs of electricity lines

As of 30 June 2010 there were no regulations in this respect and the Company did not recognize provisions for potential claims due to the use of woodland managed by the National Forests for the needs of its electricity lines. On 29 November 2006 a meeting was held initiated by the Minister of Environment and attended by representatives of the National Forests, the Ministry of State Treasury, PSE-Operator Sp. z o.o. and Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej representing distribution companies. The National Forests' proposal to conclude agreements for the lease of land where the lines are located was not accepted. Consequently, a more general solution based on legislative changes is required. Currently, it is not possible to estimate a provision for participating in the costs of the National Forests related to property tax for the land owned by the State Treasury. The value of the potential claims may be significant, considering the area of land.

Regardless of the aforementioned actions aimed at general regulation of the legal status of land owned by the National Forests, individual forest district offices lodged claims against the Company for compensation due to its non-contractual use of land. The claims have been accounted for in the provision referred to in note 16.

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22. Opening of negotiations concerning acquisition of Zespół Elektrowni Pątnów-Adamów-Konin S.A.

In 2008 ENEA S.A. started negotiations with the receiver in bankruptcy of Elektrim S.A. concerning the acquisition of 45.95% of shares in Zespół Elektrowni Pątnów-Adamów-Konin S.A. (ZE PAK). The Company would submit the offer after a number of conditions have been met. These include satisfactory results of the legal, financial, tax, technical, environmental and operational review of ZE PAK and its capital group, negotiating all conditions of the sales agreement and positive settlement of the claims with respect to shares in ZE PAK filed by the creditors of Elektrim S.A. After a due diligence analysis had been conducted, ENEA S.A. decided not to take part in the subsequent stage of the tender announced by the Ministry of State Treasury.

23. Actions aimed at acquiring a coal mine

The Company has taken steps aimed at acquiring an organized part of a coal mine – Kopalnia Węgla Kamiennego “Brzeszcze – Silesia” Ruch II Silesia and made an informal acquisition offer to the existing shareholder. As of the date of preparation of these separate financial statements, the Management Board of ENEA S.A. decided to withdraw from acquisition of a part of Kompania Węglowa S. A. named Ruch II Silesia KWK „Brzeszcze-Silesia”. ENEA S.A. does not rule out further talks and defining new frameworks of cooperation with Kompania Węglowa, which is the owner of the KWK Silesia mine. In the case of the KWK Silesia mine, the decision making process is in progress and ENEA S.A. is considering other forms of investments.

24. Negotiations concerning acquisition of shares

On 28 June 2010 the Minister of State Treasury in Warsaw, acting on behalf of the State Treasury based on the Act on Commercialization and Privatization (Journal of Laws of 2002, No. 171, item 1397, as amended) on a detailed procedure for disposal of shares held by the State Treasury (Journal of Laws of 2009, No. 34, item 264), invited investors to negotiations concerning the acquisition of 51% of shares in ENEA S.A. The State Treasury intends to sell 225,135,940 shares with the face value of PLN 1 each. At present, the State Treasury holds 60.43% of the Company’s shares but 9.43% are employee shares.

Written replies to the public invitation to negotiations concerning the acquisition of shares by potential investors who received the Investment Memorandum were to be submitted by 28 July 2010. On 23 July the Minister of State Treasury announced that the deadline had been extended until 13 August 2010.

25. Post balance sheet events

On 1 July 2010 two subsidiaries of ENEA S. A. were combined: Elektrownie Wodne Sp. z o. o. with its registered office in Samociążek (the acquirer) and Energopartner Sp. z o. o. with its registered office in Poznań (the acquiree). As a result of the business combination, a new entity was established under the name of Elektrownie Wodne Sp. z o.o. with its registered office in Samociążek.

Report of the Management Board on the operations of the ENEA Capital Group in the first half of 2010

Poznań, 27 August 2010

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

1.1. Composition of the ENEA Capital Group.

As at 30 June 2010, the Capital Group consisted of the parent company ENEA S.A. (the "Company", or "Parent Company"), 24 subsidiaries, three associated companies as well as one company that is jointly controlled. Within the ENEA Capital Group (the "Group"), there are three leading companies: ENEA S.A. (trade in electricity), ENEA Operator Sp. z o.o. (distribution of electricity) and Elektrownia Koźienice S.A. (generation of electricity). The remaining entities provide support activities in relation to the above companies.

General information regarding ENEA S.A.:

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

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

1. **ENEA Operator Sp. z o.o.** with its registered office in Poznań. The core business is the distribution of electricity, conducted since 1 July 2007 on the basis of a concession issued by the president of the Energy Regulatory Office (ERO) on 28 June 2007 for the period from 1 July 2007 to 30 June 2017. The president of the ERO designated ENEA Operator Sp. z o.o. as the operator of an electrical energy distribution system for the life of the concession.
2. **Elektrownia Koźienice S.A.** with its registered office in Świerża Górne. The core business of Elektrownia Koźienice S.A. is the generation of electricity and heat co-generated with electricity.
3. **ENERGOMIAR Sp. z o.o.** with its registered office in Poznań, engaged in the production of astronomical clocks, the maintenance, assembly, legalisation and standardisation of electricity meters, readings of electricity consumption and remote-control power services.
4. **BHU Spółka Akcyjna** with its registered office in Poznań, trading in electrical power equipment, tools and materials.
5. **Energetyka Poznańska HOTEL EDISON Sp. z o.o.** with its registered office in Baranów, engaged in the hotel, restaurant, training, sports and recreation business.
6. **Energetyka Poznańska Zakład Transportu Sp. z o.o.** with its registered office in Poznań, established to provide road transport and vehicle maintenance services.
7. **Energetyka Wysokich i Najwyższych Napięć EWINN Sp. z o.o.** with its registered office in Poznań providing comprehensive operation, repair, modernisation and investment services related to high- and very high-voltage electric power grids and equipment.
8. **COGEN Sp. z o.o.** with its registered office in Piła, engaged in generating electricity and heat in cogeneration units.
9. **Energopartner Sp. z o.o.** with its registered office in Poznań, engaged in the development of operations involving power generation from renewable energy sources by implementing wind farm projects.

10. **Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o.**, with its registered office in Gronówek, a company engaged in the design, construction, modernisation and operation of electric power grids and associated equipment.
11. **ENERGO-TOUR Sp. z o.o.** with its registered office in Poznań, providing hotel and restaurant services, organising vacations, recreational and youth camps, providing tourism and healthcare services.
12. **Niepubliczny Zakład Opieki Zdrowotnej Centrum Rehabilitacyjno-Wczasowe ENERGETYK Sp. z o.o.** with its registered office in Inowrocław, operating in the field of healthcare and physiotherapy.
13. **Elektrownie Wodne Sp. z o.o.** with its registered office in Samociążek, engaged in the generation of electricity and the operation of hydroelectric plants.
14. **Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o.** with its registered office in Gorzów Wielkopolski, providing transport and technical services, vehicle maintenance and repair .
15. **Eneos Sp. z o.o.** with its registered office in Poznań, engaged in the operation and maintenance of street lighting.
16. **ENTUR Sp. z o.o.** with its registered office in Szczecin, engaged in recreation, hotel, tourism and restaurant services, as well as healthcare.
17. **ITSERWIS Sp. z o.o.** with its registered office in Zielona Góra, conducting operations in landline and wireless telecommunications and IT and computer services, as well as wholesale and retail selling of electronic and telecommunications equipment, computers and software.
18. **Auto-Styl Sp. z o.o.** with its registered office in Zielona Góra, engaged in the wholesale of mechanical vehicles, accessories and fuels, servicing and repairing mechanical vehicles, and leasing means of transport.
19. **Miejska Energetyka Ciepła Piła Sp. z o.o.** with its registered office in Piła, engaged in the generation, transmission and distribution of heat.
20. **Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.** with its registered office in Oborniki, engaged in the generation, transmission and distribution of heat.
21. **Przedsiębiorstwo Energetyki Ciepłej - Gozdnicza Sp. z o.o.** with its registered office in Gozdnicza, engaged in the generation of heat and its transmission and distribution.
22. **Kozienice II Sp. z o.o.** with its registered office in Świerże Górne. The company was founded in 2008, and its core business is the construction of two power units of a total capacity of up to 2000 MW for Elektrownia Kozienice S.A.
23. **Energetyka Poznańska Biuro Usług Technicznych S.A.** (in liquidation) with its registered office in Poznań engaged in providing services related to consulting, design, construction, operation, servicing, metering and trading in the field of telecommunications and IT. On 1 May 2010 the company was placed in liquidation.
24. **FINEA Sp. z o.o.** (in liquidation) with its registered office in Poznań, providing debt collection services on behalf of the ENEA Capital Group. After an amendment of its company objects it was to have engaged in the generation, transmission, distribution and trading in electricity and gaseous fuels from renewable sources using biogas technologies, but due to the change in the concept within this scope, on 11 June 2010 the company was placed in liquidation.

Affiliates operate within the following scope of business:

1. **Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych "WIRBET" S.A.** with its registered office in Ostrów Wielkopolski, engaged in the production of prefabricated concrete, and in particular reinforced concrete beams, as well as decorative concrete elements.
2. **Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A.** with its registered office in Śrem – engaged in the generation and distribution of heat.
3. **Elektrociepłownia Białystok S.A.** with its registered office in Białystok – produces heat and electricity.

Subsidiaries.

The ENEA Capital Group includes 24 subsidiaries, in which ENEA S.A. holds shares with a total nominal value of PLN 5,559,155,900 and which, as at 30 June 2010, constituted 99.47 per cent of their total share capital of PLN 5,588,548,400.

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

Item	Company name and address	Share capital - nominal value [PLN '000]	Shareholding of ENEA S.A. [PLN '000]	Per centage of capital and voting rights held by ENEA S.A.
1	BHU Spółka Akcyjna ul. Strzeszyńska 58, 60-479 Poznań	14 062,20	12 842,20	91,32
2	Energetyka Poznańska Biuro Usług Technicznych S.A. w likwidacji (in liquidation) ul. Dziadoszańska 10, 61-248 Poznań, since 2 August 2010, ul. Św. Wojciecha 7/9, 61-749 Poznań	1 973,70	1 973,70	100,00
3	Hotel EDISON Sp. z o.o. Baranowo k/Poznania, 62-081 Przeźmierowo	21 236,50	21 236,50	100,00
4	"Energetyka Poznańska Zakład Transportu" Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznań	4 975,50	4 975,50	100,00
5	Energetyka Wysokich i Najwyższych Napięć EWiNN Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznań	2 447,00	2 447,00	100,00
6	ENERGOMIAR Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznań	2 749,00	2 749,00	100,00
7	COGEN Sp. z o.o. ul. Kaczorska 20, 64-920 Piła	2 372,50	2 372,50	100,00
8	Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o. Gronówko 30, 64-111 Lipno k/Leszna	5 676,00	5 676,00	100,00
9	EnergPartner Sp. z o.o. ul. Warszawska 43, 61-028 Poznań	11 100,00	11 100,00	100,00
10	ENERGO-TOUR Sp. z o.o. ul. Marcinkowskiego 27, 61-745 Poznań	9 543,00	9 535,00	99,92
11	ENEA Operator Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznań	4 678 050,00 *	4 678 050,00	100,00
12	Elektrownia Kozienice S.A. Świerże Górne, gmina Kozienice, 26-900 Kozienice 1	450 000,00**	450 000,00	100,00
13	ITSERWIS Sp. z o.o. ul. Zacisze 28, 65-775 Zielona Góra	6 364,00	6 364,00	100,00
14	Auto-Styl Sp. z o.o. ul. Zacisze 15, 65-775 Zielona Góra	2 200,00	2 200,00	100,00
15	FINEA Sp. z o.o. w likwidacji (in liquidation) ul. Warszawska 43, 60-028 Poznań	5 323,00	5 323,00	100,00
16	Przedsiębiorstwo Energetyki Ciepłej - Gozdnicza Sp. z o.o. ul. Świerczewskiego 30, 68-130 Gozdnicza	340,00	340,00	100,00
17	Eneos Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznań	19 559,00	19 559,00	100,00
18	ENTUR Sp. z o.o. ul. Malczewskiego 5/7 71-616 Szczecin	4 134,50	4 134,50	100,00
19	Elektrownie Wodne Sp. z o.o. Samociążek 92, 86-010 Koronowo	205 020,00	205 020,00	100,00

20	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowiskowe ENERGETYK Sp. z o.o. ul. Wilkońskiego 2, 88-100 Inowrocław	17 448,00	17 438,00	99,94
21	Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o. ul. Energetyków 4, 66-400 Gorzów Wielkopolski	1 385,00	1 385,00	100,00
22	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. ul. Wybudowanie 56, 64-600 Oborniki	5 182,50	4 560,00	87,99
23	Miejska Energetyka Ciepła Sp. z o.o. ul. Kaczorska 20, 64-920 Piła	27 407,00	17 375,00	63,40
24	Kozienice II Sp. z o.o. Świerże Górne, gmina Kozienice, Kozienice 1	90 000,00	72 500,00	80,56
	TOTAL	5 588 548,40	5 559 155,90	99,47

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

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

Affiliated companies.

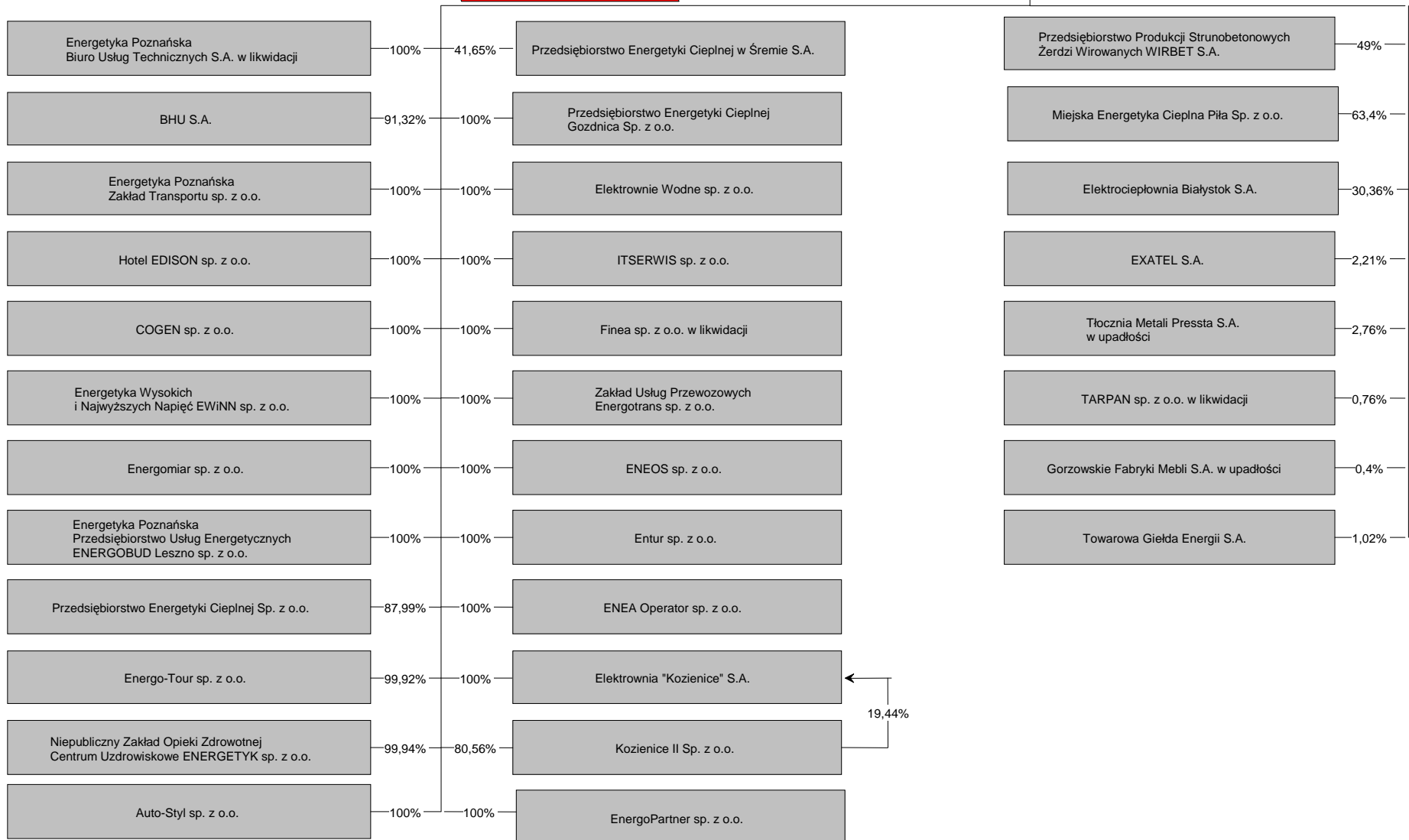
	Company name and address	Share capital [PLN '000]	Shareholding of ENE A S.A - nominal value [PLN '000]	Per centage of share capital and voting rights held by ENE A S.A
1	Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET S.A. ul. Chłapowskiego 51, 63-400 Ostrów Wlkp.	5 490,00	2 690,00	49,00
2	Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A. ul. Staszica 6, 63-100 Śrem	16 470,00	6 860,00	41,65
3	Elektrociepłownia Białystok S.A. ul. Gen. Andersa 3, 15-124 Białystok	18 442,75	5 600,00	30,36

Structure of the ENEA Capital Group at 30 June 2010

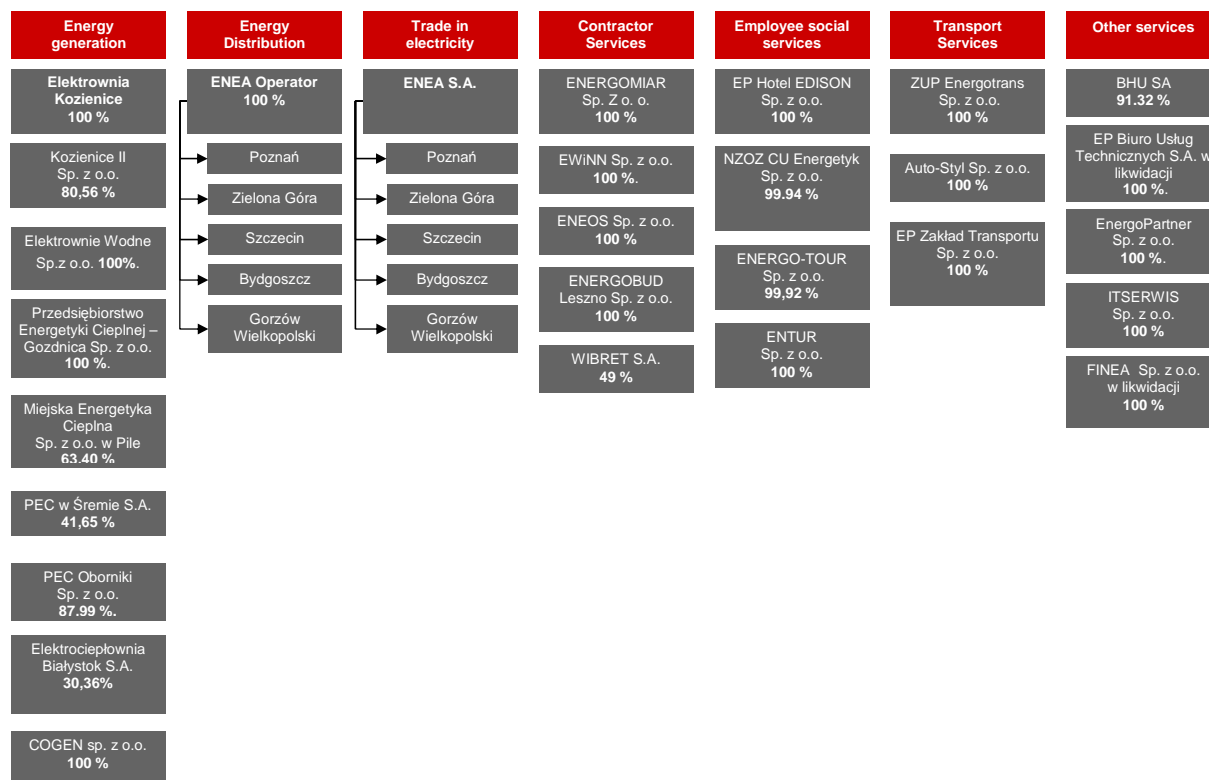
ENEA S.A.

% of votes AT Shareholders Meetings

% of votes at Shareholders Meeting



The structure of the ENEA Capital Group according to segments (as at 30 June 2010)



1.2. Policy on directions of development of the Capital Group

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

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

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

The first step towards carrying out that strategy was joining Elektrownia Kozienice, Poland's highest-capacity bituminous coal-fired power plant, to the ENEA Capital Group in October 2007. We are currently analysing the possibility of acquiring other entities active in the field of generating electricity from conventional fuels. Furthermore, we are taking steps to ensure the security of supplies of bituminous coal from optimal sources.

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

In connection with anticipated increases in the requirements for renewable and co-generated energy sources, we are taking action aimed at increasing our control over the costs of meeting the legal requirements. Towards this end, we plan to continue concluding long-term agreements for the purchase of energy certificates for

energy production from renewable sources and cogeneration from external entities, as well as to carry out direct investments in such sources. Our intention is to invest in wind farm projects, agricultural biogas plants and already biogas generators, already begun and at varying stages of advancement, by acquiring existing entities or investing in cooperation with external entities. There are four possible acquisition scenarios, depending on the stage of a given project: searching for projects that would in part be implemented by a third-party entity on a developer services basis, purchasing a project from a third-party entity before that entity has obtained a building permit, with independent further development of the project, purchasing projects/special purpose vehicles (set up by developers for the purpose of implementing a project) after a final building permit has been issued for the project/special purpose vehicle, or purchasing 'turnkey' completed wind farms, biogas plants or biogas generators.

Furthermore, in the near future we plan to continue modernising acquired thermal plants and thermal-electric power plants. Acquired thermal plants will be transformed into thermal-electric plants, including those fuelled by biomass, which will generate electricity and heat through cogeneration, enabling us to obtain additional energy certificates.

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

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

The effective implementation of a policy on the developmental direction of the Company and the entire ENEA Capital Group is dependent on initiating a new business model for the Group. A fundamental task of this new model is to guarantee that the ENEA Capital Group will be able to function flexibly over the long term, thereby taking full advantage of the opportunities and meeting the challenges that arise in the Polish power industry.

1.3. Description of principal capital deposits and investments

In implementing the Company's strategy for the development of the ENEA Capital Group, a number of capital investments were made in the first six months of 2010:

- on 22 December 2009, the Extraordinary General Meeting of Shareholders was held, during which the share capital of the company BHU S.A. with its registered office in Poznań was increased by PLN 4,164,100 from PLN 10,138,400 to PLN 14,302,500 (by an issue of series E shares covered in cash – PLN 2,800,000; series F,G,H,I,J shares covered with an in-kind contribution – PLN 1,364,100 in the form of real property located in Gniezno, Wolsztyn, Świebodzin, Chodzież and Gorzów Wielkopolskie. The transfer of the right of perpetual usufruct to the real property took place on 2 February 2010.
- on 22 December 2009, the Extraordinary General Meeting of Shareholders of EP PUE ENERGOBUD Leszno Sp. z o.o. with its registered office in Gronówek increased the share capital of the company from PLN 3,524,500 to PLN 5,676,000, i.e., by PLN 2,151,500. ENEA S.A. took up all the new shares and covered them in full with an in-kind contribution in the form of real property located in Piła and Gniezno. The share capital increase was registered in the National Court Register on 2 April 2010.
- On 28 January 2010, by a resolution of the Extraordinary General Meeting of Shareholders, the share capital of ENTUR Spółka z ograniczoną odpowiedzialnością with its registered office in Szczecin was increased by PLN 100,000, and all the newly created shares were taken up by ENEA S.A. and covered in cash. ENTUR Sp z. o.o. is engaged in leisure, recreation and training activities.

- On 4 February 2010, by a resolution of the Extraordinary General Meeting of Shareholders, the share capital of Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowiskowe ENERGETYK spółka z ograniczoną odpowiedzialnością with its registered office in Inowrocław was increased by PLN 1,710,000, and all the newly created shares were taken up by ENEA S.A. and covered in cash. NZOZ Centrum Uzdrowiskowe ENERGETYK Sp. z o.o. is engaged in sanatorium operations, physiotherapy and healthcare.
- On 9 February 2010, ENEA S.A. sold a block of 6,000 shares in the company "PWE Gubin" Sp. z o.o. (comprising 50 percent of the share capital of that company) to KWB "Konin" S.A. with its registered office in Kleczew for PLN 931.55 per share, yielding the sum of PLN 5,589,300.00 for the share block. "PWE Gubin" Sp. z o.o. with its registered office in Sękowice was established for the purpose of searching for deposits of brown coal within the territory of the districts of Gubin and Brody near the Polish-German border, and thereafter for constructing exploratory mines and power plants. That Company is a joint venture between ENEA S.A. and Kopalni Węgla Brunatnego "KONIN" w Kleczewie S.A. On 23 October 2008, a trilateral Understanding was signed by PWE Gubin Sp. z o.o., ENEA S.A., and KWB Konin S.A., pursuant to which KWB Konin consented to the transfer, under the procedure provided by Article 26a of the Geological and Mining Law of 4 February 1994 (Journal of Laws of 2005 No. 228 item 1947 as amended), of concession No. 39/2008/p granted by the Minister of the Environment. The subject of that concession is the right to explore for deposits of brown coal in the vicinity of Gubin and Gubin-Zasieki-Brody. In Annex No. 1 to the above Understanding, the final deadline for transferring the concession was set out, and was made dependent on the date on which KWB Konin obtained a decision from the Minister of the Environment (which was on 4 April 2009). Even though the Understanding was concluded, KWB Konin decided not to take action aimed at transferring the rights to concession No. 39/2008/p to PWE Gubin. Given the lack of agreement between KWB Konin and ENEA as to the implementation of the Understanding, ENEA's further engagement of capital in the company PWE Gubin was without an economic basis. In view of the existing situation, on 9 February 2010, ENEA S.A. sold all of its shares to Kopalnia Węgla Brunatnego "Konin" w Kleczewie S.A.
- On 26 February 2010, a plan for merging Elektrownie Wodne and EnergoPartner was submitted to the District Court in Bydgoszcz. The plan foresees a merger through the takeover of EnergoPartner Sp. z o.o. with its registered office in Poznań by Elektrownie Wodne Sp. z o.o. with its registered office in Samociążek as the acquiring company. The plan was agreed upon on 26 February 2010 and announced in *Monitor Sądowy i Gospodarczy (Court and Economic Monitor)* No. 47 of 9 March 2010.
- On 12 April 2010, the Extraordinary General Meeting of Shareholders of Eneos Sp. z o.o. with its registered office in Poznań took place, at which the company's share capital was increased by PLN 630,500 to PLN 20,189,500 by the creation of 1,261 new shares, which were covered by an in-kind contribution of a right of perpetual usufruct to a real property in Szczecin and the ownership title to a gatehouse building located on it. As at 16 August 2010, the increase in share capital has not been registered in the National Court Register.
- On 19 April 2010, the Extraordinary General Meeting of Shareholders adopted a resolution on placing the company Energetyka Poznańska Biuro Usług Technicznych S.A. in a state of liquidation as at 1 May 2010. Mr Jacek Pałka, appointed as President of the Management Board of the Company, took up the function of liquidator.
- On 5 May 2010, the Extraordinary General Meeting of Shareholders of BHU S.A. with its registered office in Poznań took place, at which, due to the inability to make a timely in-kind contribution of a real property located in Gorzów Wielkopolski to cover the issued shares, it was decided to rescind the resolution of 22 December 2010 on increasing the company's share capital through an issue of Series J shares. In connection with the above, on 8 June 2010, an increase of the share capital from PLN 10,138,400 to PLN 14,062,200, i.e., by PLN 3,923,800 (through an issue of shares of series E to I), was entered in the National Court Register.

- On 12 May 2010, ENEA S.A. sold all of the shares it held in Miejskie Przedsiębiorstwo Kanalizacji Sp z. o.o. with its registered office in Leszno to that same company, i.e. a block of 46 shares constituting 0.0661 per cent of the Company's share capital, for the price of PLN 992 per share or PLN 45,632 for the block of shares.
- On 14 May 2010, ENEA S.A. sold all the shares it held in Huta Szczecin S.A., i.e., a block of 960 shares constituting 0.05 per cent of the Company's share capital, to Kronospan Investment Sp z. o.o. with its registered office in Mielec, for PLN 0.45 per share or a total of PLN 432 for the block of shares.
- On 28 May 2010, the Extraordinary General Meetings of Shareholders of Elektrownie Wodne Sp z. o.o. with its registered office in Samociążek and EnergoPartner Sp z. o.o. with its registered office in Poznań were held, at which resolutions were adopted to merge both of these companies through the incorporation of EnergoPartner Sp z. o.o. into Elektrownie Wodne Sp z. o.o. under the procedure set out in Article 492 par. 1 pt. 1 of the Commercial Companies Code, i.e., through the transfer of all of the assets of EnergoPartner Sp z. o.o. to Elektrownie Wodne Sp z. o.o. in exchange for shares in Elektrownie Wodne Sp z. o.o., which will be transferred to ENEA S.A. as the acquiring company's sole shareholder. The merger of the companies took place on 1 July 2010 based on a ruling by the District Court in Bydgoszcz, Division XIII (Commercial) of the National Court Register. As a result of the merger, the share capital of Elektrownie Wodne Sp. z o.o. was increased by PLN 8,821,000, from PLN 205,020,000 to PLN 213,841,000, by creating 17,642 new shares with a nominal value of PLN 500 each, designated for ENEA S.A. On the basis of EnergoPartner Sp z. o.o., a branch of Elektrownie Wodne Sp z. o.o. was established in Poznań to continue the previous activities of EnergoPartner Sp z. o.o., i.e. the development of wind farm projects.
- On 11 June 2010, the Extraordinary General Meeting of Shareholders took a decision to put the company Finea Sp. z o.o. in a state of liquidation. Ms Katarzyna Mińkowska was appointed as liquidator.
- On 29 June 2010, the Extraordinary General Meeting of Shareholders of EP PUE ENERGOBUD Sp z. o.o. with its registered office in Gronówek took place, at which the company's share capital was increased by PLN 540,000 from PLN 5,676,000 to PLN 6,216,000 through the creation of 1,080 new shares which were covered by an in-kind contribution of a right of perpetual usufruct to a real property in Bydgoszcz and the ownership title to an office and workshop building located on it and constituting separate property. As at 16 August 2010, the increase in share capital has not been registered in the National Court Register.

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

In H1 2010 changes took place with regard to the organisation of customer service within the ENEA Group. The changes took place on 11 March 2010, i.e. on the day on which the Act Amending the Energy Law and Selected Other Acts (Journal of Laws No. 21 of 8 February 2010, item 104) came into force, and consisted of the employment by ENEA S.A. of ENEA Operator Sp z. o.o. employees previously directly engaged in providing customer services to ENEA S.A. customers.

In H1 2010 a branch named Liszkowo Biogas Electric Plant was established within ENEA S.A. organisational structures. Elektrownia Biogazowa Liszkowo. Moreover, outside of Poznan Key Customer Sales Offices operate in Bydgoszcz, Gorzów Wlkp, Zielona Góra and Szczecin.

On 18 June 2010 the Extraordinary General Meeting of Shareholders of Elektrownia Kozienice S.A. and the Extraordinary General Meeting of Shareholders of Kozienice II Sp z. o.o. consented to actions aimed at merging these companies by incorporating Kozienice II Sp z. o.o. into Elektrownia Kozienice S.A. under the procedure set out in Article 492 par. 1 of the Commercial Companies Code.

2. The operations of the ENEA Capital Group.

2.1. Information on basic products, goods and services.

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

Generation.

Within our Group, the generation of electricity is mainly carried out by Elektrownia Koźienice S.A. (hereinafter the “Power Plant”, “Koźienice Power Plant”), which became part of the Group in October 2007. The Koźienice Power Plant has a gross annual power capacity of 2,880 MW and is thus the largest bituminous coal-fired power plant in Poland. In 2008, the Koźienice Power Plant generated a gross 11,790,882.425 MWh of electricity, and a gross 12,122,187.400 MWh in 2009. In H1 2010 it generated 5,909,791.400 MWh.

In January 2008, the Koźienice Power Plant also began producing electricity from renewable sources (through the co-combustion of biomass). In 2008, the amount of energy from renewable sources, confirmed by energy certificates obtained from the President of the ERO, was 129,645.145 MWh. In 2009, the amount of energy generated from co-burning biomass, as confirmed by energy certificates issued by the President of the ERO, was almost two times greater, and reached a level of 210,476.181 MWh. In H1 2010, energy generated by the Power Plant from renewable resources amounted to 121,628.473 MWh.

Another subsidiary, Elektrownie Wodne Sp z. o.o., which owns 20 hydroelectric plants, is also engaged in the generation of electricity from renewable resources. In H1 2010 it obtained 74,353,562 certificates of energy production from renewable resources. The annual power capacity of the 20 hydroelectric plants belonging to our Group amounts to about 57 MW. Electricity generated in hydroelectric plants and transferred to the grid in H1 2010 amounted to 73,424.187 MWh. In H1 2010 energy generated by hydroelectric plants amounted to a total of 0.074 TWh.

Activities undertaken to increase the amount of electricity produced from renewable energy sources is significant for the Group in that provisions of law oblige us to obtain certificates of origin and submit them to the President of the ERO for cancellation. These must confirm: (i) that electricity is being generated in renewable sources; or (ii) that electrical energy is being generated in association with heat generation (cogeneration) or, if certificates of origin are not obtained or presented for cancellation in the required quantity, the payment of substitute charges. Further information on this subject is to be found in the annual reports of ENEA S.A.

Distribution.

Within our Group, the distribution of electricity is the responsibility of ENEA Operator Sp. z o.o. (“ENEA Operator”), which acts as the operator of the electricity distribution system. ENEA Operator’s distribution network covers an area of approximately 20 per cent of the country, located in the northwestern part of Poland. ENEA Operator owns power lines with a total length of more than 126,000 km (including connections) and about 34,400 transmission stations (as at 31 December 2009).

Trading.

In H1 2010, ENEA S.A.’s total sales volume from trading in energy amounted to approximately 9.5 TWh, including sales to end users of approximately 8.1 TWh, including to customers connected to networks of distribution system operators other than ENEA Operator Sp. z o.o. of about 0.7 TWh.

The number of end users as at 30 June 2010 amounted to about 2.4 million, including more than 2.1 million individual users and 0.3 million business users.

In 2009 and 2010, on the wholesale market, Elektrownia Koźienice S.A. also carried on business involving trading in electricity. Under a trading concession, its sales of electricity in 2009 amounted to 155.0 GWh, and 107.2 GWh in H1 2010.

Other activity.

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

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

2.2. Sales markets.

The portfolio of customers to whom we sell electricity is stable and highly diversified. As at 30 June 2010 ENEA S.A. provided comprehensive services (consisting of the sale of electricity and provision of distribution services) or sold electricity to some 2.1 million individual customers and about 300,000 business clients.

In the first half of 2010, revenues from the sale of electricity to our largest client amounted to about 4.5 per cent of total revenues from the sale of electricity and provision of distribution services, and the share of the largest 10 clients amounted to ca. 13.7 per cent.

Sales to end users.

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

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

This offer is directed to customers on the domestic market.

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

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

Sales to other end users.

In participating in the domestic electricity market we also sell on the wholesale market, including the Polish Power Exchange, and to other electricity traders. Wholesale sales volume results mainly from our efforts to

optimise (at all hours of the trading day) the costs of covering the forecast demand for electricity by the Company's customers, at the same time limiting the Company's exposure risk on the balancing market.

Sales by value and type.

Electricity sales in particular tariff group sets were as follows:

Item	Sales of energy [MWh]		
	H1 2009	H1 2010	Growth [%]
Tariff group set A	848 038	824 162	97,2
Tariff group set B	3 288 382	3 076 463	93,6
Tariff group set C	1 891 947	1 836 013	97,0
Tariff group set G	2 272 962	2 345 604	103,2
TOTAL	8 301 330	8 082 242	97,36

The value of revenues from electricity sales in particular tariff group sets were as follows:

Item	Revenues from energy sales to end users [PLN '000]		
	H1 2009	H1 2010	Growth [%]
Tariff group set A	207 141,9	193 116,8	93,2
Tariff group set B	895 865,5	810 715,7	90,5
Tariff group set C	573 802,4	539 952,4	94,1
Tariff group set G	508 391,2	572 179,2	112,5
TOTAL	2 185 201,1	2 115 964,1	96,83

2.3. Supply markets.

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

In H1 2010, a significant part of the electricity sold by ENEA S.A. constituted electricity generated by Elektrownia Kozienice S.A. This reduced the volume risk associated with purchasing electricity. ENEA S.A. purchased the remainder on the basis of bilateral agreements (with producers, trading companies, and on trading platforms), by concluding purchase transactions on the Polish Power Exchange, and on the balancing market.

In addition, ENEA entered into arbitrage transactions in particular market segments.

Purchase and sale of energy on the wholesale market by Elektrownia Kozienice.

In H1 2010, sales of electricity by Elektrownia Kozienice S.A. to entities belonging to the ENEA Capital Group amounted to 62,3 per cent of the total electricity it generated. The rest is sold on the balancing market (4.6 per cent), outside the ENEA Capital Group (33.1 per cent), or designated for covering power reserves under regulatory systems services, with insignificant amounts sold to local end users.

The total electricity generation capacity within the Group is 2,936 MW, of which 2,880 MW is generated by the Kozienice Power Plant, and 57 MW by the 20 hydroelectric power stations within the Group. The technical generation potential of the Elektrownia "Kozienice" S.A. is 14.1 TWh net (15.0 TWh gross) annually.

From 2005-2009 and in H1 2010, the Kozienice Power Plant generated a net total of, respectively, 11.4, 12.5, 11.6, 11.1, 11.4 and 5.4 TWh of electricity (corresponding to gross electricity volumes of 12.1, 13.2, 12.4, 11.8, 12.1 and 5.9 TWh).

The Kozienice Power Plant produced 12.1 TWh gross in 2009 (including 5.8 TWh in the first half of 2009), and 5.9 TWh in H1 2010. Taking into account the current size and efficiency of the Kozienice Power Plant's generating capacity and the planned assignment levels of carbon dioxide emission rights in 2008-2012 (9.6 million tonnes annually), Elektrownia Kozienice S.A. can currently generate about a gross 10.9 TWh of electricity annually without needing to purchase additional rights.

On the wholesale market in 2009, Elektrownia Kozienice S.A. purchased electricity on the basis of bilateral agreements and on trading platforms in the amount of 155.0 GWh, including 85.1 GWh within the ENEA Capital Group, and 69.9 GWh from entities outside the Group.

On the wholesale market in H1 2010, Elektrownia Kozienice S.A. purchased electricity from entities outside the Group in the amount of 107.6 GWh on the basis of bilateral agreements and on trading platforms. In contrast to preceding years, the Power Plant did not purchase electricity from within the ENEA Capital Group.

Purchase of transmission services from PSE Operator.

In H1 2010, ENEA Operator Sp. z o.o. bought transmission services from PSE Operator Sp z. o.o.

Coal supply.

Lubelski Węgiel Bogdanka S.A., which delivered around 1.5 million tonnes in H1 2010, which constitutes more than 65 per cent of this commodity's volumes, is the main supplier of bituminous coal to the Power Plant. Moreover, with regard to fuel coal supplies, the Power Plant works with Kompania Węglowa S.A. and Jastrzębska Spółka Węglowa S.A. In order to supplement supplies of low-sulfur coal, an agreement was concluded in the period under consideration with KOMPLET Sp z. o.o. for coal supplies, with the factual implementation period from the second half of 2010 to the beginning of 2011. LOTOS Asphalt Sp z. o.o. was the only supplier of starter fuel to Elektrownia Kozienice S.A. in H1 2010. The supplied fuel is heavy fuel oil with a sulfur content up to 3 per cent.

Coal transport.

We are dependent on a single railway carrier with regard to the transport of hard coal. A description of risks related to dependence on a single railway carrier is included in point 3.15 below.

2.4. Information about concluded agreements.

2.4.1. Agreements of significance to ENEA Capital Group operations.

Bituminous coal supply agreements.

Fuel coal sale agreement No. 112/KW/2010 of 31 May 2010 between the Kozienice Power Plant and Kompania Węglowa S.A.

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

Agreement for the sale of power coal No. 27/DM/MK/2008 of 29 February 2008 concluded between Elektrownia Kozienice S.A. and Jastrzębska Spółka Węglowa S.A.

The subject of the agreement is the sale and supply of coal by Jastrzębska Spółka Węglowa S.A. to Elektrownia Kozienice S.A. Prices, specific conditions and supply amounts are negotiated in concluding yearly agreements. Each of the parties may terminate the agreement with six months' notice. The agreement was concluded for the period until 31 December 2010. The annual agreement for the sale and supply of fuel coal for 2008 was concluded on 29 February 2008. The annual agreement for 2009, in the form of Annex No. 1 to Agreement No. 27/DM/MK/2008, was concluded on 14 January 2009 (and corrected by Annex No. 2 of 10 April 2009). The annual agreement for 2010, in the form of Annex No. 3 to Agreement No. 27/DM/MK/2008, was concluded on 21 January 2010, and is in force between 1 January 2010 and 31 December 2010. Aneks nr 3 uszczegółowia zapisy Umowy Wieloletniej dotyczące roku 2010 w zakresie: warunków dostaw i odbioru węgla, ilości dostaw w 2010 roku, parametrów jakościowych i ceny – wliczając bonifikatę za odebranie określonej ilości węgla

Lubelski Węgiel Bogdanka S.A. – Long-term Agreement UW/LW/01/2010 for the supply of fuel coal of 4 March 2010.

Term of the agreement 4 March 2010 – 31 December 2025. The subject of the agreement is to define the framework rules for the long-standing supply of power coal, in particular delivery deadlines and basic quantity and quality parameters of the coal. The long-term agreement stipulates the conclusion of annual agreements in the form of appendices that detail the terms of deliveries in subsequent periods, such as prices, the detailed volumes of supplies and the detailed conditions of supplies and receipt (including the procedure and rules for the circulation of documents, the rules of determining quantities of coal, the rules of measuring it, and the complaints procedure). The price for each calendar year will be determined through negotiations pursuant to indicated negotiation deadlines. The Agreement includes a clause that makes it possible for any of the Parties to request the initiation of renegotiation talks in the event of material changes to market conditions. The agreement provides for contractual penalties for the delivery of coal with characteristics worse than the limits specified in yearly agreements or failure to deliver or failure to accept the amount of coal specified in the delivery schedule. Each party may terminate the agreement with two years' notice, the beginning of which will fall on the first day of the following year, in the event of a failure to agree upon the price for the subsequent calendar year for four negotiation periods.

Agreement No. ZH/TGP/01/2010 for the supply of fuel coal, dated 1 June 2010, with KOMPLET Sp. z o.o., together with Annex No. 1.

Term of the agreement 1 June 2010 – 31 January 2011. The subject of the agreement is the provision of fuel coal that meets specified quality parameters, carried out during the life of the agreement. The agreement defines: prices, basic supply amounts, supply tolerance, coal quality parameter limits beyond which the Power

Plant can impose contractual penalties in its monthly settlement, method of delivery, method of settlements, and specific conditions for settlements in terms of coal quantity and quality. Each of the parties may charge contractual penalties to another party for failing to deliver or to receive the quantities of coal set out in the schedule of the agreement. In the event of significant changes in the process of performing the agreements, prices may be subject to change upon renegotiation.

2.4.2 Significant transactions with affiliated entities.

The Company has concluded transactions with affiliated entities in the past, and plans to do so in the future. Within our Group, the following transactions have been concluded with affiliated entities:

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

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

Agreements between companies belonging to the Group.

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

Information regarding transactions with affiliated entities are included in the abbreviated consolidated financial statements of the ENEA Capital Group for H1 2010, note No. 22.

2.4.3. Credit and loan agreements concluded and terminated.

In H1 2010 ENEA S.A. had five open working capital facilities: two from BZ WBK S.A., two from Pekao S.A. and a credit limit in PKO BP S.A.

The total limit on working capital facilities as at 30 June 2010 was PLN 100,000,000, and as at 30 June 2010 the Company had no debts pertaining to them.

In H1 2010 ENEA S.A. did not use working credit facilities for financing its current operations, but only drew them down in the event of temporary need for funds. The Company did not take out any credit for a pledge, mortgage, ownership right transfer of fixed assets or ownership right transfer of an organised part of an enterprise.

In accordance with the credit agreements signed, security for open credit lines comprises the following: powers of attorney in respect of current accounts with the banks where ENEA S.A. holds current accounts as well as a declaration voluntary submission to enforcement. As at 30 June 2010 ENEA Operator Sp z. o.o. had an unused credit limit of PLN 50,000,000 with PKO S.A. The remaining subsidiaries have drawn down working credit facilities to the amount of PLN 1,757,000, and investment credit facilities of PLN 122,255,000. The details of these are presented in the tables below.

As at 30 June 2010, subsidiaries had drawn down loans of PLN 9,337,000.

No.	Creditor	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Debt on credit facilities as at 30.06.10 [PLN '000]	End date	End date	Repayment period
Working capital loans taken out by ENEA S.A. in 2007							
1	PKO BP S.A.	50 000,00	0,00	0,00	2006.04.25	x	5 years from the first use of the credit facility
2	Bank Pekao S.A.	10 000,00	0,0	0,00	2007.04.12	2011.11.17	2011.11.17
3	Bank Zachodni WBK S.A.	40 000,00	0,7	0,00	2007.04.12	2011.11.17	2011.11.17
TOTAL			0,7	0,00			

No	Borrower	Creditor	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Debt on credit facilities as at 30.06.10 [PLN '000]	End date	End date	Repayment period [months]
Working capital facilities drawn down by subsidiaries								
1	BHU S.A.	BZ WBK S.A.	3 500	25	169	01.12.2009	30.11.2010	12
2	Hotel Edison Sp. z o.o.	BZ WBK S.A.	300	7	239	30.10.2009	29.10.2010	12
3	Auto Styl Sp. z o.o.	Volkswagen Bank Polska	1 000	9	384	08.08.2009	30.06.2010	12
4	IT Serwis Sp. z o.o.	BGŻ S.A.	1 000	19	965	16.09.2009	31.08.2010	12
TOTAL			5 800	60	1 757			
No	Borrower	Creditor	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Debt on credit facilities as at 30.06.10 [PLN '000]	End date	End date	Repayment period [months]
Investment credit facilities drawn down by subsidiaries								
1	EWiNN Sp. z o.o.	Nordea Bank Polska	3 351	x	2 035	02.11.2005	28.02.2016	123
2	Elektrownia Kozienice S.A.	Nordic Investment Bank	114 835	557	71 470	20.12.2000	26.11.2014	48
3	Elektrownia Kozienice S.A.	PKO BP S.A.	218 451	1 287	45 510	23.12.1998	31.12.2012	168

4	ENEOS Sp. z o.o.	PKO BP S.A.	5 154	X	2 697	21.09.2005	20.12.2014	111
5	Elektrownie Wodne Sp. z o.o.	BOŚ S.A.	3 500	x	423	07.2005	12. 2010	65
6	Auto Styl Sp. z o.o.	BGŻ S.A.	300	4	120	13.04.2007	31.03.2012	60
TOTAL			345 591	1 848	122 255			

2.4.4. Loans granted.

In H1 2010 the Parent Company and the Capital Group's subsidiaries granted no loans.

2.4.5. Granted and received suretyships and guarantees.

In H1 2010, the ENEA Capital Group did not grant any suretyships or guarantees.

The total value of off-balance sheet items from suretyships and guarantees granted by ENEA S.A. as at 30 June 2010 is PLN 203,000. Detailed information regarding suretyships and guarantees are shown in the tables below. There are no 'endangered guarantees or suretyships' among the suretyships and guarantees granted. The sureties and guarantees granted by ENEA S.A. fall within the limits specified in Article 33 par. 1 of the Act on sureties and guarantees granted by the State Treasury and other legal persons of 8 May 1997 (Journal of Laws of 2003 No. 174, item 1689 as amended) .

The status of received guarantees as at 30 June 2010 is shown in the table below.

Item	Date security granted	Date of security validity	Entity to which security is granted	Agreement type	Form of security	Secured amount
1	13-12-2009	13-12-2010	RONDO PROPERTY INVESTMENT Sp. z o.o. in Warsaw	premises lease agreement	bank guarantee	EUR 29,000*
2.	24-11-2009	from 01 January 2010 to 15 February 2011	PGE ELEKTRA S.A. ul. Mysia 2, 00-496 Warszawa	electricity sales agreements	bank guarantee	PLN 219,000

The status of granted suretyships as at 30 June 2010 is shown in the table below.

No.	Date surety/ guarantee granted	Date of validity of suretyship/ guarantee	Entity for which surety/ guarantee was granted	Entity to which surety/ guaranteed granted	Agreement number	Value of surety/ guarantee	Actual debt as at 30 June 2010 [PLN '000]
1	For the purpose of meeting the statutory conditions for obtaining a licence to carry on for-profit transport operations						
	26-08-2003	31-08-2017	EP Zakład Transportu	Poznań Department of	Surety's statement of 2 September	PLN 203,000	-

			Sp. z o.o.	Communal Services and Housing	2003	EUR 49,000*	
Total:						PLN 203,000	-

*The mid-price EUR exchange rate as at 30 June 2010 was 4.1458 - NBP table No. 125/A/NBP/2010 from 30 June 2010.

Other conditional obligations granted by ENEA S.A. as at 30 June 2010				
	Obligation type	Entity to which security is granted	Value of security	Period of security's validity
1.	Blank promissory note	Security of PSE Operator S.A.'s receivables for settlement of energy payments	PLN 15,000,000	Open-ended

Other conditional liabilities of the ENEA Capital Group have been described in note 26 to the abbreviated consolidated financial statements for H1 2010.

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

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

2.5.1.1. Financial results.

Consolidated profit and loss statement

Profit and loss statement in PLN '000	H1 2009	H1 2010	Change	Difference
Sales revenues	3 591 926	3 917 827	109,1%	325 901
Cost of sales	-3 159 555	-3 505 156	110,9%	-345 601
Other operating revenue	37 510	23 495	62,6%	-14 015
Loss on sales and liquidation of tangible fixed assets	1 157	1 016	87,8%	-141
Lasting loss of value of tangible fixed assets	-7 517	0	x	7 517
Other operating expenses	-39 593	-43 669	110,3%	-4 076
Operating profit (loss)	423 928	393 513	92,8%	-30 415
Financial expenses	-24 652	-19 357	78,5%	5 295
Financial revenue	84 292	78 927	93,6%	-5 365
Share in (losses)/profits of affiliated entities accounted for using the equity method	8 769	4 500	51,3%	-4 269
Profit (loss) before tax	492 337	457 583	92,9%	-34 754
Income tax	-100 431	-92 891	92,5%	7 540
Net profit (loss) for the reporting period	391 906	364 692	93,1%	-27 214

The Group's net revenues from sales in the reporting period amounted to PLN 3,917,827,000, which in relation to the first half of 2009 constituted growth of PLN 325,901,000, or 9.1 per cent.

The breakdown below shows the value and structure of cost of sales achieved in H1 2010.

Item	H1 2009		H1 2010		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Revenues from the sale of electricity	2 275 288	63,4	2 498 164	63,8	109,8%	222 876
Revenues from the sale of distribution services	1 140 915	31,8	1 263 808	32,3	110,8%	122 893
Revenues from the sale of goods and materials	90 617	2,5	52 505	1,3	57,9%	-38 112
Revenues from the sale of other services	31 785	0,9	57 298	1,4	180,3%	25 513
Recovery of stranded costs	27 034	0,8	15 580	0,4	57,6%	-11 454
Revenues from the sale of thermal energy	26 287	0,7	30 472	0,8	115,9%	4 185
Total net revenues	3 591 926	100,0	3 917 827	100,0	109,1%	325 901

The Group's revenues mainly consist of revenues from sales of electricity and from sales of distribution services, which amount to 63.8 per cent and 32.3 per cent of total revenues, respectively.

Revenues from the sale of electricity in H1 2010 amounted to PLN 2,275,288,000 and rose in relation to the first half of the previous year by 9.8 per cent. This stems mainly from an increase in the sale of electricity by the Koźienice Power Plant to other recipients, i.e. companies holding concessions for trading in electricity and its sale on the Polish Power Exchange and the Electricity Trading Platform, by PLN 367,533,000. At the same time sales of electricity by ENEA S.A. to end users declined by PLN 69,236,000, which resulted mainly from the lower volume of electricity sold by 219 GWh, with an average reduction in price by 0.5 per cent. In addition, revenues from the sales of electricity to other entities declined by PLN 57,773,000, which stemmed mainly from lower volumes of electricity sold by 335 GWh.

Revenues from the sale of distribution services in H1 2010 amounted to PLN 1,263,808,000, and were higher than in the same period of the preceding year (growth of 10.8 per cent) The increase of those revenues was caused by an increase in the amount of electricity supplied to end users by 4.7 per cent, with a simultaneous increase in the average sale price of distribution services by 1.8 per cent. Additionally, sales of distribution services were influenced by an increase in revenues from network connection charges (by 505.1 per cent in comparison with H1 2009), which stemmed from a change to the rules for recording connection charges. In the preceding year, these charges were settled over 35 years, while connections handed over for use starting on 1 January 2010 are booked in their entirety under operating revenues.

A drop of 42.1 per cent in revenues from sales of goods and materials was mainly due to a drop in external sales within the companies BHU, Auto-Styl, Energomiar and IT Serwis.

The growth in revenues from sales of other services by 80.3 per cent stems from an increase in revenues under this item in the companies: Energobud Leszno, Energomiar and from greater internal trading among Group companies. Given, however, the scale of operations in the above entities, this decline in their sales did not have much impact on the financial result of the Capital Group.

The level of revenues from sales in H1 2010 was also influenced by a decision by the President of the ERO defining the adjustment of annual stranded costs in 2009 in the amount of PLN 15,580,000.

Revenues from the sale of thermal energy in H1 2010 amounted to PLN 30,472,000 and amounted to 0.8 per cent of sales revenues. The increase of these (growth of 15.9 per cent) was caused mainly by favourable atmospheric conditions.

In H1 2010 the total cost of sales amounted to PLN 3,505,156,000 and grew by 10.9 per cent relative to the same period of the previous year.

The breakdown below shows the value and structure of the costs of sales in H1 2010.

Item	H1 2009		H1 2010		Change	Difference
	[PLN '000]	%	[PLN '000]	%		
Amortisation/depreciation	318 921	10,1	324 478	9,3	101,7%	5 557
Employee benefit costs	386 920	12,2	481 334	13,7	124,4%	94 414
Consumption of materials and raw materials and costs of goods sold	712 335	22,6	727 754	20,8	102,2%	15 419
Energy purchases for sales needs	1 179 001	37,3	1 359 393	38,8	115,3%	180 392
Transmission services	333 481	10,6	344 837	9,8	103,4%	11 356
Other external services	142 272	4,5	172 504	4,9	121,2%	30 232
Taxes and charges	86 625	2,7	94 856	2,7	109,5%	8 231
Total cost of sales	3 159 555	100,0	3 505 156	100,0	110,9%	345 601

The largest items in the Capital Group's costs are the costs of purchasing electricity and consumption of materials, as well as the value of goods sold, which constitute respectively 38.8 per cent and 20.8 per cent of the costs of sales.

The purchase of energy for sales needs rose in H1 2010 by PLN 1,359,393,000, an increase of 15.3 per cent over the previous year, and this was mainly caused by an increase in the volume of electricity sold on the external market. In H1 2010 62 per cent of revenues from electricity sales by the Koźienice Power Plant constituted sales under contract to ENEA S.A., while in the same period of the preceding year this share amounted to 95 per cent. It should also be noted that the average price of electricity sold decreased by 5.2 per cent in relation to H1 2010.

Employee benefit costs in H1 2010 amounted to PLN 481,334,000, an increase of PLN 94,414,000 or 24.4 per cent, which was caused by increased provisions for employee benefits, mainly provisions for anniversary bonuses, by PLN 41,255,000, provisions for energy equivalents by PLN 24,235,000, and provisions for retirement bonuses by PLN 16,328,000. Moreover, the increase of these costs in the period under review stemmed from the growth of average wages by 3.8 per cent, with a concurrent drop in average employment from 10,400.84 full-time equivalents to 10,245.61 full-time equivalents.

The costs of other external services grew in comparison with the preceding year by 21.2 per cent, which stemmed from increased repair costs at the Koźienice Power Plant, increased costs of legal services and advertising costs for ENEA S.A., as well as higher costs of outsourced services at Energobud Leszno.

The 2.2 per cent growth in the use of materials, raw materials and the value of goods sold in H1 2010 stems mainly from higher costs borne by the Koźienice Power Plant. These costs increased for the Koźienice Power Plant by PLN 40,169,000, which is most likely due mainly to growth in the use of coal stemming from increased generation of electricity and higher average price of coal used by 1.1 per cent. At the same time the cost of goods and materials sold decreased in the companies ENEA Operator, BHU, IT Serwis, Auto-Styl and Energomiary, which resulted in lower revenues from the sale of goods and materials by these companies.

The costs of transmission services amounted to PLN 344,837,000, an increase of PLN 11,356,000 or 3.4 per cent due mainly to the increase of the quantity of transmission services purchased by 404 GWh or 5.8 per cent.

The costs of taxes and charges increased by 9.5 per cent in comparison with the same period of last year, mainly due to an increase of real estate taxes for properties used for distribution, increased court and mortgage registration fees and increases of charges for the commercial use of the environment, which stemmed from an increase in the generation of electricity.

In H1 2010, the ENEA Capital Group attained an operating profit of PLN 393,513,000, which was higher than the result attained in the previous year, by 7.2 per cent, that is, by PLN 30,415,000. This was due to increased revenues from operations in the amount of PLN 311,886,000 with a simultaneous increase in operational costs of PLN 342,301,000.

Consolidated profits before tax in H1 2010, i.e. after financial activities had been taken into account, amounted to PLN 457,583,000, a decrease of PLN 34,754,000 or 7.1 per cent relative to the previous year. This stemmed mainly from the lower operating profit generated, the decreased financial results of the Białystok and Śrem cogeneration plants, and from the valuation of these companies (no valuation in H1 2009).

The net profit generated by the Group in H1 2010 amounted to PLN 346,692,000 and was down PLN 27,214,000, or 6.9 per cent, on the profit attained in the preceding year.

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

Consolidated balance sheet.

Total assets in PLN '000	As at:		Change	Difference
	30. June 2009	30. June 2010		
Non-current assets	8 183 265	8 351 158	102,1%	167 893
Property, plant and equipment	7 891 008	8 049 658	102,0%	158 650
Perpetual usufruct right	15 261	28 975	189,9%	13 714
Intangible assets	39 089	43 090	110,2%	4 001
Investment properties	4 943	5 975	120,9%	1 032
Investments in associated entities, accounted for using the equity method	196 001	178 928	91,3%	-17 073
Available-for-sale financial assets	34 450	43 035	124,9%	8 585
Financial assets valued at fair value by the profit and loss account	1 125	1 307	116,2%	182
Trade and other receivables	1 388	190	13,7%	-1 198
Current assets	3 992 844	3 954 128	99,0%	-38 716
Inventories	344 533	239 059	69,4%	-105 474
Trade and other receivables	913 925	929 254	101,7%	15 329
Current income tax assets	9 432	1 153	12,2%	-8 279
Held-to-maturity investments	72 809	48 202	66,2%	-24 607
Financial assets valued at fair value by the profit and loss account	1 936 520	1 742 092	90,0%	-194 428
Cash and cash equivalents	715 625	994 368	139,0%	278 743
Total assets	12 176 109	12 305 286	101,1%	129 177

Total liabilities in PLN '000	As at:		Change	Difference
	30. June 2009	30. June 2010		
Total equity	9 230 765	9 571 879	103,7%	341 114
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	16 794	23 063	137,3%	6 269
Other reserves	-28 226	-22 110	78,3%	6 116
Retained earnings	3 863 282	4 181 634	108,2%	318 352
Minority interest in equity	31 493	24 474	77,7%	-7 019
Total liabilities	2 945 344	2 733 407	92,8%	-211 937
Non-current liabilities	1 487 077	1 444 937	97,2%	-42 140
Current liabilities	1 458 267	1 288 470	88,4%	-169 797
Total equity and liabilities	12 176 109	12 305 286	101,1%	129 177

As at 30 June 2010, the balance-sheet total of the ENEA Capital Group was PLN 12,305,286,000 and it had increased by PLN 129,177,000, i.e. by 1.1 per cent, relative to the situation as at 30 June 2009.

Non-current assets at the end of 2008 amounted to PLN 8,351,158,000, an increase of PLN 167,893,000 (2.1 per cent) compared to the previous year. The increase in non-current assets results mainly from an increase in tangible non-current assets caused by the implementation of investments in relation to generation and distribution assets. Financial assets available for sale also went up as a result of a fair value valuation of shares held by Elektrownia Kozienice in the mine Bogdanka S.A. However, investments in affiliated entities decreased, due to the valuation of the Białystok and Śrem cogeneration plants at the end of 2009.

In H1 2010, current assets amounted to PLN 3,954,128,000, a decrease relative to H1 2009 of PLN 38,716,000 (1.0 per cent). This was caused mainly by reduces stocks of coal and financial assets held to maturity (exchange of term deposits of more than three months for deposits with a shorter maturity date) in the Kozienice Power Plant. At the same time, cash reserves grew as a result of the sale of financial assets and revenues from current operations.

The dominant source of financing the assets of the Group is equity, which on 30 June 2010 amounted to PLN 9,571,879,000, PLN 341,114,000 or 3.7 per cent more than at the end June 2009. The growth in equity resulted from an increase in retained profits due to the division of profits carried out in 2009.

As at 30 June 2010, the value of the Group's long-term liabilities was PLN 1,444,937,000 and had fallen by PLN 42,140,000, i.e. by 2.8 per cent, in relation to the situation at the end of 2009. This stems mainly from a decrease in the level of drawn credit facilities and loans.

Current liabilities were at a level of PLN 1,288,470,000, having decreased by PLN 169,797,000 (11.6 per cent) relative to the previous year, mainly in connection with a decrease in liabilities for goods and services, as well as other liabilities.

2.5.1.3. Cash.

Consolidated cash flow statement

Cash flow statement in PLN '000	As at		Change	Difference
	30. June 2009	30. June 2010		
Net cash flows from operating activities	331 458	663 277	200,1%	331 819
Net cash flows from investing activities	-2 205 794	-383 292	17,4%	1 822 502
Net cash flows from financing activities	-30 698	-188 160	612,9%	-157 462
Net increase (decrease) in cash and cash equivalents	-1 905 034	91 825	-4,8%	1 996 859
Cash and cash equivalents at the end of the reporting period	715 625	994 368	139,0%	278 743

At the end of H1 2010 the ENEA Capital Group's balance of cash and cash equivalents amounted to PLN 994,368,000 and were PLN 278,743,000 higher than at the end of H1 2009 (PLN 715,625,000).

Operating cash flows amounted to PLN 663,277,000 at the end of H1 2010, an increase of PLN 331,819,000 relative to the end of H1 2009 (PLN 331,458,000). This increase was due mainly to reductions in stocks, liabilities for goods and services, increases in liabilities for employee benefits in comparison to the changes that took place in H1 2009.

Cash flows from investment activities amounted to PLN -383,292,000 at the end of H1 2010, changing by 1,822,502,000 in comparison with the end of H1 2009, when they were PLN -2,205,794,000. This was due to the acquisition in H1 of 2009 of financial assets (investment of funds obtained from the Company's public offer in November 2008).

Cash flow on financial operations amounted to a negative PLN 188,160,000 at the end of H1 2010, compared to a negative PLN 30,698,000 at end of H1 2009. This change (negative PLN 157,462,000) was caused mainly by the dividend paid to shareholders of the parent company.

2.5.1.4. Ratio analysis.

Financial indicators.

Item	Perf.	Perf.
	H1 2009	H1 2010
PROFITABILITY RATIOS		
ROE - return on equity		
<i>Gross profit (loss) equity</i>	10,7%	9,6%
ROA - return on assets		
<i>Operating profit (loss) total assets</i>	7,0%	6,4%
Net profitability		
<i>Net profit (loss) sales revenues</i>	10,9%	9,3%
Operating profitability		
<i>Operating profit (loss) sales revenues</i>	11,8%	10,0%
EBITDA		
<i>Operating profit (loss) + amortisation and depreciation sales revenues</i>	20,7%	18,3%

LIQUIDITY AND FINANCIAL STRUCTURE RATIOS		
Current liquidity ratio		
<i>current assets</i>	2,7	3,1
<i>Current liabilities</i>		
Equity-to-fixed assets ratio		
<i>equity</i>	111,9%	114,6%
<i>non-current assets</i>		
Total debt ratio		
<i>total liabilities</i>	23,4%	22,2%
<i>total assets</i>		
ECONOMIC ACTIVITY RATIOS		
Current receivables turnover in days		
<i>avg. net trade and other receivables x number of days</i>	42	42
<i>sales revenues</i>		
Turnover of trade and other payables in days		
<i>average trade and other liabilities x number of days</i>	67	60
<i>Cost of products, goods and materials sold</i>		

In H1 2010 the ENEA Capital Group achieved a positive financial result and positive profitability ratios. EBITDA amounted to 18.3 per cent and was lower than that achieved in H1 2009 (20.7 per cent), as a result of generating a lower operating profit.

Net profitability achieved by the Group in H1 2010 amounted to 9.3 per cent and decreased by 1.6 percentage points from the level achieved in H1 2009 (10.9 per cent) as a consequence of the Group's lower net profit in the reporting period.

The efficiency of the Group's operations also decreased as measured by the ROE and ROA business activity ratios. In H1 2009 ROE was 10.7 per cent and decreased to 9.6 per cent in H1 2010, as a result of a lower pre-tax profit in H1 2010 than in the previous year. ROA decreased from 7.0 per cent in H1 2009 to 6.4 per cent in H1 2010 as a result of a lower operating profit.

The ENEA Capital Group is able to settle its current liabilities on time, which is confirmed by the level of the current liquidity ratio, which was 3.1 in H1 2010. That figure is the result of the high level of current assets due to the investment of funds obtained from the 2008 issue of shares on the Warsaw Stock Exchange in financial assets.

As at 30 June 2010, the receivables turnover rate was at the same level as in the previous year, and amounted to 42 days. Meanwhile the liabilities turnover indicator in H1 2010 was 60 days, and was thus 7 days shorter than in the previous year. Please note that a correct relationship was maintained between the receivables and payables turnover rates (liabilities are settled after receivables are obtained), which in turn has a beneficial effect on the Group's financial liquidity.

At the end of H1 2010, the total debt ratio was 22.2 per cent, having decreased relative to H1 2009 by 1.2 percentage point (23.4 per cent in 2009). The ratio of shareholders equity to fixed assets was 114.6 per cent on 30 June 2010 (and 111.9 per cent in H1 2009).

2.5.2. Financial results forecasts.

The Management Board of ENEA S.A. did not publish any forecasts of its financial results for H1 2010 or for the 2010 financial year.

2.5.3. Financial resources management.

ENEA S.A. has financial resources at its disposal that guarantee that all current and planned expenses associated with the Company's operations will be serviced. The balance of available funds enables it to flexibly settle its ongoing liabilities and carry out planned investments. The Company's liquidity management is concentrated on a detailed analysis of the flow of receivables, ongoing monitoring of bank accounts as well as the ongoing concentration of cash resources in consolidated accounts. The Company takes action to reduce the

period of obtaining receivables and extend the period of settling liabilities and deposits, and invests any financial surpluses that arise in current assets in the form of term deposits. Issue cash proceeds are managed by a specialist external firm. They are invested in minimum risk instruments, i.e. debt instruments issued, secured or guaranteed by the State Treasury, and bank deposits.

In H1 2010 ENEA S.A. had five open working capital facilities: two from BZ WBK S.A., two from Pekao S.A. and a credit limit in PKO BP S.A.

The total non-utilised limit of the working capital facilities available to the ENEA Capital Group as at 30 June 2010 was PLN 154,000,000.

During the financial year, ENEA S.A. did not make use of working capital facilities in order to finance current operations. It only drew on the credit line from BZ WBK SA and Pekao S.A. for the purpose of making term deposits on which the interest rate was higher than the costs of the credit. The Company did not take out any credit for a pledge, mortgage, ownership right transfer of fixed assets or ownership right transfer of an organised part of an enterprise.

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

Subsidiaries hold the following open lines of credit:

Company	Bank	Limit (PLN '000)	Amount drawn down as at 31 December 2009 (PLN '000)
BHU S.A.	BZ WBK S.A.	3.500	169
Hotel Edison Sp. z o.o.	BZ WBK S.A.	300	239
IT Serwis Sp. z o.o.	BGŻ S.A.	1.000	965
Auto Styl Sp. z o.o.	Volkswagen Bank S.A.	1.000	384
ENEA Operator Sp. z o.o.	Pekao S.A.	50.000	0

2.5.4. Information on financial instruments.

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

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

- 1) *credit risk* – credit risk relates to the failure by a client or contractor being party to a financial instrument to carry out its contractual obligations. The main factors influencing the appearance of a credit risk in the case of the Company are:
 - the large number of minor customers having an influence on an increase in the costs of controlling the flow of receivables,
 - the need to supply electrical energy to budget units which are in a difficult financial situation,
 - the legal requirements regulating the principles of suspending supplies of electrical energy as a result of a failure to pay.

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

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

- 2) *risk of loss of financial liquidity* – the risk of loss of financial liquidity is the risk of a lack of the Group’s ability to repay its financial obligations when they become due. The policy for managing the risk of losing financial liquidity involves ensuring that sufficient funds are available for the Company to fulfil its financial and investment liabilities, using the most attractive sources of financing, e.g. issues of debt securities.

The Company's liquidity management is concentrated on a detailed analysis of the flow of receivables, ongoing monitoring of bank accounts as well as the ongoing concentration of cash resources in consolidated accounts. The Company takes action to reduce the period of obtaining receivables and extend the period of settling liabilities and deposits, and invests any financial surpluses that arise in current assets in the form of term deposits.

- 3) *exchange rate risk* - The Group is vulnerable to exchange rate risk, mainly in relation to foreign currency credit facilities held by Elektrownia Koźienice.
- 4) *interest rate risk* – this exists mainly in relation to interest on credit facilities drawn and on interest from bank deposits. The interest rate is variable as it is calculated on the basis of the WIBOR rate.

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

2.6 The financial results of ENEA S.A. in H1 2010 as compared to H1 2009.

Profit and loss statement of ENEA S.A.

data in PLN '000	Performance		Change	Difference 2-1
	H1 2009 r.	H1 2010 r.	col.2 / col.1	
	1	2	3	4
Sales revenues	3 615 407	3 385 427	93,6%	-229 980
Excise duty	92 121	137 556	149,3%	45 435
Sales revenues	3 523 286	3 247 871	92,2%	-275 415
Other operating revenue	14 686	3 938	26,8%	-10 748
Cost of sales	3 423 310	3 140 401	91,7%	-282 909
Other operating expenses	25 462	15 408	60,5%	-10 054
Profit (loss) on sales of non-current assets	727	-349	x	-1 076
Operating profit	89 927	95 650	106,4%	5 722
Financial revenue	68 065	61 598	90,5%	-6 467
Dividend income	78 897	193 888	245,7%	114 991
Financial expenses	4 753	3 001	63,1%	-1 752
Gross profit	232 136	348 135	150,0%	115 999
Net profit	199 461	317 969	159,4%	118 508
EBITDA	97 043	104 421	107,6%	7 378

Sales revenues

The Group's gross revenues from sales in the reporting period amounted to PLN 3,385,427,000, which in relation to H1 2009 constituted a decrease of PLN 229,980,000, or 6.4 per cent.

The table below shows the value of sales revenues generated in H1 2010.

data in PLN '000	Performance		Change	Difference 2-1
	H1	H1	col.2 / col.1	
	2009 r.	2010 r.		
	1	2	3	4
Sales revenues	3 615 407	3 385 427	93,6%	-229 980
including:				
Revenues from sales of electricity and distribution services to end users	3 262 635	3 111 315	95,4%	-151 320
including:				
Sales of electricity to end users	2 185 200	2 115 964	96,8%	-69 236
Sales of distribution services to users holding comprehensive agreements	1 077 435	995 351	92,4%	-82 084
sales of electricity to cover balancing differences and own needs	161 094	151 562	94,1%	-9 532
Sales of electricity to other entities	172 495	114 721	66,5%	-57 773
Sales of generated electricity and certificates of origin	0	1 523	x	1 523
Sales of services	26 208	27 953	106,7%	1 745
Other revenue	-7 023	-21 648	308,2%	-14 624

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

revenues from the sale of electricity to end users, which constitute 62.5 per cent of all sales revenues. In H1 2010 these revenues amounted to PLN 2,115,964,000, a decrease of PLN 69,236,000 or 3.2 per cent on the same period of the preceding year, which in turn stemmed from sold electricity volumes declining by 219 GWh and a 0.5 per cent decrease in the average sale price. The most significant decreases of sold electricity volumes (by 236 GWh) and average sales prices (by 3.5 per cent) were noted for customers in tariff group sets A and B. At the same time, the volume of electricity sold to customers in tariff group G grew in comparison with the same period of the preceding year.

Revenues from sales of distribution services to users holding comprehensive agreements, which constitute 29.4 per cent of all sales revenues. In H1 2010 these revenues amounted to PLN 995,351,000, and were higher than in the same period of the preceding year by PLN 82,084,000 or 7.6 per cent. The level of those revenues was influenced mainly by the reduction in the amount of electricity supplied to users holding comprehensive agreements, by 1,272 GWh, with a simultaneous increase in the average sale price of distribution services of 11.3 per cent.

Revenues from electricity sales to other entities amounted to PLN 114,721,000, a reduction of PLN 57,773,000 or 33.5 per cent in comparison with H1 2009, which stemmed mainly from a drop in the amount of electricity sold by 335 GWh.

Revenues from the sale of electricity to cover balance differences in H1 2010 amounted to PLN 151,562,000, a decrease of PLN 9,532,000 or 5.9 per cent, which stemmed from a 11.2 per cent reduction in the average sales price.

Cost of sales

In H1 2010, ENEA S.A.'s total cost of sales amounted to PLN 3,140,401,000 and grew by PLN 282,909,000 or 8.3 per cent relative to the same period of the previous year.

The breakdown below shows the value of the cost of sales achieved in H1 2010.

data in PLN '000	Performance		Change	Difference 2-1
	H1	H1	kol.2	
	2009 r.	2010 r.	/ kol.1	
	1	2	3	4
Costs of electricity for resale	2 272 753	2 045 132	90,0%	-227 621
including: purchase of certificates of origin	215 957	266 630	123,5%	50 673
Cost of providing distribution services for the performance of comprehensive agreements for the provision of electricity and distribution services	1 068 567	991 247	92,8%	-77 321
Depreciation and amortisation of fixed and intangible assets	7 116	8 772	123,3%	1 656
Consumption of materials and energy and cost of sold materials	1 388	2 065	148,7%	677
Other external services	56 824	61 520	108,3%	4 696
Employee benefit costs	11 523	26 380	228,9%	14 858
Taxes and charges	5 139	5 286	102,9%	147
Cost of sales	3 423 310	3 140 401	91,7%	-282 909

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

- the costs of electricity for resale, which amounted to PLN 2,045,132,000, a reduction of PLN 227,621,000 or 10.0 per cent in comparison with H1 2009, mainly as a result of a decrease in the volume of purchased electricity by 275 GWh and lower average electricity purchase prices by 5.2 per cent.
- the costs of providing distribution services for the performance of comprehensive services, which amounted to PLN 991,247,000, lower by PLN 77,321,000 or 7.2 per cent than in H1 2009, which stemmed from the lower volume of supplied electricity by 1,272 GWh with a concurrent increase in the average price of distribution services sold for the performance of comprehensive agreements by 11.3 per cent.
- employee benefit costs in H1 2010 amounted to PLN 26,380,000, an increase of PLN 14,858 or 128.8 per cent, which was caused by increased provisions for employee benefits by PLN 9,679,000, mainly provisions for energy equivalents (by PLN 6,943,000), and provisions for unused vacations (by PLN 1,230,000). Moreover, remuneration costs with public charges increased by PLN 4,281,000 mainly in connection with an increase in average employment from 302.47 full-time equivalents in H1 2009 to 385.07 full-time equivalents in H1 2010. As a result of amendments to the Energy Law, in March 2010 ENEA S.A. took over customer service activities from ENEA Operator together with the employees engaged in these tasks. This increased employment as at the end of June 2010 to 470 persons, as compared to 305 persons at the end of June 2009.
- the costs of other external services amounted to PLN 61,520,000, an increase of PLN 4,695,000 or 8.3 per cent in comparison with the first half of the preceding year, which was caused by higher costs of representation and advertising, as well as higher legal services costs.

2.7 The financial results of ENEA Operator in H1 2010 in comparison with H1 2009.

Profit and loss statement of ENEA Operator.

Profit and loss statement	H1 2009	H1 2010	Change	Difference
1	2	3	[3 / 2]	[3 - 2]
Sales revenues	1 192 170	1 312 975	110,1%	120 805
Cost of sales	1 081 281	1 130 563	104,6%	49 282
Other operating revenue	9 922	9 838	99,2%	-84
Other operating expenses	6 990	8 715	124,7%	1 725
Profit (loss) on sales and liquidation of tangible fixed assets	1 385	1 135	81,9%	-250
Operating profit (loss)	115 206	184 670	160,3%	69 464
Financial revenue	3 538	5 263	148,8%	1 725
Financial expenses	6 325	5 428	85,8%	-897
Gross profit (loss)	112 419	184 505	164,1%	72 086
Net profit (loss)	88 019	147 676	167,8%	59 657
EBITDA	299 562	367 763	122,8%	68 201

Sales revenues.

ENEA Operator's net revenues from sales in the reporting period amounted to PLN 1,312,975,000, which in relation to H1 2009 constituted growth of PLN 120,805,000, or 10.1 per cent.

The breakdown below shows the value of the cost of sales achieved in H1 2010.

Sales revenues	H1 2009	H1 2010	Change	Difference
1	2	3	[3 / 2]	[3 - 2]
Sales revenues	1 192 170	1 312 975	110,1%	120 805
including:				
Revenues from sales of electricity and distribution services to end users, including:	1 128 371	1 201 758	106,5%	73 387
comprehensive agreements	1 077 434	995 348	92,4%	-82 086
other agreements	50 937	206 410	405,2%	155 473
Revenues from additional fees	1 897	1 540	81,2%	-357
Sales of distribution services in the WO and DO settlement system	-8 697	-2 455	28,2%	6 242
Fees for customer grid connection	8 144	49 276	605,1%	41 132
Revenues from the illegal collection of electricity	3 331	3 367	101,1%	36
Revenues from services	49 715	47 843	96,2%	-1 872
Sales of distribution services to other entities	8 229	9 281	112,8%	1 052
Sales of goods and services and other revenues	1 181	2 365	200,3%	1 185

ENEA Operator's sales revenues increased mainly due to:

- revenues from the sale of distribution services, which constitute 91.5 per cent of all sales revenues. In H1 2010 these revenues amounted to PLN 1,201,758,000, and were higher than in the same period of the preceding year by PLN 73,387,000 or 6.5 per cent. The level of those revenues was influenced mainly by the reduction in the amount of electricity supplied to end users, by 379 GWh, with a simultaneous increase in the average sale price of distribution services of 1.8 per cent.
- revenues from network connection fees amounted to PLN 49,276,000 in H1 2010, an increase of PLN 41,132,000, which stemmed from a change of rules for recording connection fees. In the preceding year, these charges were settled over 35 years, while connections handed over for use starting on 1 January 2010 are booked in their entirety under operating revenues.
- revenues from the sale of distribution services in the WO and DO settlement systems grew by PLN 6,242,000, which stemmed from increased revenues from the sale of DO distribution services.

Cost of sales.

In H1 2010, ENEA Operator's total cost of sales amounted to PLN 1,130,563,000 and grew by 49,283,000 or 4.6 per cent relative to the same period of the previous year.

The breakdown below shows the value of the cost of sales achieved in H1 2010.

Cost of sales	H1 2009	H1 2010	Change	Difference
1	2	3	[3 / 2]	[3 - 2]
Cost of sales	1 081 281	1 130 563	104,6%	49 282
including:				
Depreciation and amortisation of fixed and intangible assets	184 356	183 093	99,3%	-1 263
Employee benefit costs	230 820	267 574	115,9%	36 754
Consumption of materials and energy and cost of sold materials	188 533	193 299	102,5%	4 766
including: sales of electricity to cover balancing differences and own needs	161 226	168 503	104,5%	7 277
Costs of transmission services	341 217	343 744	100,7%	2 527
Other external services	83 342	85 279	102,3%	1 937
Taxes and charges	53 013	57 574	108,6%	4 561

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

- the costs of employee benefits in H1 2010 amounted to PLN 267,574,000 and increased by PLN 36,754,000 or 15 per cent, which stemmed from higher costs of provisions for anniversary and retirement bonuses, as well as higher costs of provisions for discounts on electricity.
- costs of materials and energy used, as well as the value of goods sold, which amounted to PLN 193,299,000 and increased by PLN 4,766,000 or 2.5 per cent, mainly as a result of higher costs of purchased electricity for covering balancing differences. This increase stems from higher demand for electricity by end users, with balancing losses remaining largely unchanged from H1 2010 at a level of 8.5 per cent.
- The costs of transmission services amounted to PLN 343,744,000, an increase of PLN 2,527,000 or 0.7 per cent due mainly to the increase of the quantity of transmission services purchased by 404 GWh or 5.8 per cent.
- the costs of other external services amounted to PLN 85,279,000, an increase of PLN 1,937,000 or 2.3 per cent in comparison with the first half of the preceding year, which was caused by higher costs of higher costs of logistics services as a result of the renegotiation of an agreement with BHU S.A.

- The cost of taxes and fees amounted to PLN 57,574,000 in H1 2010, having risen by PLN 4,561,000 or 8.6 per cent mainly as a result of an increase in taxes on real property used for distribution, as well as an increase in court and mortgage registration fees.

2.8 The financial results of Elektrownia Kozenice S.A. in H1 2010 as compared to H1 2009.

Profit and loss statement of Elektrownia Kozenice S.A.

Profit and loss statement	H1 2009	H1 2010	Change	Difference
1	2	3	[3 / 2]	[3 - 2]
Sales revenues	1 220 783	1 153 759	94,5%	-67 024
Excise duty	34 607	-3 596	-	-38 203
Sales revenues	1 186 176	1 157 355	97,6%	-28 821
Cost of sales	969 212	1 049 981	108,3%	80 769
Other operating revenue	10 271	7 367	71,7%	-2904
Other operating expenses	11 736	17 516	149,3%	5 780
Profit (loss) on sales and liquidation of tangible fixed assets	630	57	9,1%	-573
Operating profit (loss)	214 869	97 168	45,2%	-117 701
Financial revenue	13 376	7 890	59,0%	-5486
Financial expenses	14 879	9 263	62,3%	-5 616
Gross profit (loss)	213 366	95 795	44,9%	-117 571
Net profit (loss)	172 167	74 432	43,2%	-97 735
EBITDA	331 774	217 427	65,53%	-114 347

Sales revenues.

Elektrownia Kozenice S.A.'s net revenues from sales in the reporting period amounted to PLN 1,157,355,000, which in relation to the first half of 2009 constituted a decrease of PLN 28,821,000 and thus of 2.4 per cent.

The table below shows the value of sales revenues generated in H1 2010.

Sales revenues	H1 2009	H1 2010	Change	Difference
1	2	3	[3 / 2]	[3 - 2]
Gross sales revenues	1 220 783	1 153 759	94,5%	-67 024
including:				
Revenues from the sale of electricity, including:	1 171 770	1 111 276	94,8%	-60 494
agreements with ENEA	1 114 782	686 755	61,6%	-428 027
other agreements	56 988	424 521	744,9%	367 533
Revenues from compensation for stranded costs	27 034	0	0,0%	-27 034
Revenues from the sale of certificates of origin	12 332	32 051	259,9%	19 719
Revenues from the sale of heat	3 751	3 305	88,1%	-446
Revenues from the sale of services	2 156	2 271	105,3%	115
Revenues from the sale of goods and materials	3 740	4 856	129,8%	1116

The basic source of the Kozenice Power Plant's revenues are revenues from the sale of electricity, which constitute 96.3 per cent of sales revenues and amounted to PLN 1,111,276,000 in H1 2010. In comparison to the same period of the preceding year, these revenues decreased by PLN 60,494,000 or 5.2 per cent, which

stemmed from decreased sales of electricity to ENEA S.A. by PLN 428,027,000 with a concurrent increase in the sale of electricity to other recipients, i.e. companies holding concessions for trading in electricity and selling it on the Polish Power Exchange and the Electricity Trading Platform, by PLN 367,553,000. The volume of electricity sold in H1 2010 amounted to 5,726 GWh and rose in relation to H1 2009 by 6 GWh. At the same time, the average sale price of electricity decreased, mainly as a result of lower excise duty, which stemmed from an amendment of provisions regulating excise duty. From 1 March 2009, the obligation to pay excise duty was transferred from electricity generators to sellers. As a result of the above, the power plant pays excise duty only on electricity sold to end users and on electricity used for administrative purposes.

Cost of sales.

In H1 2010, Elektrownia Koźienice S.A.'s total cost of sales amounted to PLN 1,049,981,000 and grew by 80,769,000 or 8.3 per cent relative to the same period of the previous year.

The breakdown below shows the value of the cost of sales achieved in H1 2010.

Cost of sales	H1 2009	H1 2010	Change	Difference
1	2	3	[3 / 2]	[3 - 2]
Cost of sales	969 212	1 049 981	108,3%	80 769
including:				
Depreciation and amortisation of fixed and intangible assets	116 905	120 259	102,9%	3 354
Employee benefit costs	100 057	131 770	131,7%	31 713
Consumption of materials and raw materials and costs of goods sold	604 788	644 957	106,6%	40 169
Costs of purchases for resale	54 310	41 152	75,8%	-13 158
Costs of transmission services	1 286	1 326	103,1%	40
Other external services	64 283	79 658	123,9%	15 375
Taxes and charges	27 583	30 859	111,9%	3 276

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

- costs of materials and energy used, as well as the value of goods sold, which amounted to PLN 644,957,000 and increased by PLN 40,169,000 or 6.6 per cent. This situation is related to the increased costs of fuels (coal, biomass) caused by increased electricity generation and "green" energy generation, as well as increased costs of coal. The average price of coal used rose by 1.1 per cent. Moreover, in H1 2009 a PLN 7,456,000 increase in stocks was noted (decrease of costs) while in the same period of 2010 a deficit of PLN 122,000 appeared (increase of costs).
- costs of employee benefits in H1 2010 amounted to PLN 131,770,000 and rose by 31,713,000 or 31.7 per cent as a result of higher costs of the personnel fund and related items (changes to base pay on 1 March 2010), higher provisions for pension benefits, anniversary bonuses and electricity equivalents, while in the same period of 2009 they decreased. In addition, the Company Social Benefit Fund increased due to a division of profits.
- the costs of other external services amounted to PLN 79,658,000, an increase of PLN 15,375,000 or 23.9 per cent in comparison with the first half of the preceding year, which was caused by higher costs of repair services.
- the cost of taxes and fees amounted to PLN 30,859,000, having risen by PLN 3,276,000 or 11.9 per cent mainly as a result of an increase in fees for the commercial use of the environment due to increased generation of electricity.
- the costs of purchasing electricity for resale amounted to PLN 41,152,000, a decrease of 13,158,000 or 24.2 per cent from the same period of the preceding year, as a result of lower purchases of electricity to balance contracts (taken up from the Balancing Market).

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

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

3.1. Legal regulation and tariffs.

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

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

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

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

We are obliged to submit to the president of the ERO for approval tariffs relating to the sale of electricity to households and distributing power to customers connected to our distribution network. By law, the manner in which tariffs are calculated should ensure that the power company: (i) has sufficient funds to cover the costs planned for the tariff period in question, provided that the president of the ERO deems them to be justified; and (ii) obtains a particular margin (in trading) or return on capital (in distribution) while ensuring that customers are protected from unreasonably high prices and rates for charges. Some elements of the tariff calculations are calculated on the basis of financial models and other assumptions adopted by the president of the ERO, which do not take into account the actual costs of our operations and the value of our assets disclosed in our financial statements. As a result, elements of the tariff calculations are the subject of often lengthy negotiations with the president of the ERO, which may not lead to us generating the revenues we have planned. This can have an adverse effect on the amounts of the margins we obtain and return on capital.

In practice, tariffs are usually approved for a period of one year. The president of the ERO also determines the length of regulatory periods (from three to five years) for which he lays down a model level of costs deemed to be justified in relation to power distribution. If we incur additional costs during a regulatory period that were not included in the model or were included in a lower amount, we are limited in our ability to take such costs into account in the tariff. In practice, the President of the ERO will only accept a tariff adjustment in the case of a substantial increase in costs or indicators (such as inflation) from causes that are beyond our control.

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

On 4 November 2009, ENEA Operator Sp. z o.o. applied to the President of the ERO for approval of the "Tariff for Electricity Distribution Services" for 2010, thereby initiating an administrative proceeding in the matter. Those proceedings concluded with the issuance of Decision No. DTA-4211-114(5)/2009/13854/III/BH of 17 December 2009, approving the tariff in that part pertaining to initial charge rates for the period from 1 January 2010 to 31 December 2010, and Decision No. DTA-4211-114(10)/2009/13854/III/BH of 23 December 2009, approving the tariff in its remaining part. The "Tariff for Electricity Distribution Services" for 2010 was introduced by a resolution of the Management Board of ENEA Operator Sp. z o.o. of 30 December 2009, and came into force as of 1 January 2010 in the scope approved by Decision No. DTA-4211-114(5)/2009/13854/III/BH of 17 December 2009, and as of 7 January 2010 in the scope approved by Decision No. DTA-4211-114(10)/2009/13854/III/BH of 23 December 2009.

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

With respect to sales to customers from the G tariff group set for 2009, on 7 November 2008 ENEA S.A. applied to the President of the ERO for approval of the "Tariff for electricity" for G tariff groups for 2009. The administrative proceedings concerning approval of the "Tariff for electricity" for G tariff groups for 2009 were concluded by issuing Decision No. DTA-4211-127(14)/2008/2688/II/BM of 2 January 2009, in which the President of the ERO approved the Tariff for G tariff groups for the period until 31 December 2009. This tariff, in accordance with the Resolution of the Management Board of ENEA S.A. No. 2/2009 of 5 January 2009, started to apply on 17 January 2009.

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

On 12 January 2010, in Decision No. DTA-4211-75(10)/2009/2010/2688/III/BH, the President of the ERO approved ENEA S.A.'s "Electricity Tariff" for customers using power for household purposes. It came into force pursuant to ENEA S.A. Management Board Resolution No. 25/2010 of 14 January 2010 as of 27 January 2010.

3.2. Wholesale electricity prices.

Wholesale electricity prices depend on a number of factors, including market and regulatory factors. The wholesale market for electricity trading is currently fully liberalised, so the amount of costs and revenues that we generate depends on the electricity prices that are applicable on the market at a particular time. Because the free market for electricity in Poland has not been functioning long, it is difficult to foresee how electricity prices will develop in the future.

Moreover, amendments introduced by the Law on Amending the Energy Law and on Amending Certain Others Laws (Journal of Laws No. 21 item 104 of 8 February 2010) stipulate an obligation to sell electricity on the commodities exchange or in a way that guarantees public and equal access to electricity on the power exchanges or internet platforms for trading electricity on the regulated market, which may affect prices on the wholesale electricity market in ways which cannot at present be foreseen.

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

The basic fuel used to produce electricity by our basic production assets, i.e. Koźienice Power Station, is bituminous coal. Lubelski Węgiel Bogdanka S.A., which delivered around 1.5 million tonnes in H1 2010, which

constitutes more than 65 per cent of this commodity's volumes, is the main supplier of bituminous coal to the Power Plant. In order to supplement supplies of low-sulfur coal, an agreement was concluded in the period under consideration with KOMPLET Sp z. o.o. for coal supplies, with the factual implementation period from the second half of 2010 to the beginning of 2011. LOTOS Asfalt Sp z. o.o. was the only supplier of starter fuel to Elektrownia Koźienice S.A. in H1 2010. The supplied fuel is heavy fuel oil with a sulfur content up to 3 per cent.

The Polish market for the supply of coal is highly monopolised by companies belonging to the State Treasury, our main shareholder, which control the vast majority of domestic coal supplies (in terms of quantity). There is no guarantee that the currently binding coal supply agreements that we concluded with our main suppliers will not be terminated or that they will be extended after their term expires. Furthermore, under those agreements the price and quantity of coal delivered are determined annually by way of negotiations. There is no guarantee that the outcome of those negotiations will always be favourable for us. If we are unable to conclude agreements for the supply of coal to Koźienice Power Station or supplies of coal are suspended or interrupted for a different reason (e.g. as a result of a mine employees' strike), Koźienice Power Station could be forced to import coal from further afield at higher prices, suspend or reduce its electricity production until the supply of coal is resumed, or adapt its production assets to utilise alternative fuels, which could cause an increase in its costs. An increase in the costs of Koźienice Power Station would be reflected in the prices of the electricity we sell, which could make our prices uncompetitive in relation to the prices of electricity sold by competitors on the market. Furthermore, if we are unable to maintain our inventories of bituminous coal at the legally required level, we could receive administrative fines of up to 15 per cent of our revenues from licensed activities in the previous tax year.

In January 2008, the Power Plant began to produce power from the co-combustion of biomass as fuel. Co-combustion of biomass is carried out in eight 215-225 MW power units. Sawdust pellets, sawdust and sunflower pellets are primarily used as biomass. In 2008, biomass consumption amounted to 98,657.2 tonnes, while in 2009 it was 116,736.1 tonnes (according to belt-way scales – which constitutes an increase of 18 per cent in comparison with 2008). The co-combustion of 120,000 tonnes of biomass is planned for 2010. IN 2010 agricultural and forestry biomass was supplied by 11 external companies.

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

We are required by law to obtain and present to the president of the ERO for redemption certificates of origin confirming: (i) that electricity is being generated in renewable sources; or (ii) that electrical energy is being generated in association with heat generation (cogeneration) or, if certificates of origin are not obtained or presented for cancellation in the required quantity, the payment of substitute charges. The number of certificates of origin that we must obtain and redeem is provided for by law and is calculated as a percentage share of electricity sold to end customers. That share will increase in subsequent years. Moreover, the amount of electricity we sell to end users may also increase. The sources of renewable energy or energy generated in cogeneration which we possess merely enable us to carry out our obligations regarding the cancellation of certificates of origin to a small extent. We are therefore forced to obtain certificates of origin from third parties or pay substitution charges, which significantly increase every year. Because of the inadequate potential of sources generating such energy in Poland, we must expect an increase in the prices of certificates of origin on the market, which can result in a significant increase in the costs of our activities. There is no guarantee that we will be able to reflect increased prices of such certificates or the substitution charges that we pay in the price of electricity sold to end customers. If we are not able to obtain enough energy certificates on favourable terms, or if market conditions make it impossible to pass the higher costs incurred by us in relation to the acquisition of certificates of origin on to end users, this may have a negative effect on our cash flow and the margin we achieve.

Moreover, the Act of 8 January 2010 on Amending the Energy Law and on Amending Certain Other Laws (Journal of Laws No. 21 item 104 of 8 February 2010) introduces new units generating energy in cogeneration, which will be covered by a system of certificates. These are specified types of generation units fired with methane released and collected in underground mining works in active or closed bituminous coal mines, as well as available in the form of flammable gas produced in biomass processing. The system of certificates applicable to methane-fired units will come into force on 31 March 2019. Consequently, an obligation has been put in place to either obtain and submit for cancellation a specified number of energy certificates of origin from methane-fired power units or pay appropriate substitute charges.

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

Our electricity production operations depend on the quantity of rights allocated to us to emit CO₂ and other gases and substances for a particular settlement period. CO₂ emission rights are allocated on the basis of the Community system of trading in emission rights. For the second settlement period of trading in CO₂ emission rights (2008-2012), Koźienice Power Station was granted rights to emit 9.6 million tonnes of CO₂ per year, a decrease of 8.6 per cent relative to the average annual allocation in the period 2005-2007. In view of the current scale and efficiency of the production capacity of the Koźienice Power Station, that quantity of CO₂ emission rights corresponds to the production of approximately 10.9 TWh gross of electricity per year, i.e. 9.3 per cent less than the quantity of electricity that the Power Station generated in 2009. Starting from 2013, it is expected that gratuitous allocations of CO₂ emission rights for the power sector will be completely ceased and replaced with a system of bidding for emission rights. There is a chance, however, that the energy sector will receive some entitlements under free distributions (70 per cent in 2013, decreasing by 10 per cent each year to 2020, when all entitlements will have to be acquired in an auction). It should be emphasised that, in order to obtain free entitlements in 2013-2020, a series of very complex requirements will have to be met, including the development by the Polish government and the European Commission of a credible, reliable investment program in connection with climate protection, in an amount corresponding to the price of possible free entitlements. The costs of producing electricity will therefore increase substantially. We could also be forced to incur other unforeseeable costs in connection with emission rights or changes in the law and the resulting requirements in that respect. We might therefore be forced to reduce the amount of electricity that we produce or increase our production costs, which could have an adverse effect on our business activities, financial standing, financial results or development prospects.

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

As the European Commission has found that long-term contracts with the state-owned company PSE S.A. regarding the sale of power and electricity constitute prohibited public aid, the Polish Parliament has adopted an act intended to terminate those contracts. In accordance with the provisions of the Act on the Rules for Covering Costs Incurred by Producers in connection with the Early Termination of Long-term Agreements for the Sale of Power and Electricity of 29 June 2007 (the "LTC Termination Act"), the Group (Elektrownia "Koźienice" S.A.) is entitled, as of 1 April 2008, to obtain compensation for stranded costs incurred as a result of the early termination of long-term contracts. Pursuant to the Act, the Group will be entitled to receive compensation until 2014.

The mechanism for settling LTCs is as follows:

- by 31 August of each year, the company submits an application for an advance against settlements,
- by 31 July of the following year, the President of the ERO determines the amount of the yearly adjustment for stranded costs (correction of the advance),
- by 31 August of the year following the adjustment period, the President of the ERO sets the amount of the final adjustment (for the Group, this will be 31 August 2015).

The Group has prepared a calculation model with reference to which it will approach the President of the ERO about advances and annual settlements. Determination of the amounts due is not definitive, since it depends on a number of factors, including how the statutory regulations are interpreted.

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

In 2008 Elektrownia Koźienice S.A. obtained advance payments towards stranded costs from the company Zarządca Rozliczeń S.A. in the amount of PLN 93,132,000, of which it reported PLN 80,796,000 as compensation in its financial statements for 2008. On 5 August 2009, Elektrownia Koźienice S.A. obtained a decision by the President of the ERO of 31 July 2009 setting the amount of the adjustment to the yearly stranded costs (i.e. of the advance payments received from Zarządca Rozliczeń S.A.) for Elektrownia Koźienice S.A. for 2008. Pursuant to that decision, the amount of the adjustment to the yearly stranded costs (i.e. advance payments received from Zarządca Rozliczeń S.A.) was set at PLN 89,537,000, or PLN 77,381,000 less than the revenues reported by Elektrownia Koźienice S.A. in its financial statements for 2008 (as well as in the consolidated financial statements of the Group).

The value of the annual adjustment of stranded costs for 2009 depends on many factors, including the operating result generated by Elektrownia Koźienice S.A. in 2009, the volume of electricity sold and average market prices of electricity in 2009, as well as the interpretation of the LTC Termination Act.

According to the management boards of Elektrownia Koźienice S.A. and ENEA S.A., the assumptions made in drafting the decision of the President of the ERO, as well as the interpretation of the binding Act on the Rules for Covering Costs Incurred by Producers in connection with the Early Termination of Long-term Agreements for the Sale of Power and Electricity of 29 June 2007, are in many places erroneous or inappropriately applied. In connection with the above, on 19 August 2009 Elektrownia „Koźienice” S.A. appealed to the Regional Court in Warsaw, Court of Competition and Consumer Protection. In that appeal, it also moved for abstention from enforcement of that decision pending a ruling in the matter. The Regional Court in Warsaw, Court of Competition and Consumer Protection, in a decision of 23 September 2009, ruled to refrain from enforcing the contested decision above the amount of PLN 44,768,000, rejecting the motion in its remainder. Accordingly, on 30 September 2009, the Management Board of the Company decided to effect the return of the advance, in the amount resulting from the Decision of the President of the ERO which was not suspended by the Court.

On 2 October 2009, Elektrownia Koźienice S.A. submitted an appeal against the above ruling to the Court of Appeals in Warsaw, Division VI (Civil). On 19 May 2010, the Court of Appeals amended the ruling of 23 September 2009 by the Court of Competition and Consumer Protection and suspended execution of the decision of 31 July 2009 by the President of the ERO on the annual adjustment of stranded costs in its entirety. The Court of Appeals stressed that the Court of Competition and Consumer Protection had no legal basis to refuse to suspend the execution of the decision in part. Therefore, since it found grounds to suspend the execution of the decision, it should have suspended the execution of the decision in its entirety. In connection with that ruling, on 27 May 2010, Elektrownia „Koźienice” S.A. turned to Zarządca Rozliczeń S.A. and demanded the return of the amount of PLN 40,577,000 together with interest due. Zarządca Rozliczeń S.A., however, sent the Company a negative reply, arguing that the only basis for a refund could be an amendment to the decision by the President of the ERO of 31 July 2009. On 5 July 2010, Elektrownia „Koźienice” S.A. sent Zarządca Rozliczeń S.A. a final pre-court demand for payment of PLN 40,577,000 together with interest due. In a letter of 12 July 2010 Zarządca Rozliczeń S.A. upheld its earlier position in this matter and declined to return the sum in question.

The Management Board of Elektrownia Koźienice S.A. decided not to recognise further revenues from compensation, and decided to report the adjustment of revenues from compensation recognised in 2008 in the amount of PLN 77,380,000. That adjustment is reported in the statement of total income for the period from 1 January to 31 December 2009 under revenues from sales (as an amount reducing revenues from sales). If in the future the Court issues a ruling on the appeal against the decision of the President of the ERO under which Elektrownia Koźienice S.A. is obligated to return a lower amount than that resulting from the decision of the President of the ERO, this will improve the financial result of the Group.

On 29 July 2010, the President of the ERO issued a decision, the result of which is that the annual adjustment of stranded costs that Elektrownia Koźienice S.A. will receive for 2009 from Zarządca Rozliczeń S.A. will amount to PLN 15,580,000. The above amount was booked in these abbreviated mid-year consolidated financial statements under the item sales revenues and liabilities.

Assuming that Elektrownia „Koźienice” S.A. obtains a favourable ruling in its appeal against the decision by the President of the ERO of the annual adjustments for 2008 and 2009:

- in 2009 the company's estimated annual adjustment will be PLN +11,100,000
- in 2010 the estimated annual adjustment will be PLN +78,600,000 (based on performance in the first half of 2010 and the plan for the second half of 2010)

The current lack of court rulings in the appeals lodged restricts the possibility of defining the likelihood of obtaining the above amounts (estimated on the basis of current knowledge and figures) as part of the annual adjustment of stranded costs.

Therefore, the financial statements disclose the amounts of revenues determined on the basis of the best knowledge of the Management Board and employing due diligence.

3.7. The regulatory value of assets.

In connection with the work of the Team appointed by the Polish Electricity Transmission and Distribution Association, with the participation of representatives of the President of the ERO, unified principles for accounting the value of network assets for the needs of calculating distribution tariffs was worked out. Those principles, set out in the document "Method of Establishing the Regulatory Value of Assets and the Return on Invested Capital" of 19 November 2008, were approved by the Management Boards of the Distribution Companies acting as distribution system operators, by appropriate resolutions.

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

The new method, in force as from tariff year 2010, foresees that the initial RAB providing the basis for further calculations will be estimated on the basis of the lost revenue method, i.e. on the basis of a determination of the value of the loss that the Distribution System Operator would incur if it were deprived of its network assets. It was accepted that the initial value of RAB will be determined as at 31 December 2008, and will be taken as the lower of two values determined for each company by an independent entity on the basis of the replacement cost method (RC) and the economic value method (EV).

It was determined that the initial RAB is to be updated annually, beginning from 2010, according to the formula:

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

where:

RAB_t - value of the regulatory asset base for year t (according to the state at the beginning of a given tariff year),

RAB_{t-1} - value of the regulatory asset base accepted in determining the tariff for year t-1, where the RAB for 2009 is an initial amount determined by the lost revenue method (LR),

I_{t-1} - amount of investment outlays accepted in determining the tariff for year t-1,

CC_{t-1} - amount of revenue from charges for connection to the distribution system operator's network accepted in determining the tariff for year t-1,

AY_{t-1} - level of amortisation from year t-1 used in updating the RAB,

ΔI_{t-2} - corrective coefficient determined as the difference between the actual level of investment outlays incurred in year t-2 as well as revenue from connection charges in year t-2 and the level accepted in calculating the tariff for year t-2,

t - the year for which a given tariff is to apply.

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

$$AR_{t-1} = \frac{WRA_{t-1}}{WK_{t-1}} \cdot AK_{t-1}$$

where:

BV_{t-1} - book value of net network assets at the beginning of tariff year t-1 resulting from the company's books of account,

RAB_{t-1} - regulatory asset base accepted in determining the tariff for year t-1,

BA_{t-1} - amount of planned book amortisation considered in calculating the tariff approved by the President of the ERO for year t-1.

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

$$Z_t = \min \left\{ \begin{array}{l} WRA_t \cdot WACC_t \\ Z(BO)_t + Z(I)_t \end{array} \right\}$$

where:

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

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

$$Z(BO)_t = Z(BO)_{t-1} + 1,5\% \cdot PR(BO)_{t-1}$$

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

where:

- $RR(BO)_t$ - regulatory revenue for year t-1 corrected by return and amortisation from investments implemented after 31 December 2008,
 I_j - amount of investment outlays considered by the President of the ERO in calculating the tariff for tariff year j,
 CC_j - revenue from network connection charges considered by the President of the ERO in calculating the tariff for year j,
 AI_j - level of amortisation of investments implemented after 31 December 2008,
 ΔI_j - corrective coefficient determined as the difference between the actual level of investment outlays incurred in year j as well as revenue from connection charges in year j2 and the level accepted in calculating the tariff for year j,

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

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

whereas for the following years:

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

where:

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

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

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

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

where:

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

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

$$R_t = RAB_t * WACC_t$$

3.8. Risks relating to the process of generation.

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

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

3.9. Customer service.

In 2009, customer services within the ENEA Group were provided by ENEA Operator Sp. z o.o. and ENEA S.A. The Act of 8 January 2010 on Amending the Energy Law and on Amending Certain Other Laws (Journal of Laws No. 21 of 8 February 2010, item 104) obligated the ENEA Group to change the organisation of its customer services, resulting in the necessity of carrying out an internal reorganisation within the ENEA Group. These changes were introduced on 11 March 2010, i.e. on the day when the aforementioned Act came into effect, and involved employing at ENEA S.A. employees of ENEA Operator Sp. z o.o. who had previously provided direct service to customers of ENEA S.A.

3.10. Risks relating to the distribution of electricity.

Events of *force majeure* or other malfunctions of electricity infrastructure that belongs to us or other power companies or of production assets could lead to us failing to comply with electricity supply conditions, being held liable, or receiving administrative penalties. Maintaining the electricity system and our distribution infrastructure in proper working order is of key significance for our business activities. The law also imposes certain obligations on us to maintain and repair key elements of our electricity infrastructure. A malfunction of the electricity system (including transmission or distribution grids and production assets belonging to third parties) or our electricity infrastructure could prevent or reduce the purchase or sale of electricity or system services and the provision of electricity distribution services. Our distribution infrastructure is ageing, despite regular modernisation. Almost 51 per cent of our electricity lines and about 45 per cent of our electricity stations are more than 30 years old, which means we are also exposed to the risk of a malfunction occurring. In the event of a malfunction in the distribution infrastructure due to its current technical condition, problems related to it or events of *force majeure*, because ENEA Operator is obliged under the provisions of the Energy Law to maintain and repair the distribution grid it may become necessary to incur substantial unforeseen costs.

3.11. Market liberalisation.

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

At the same time, ENEA S.A. is an active participant on the competitive market, engaging in activities aimed at selling energy to customers connected to the grids of operators other than ENEA Operator. In 2009, we sold about 1.1 TWh to such customers.

3.12. Purchasing electricity from external entities.

A significant part of the energy sold by ENEA S.A. constituted electricity generated by Elektrownia Kozienice S.A. This allowed us to reduce the volume risk associated with purchasing electricity. ENEA S.A. purchases the remainder on the basis of bilateral agreements (with producers, trading companies, and on trading platforms), purchases on the Polish Power Exchange, and on the balancing market. There is therefore a risk that if demand exceeds supply we will not be able to purchase power at competitive prices. This is related to the macroeconomic forecast of an increase in electricity consumption accompanied by an insufficient increase in production capacity in Poland, which in practice could lead to an increase in the price of electricity. That will mean that our offer could be less attractive compared to electricity producers or other power groups with greater production potential. This could result in a loss of customers and markets and therefore have an adverse effect on the amount of our revenues.

3.13. Dominant position on the local market.

We have a dominant position with regard to providing distribution services on the local market covering north-west Poland. The actions we take are therefore subject to inspection by Polish and European anti-monopoly institutions (including the president of the OCCP and the European Commission). If those authorities find that we are applying monopolistic practices, they will issue a decision ordering us to refrain from applying them and possibly fine us. Furthermore, any legal acts that are a manifestation of an abuse of a dominating position will be invalid, either entirely or partially, as appropriate. As at 30 June 2010, one proceeding was under way against ENEA Operator, brought by the President of the Office of Competition and Consumer Protection, concerning an accusation that ENEA Operator abused its dominant position on the regional energy distribution market by imposing onerous conditions in network connection agreements, thereby bringing unjustified benefits to the Company. In the future, any decisions that might be issued by the president of the OCCP or the European Commission could negatively influence our operations, financial condition, financial results or prospects for growth.

3.14. Concessions.

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

Our activities in the generation, distribution and trade of electricity require concessions granted by the president of the ERO. In accordance with the Energy Law, concessions are in principle granted for a period from 10 to 50 years. Within our Group, we hold, specifically, the following concessions:

- (i) ENEA holds a concession for trading in electricity valid until the end of 2025;
- (ii) ENEA Operator holds a concession for the distribution of electricity valid until the middle of 2017;
- (iii) Elektrownia Kozienice S.A. holds a concession for the generation of electricity valid until the end of 2025 and for trading in electricity valid until the end of 2012;
- (iv) Elektrownie Wodne holds a concession for the generation of electricity valid until 30 March 2011.

The Energy Law grants the president of the ERO powers to withdraw a concession, particularly if a legally valid judgement is issued banning a company from performing economic activity covered by a concession, or if a company has permanently ceased to perform economic activity covered by a concession. The president of the ERO also has the right to withdraw a concession or change its terms in the event of a blatant breach of the terms specified in a concession, or other terms of performing a licensed activity, and also if a licensed company does not, in the appointed time, bring about a state compliant with the terms specified in the license or with the provisions regulating the licensed activity. The president of the ERO also has the right to withdraw a

concession or change its scope on account of a danger to the country's defences and security or to the safety of its citizens, and also in the event of the bankruptcy of the company, its division, or merger with another company.

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

Failure to extend our concessions, or their withdrawal, will restrict and in extreme cases make it impossible for us to carry out our activities, which could have a significant impact on our activities, financial situation, financial results or prospects for growth.

3.15. Bituminous coal transportation.

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

The basic means of transport used to deliver bituminous coal to Koziencice Power Station is rail transport. More than 90 per cent of deliveries of that raw material to Koziencice Power Station are carried out by the state carrier PKP Cargo, the largest rail carrier in Poland. The transport potential of other carriers is in many cases insufficient to satisfy our coal transport needs. There is no guarantee that if unforeseen disruptions occur in PKP Cargo's activities or if our agreement with PKP Cargo is terminated we will be able to ensure the continuity of deliveries of bituminous coal to Koziencice Power Station, which could lead to us being forced, albeit temporarily, to reduce our electricity production, which in turn could have an adverse effect on our revenues.

3.16. Strategy implementation.

We might not be able to implement our development strategy and planned investment outlays because of factors which remain beyond our control.

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

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

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

We conduct our activities in an environment which is subject to a special legal framework. The situation of our Group is particularly affected by the Energy Law and EU regulations, particularly those concerning environmental protection. These legal regulations are subject to frequent changes (which ENEA is not in a position to forecast) and there is a tendency to gradually increase the requirements relating to use of the environment, in particular in relation to entities in the power sector. These growing requirements may in the future create a need for us to incur additional investment outlays. Also, the legal provisions impose an obligation on us to obtain and present certificates of origin to the President of the ERO for cancellation, confirming: (i) that electricity is being generated in renewable sources; or (ii) that electrical energy is being generated in association with heat generation (cogeneration) or, if certificates of origin are not obtained or presented for cancellation in the required quantity, the payment of substitute charges. Actions undertaken by the Company in its development strategy are also dependent on the level of permits for emissions of carbon dioxide and other gases and substances received for each specific settlement period.

Operations planned by the Company in regard to acquisitions and capital investments may not achieve the expected effect because of factors beyond ENEA's control such as competition from other power companies and market conditions. Furthermore, the results obtained by the companies in which we invest may turn out to be worse than our initial estimates, which may cause a reduction in the rate of return on these transactions compared with initial expectations. As a result of acquisitions or investments made, we will also have to take steps to reorganise the structure of the entities concerned, to integrate particular business areas, to centralise the management of assets and liabilities and to integrate information technology systems. These processes may turn out to be time-consuming and costly and it is uncertain whether they will be performed in accordance with the desired schedule or in the planned manner. They may also lead to lasting differences in the procedures employed in the ENEA Capital Group. The above actions are dependent also on the behaviour of the trade unions involved in the acquisitions or capital investments made.

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

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

3.17. Synergy.

The acquisitions and capital investments planned by us may not produce the expected results.

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

3.18. The modernisation of our production assets.

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

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

3.19. Events of force majeure and malfunctions.

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

Maintaining the electricity system and our distribution infrastructure in proper working order is of key significance for our business activities. The law also imposes certain obligations on us to maintain and repair key elements of our electricity infrastructure. A malfunction of the electricity system (including transmission or distribution grids and production assets belonging to third parties) or our electricity infrastructure could prevent or reduce the purchase or sale of electricity or system services and the provision of electricity distribution services. Our distribution infrastructure is ageing, despite regular modernisation. More than 50 per cent of our electricity lines and more than 40 per cent of electricity stations are more than 30 years old, which means we are also exposed to a risk of a malfunction occurring. In the event of a malfunction in the distribution infrastructure due to its current technical condition, problems related to it or events of *force majeure*, because ENEA Operator is obliged under the provisions of the Energy Law to maintain and repair the distribution grid it may become necessary to incur substantial unforeseen costs. Such a situation occurred in April 2008 when, due to an event of *force majeure* (large quantities of moist snow), transmission lines belonging to PSE-Operator and distribution lines belonging to ENEA Operator supplying the left-bank district of Szczecin shut down, which resulted in almost all of Szczecin and the surrounding areas being deprived of electricity for many hours.

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

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

3.20. Environmental protection.

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

Our activities have a significant effect on the natural environment and require possession of a series of permits to make use of the environment. In particular, in order for the Koziencice Power Plant to conduct its business, it must hold integrated permits, which we obtained under Decision of the Mazowiecki Provincial Administrator No. WŚR.I.6640/13/6/05 of 20 December 2005. Failure to comply with the provisions of permits, or rescission of those permits, can lead to our incurring liabilities, to penalties being imposed on us, or to suspension of the operation of certain facilities. In turn the activity of ENEA Operator requires measurement of emission of electromagnetic fields.

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

Elektrownia "Koziencice" S.A. is a condensation power plant in which the basic fuel utilised in the generation of electricity is bituminous coal.

The main impact of Elektrownia "Kozienice" is in connection with emissions of atmospheric pollution, storage of combustion waste, intake of water and disposal of sewage. The most harmful pollutants emitted into the atmosphere include sulphur dioxide, nitric oxide, dust and carbon dioxide.

The amounts of pollutants emitted in 2010 are:

- SO₂ – 17,323 Mg
- NO_x – 10,719 Mg
- ash – 506.5 Mg
- CO – 619.5 Mg
- CO₂ – 5,220,420 Mg
- waste (mixture of ash and cinders) – 249,413 Mg.

Reduction of emission of pollutants.

The power plant has fume anti-dust installations with high-efficiency electrostatic precipitators mounted on each of its energy units. Taken into account in the modernisation, renovation and investment cycle of the units is the need for the power plant to keep to the permissible level of concentration of dust in the fumes from each unit, which must not be higher than 50 mg/Nm³. In recent years, electrofilters have been replaced in unit No. 2 (in 2006), unit No. 1 (in 2007) and unit No. 6 (in 2008). In March 2010 work began on exchanging the electrofilter in unit No. 10 was initiated, together with the ash removal system, exhaust ducting, and exhaust ventilator elbow intakes. Pursuant to the agreement, the work is scheduled to be completed by 15 November 2010.

In the Company, installations for initial reduction of nitric oxides are in operation. These limit the concentration of nitric oxides to a guaranteed limit of 500 mg/Nm³, utilising such devices as ROBTAS low-emissions burners and a system of air nozzles installed on the front and rear walls of the furnaces above the burner zone (so-called OFA, SOFA nozzles). In view of the tightening of emissions standards for nitric oxides to a level of 200 mg/Nm³ from 2015, it will be necessary to construct a catalytic denitrification installation on power units from Nos. 4 to 10 of Elektrownia Kozienice S.A. Preparatory work was begun in 2009 associated with future investments in this respect.

Restricting emissions of SO₂ is handled by fume desulphurisation installations using the wet limestone method: IOS I for 500 MW of installed power, covering units No. 9 and 10, and IOS II for 800 MW of installed power covering the 200 MW units No. 2-8. In order to bring emissions of SO₂ in line with the tighter norms resulting from implementation of the provisions of relevant Community law, an investment was begun in 2008 for constructing a fume desulphurisation installation using the wet limestone method for the 500 MW unit No. 10, with a planned completion date of December 2010.

Waste management.

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

In H1 2010, activities were undertaken to maximize the utilisation of burner waste, with a waste use ratio of 46.4 per cent. In H1 2010, 82,300.68 tonnes of gypsum from desulphuring system were utilised (the amount produced was 78,068.23 tonnes).

The following sales are also important: fly-ash - 200,681.06 tonnes, microspheres - 976.28 tonnes, MPŻ 14,256.831 tonnes and the purchase of a service for the management, removal and commercial use of ash and cinder mixture (ACM) from the ash and cinder storage facility in the quantity of 82,940.94 tonnes (cost).

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

The power plant undertakes activity designed to avoid repeated spread of dust, through periodic sprinkling of fields, flooding of fields not in use and protecting surfaces with membrane-forming chemicals, maintenance

and conservation works (maintaining green areas and the area of the storage facility, planting trees and bushes), and hydroseeding embankments.

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

As a result of the application of the requirements of Directive of the European Parliament and the Council of Europe in Polish jurisdiction, at Elektrownia Kozienice S.A. has been carrying out tasks resulting from:

- the system for trading in emission CO₂ rights
- production from renewable sources of energy
- generation of electricity

To meet the needs of emissions trading, emissions of CO₂ are monitored using, since 2008, our own, certified chemical laboratory. All annual reports, including that for 2009 (the first year off settlement period II), have been approved.

The solid-state biomass co-burning system built in 2007 and expanded in 2009 made it possible to generate electricity from renewable resources in the amount of 121,628.437 MWh in H1 2010. The planned startup in the near future of a liquid biomass co-burning system will enable us to further increase the generation of energy from renewable resources.

In H1 2010, 65,936.0 Mg of biomass was burned. That amount of biomass consumed means a reduction in carbon dioxide emissions of 110,427 Mg.

At an early stage, parts of the power plant, such as the 200 MW and 500 MW units, were modernised, resulting in a reduction of coal used per unit. This means a reduction in both the amount of coal used and amount of CO₂ emitted.

3.21. Insuring our operations.

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

3.22. Management personnel.

We may have difficulties in recruiting and retaining appropriately qualified management personnel.

The future success of our Group depends on its ability to employ and retain management personnel with wide experience of managing power companies and identifying, purchasing, financing and implementing energy projects, as well as technical personnel with an appropriate educational profile in the field of energy. Key factors in this respect are the increasing competition in the electricity sector and the fact that the companies in our Group is subject to the provisions of the Public Sector Salary Cap Act, which limits the remuneration of people holding certain managerial positions. On 13 June 2008, the *Sejm* (the lower chamber of parliament) adopted the Act Amending the Act on Commercialisation and Privatisation and Certain Other Acts, which was subsequently (on 26 June 2008) adopted without amendments by the Senate. Under the proposed amendments, the provisions of the Public Sector Salary Cap Act will not be applicable to members of management bodies and supervisory bodies of companies wholly owned by the State Treasury (among others) or to companies in which the State Treasury's share exceeds 50 per cent. On 24 July 2008, the aforementioned

act was vetoed by the President of the Republic of Poland. There is no guarantee that the act will be re-adopted by the *Sejm* and come into force.

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

3.23. Collective disputes and agreements.

Collective disputes with employees may cause disruptions to our business.

Approximately 70% of our employees belong to trade unions. The position of trades unions in the power sector is particular strong because of the volume of employment in the sector and its strategic influence on the functioning of the economy. Furthermore the expectations of the trades unions are based on the conditions won by the employees of other power companies or power generators in agreements concluded in relation to the earlier privatisation of these companies. Although we are endeavouring to maintain good relations with our employees and to resolve on an ongoing basis all problems that arise, we cannot exclude the possibility of collective disputes' taking place in the future. Collective disputes with employees may lead to disruption of our ongoing activities, and in particular to stoppages, and may also cause an increase in labour costs, which may have a negative effect on our business, financial situation, financial results or development prospects. In the period from May to June 2008 the Company conducted discussions with trade unions functioning in the Company on resolving the issue of Employee Shares. These discussions covered, among other matters, the subject of payment of monetary benefits as compensation for loss of rights to some Employee Shares as a result of restructuring processes in the Group and the payment of monetary benefits to employees of the Company who are not entitled to acquire Employee Shares. As an effect of the discussions, on 28 May 2008 an agreement was signed between the Company and the employee side which ended the collective dispute about Employee Shares. Because the Minister of the State Treasury did not sign the appendix to 28 May 2008's agreement, the position of some of the trades unions that signed the agreement on concluding the dispute differs from the Company's position in this matter. The risk therefore exists of renewal of the collective dispute about Employee Shares and this may lead to disruptions in our ongoing activities, and in particular to stoppages, which may have a negative effect on our business, financial situation, financial results or development prospects. Our ability to improve productivity and reduce costs by restructuring employment is limited by collective agreements. If we consider that improvement of our profitability and ability to compete effectively thanks to more efficient operation depends on reducing employment, our efforts to do so will be subject to limitations that arise from collective agreements concluded with trades unions operating in the Group. In particular, in accordance with the agreement concluded with trade unions on 18 December 2002, our employees are covered by specific guarantees that conditions of work and payment will be maintained and also by a guarantee of long-term employment. On the basis of this agreement, we undertook to pay an employee, in the event of termination of his or her contract of employment, severance pay amounting to the product of the individual's monthly remuneration and the period remaining to the end of the period guaranteed by the agreement. 80% of this amount is payable if payment is made in a lump sum and 100% if payment is made monthly. Furthermore, some present or past employees among senior management will benefit from employee guarantees until 31 December 2018.

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

Elektrownia "Kozienice" S.A.

About 64 per cent of the employees of Elektrownia Kozienice S.A. belong to trade unions operating within the Company. At present, we have no misunderstandings or conflicts pertaining to work time, remuneration, employee benefits or union rights and freedoms, and so there are no collective disputes between employees and the employer in the understanding of the law of resolving collective disputes.

In H1 2010 no collective disputes were initiated in Elektrownia Kozienice S.A. between trade unions and the employer within the meaning of the Act on Resolving Collective Disputes.

On 10 August 2007 a social contract was signed between the Power Plant and trade union organisations operating at the Power Plant, constituting Schedule 15 to the Company Collective Labour Agreement for Elektrownia Kozienice S.A. Employees, which was implemented by Supplementary Report No. 2 entered into the

collective labour agreement register on 17 March 2009 under No. U-MCXLVII/3, which applies to all persons employed by the Power Plant on the day it came into force. Power Plant employees are protected by a guarantee to maintain working conditions and remuneration, as well as a guarantee on the security of their employment relationships irrespective of restructuring. In the case of an infringement of the employment guarantee by Elektrownia Koźienice S.A., those employees whose employment guarantee has been infringed are entitled, irrespective of other benefits to which they are entitled by provision of law, to lump-sum compensation in an amount equal to the product of the number of months remaining until the end of their employment guarantee period, counted from the day of termination of the employment agreement or from the day on which the period of notice of changing or infringing the employment guarantee lapses, and their average monthly remuneration in Elektrownia Koźienice S.A., but not less than the equivalent of the product of 48 months and their average monthly remuneration in Elektrownia Koźienice S.A. The above guarantees are in force for 11 years starting on 30 January 2008. Entitled persons may submit claims arising during the life of the agreement no longer than three years after its expiration.

3.24. Court and Administrative Proceedings.

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

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

1. Court proceedings.

In proceedings concerning ENEA S.A.'s charging energy customers a double subscription fee for the month of January 2008, in a decision issued on 12 September 2008, the President of the Competition and Consumer Protection Office ruled that charging energy customers a double subscription fee for the month of January 2008 constituted an anticompetitive practice and ordered the practice to be stopped. He also imposed a fine on ENEA in the amount of PLN 160,000, constituting approximately 0.03 per cent of the maximum fine (the amount of the fine results from the fact that the President of the Office of Competition and Consumer Protection recognised that there was no need for repressive measures against ENEA, and that the fine was a disciplinary measure). On 30 September 2008, ENEA lodged an appeal against the above decision with the Competition and Consumer Protection Court. On 31 August 2009, the Competition and Consumer Protection Court changed the decision of the President of the Office of Competition and Consumer Protection, reducing the fine to PLN 10,000. On 25 September 2009, ENEA filed an appeal against the Competition and Consumer Protection Court with the Court of Appeals in Warsaw, moving that the decision be revoked in its entirety. On 27 April 2010 the Court of Appeals overturned the verdict by the Court of Competition and Consumer Protection and returned the case for reconsideration.

On 27 November 2008, the President of the ERO ruled in the matter of ENEA's failure to meet its obligation of purchasing electricity generated through cogeneration in 2006, and imposed a fine on the Company, in the amount of PLN 7,594,613.28. On 17 December 2008, ENEA appealed against that decision by the President of the ERO to the Competition and Consumer Protection Court. On 15 December 2009, the Competition and Consumer Protection Court ruled in favour of ENEA, changing the decision of the President of the ERO of 27 November 2008 and dismissing the administrative proceedings. The President of the ERO filed an appeal to the Appeals Court in Warsaw against this ruling by the Competition and Consumer Protection Court.

On 28 December 2009, the President of the ERO ruled in the matter of ENEA's failure to meet its obligation of purchasing electricity generated through cogeneration in the first half of 2007, and imposed a fine on the Company, in the amount of PLN 2,150,000.00. On 19 January 2010, ENEA lodged an appeal against the above decision of the President of the ERO with the Competition and Consumer Protection Court.

2. Administrative proceedings

Proceedings are being conducted by the President of the Office of Competition and Consumer Protection in order to determine whether ENEA infringed the Competition and Consumer Protection Act by introducing, as of 1 January 2008, a charge for customer trade services relating to settlements for energy sold.

Elektrownia Kozienice S.A. is party to one proceeding before the Regional Court, Court of Competition and Consumer Protection. On 5 August 2009, Elektrownia Kozienice S.A. received a decision by the President of the ERO of 31 July 2009 on the amount of the annual adjustment (for 2008) in compensation for stranded costs, in the amount of PLN 89.5 million, which it was obliged to return to Zarządca Rozlizeń S.A. by 30 September 2009. Elektrownia Kozienice S.A. questioned the obligation to return such an amount, appealing to the Regional Court in Warsaw, Court of Competition and Consumer Protection. On 23 September 2009, the Court issued a decision suspending enforcement of the contested decision above the amount of PLN 44,768,476.50. Elektrownia Kozienice S.A. returned advance payments in the amount of PLN 44,768,476.50, pursuant to the decision of the Court. On 19 May 2010 the Court of Appeals, Division VI (Civil) suspended the execution of the decision by the President of the ERO of 31 July 2009 on the annual adjustment of stranded costs also with regard to the sum of PLN 44,768,476.50. As at 30 June 2010, the proceedings in the case have not been resolved.

Elektrownia Kozienice S.A. was party to one court proceeding in which Lubelski Węgiel Bogdanka S.A. is the defendant. The proceeding took place before the Supreme Court, and the amount of the claim was PLN 3.2 million. The Supreme Court recognised the Power Plant's claim, and returned the case for reconsideration to the Court of Appeals in Lublin, which court on 24 November 2009 rejected the appeal of LW Bogdanka S.A. The defendant did not submit a cassation appeal. The case has been closed.

The Director of the Customs Chamber in Warsaw, after considering the Company's appeals against decisions of the Head of the Customs Office in Radom in the period between January 2006 and December 2007, issued decisions upholding the decisions of the Head of the Customs Office in Radom in the period in question. The Company submitted appeals to the Province Administrative Court in Warsaw against the decisions by the Director of the Customs Chamber upholding the decisions of the Head of the Customs Office issued in the period between January 2006 and December 2007. Having considered the appeal by the Company, the Head of the Customs Office issued a series of decisions refusing to grant refunds of excise duty for the months from January 2008 to February 2009 inclusive. At the same time, the Head of the Customs Office in Radom issued decisions specifying the tax liability for excise duty for the months from January 2008 to February 2009. On 20 March 2010 the Company submitted appeals to the Director of the Customs Chamber in Warsaw against the decisions of the Head of the Customs Office covering the period between January 2008 to December 2008. As a result of the pending proceedings, as at 30 June 2010 refunds of excise duty overpayments have been made to Elektrownia Kozienice S.A. in the total amount of PLN 3,362,958.00. Pending cases.

On 11 February 2009, Elektrownia Kozienice S.A. submitted a motion to the Customs Office in Radom for the recognition and return of excise duty overpayments for the months from January 2006 to December 2008, in the amount of PLN 694.6 million, together with corrections of the tax returns.

Moreover, on 24 November 2009, the Company submitted a motion with the Customs Office in Radom requesting the confirmation and return of excise tax overpayments on electricity for January and February 2009, in the amount of PLN 34.6 million, of which PLN 247,000 was from excise duty on electricity from renewable resources.

The corrections of the excise duty, with the exception of excise on electricity generated from renewable resources, stem from the incompatibility between Polish provisions on the taxation of electricity with Community regulations that appeared between 1 January 2006 and 28 February 2009.

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

Proceedings regarding overpayment for 2007 – in appeal proceedings the Director of the Customs Chamber issued decisions upholding the decisions of the Head of the Customs Office in Radom declining to refund overpayments of excise duty for individual months in 2007 and setting the tax liability for the period in question in amounts stemming from the Company's initial tax returns. As at 30 June 2010 the Company had submitted appeals to the Province Administrative Court against the decisions by the Director of the Customs Chamber in Warsaw for months from January 2007 to June 2007.

Proceedings regarding overpayments for 2008 – the Head of the Customs Office in Radom issued decisions setting the overpayment of excise duty on electricity, but only that generated from renewable resources for individual months in 2008, in the total amount of PLN 2.6 million. Within the scope stemming from the incompatibility of Polish tax provisions with Community regulations he issued a decision declining to refund the overpayment, setting the tax liability in amounts decreased by the excise duty for electricity from renewable

resources. As at 30 June 2010 the Company had submitted appeals against the above decisions with the Director of the Customs Chamber in Warsaw.

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

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

According to the Energy Law, ENEA Operator, as an energy business involved in the distribution of electricity, is obliged to conclude grid connection agreements with entities seeking such connection, if the technical and economic connection conditions are met, and the entity seeking connection meets the conditions for connection and receipt of power. If ENEA Operator refuses to conclude such a connection agreement, it is obliged to notify the President of the ERO and the entity seeking connection, specifying the reasons for such refusal. At present, ENEA Operator is party to dozens of proceedings brought by the President of the ERO concerning connections to its own distribution network, involving such issues as the rules for settling costs and determining the level of connection charges. ENEA Operator holds that the costs of expanding the network should be taken into account in the costs of network connections, and provide a basis for calculating grid connection charges incurred by entities applying for connection to the network. However, in connection with administrative proceedings concerning other power companies, as well as ENEA Operator, the President of the ERO has held that counting such network connection costs is not in compliance with the provisions of the Energy Law, and that therefore it is the power company that should bear all costs in relation to expansion of its network. For this reason, we may be forced to incur substantial costs in connection with expansion of our network resulting from the obligation imposed on us to connect entities which apply for such connection. The cause of our concern is, in particular, the large number of producers of energy from renewable sources which are seeking to be connected to our network. We may be forced to incur substantial outlays within a short period of time, if all or most of the matters pending before the President of the ERO are ruled on to the detriment of ENEA Operator.

3.26. Real estate.

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

In connection with the general electrification and nationalisation carried out after World War II, and due to the absence of an appropriate legal framework relating to the use of real estate for the purposes of developing distribution grids, ENEA Operator uses many real properties on which its electricity distribution equipment is located without an appropriate legal title. This applies to approximately 33 per cent of all the real properties on which electricity infrastructure is located (except for electricity lines). As at 30 June 2010, the relevant figures are as follows:

- network installations which we consider to be of key importance (high and medium voltage electrical distributors, transformer/switching stations) – ENEA Operator holds legal title to 95 per cent of the properties on which such installations are located,
- enclosed medium and low voltage transformer stations – approximately 65 per cent of the almost 14,500 enclosed transformer stations are located on real properties for which ENEA Operator does not hold appropriate legal title, and
- power lines – according to our estimates, ENEA Operator does not hold appropriate legal title for the vast majority of real properties that are crossed by electricity lines.

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

With regard to real properties used by ENEA Operator without an appropriate legal title, we are exposed to a risk of their being returned to their owners and of third parties asserting claims relating to the non-contractual

use of such properties. As at 30 June 2010, 338 court proceedings were pending against ENEA Operator Sp z o.o. regarding the use of real properties without contract, for a total sum of PLN 15.12 million. The provision for claims (including claims associated with non-contractual use of real properties) that are the subject of pending court proceedings and pre-litigation claims against ENEA Operator amounted to a total of PLN 33.03 million as at 30 June 2009.

Due to the fact that, up to 1 July 2007, ENEA S.A. was not only a trading company but a distribution company, it is currently party to court proceedings concerning the use of real property without an agreement, and to disputes yet to go to court. As at 30 June 2010, 123 court proceedings were pending against ENEA S.A., involving a total value of PLN 9.89 million. ENEA has created a provision of PLN 12.47 million for these proceedings, as well as a provision of PLN 19.66 million for claims yet to go to court.

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

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

3.27. Trade unions.

About 70 per cent of the ENEA Group's 10,200 employees belong to trade unions. Eight trade union organisations operate within the ENEA Group.

- NSZZ Solidarność Organizacja Międzyzakładowa ENEA,
- Międzyzakładowy Związek Zawodowy Pracowników Grupy Kapitałowej ENEA,
- Międzyzakładowy Związek Zawodowy Pracowników Ruchu Ciągłego Grupy Energetycznej ENEA S.A.,
- Międzyzakładowa Organizacja Związkowa Związku Zawodowego Inżynierów i Techników przy ENEA S.A.,
- Międzyzakładowy Związek Zawodowy Pracowników Grupy Energetycznej ENEA S.A. "Kadra",
- Samorządny Niezależny Związek Zawodowy Pracowników Elektrowni Kozienice S.A.,
- Niezależny Samorządny Związek Zawodowy Solidarność Elektrowni Kozienice S.A.,
- Związek Zawodowy Pracowników Zmianowych Elektrowni Kozienice S.A.

3.28. Modernisation and development.

The development of the ENEA Capital Group will be carried out in three basic strategic areas: i) development of the core operations of the Group; ii) improving the effectiveness of the functioning of the Group; iii) building a socially responsible business, as described in more detail in section 1 pt. 2 '*Policy on directions of development of the Capital Group*'.

Failure to raise capital on favourable terms may have a significant and negative influence on our modernisation and development capability and may thus reduce the efficiency of our activity.

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

The above sources of finance may be wholly unavailable or may not be available in the required amount, making it impossible to undertake all the investment expenditure planned by us. As a result, we cannot provide assurance that we will be able to generate sufficient cash flow or have access to sufficient alternative sources of

finance to maintain or develop our present activity. The effect is that we may be obliged to delay or to give up planned investments, which may have a significant effect on our business, financial situation, financial results or development prospects.

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

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

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

3.29. Factors related to economic activity.

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

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

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

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

It was not long ago that Poland enacted the legislative framework that regulates the functioning of the power sector in its present form. As a result there is no developed, unified interpretation of the law in this area. There is therefore considerable uncertainty as to how issues relating to our activities will be resolved if they become the subject of court proceedings. There exists, therefore, a risk of unexpected and unfavourable decisions that could have a negative effect on our activity, financial results, financial situation or development prospects.

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

3.30. Growth strategy outline.

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

Actively observing the situation on the power market in Poland and the dynamic changes in the sector, the Management Board took action intended to verify the 10-year strategy until 2020 now under development (including planned investments) in order to take into consideration trends on the Polish energy market that are of key importance to the Group. The main trends identified include: (i) growing demand for energy together with limited generation capacity available on the market, (ii) tighter EU policy on restricting CO2 emissions, (iii) increasing competition in all operational areas of the Group, (iv) the development of the wholesale electricity trading market, (v) a growing number of customers changing their electricity suppliers, (vi) new opportunities for managing brown coal deposits, and (vii) opportunities for developing renewable energy sources.

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

We intend to implement that strategy by:

- **Developing the basic operations of the Group – areas in which we will concentrate on:**
 - developing and diversifying generation capacity,
 - developing and modernising the distribution network,
 - developing wholesale trade operations,
 - ensuring the security of bituminous coal supplies from optimal sources,
 - increasing profit from electricity sales,
 - ensuring technical and technological development,
- **Improving the effectiveness of the functioning of the Group – areas in which we will concentrate on:**
 - optimising fundamental processes,
 - optimising support functions,
 - ensuring the operational integration of the Group,
 - reorganising the operations of the Group's subsidiaries,
- **Building a socially responsible business – in which we will concentrate on:**
 - ensuring the balanced management of human capital,
 - ensuring a dialogue with the local community and taking their voice into account in business operations,
 - promoting environmentally beneficial solutions and behaviours.

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

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

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

In implementing our strategy, we assume a base variant until 2020 of about PLN 18.7 billion for investments in conventional generation (about 39,4 per cent of all investment outlays), distribution (about 34,4 per cent of total investment outlays) and renewable energy sources and cogeneration (about 26,2 per cent of total investment outlays).

Our main goal for conventional generation is to construct a new 1,000 MW bituminous coal-fired power unit in Świerze Górne (we assume an average construction cost of EUR 1.3 million per 1 MW). We are planning to commission it by 2016 at the latest. We are currently going through the process of selecting a contractor to design and build the new 1,000 MW unit. We are planning to select a contractor at the end of 2010/start of

2011. During the construction of the new unit we are considering modernising the remaining 200 MW units operating at the Kozenice Power Plant.

We are also conducting preparatory analyses for the construction of a second 1,000 MW unit in Świerze Górne.

In the area of distribution, during the period covered by the strategy we are planning investment works, modernisation of the grid infrastructure, and essential refurbishment in connection with increasing demand for electricity and the necessity of connecting renewable sources of energy. Such investment and modernisation activities should result in increasing the functionality of our grid and in restricting grid losses. They will also involve replacing those sections of distribution lines which have seen the longest service. In 2010 we plan to invest in distribution assets to a value of approximately PLN 575 million.

Investment outlays on the grid are growing successively. Relative to 2008, they increased by 17 per cent in 2009 (taking into consideration the performance of the investment plan), while in 2010 they will increase by 30 per cent (under planned outlays for 2010, which means that the final level of the increase will be known after information on the implementation of this year's Investment Plan has been obtained).

A similar tendency is observable in relation to infrastructure investment for supporting our distribution operations. Relative to 2008, they increased by 14 per cent in 2009 (taking into consideration the performance of the investment plan), while in 2010 they will increase by 66 per cent (under planned outlays for 2010, which means that the final level of the increase will be known after information on the implementation of this year's Investment Plan has been obtained).

In the area of renewable sources of electrical and thermal energy, we plan to increase our wind power capacity to a level of 250-350 MW installed by 2020. At the same time, we decided to invest in biogas generation, and plan to attain a capacity of about 40-60 MW by 2020.

In 2009, the Company carried out a complete preparatory procedure for the purchase of its first biogas power plant, in Liszkowo (Kujawsko-Pomorskie Province), which has a capacity of 2.12 MWe (the purchase was finalised in January 2010). In 2010-2011 we are planning to add 14.42 MWe installed capacity from 10 biogas power plants (the plan for 2010 calls for 4.12 MWe, of which 2.12 has been completed).

Depending on the market situation, our financial situation, the results of technical and economic analyses being carried out, and our ability to finance investments, we do not rule out increasing the base investment program by additional investments in conventional generation, by about PLN 1.3 billion. That amount also covers the construction of a second 1,000 MW power unit in Świerze Górne. Moreover, the Management Board cannot exclude the implementation of an investment project involving the construction of a nuclear power plant with a capacity of about 1,600 MW. In such case, additional outlays will amount to approximately PLN 14.4 billion (PLN 9.4 billion by 2020).

3.31. Planned investment outlays.

In 2010, as part of the activities of ENEA, ENEA Operator and Kozenice Power Plant, we plan to make investment outlays of around 975,334,000 PLN. The table below presents the planned investment outlays in the year ending 31 December 2010, broken down by type.

	Year ending 31 December 2010
	(unaudited)
	<i>[PLN '000]</i>
Investment outlays on distribution assets, including:	575 071
<i>HT, MT and LT power grid</i>	436 855
<i>Infrastructure to support activity</i>	75 979
<i>Purchase of ready investment goods</i>	41 768
<i>Support</i>	12 859
<i>Purchase of plots of land</i>	7 610
Investment outlays on generation assets, including:	290 858
<i>Investments in individual 200 MW units</i>	23 140
<i>Joint* investments in 200 MW units</i>	10 902

	Year ending 31 December 2010
	(unaudited)
<i>Construciton of a 1,000 MW power unit</i>	950
<i>Investments in individual 500 MW units</i>	92 850
<i>Joint* investments in 500 MW units.....</i>	115 210
<i>Joint* investments in 200 MW and 500 MW units.....</i>	42 473
<i>Purchase of ready investment goods.....</i>	5 333
Other investment outlays.....	109 405
Total.....	975 334

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

Distribution assets.

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

ENEA Operator, as a power company engaged in the distribution of electricity, is obliged to prepare development plans for its operations with regard to satisfying current and future demand for electricity. Growth plans must take into account local zoning plans and district development plans defined in the zoning studies of individual district. Drafts of growth plans must be consulted with the President of the ERO.

A significant portion of the investment plan for 2008-2010 is intended to implement tasks related to connecting both users and generators to the distribution grid. Another significant item of the investment plan is the implementation of tasks consisting of the modernisation, exchange and expansion of distribution grid elements in order to maintain the aforementioned technical parameters of supplied electricity for existing users. The investment programme also includes such tasks related to distribution support as, for instance, IT, telecommunications, tele-mechanics and measurement, as well as the purchase of existing investment assets, including vehicles, and tasks related to the support infrastructure, i.e. buildings and structures.

Generation assets.

The investment and modernisation policy of Elektrownia Koźienice S.A. will be implemented mainly in the following areas:

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

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

Moreover, by 2016 at the latest, we are planning to build and commission a unit with a power capacity of 1,000 MW at the Kozenice Power Plant. In March 2008 the Kozenice Power Plant obtained a zoning decision for this project from the Mayor of Kozenice District, and in December 2008 a connection agreement was signed with PSE Operator that set the terms of connection for a unit with a power capacity of about 1,000 MW to the national grid. The estimated cost of this investment will amount to PLN 5.3 billion.

Kozenice II Sp z. o.o. is carrying out preparation for a tender procedure for selecting the contractor to build the power unit for supercritical parameters with a power capacity of about 1,000 MW within the EPC contract formula. The contractor for the power unit should be selected in Q1 2011. The project is to be implemented in 2011-2015.

In 2010-2012, a total sum of PLN 2,272,474,000 has been planned for the implementation of this project. For individual years of the planning period ending on 31 December 2010, 2011 and 2012, funds in the amounts of PLN 94.1 million, PLN 554.4 million and PLN 1,624.0 million have been planned.

The implementation of this project has been commissioned to Kozenice II Sp z. o.o., a company established on 8 August 2008, in which as at the day on which this report was prepared ENEA held a 80.56 per cent stake and Elektrownia Kozenice S.A. held 19.44 per cent of shares.

Moreover, we have initiated work on the potential construction of an additional unit with a total capacity of 1,000 MW, which is expected to be commissioned in 2016. The project is in the early stages of implementation. Talks are under way with PSE Operator on the possibilities of connecting the new unit to the grid. Moreover, a localisation study has been performed for the new unit. We estimate that outlays will begin to be made on this project in 2011. Their size, according to estimates, will be similar to those for the first unit.

Other investment outlays.

As part of the remaining investment outlays in the amount of PLN 109.4 million, the Company plans to spend funds in particular on cash capital investments in Group companies engaged in the generation of electricity and thermal energy (including from renewable resources), modernisation of street lighting and IT and telecommunications projects.

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

Currently implemented investment outlays.

We are currently implementing the investment plan for 2010, as part of which we are conducting/have conducted the following investment projects:

- investment in distribution assets, including the construction and modernisation of high, medium and low voltage grids, and connecting customers to the medium and low voltage power grids;
- investments in distribution assets to support distribution, including IT, telecommunications, telemechanics systems, as well as metering and billing systems;
- investments in purchases of power equipment (transformers and other apparatus used in stations), safety relays safeguarding against the consequences of short circuits, control and metering equipment, as well as vehicles;
- the modernisation of unit No. 7, consisting on the modernisation of coal mills and bins, as well as the modernisation of unit automation systems;
- the modernisation of unit No. 10, consisting of, among other things, the exchange of the electrofilter, modernisation of the boiler and turbine unit, as well as the unit's automation systems.
- the construction of a new compressor station No. 2
- the construction of a new smoke stack for removing exhaust from desulphuring units IOS I and IOS III.
- the construction of a biomass dosing system – completed;

- the construction of desulphuring system IOS III for unit No. 10; and
- the purchase of a unit for generating electricity and thermal energy from biogas.

3.32. Assessment of the Feasibility of Implementing Investment Plans.

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

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

Funds obtained by ENEA S.A. from the issue of shares are invested in instruments exhibiting minimal risk, i.e. issued debt instruments, secured by suretyship or guaranteed by the State Treasury or bank deposits. Revenues from completed investments amounted to PLN 52,706,000 in H1 2010.

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

4. The Corporate Bodies of ENEA S.A.

4.1. Personal composition.

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

President of the Management Board	- Maciej Owczarek
Member of the Management Board for Financial Affairs	- Hubert Rozpędek
Member of the Management Board for Commercial Affairs	- Maksymilian Górniak
Member of the Management Board for Energy Generation	- Krzysztof Zborowski

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

At the date of preparation of this report Mr Tadeusz Dachowski, Deputy Chairman of the Company's Supervisory Board owned 300 shares in ENEA S.A. Mr Maksymilian Górniak, Member of the Management Board for Commercial Affairs, owned 3,740 shares in ENEA S.A.

Pursuant to the Act on the Commercialisation and Privatisation Act of 30 August 1996, Supervisory Board members appointed by the employees, Mr Paweł Balcerowski, Mr Tadeusz Dachowski and Mr Mieczysław Pluciński, were entitled to obtain employee shares in ENEA S.A. at no charge.

Moreover, pursuant to the Act on the Principles of Acquiring Shares from the State Treasury in the Process of Consolidating Power Industry Companies of 7 September 2007, Mr Krzysztof Zborowski, member of ENEA S.A.'s Management Board in charge of Generation Operations, is entitled to acquire employee shares in ENEA S.A. at no charge.

At the date of issuing this report, Members of ENEA S.A.'s Management and Supervisory Boards did not own shares in subsidiaries of ENEA S.A. In the period since the quarterly report was published, the shareholdings of management and supervisory personnel has not changed.

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

5.1. Share capital structure.

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

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

Following the registration of the increase in the Issuer's share capital, the capital structure is as follows:

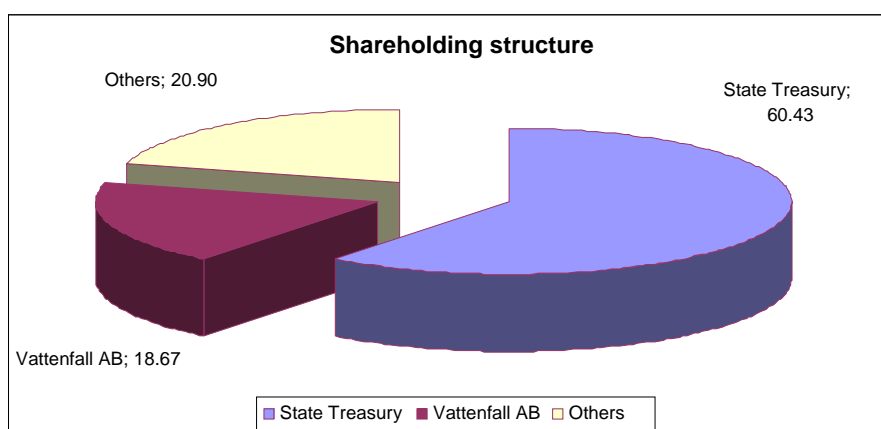
- 295,987,473 series A ordinary bearer shares,
- 41,638,955 series B ordinary registered shares,
- 103,816,150 series C ordinary bearer shares.

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

5.2. Shareholder structure.

As at the date of publishing this report, the structure of shareholders holding more than five per cent of the total number of votes at ENEA S.A.'s General Meeting of Shareholders is as follows:

Name of shareholder	Number of shares held	Number of votes held	Share in the share capital	Share in the total number of votes
State Treasury	266 774 895	266 774 895	60,43%	60,43%
Vattenfall AB	82 395 573	82 395 573	18,67%	18,67%
Others	92 272 110	92 272 110	20,90%	20,90%



The holding structure of significant tranches of shares in ENEA S.A. has not changed since the publication of the preceding quarterly report.

In accordance with the announcement from November 2009, in February 2010 the Ministry of the State Treasury conducted another stage of the privatisation of ENEA S.A. initiated in 2008. The State Treasury's plan for the Company's privatisation called for the sale of ENEA S.A. shares in two stages – as part of transactions carried out on public markets (Stage I / February 2010), and then the sale of more than 50 per cent of the Company to a sector investor (Stage II / middle of 2010). The main aim of Stage I was to increase the number of the Company's shares in free float (i.e. the number of shares held by shareholders whose holdings do not exceed 5 per cent in the Company's capital).

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

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

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

Abbreviated mid-year consolidated financial statements.

The abbreviated mid-year consolidated financial statements for the period 1 January 2010 to 30 June 2010 were drawn up in accordance with the International Financial Reporting Standards, which were approved by the European Union (the "EU IFRS").

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

Consolidation principles.

Subsidiaries.

Subsidiaries are all units whose financial and operating policy the Group is able to control, which is usually accompanied by a majority holding of the total number of votes in their corporate bodies. In evaluating whether ENEA S.A. controls a given unit, the existence and influence of the voting rights that at a given moment can be exercised or exchanged is taken into account. Subsidiaries are subject to full consolidation from the day on which the Group acquired control over them. They cease being consolidated on the day control ceases.

With regard to company acquisition transactions that are not subject to joint control, the cost of acquisition is established as the fair value of the transferred assets, issued equity instruments and liabilities contracted or transferred as at the day of transfer, increased by costs directly related to the transfer. Acquired assets and liabilities that can be identified and contingent liabilities taken over in connection with a merger of business units are initially valued at fair value as at the date of acquisition, regardless of the size of any minority interests. The excess of the transfer costs over the fair value of the Group's share in identifiable acquired assets, liabilities and conditional liabilities is recognised as goodwill. If the transfer costs are lower than the fair value of the assets, liabilities and conditional liabilities of the acquired subsidiary, the difference is recognised directly in the income statement.

Transactions, settlements and unrealised profits on transactions between companies in the Group are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence for the impairment

of the transferred asset. Accounting principles used by subsidiaries have been changed where necessary to ensure compliance with the accounting principles used by the Group.

Affiliates and jointly controlled units.

Affiliates are all entities over which ENEA S.A. has significant influence, but which it does not control, which is usually associated with holding between 20 and 50 per cent of the total votes in their corporate bodies. Investments in affiliates are settled by the equity method and are initially recognised at cost. The Group's investments into affiliates includes goodwill (less possible accrued impairment), established on the day of acquisition.

Jointly controlled units are all units over which ENEA S.A. exercises joint control pursuant to contractual provisions.

The Group's share in the financial result of affiliates and/or jointly controlled units from the date of acquisition are recognised in the income statement, and its share in changes in the balance of other capital funds from the date of acquisition are recognised in other capital funds. The balance sheet value of the investments is corrected by the aggregate changes in equity from the acquisition date. When the Group's share in the losses of an affiliate or jointly controlled unit becomes greater than or equal to its share in that affiliate or jointly controlled unit, including any other unsecured receivables, the Group ceases to recognise further losses unless it has taken on obligations or made payments on behalf of a particular affiliate or jointly controlled unit.

Unrealised profits on transactions between the Group and its affiliates or jointly controlled units are eliminated proportionally to the Group's share in the affiliates or jointly controlled units. Unrealised losses are also eliminated, unless a given transaction provides evidence for the impairment of the asset being transferred. Where necessary, the accounting principles applied by affiliates or jointly controlled units were changed to ensure compliance with the accounting principles applied by the Group.

Merger/acquisition of business units under joint control.

Accounting principles (policy).

Merger/acquisition transactions involving units under joint control are excluded from the scope of IFRS regulations. In these circumstances, pursuant to the recommendation included in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", due to the lack of detailed regulations in the IAS, the unit should prepare its own appropriate accounting principles for this type of transactions.

Pursuant to the recommendation, the Company has adopted an accounting policy consisting of recognising such transactions in accordance with their book values.

The adopted accounting policies are as follows:

The acquiring unit determines the assets, capital and liabilities of the target unit in accordance with their current book value, adjusted only in order to make the accounting policies of the merged units uniform. Goodwill and negative goodwill are not recognised. Any possible difference between the net book value of the assets being acquired and the fair value of the payment in the form of issued equity instruments and/or issued assets is recognised as part of the Company's equity.

In applying the method based on book values, comparative data from the presented historical periods is not transformed.

The mergers/acquisitions of business units outside common control are settled using IAS 3.

Transactions in foreign currencies and valuation of positions denominated in foreign currencies.

(a) Functional currency and presentation currency.

Items in the financial statements of individual units in the Group are valued in the currency of the basic business environment in which a particular unit operates (in the functional currency). The consolidated financial statements are presented in Polish zlotys (PLN), which is the functional currency and the presentation currency for all the units in the Capital Group.

(b) Transactions and balances.

Transactions expressed in foreign currencies are converted as at the moment of the initial disclosure into the functional currency according to the exchange rate prevailing on the date of the transaction.

As at the balance date cash positions expressed in foreign currencies are converted using the closing exchange rate (closing exchange rate – the mid-price exchange rate of the National Bank of Poland in effect for the valuation date).

Profits and losses on account of exchange rate differences that arose due to the settlement of transactions in a foreign currency and the balance-sheet valuation of pecuniary assets and liabilities expressed in foreign currencies are recognised in the income statement.

Property, plant and equipment.

Property, plant and equipment are valued at purchase price or cost of production less accrued depreciation and accrued impairment write-offs.

The ENEA Capital Group chose optional exclusion of IFRS 1 and recognised the fair value of selected items of property, plant and equipment as an assumed cost as at the date of the transition to the EU IFRS.

Later outlays are taken into account in the balance-sheet value of a particular non-current asset or are recognised as a separate fixed asset (where appropriate) only when it is likely that on account of that item there will be an inflow of financial benefits into the Group and the cost of the item in question can be reliably measured. Any other expenses on repairs and maintenance are charged to the income statement in the accounting period in which they were incurred.

In the event of the exchange of a component of a fixed asset, the cost of the exchanged component of that asset is included in its balance sheet value; at the same time the balance sheet value of the component being exchanged is deleted from the balance sheet, regardless of whether it had been depreciated separately, and is included in the income statement.

Land is not subject to depreciation. The depreciation of other fixed assets is calculated by the straight-line method for the estimated period of usage. The basis of calculating depreciation is the initial value decreased by the final value, if it is significant. Each significant element of a fixed asset with a different time of usage is depreciated separately.

Usage periods for fixed assets are as follows:

- buildings and structures	25 – 80 years
including power grids	33 years
- technical equipment and machinery	4 – 50 years
- means of transport	5 – 20 years
- other tangible assets	5 – 15 years

The final value and usage periods of fixed assets are verified at least once per year.

Depreciation begins when an asset becomes available for use. Depreciation ends when the asset is designated for sale or if it is deleted from the balance sheet.

As part of its operations, the Group receives partial or full reimbursement for outlays incurred on fixed assets in connection with the connection of new customers to the electricity grid. Accepted fixed assets are recognised at their purchase price or cost of production, and the corresponding sum of reimbursement of outlays is at the same time recognised for settlements of income from connection fees and is subject to settlement over time as for the depreciation of these fixed assets.

The Company has received street lighting equipment free of charge from district authorities and accounts these fixed assets in accordance with IAS 20 Government Grants, i.e. it discloses them in tangible fixed assets at fair value, and discloses them in the balance sheet as settlements of revenues from grants, settled over time against revenues, proportionately to the accrued depreciation costs from this item, over a period of 35 years.

Profits and losses from the sale of fixed assets constituting the difference between sale revenues and the balance sheet value of the sold fixed asset are shown in the income statement.

Right of perpetual usufruct to land.

Land owned by the State Treasury, local government bodies or their associations may be handed over for perpetual usufruct (PU). Perpetual usufruct is a particular property right allowing the holder to: use the property exclusively of third parties and to dispose of this right.

Depending on the manner of acquisition of the rights, the Company classifies them as follows:

1. PU obtained at no charge by operation of law pursuant to a decision of the province governor or the authorities of a local government body – is treated as operating lease.
2. PU acquired for a consideration from third parties is disclosed as an asset in PU at purchase price less depreciation write-offs.
3. PU acquired on the basis of an agreement on giving over land in perpetual usufruct concluded with the State Treasury or local government bodies is assumed to be the surplus of the first fee over the annual fee and is charged to PU as an asset and depreciated.

The depreciation of the perpetual usufruct of land takes place over the period for which the right was granted (40 to 99 years).

Intangible assets.

(a) Goodwill.

Goodwill consists of the excess of the price of acquisition over the fair value of the shares held by the Group's entities in the identifiable assets, liabilities and conditional liabilities of the acquired subsidiary as at the day of its acquisition, or of an affiliate on the day of the acquisition of significant influence. Goodwill from the takeover of subsidiaries is recognised in intangible assets. Goodwill arising from the acquisition of investments in affiliated units is shown in the balance sheet value of those investments.

Goodwill is subject to an annual impairment test and is disclosed in the balance sheet at the initial value less accrued impairment write-offs. For the purpose of carrying out the impairment test, goodwill is allocated to cash generating units which derive benefits from merger synergies.

Profits and losses from the sale of subsidiaries or affiliates take into account the balance sheet value of the goodwill for the unit being sold.

(b) Other intangible assets.

Intangible assets include: computer software, licences and other intangible assets. Intangible assets are recognised at their purchase price or the cost of production decreased by the accrued amortisation or accrued impairment.

Depreciation is calculated using a linear function, in accordance with the estimated period of usage, which amounts to:

- | | |
|--|--------------|
| - for licences and server software | 2 – 7 years |
| - for licences, workstation software and anti-virus software | 4 – 7 years, |
| - for other intangible assets | 2 – 7 years |

(c) CO₂ emissions rights.

Emissions rights awarded free of charge under the National Distribution Plan, as well as purchased rights, constitute intangible assets, with the proviso that rights obtained free of charge are recognised at zero value and purchased rights at their purchase price.

The provision for actual CO₂ emissions is recognised at zero value, provided that actual emissions do not exceed the quantity of emission rights attributable to a particular year held by the Group. If actual emissions exceed the quantity of CO₂ emission rights attributable to a particular year held by the Group, the Group creates a provision for the purchase of the shortfall of rights according to the current market value of CO₂ emission rights as at the balance-sheet date.

Revenues from the sale of surplus emissions rights are recognised at the moment of their sale.

Costs of R&D work.

The costs of research are shown in the income statement for the period in which they were incurred.

The costs of development that fulfil the criteria of their capitalisation, described below similarly to other intangible assets, are recognised at their purchase price or production cost reduced by accrued depreciation and accrued impairment. Depreciation is calculated using a linear function, in accordance with the estimated period of usage, which amounts 2 – 7 years.

Capitalisation criteria:

- The technical possibility of completing the intangible asset so as to enable its use or sale,

- The intention to complete the intangible asset and to use or sell it,
- The ability to use or sell the intangible asset,
- The manner in which the intangible asset is to generate possible future commercial benefits. Among other things, the business unit should prove the existence of a market for the goods being produced as a result of the intangible asset or for the asset itself – or, if the asset itself is to be used by the unit, the usefulness of the intangible asset,
- The availability of appropriate technical, financial and other means which are designated for the completion of development work and the use or sale of an intangible asset,
- The possibility of reliably determining the outlays incurred during the development work, which can be assigned to that intangible asset.

Costs of external financing.

Costs of external financing which can be directly attributed to the purchase, construction or manufacture of an asset which is being adapted are charged to assets as a part of the purchase price or production cost of that asset. Other costs of external financing are recognised as a cost in the period in which they are incurred.

Leasing.

A leasing agreement in which ENEA S.A. bears essentially the entire risk and obtains all benefits of ownership is classified as financial leasing. Leasing other than financial leasing is classified as operational leasing.

Objects under financial leasing are shown under assets at the day the leasing commences in accordance with the lower of the following two values: the fair value of the object under leasing or the current value of the minimum leasing fees. Each fee under financial leasing is divided into the amount decreasing the balance of the liability and the amount of financial costs so as to maintain a fixed interest rate in relation to the unsettled portion of the liability. The interest element of leasing instalments is recognised under financial costs in the income statement over the term of the leasing agreement, in such a way as to obtain a constant interest rate for each period in relation to the outstanding portion of the liability. Assets subject to depreciation acquired under financial leasing are depreciated for the period of use of the assets.

Leasing fees paid under operational leasing (after deducting possible promotional discounts obtained from the lessor) are settled as costs using a linear function throughout the life of the leasing agreement.

Impairment of assets.

The Company's assets are revalued whenever circumstances appear indicating that a given asset may have been impaired.

Non-financial assets.

Impairment losses are shown in the amount in which the balance-sheet value of a given asset exceeds its recoverable value. Recoverable value is determined as the higher of the two following values: fair value less the costs of bringing about a sale or utility value (i.e. the current estimated value of future cash flows that are expected on account of the further use of an asset or cash generating unit). For the purposes of analysis with regard to impairment, assets are grouped on the lowest level with regard to which separately identifiable cash flows (cash generating centres) occur.

All impairment write-offs are shown in the income statement. Impairment write-offs may be reversed in subsequent periods if circumstances appear that justify the finding that the assets did not lose or lost a different proportion of their value.

Financial assets.

Financial assets are analysed for each balance-sheet date in order to determine whether circumstances justifying the impairment of these assets have appeared. Permanent impairment is deemed to have taken place if objective circumstances show that one or more events had a negative impact on the estimated future cash flows from a given asset.

The impairment of financial instruments available for sale is calculated in relation to their fair value.

Individual financial instruments of significant value are assessed with regard to impairment individually. In assessing the impairment of other financial assets, they are divided into groups in accordance to their level of credit risk.

Investment real properties.

Investment real estate is held in order to obtain revenues from rent, from increases of its value or both. For valuation after initial recognition the Group has selected the purchase price model.

Investments in real estate are depreciated using a linear function. Depreciation begins in the month following the acceptance of the real estate for use. The estimated period of use is as follows:

Buildings	25 – 33 years
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Financial assets.

The Group classifies financial instruments into the following categories: financial assets recognised at their fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

The classification is based on the purpose of the investment's acquisition. The classification is performed as at the moment of first recognition, and then is verified for each balance sheet date if this is required or allowed by IAS 39.

(a) Financial assets at fair value through profit or loss.

This category includes two sub-categories:

- financial assets designated for trading – a financial asset is classified into this category if it was purchased mainly for the purpose of selling it in the short-term (e.g. a portfolio of shares managed by a brokerage);
- financial assets designated at the moment of their initial disclosure as being valued at fair value through the financial result (e.g. participation units in investment funds).

Assets in this category are classified into current assets if they are designated for trading or they are expected to be realised within 12 months from the balance-sheet date.

(b) Loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, not listed on an active market. They appear when the group spends cash, delivers goods or services directly to the debtor, without the intention of designating these receivables for trading.

Loans and receivables are classified as operating assets, if their term of maturity falls within 12 months of the balance sheet date. Loans and receivables with a maturity date more than 12 months from the balance sheet date are classified as fixed assets. Loans and receivables are shown in the balance sheet under "receivables for goods and services and other receivables".

(c) Held-to-maturity investments.

Held-to-maturity investments are financial assets that do not constitute derivative instruments with fixed or determinable payments and a fixed maturity date, which the Group intends and is able to hold to maturity.

(d) Available-for-sale financial assets.

Available-for-sale financial assets are financial instruments that do not constitute derivative instruments which are designated as "available-for-sale" or are not classified into any of the other categories. This category includes shares in non-affiliated entities. Available-for-sale financial assets are classified as fixed assets unless the Group intends to sell the given investment within 12 months from the balance sheet date.

Transactions involving the purchase or sale of financial assets are recognised as at the date of the transaction, i.e. as at the date when the Group undertakes to purchase or sell a particular asset. Financial assets are initially disclosed at fair value plus the transaction costs, except for investments classified into the category of valued at fair value through profit and loss, which are initially recognised at fair value without taking into account the costs of the transaction.

Financial assets are excluded from the books of account when the rights to obtain cash flows from them have expired or have been transferred and the Group has essentially transferred all the risk and all the benefits stemming from their ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are shown at their fair value after their initial disclosure. If it is not possible to determine their fair value and they have no set maturity

date, available-for-sale financial assets are recognised at their purchase price less impairment. Receivables and loans and held-to-maturity financial assets are valued at amortised cost applying the effective interest rate.

The value of financial assets recognised at their fair value through profit and loss is shown in the income statement for the period in which they arose. The value of financial assets available for sale is shown under equity, with the exception of impairment write-offs and the profits and losses due to exchange rate differences that appear for cash assets. When an asset classified as “available for sale” is deleted from the accounts, the total profits and losses previously shown under equity are shown in the income statement.

The fair value of investments for which there is an active market is based on the current purchase price. If the market for the given financial assets is not active (or if the securities are not listed), ENEA S.A. establishes fair value by using a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models commonly used on the market, adjusted for the issuer's specific circumstances.

On each balance-sheet date, the Group determines whether objective evidence has appeared of the impairment of a financial asset or a group of financial assets.

If such evidence exists in relation to available-for-sale financial assets, the total losses previously shown under equity – the difference between the purchase price and the current fair value, less possible impairment previously shown in the income statement – are excluded from equity and shown in the income statement. Impairment shown in the income statement and relating to equity instruments are not subject to reversal through profit and loss. The reversal of a loss on account of impairment of debt financial instruments is recognised in the income statement if, in subsequent periods after the write-off was recognised, the fair value of those financial instruments increased as a result of events that occurred after the moment when the write-off was recognised.

If evidence of the impairment of loans and receivables or held-to-maturity investments recognised at cost depreciated using the effective interest rate, the write-off is established as the difference between the balance sheet value of the assets and the current value of future cash flows discounted by the original effective interest rate for those assets (i.e. the effective interest rate calculated as at the initial recognition of fixed-interest assets and the effective interest rate established as at the last revaluation for variable-interest assets). Impairment is shown in the income statement. The reversal of a write-off is disclosed if, in subsequent periods, the impairment decreases and that decrease can be attributed to events that occurred after the moment when the write-off was recognised. As a result of the reversal of impairment the balance sheet value of financial assets may not exceed the value of depreciated costs that would have been established if there had been no impairment. The reversal of impairment is shown in the income statement.

If evidence exists of the impairment of unlisted equity instruments recognised at their purchase price (due to the impossibility of reliably establishing their fair value), the impairment is established as the difference between the asset's balance sheet value and the current value of estimated future cash flows discounted using the current market yield rate for similar financial assets. Such impairment is not reversed.

Inventories.

Inventories are recognised at their purchase price or cost of production no higher than the net sale price.

Costs are established using the first in, first out (FIFO) method with the exception of production coal, biomass and calcium powder, whose costs are established using the weighted average purchase price method.

Certificates of origin.

Pursuant to Article 9 a of the Energy Law, ENEA S.A. as a power company engaged in trading in electricity and selling that electricity to end users connected to its grid in the Republic of Poland is obliged to:

- a) obtain and to present to the President of URE for cancellation certificates of origin or
- b) pay a substitute fee.

Certificates of origin constitute the confirmation of the generation of electricity from renewable sources and electricity generated in cogeneration (together with the generation of heat). They are issued by the President of URE at the request of a power company which produces electricity in renewable energy sources (wind, water and solar energy and energy from biomass) and cogeneration. Certificates of origin are saleable and are

listed.

Property rights attached to certificates of origin arise at the moment they are entered in the register of certificates of origin maintained by Towarowa Giełda Energii S.A. (the Energy Commodity Exchange, TGE). The transfer of the property rights attached to the certificates of origin takes place at the moment when an appropriate entry is made in the register of certificates of origin.

ENEA S.A. is obliged to obtain and present for cancellation certificates in quantities defined in regulations issued under the Energy Law as a percentage of the total sale of electricity to end users. The deadline for carrying out the obligation to cancel certificates of origin or to pay substitute fees for a given year is 31 March of the following year.

The substitute fee consists of the product of the price established in the Energy Law and the difference between the amount of electricity stemming from the obligation to obtain and present certificates of origin for cancellation and the amount of electricity stemming from the certificates of origin that the power company presented for cancellation for a given year.

Depending on the purpose of purchase, certificates of origin are classified as:

- long- or short-term financial assets if the certificates of origin were purchased in order to later resell them;
- a separate category of long- and short-term assets (“certificates of origin”) if the certificates of origin were obtained for cancellation.

Certificates of origin generated internally are recognised at the moment the power is generated (or as at the day on which their issuance became probable), unless there is justified doubt with regard to the possibility their issuance by the President of URE.

Certificates of origin are initially recognised at their purchase price, while certificates of origin generated internally are recognised at the market price from the last day of the month in which the power to which the certificates relate was generated.

During a financial year and until 31 March of the following year, the Company presents certificates of origin for cancellation – the cancellation of certificates of origin in the accounts takes place as outflows using the method of the detailed identification of the certificate of origin.

As at the balance sheet date, certificates of origin, with the exception of those obtained for the purpose of later reselling them, are recognised at their purchase price less possible impairment, while certificates of origin generated internally are recognised at the market price from the last day of the month in which the power to which the certificates relate was generated.

As at the balance sheet date, certificates of origin obtained for the purpose of later reselling them are shown at fair value, and their value is shown in the income statement.

If it does not have a sufficient quantity of certificates of origin on the balance sheet date, the Group creates a provision for the substitute fee or the purchase of certificates on the TGE in order to fulfil the obligations imposed by the Energy Law. The provision covers a quantity of certificates equivalent to the difference between the number of certificates cancelled for a given financial year and the quantity required to be cancelled in accordance with the requirements of the Energy Law. Provisions are valued firstly based on their purchase price for the quantity of certificates of origin held but not cancelled as at the balance sheet date; secondly based on the unitary substitute fee or (if transaction volumes at the TGE are sufficient to carry out the needed transactions within a time that makes it possible to cancel the certificates by 31 March of the following financial year) based on the weighted average value of indices published by the TGE from the four sessions preceding the end of the quarter.

The provision reduces the value of certificates of origin held by the Group.

Cash and cash equivalents.

Cash and cash equivalents include cash at hand, bank deposits paid on demand, other short-term investments with an original maturity term of up to three months and with a high degree of liquidity.

Share capital.

The Capital Group’s basic capital fund is the share capital of the parent entity disclosed in the amount specified

in the statute and entered in the court register, adjusted as appropriate by the effects of hyperinflation and the settlement of the effects of mergers and acquisition transactions. A share capital increase that as at the balance sheet date was paid in by the shareholders but which is awaiting registration in the National Court Register is also presented as share capital.

Borrowings.

Borrowings are initially recognised at fair value less transaction costs incurred.

After initial recognition, financial liabilities are valued in the amount of amortised cost, applying the effective interest rate.

Income tax (including deferred income tax).

The following are obligatory deductions from the financial result: current tax and deferred tax.

Current tax burden is calculated based on the taxable result (taxable base) for the given reporting period. The taxable profit/loss differs from the accounting net profit/loss by the exclusion of taxable revenues and costs of revenues in subsequent years, as well as costs and revenues that will never be subject to taxation. Tax burdens are calculated based on tax rates in force in the given reporting period.

A provision for deferred tax resulting from temporary positive differences between the tax value of assets and liabilities and their balance-sheet value is disclosed in the consolidated financial statements in the full amount.

Assets due to deferred income tax are shown if it is probable that in the future taxable income will arise that will make it possible to deduct temporary differences or apply tax losses.

Provisions for deferred tax or assets for deferred tax are not shown if they stem from the initial recognition of an asset or liabilities stemming from a transaction, if the transaction does not consist of the merger of business units, and at the time of its appearance does not influence the gross financial result or taxable income. Provisions for deferred tax are also not recognised on temporary differences resulting from the initial recognition of goodwill or goodwill whose depreciation is not deemed to be a tax cost.

Assets and provisions for deferred tax are created against all temporary differences related to investments in affiliates, with the exception of a situation where the two following conditions are fulfilled jointly:

- The Group is able to control the reversal dates of temporary differences, and
- it is likely that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax is established applying tax rates (and regulations) which are expected to be prevailing when the asset is realised or the provision settled, taking as the basis the tax rates (and tax regulations) which were legally or actually applicable on the balance-sheet date.

Deferred tax is included in the profit or loss statement for the given period, except where the deferred tax:

1. relates to transactions or events which are directly recognised in equity – deferred tax is then also recognised in the relevant component of equity, or
2. stems from the merger of business units – then the deferred tax is recognised in goodwill or the excess of the share in the fair value of net assets over the cost of acquisition.

Deferred tax assets and deferred tax liabilities should be offset if the Group's companies are legally entitled to offset against current income tax receivables and liabilities and if the assets and provisions for deferred tax relate to income tax levied by the same taxing authority on the same entity.

Employee benefits.

The Capital Group offers the following types of employee benefits:

A. Short-term employee benefits.

Short-term employee benefits in the Group include, among others: monthly remuneration, annual bonus remuneration, the right to discounts on electricity purchases, short-term paid time off together with the applicable social insurance premiums.

The liability on account of short-term (accumulated) paid leaves of absence (pay for unused holidays) is disclosed even if the paid leaves of absence do not carry an entitlement to an equivalent cash payment. The Group determines the forecast cost of accumulated paid leaves of absence as an additional amount which,

according to the forecasts, it will pay on account of unused entitlements, established as at the balance-sheet date.

B. Specific benefit programmes.

The Group classifies the following as specific benefit programmes:

1) Retirement severance payments.

Retiring employees (or those leaving employment due to a disability) are entitled to receive a retirement severance payment in the form of a cash gratuity. The amount of the severance payments depends on length of service and the amount of remuneration received by the employee. Actuarial methods are used to estimate liabilities on this account.

2) Right to discounts on purchases of electricity after retirement.

When employees who have worked in the Group for at least one year retire, they are entitled to a discount on 3,000 kWh of electricity per year. If the employee dies, that right passes to his/her spouse, provided that the spouse collects a family allowance.

Pensioners and people receiving allowances have the right to a cash equivalent payment in the amount of 3000 kWh x 80 per cent of the price of electricity and the variable component of the transmission fee as well as 100 per cent of the fixed grid fee and the subscription fee, according to the single-phase tariff generally applicable for households. A cash equivalent is payable twice annually: by 31 May and by 30 November, in the amount of half of the annual equivalent each time.

3) Length of service awards.

The Group's other long-term employee benefits include length of service awards. The amount of those awards depends on both length of service and the amount of remuneration received by the employee. Actuarial methods are used to estimate liabilities on this account.

Withholding for the Company Social Benefits Fund for retirees.

Pursuant to the Collective Labour Agreement, in calculating the annual withholding for the Company Social Benefits Fund (CSBF) the Capital Group also takes into account retirees entitled to use the fund. The obligation is recognised proportionally to the period for which the employees are expected to continue working. The amount of the provision is estimated using actuarial methods.

Liabilities for the benefits referred to in points 1 – 4 are estimated using the projected unit credit method. Actuarial profits and losses are charged in their entirety to the income statement.

C. Specific contributions programme.

In accordance with Appendix 18 to the Collective Labour Agreement, the Group runs an Employee Retirement Programme in the form of group insurance of employees with a capital fund, according to the principles set out in statute law and negotiated with trade union representatives.

The Employee Retirement Programme can be used by employees of the Group after they have worked for the Company for one year, regardless of the type of their employment contract.

Employees' join the Employees' Retirement Programme on the following conditions:

- a) insurance is taken out in the form of group life insurance with insurance protection;
- b) the amount of the basic premium is set at seven per cent of the participant's remuneration;
- c) 90 per cent of the basic premium is designated as an investment contribution and 10 per cent for insurance cover.

D. Payments in the form of company shares.

Payments in the form of shares relate to transactions settled in capital instruments or their equivalent, in which the Group receives services (the performance of work by employees) in exchange for its own capital instruments (shares) or their equivalent.

The Group discloses services received as part of transactions paid in the form of shares settled in equity instruments and the corresponding increase in share capital at the moment it receives those services. If the

services received as part of transactions paid in the form of shares do not qualify for recognition as assets, the Group shows them under costs.

The costs are shown at fair value and are recognised on the day on which the instruments are awarded. In light of the fact that the fair value of employee services cannot be directly assessed, their value is established based on the fair value of the equity instruments being awarded.

In transactions paid in the form of shares settled in cash, the Group shows the liability at fair value for each reporting date, as well as for the settlement date, and shows possible changes in value in profits and losses for the given period.

Provisions.

Provisions are created when companies in the Group have a current obligation (legal or customarily expected) resulting from past events and it is probable that fulfilling that obligation will necessitate an outflow of funds containing financial benefits, and it is possible to reliably estimate that obligation.

The sum for which a provision is created is the best estimate of outlays required to fulfil the obligation as at the balance sheet date.

Recognising revenues.

Sales revenues are recognised at fair value of the received or due payment, after deducting VAT, rebates and discounts.

Revenues from the sale of electricity and distribution services are recognised at the moment when the electricity is delivered or the power transmission services are provided to the recipient.

For the purposes of establishing the value of revenues for the period between the preceding invoicing date and the balance sheet date, an estimate of revenues is prepared, which is shown in the balance sheet under receivables for goods and services and others.

Revenues from sales of goods and materials are recognised when a unit has transferred significant risk and benefits stemming from the ownership of the goods and materials and it is likely that financial benefits will be obtained from the transaction.

Revenues from the leasing of investment real estate are recognised in the income statement using a linear function throughout the life of the lease.

Interest revenues are recognised on an accrual basis using the effective interest rate if their receipt is not in doubt.

Dividend income is recognised at the moment at which the right to receive payment is acquired.

Grants.

The Group receives grants in the form of fixed assets and in the form of refunds for expenditures incurred on fixed assets. The Group recognises those grants in accordance with IAS 20 *Government Grants*.

Grants are recognised in the balance sheet as revenues from future periods, if their receipt is sufficiently secure and the Group fulfils conditions related to them. Grants received as reimbursement of costs already incurred by the Group are systematically recognised as revenue in the income statement for the periods in which the costs related to them were incurred. Grants received as reimbursement of investment outlays incurred by the Group are systematically recognised, in proportion to depreciation write-offs, as other operating revenue in the income statement for the period in which the asset is used.

Compensation for stranded costs arising in connection with the early termination of long-term power and electricity sales agreements (KDT).

Compensation for stranded costs is systematically recognised as revenue in the income statement for the periods in which the stranded costs related to it were incurred.

Compensation for stranded costs is recognised at the value of advance payments due in the given accounting period as shown in Appendix 4 of the Act on the Principles for Covering Costs Arising for Generators Due to the Early Termination of Long-Term Power and Electricity Sales Agreements of 29 June 2007, corrected by the estimated amount of correction for the given period. Compensation for stranded costs for a given year is settled by the President of URE by 31 July of the subsequent year and by 31 August after the last year in which

the KDT remain in force.

Connection fees.

From clients for which it carried out connections to the grid, the Group receives reimbursement of a part or all of the costs incurred as a result of the connection. The value of the reimbursed connection costs are recognised in the Group's liabilities and are shown in revenues over the depreciation period of the connections, namely 35 years.

Settlement over time of revenues from grants and connection fees obtained until the end of 2009 are covered by settlements over time of amortisation of fixed assets. In compliance with IFRIC 18, connection fees obtained as from 1 January 2010 are reported once only in revenues.

Payment of dividends.

The payment of dividends to shareholders (including minority shareholders in the case of dividends of subsidiaries) is recognised as a liability in the Group's financial statements in the period in which they were approved by the shareholders of the Parent Company.

Payments of profits from Single-Shareholder State Treasury Companies, which amount to 15 per cent of gross profit decreased by income tax, are also treated as dividends.

Reporting relating to operating segments.

The basic model used in segment reporting is the business segment. A business segment is a group of assets and liabilities engaged in providing products or services that are subject to risks and returns on incurred investment outlays that are different from those of other business segments. The Capital Group has four separate business segments:

- trading – the sale of electricity to end users,
- distribution – electricity transmission services,
- generation – the generation of electricity,
- other operations.

The Group operates within a single geographical area – in Poland, and therefore has no geographical segments.

Abbreviated mid-year financial statements.

Description of key accounting principles.

The key accounting principles which are applied when drawing up the abbreviated mid-year non-consolidated financial statements of ENEA S.A. are presented in Note 3 on the financial statements of ENEA S.A. for the first six months of 2010. Those principles were applied consistently in all the periods presented.

Basis for drawing up the financial statements.

The abbreviated mid-year unconsolidated financial statements for the period between 1 January 2009 and 30 June 2009 were prepared in accordance with the requirements of the International Financial Reporting Standards as adopted by the European Union (the "EU IAS")

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

7. Other information.

7.1. Entity entitled to audit financial statements .

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

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

Irrespective of the information set out in other parts of the mid-year report, in the Management Board's opinion the information relating to environmental protection in the period 2008-2009 should also be considered, which is significant primarily in the context of the energy production operations of Elektrownia Kozenice S.A. Our activities in the area of electricity production depend on the quantity of rights granted to us to emit carbon dioxide and other gases and substances for a particular settlement period. Existing and changing conditions in the area of environmental protection may require us to incur additional investment expenditures and may also lead to our incurring liabilities, to penalties being imposed on us or to suspension of the operation of certain facilities. Irrespective of the information set out below, these issues are also described in Sections 3.5 and 3.20 above.

7.2.1. ENVIRONMENTAL PROTECTION – report for 2008.

The installation in Elektrownia Kozenice S.A. for the combustion of fuels for power production is used to produce, transmit and distribute electricity and produce and distribute heat (steam and hot water).

The operation of the installations causes:

- the introduction of polluting substances into the air (gases and dust);
- emissions of noise into the environment;
- the generation of hazardous and non-hazardous waste;
- the introduction of wastewater into surface waters.

Pursuant to the Regulation of the Minister of the Environment of 26 July 2002 on types of installations which can cause substantial pollution of individual elements of the environment or the environment as a whole, installations used in the power industry for burning fuels with a nominal power exceeding 50 MW must hold an integrated permit.

I. Current formal/legal status.

Kozenice Power Plant holds all the necessary decisions for the use of the environment in accordance with the applicable laws relating to taking in water and disposing of wastewater, managing waste, and the emission of pollution into the air.

On 20 December 2005 the Power Plant obtained an integrated permit for the combustion of fuels for power production (decision No. WŚR.I.6640/13/6/05 and amending decisions No. WŚR.I.JB/6640/43/06 of 5 July 2007 and No. 55/08/PŚ.Z of 15 September 2008). The permit has a fixed validity period ending on 20 December 2015.

On 29 March 2006, by a decision of the Governor of the Mazowieckie Province No. WŚR.II.EK/0717-3/16/06, the Power Plant obtained a permit covering the period from 1 January 2005 to 31 December 2014 allowing it to participate in the Community system of trading in emission rights. Because the TIO (technical inspection of operation) system, which was approved for calculating coal combustion emissions in 2005, was not legally approved for settlements in subsequent years, the Power Plant applied to the Governor of the Mazowieckie Province for the decision to be amended. In accordance with decisions issued by the Governor of the Mazowieckie Province – WŚR.II.MO/0717-3/48/06 of 20 May 2006 and WŚR.II.MP/0717-3/67/06 of 12 December 2006 – coal consumption was determined, for the purposes of balancing carbon dioxide emissions in the period 2006-2007, on the basis of an inventory method, with an accuracy level of 2b, for which the maximum acceptable measurement uncertainty amounts to ± 4.5 per cent.

On 18 January 2008, the Power Plant obtained a decision of the Speaker of the Mazowieckie Province No. 1/08/PS.P, amending the decision of 29 March 2006, which specified a method of monitoring the quantity of carbon dioxide emissions from 1 January 2008 – for coal, measurement will be carried out using certified automatic scales (accuracy level 3a) or, if the scales malfunction, by balancing mass as a substitute method (accuracy level 3b). On 31 October 2008 the Regulation of the Minister of the Environment of 12 September 2008 on the procedure for monitoring the quantity of emissions of substances covered by the Community system of trading in emission rights came into force, which provided new rules for monitoring CO₂. The Power Plant therefore applied for and obtained a new decision of the Speaker of the Mazowieckie Province No.

2/09/PŚ.P permitting it to participate in the Community emission rights trading system from 1 January 2009 to 4 February 2019.

Compliance with emission standards and permitted emissions is monitored in the Power Plant using the MIKROS continuous emission measurement system. Starting from 2008, much stricter emission standards apply, and the way they are interpreted has also changed (with regard to dust and nitric oxides, permitted emissions are specified for chimneys, without the possibility of averaging out emissions for an entire power plant). As a result, in 2008 instances were recorded of the permitted 48-hour dust concentrations being exceeded.

II. Emissions of pollution and charges paid for using the environment.

The amounts of pollutants emitted in 2008 are:

- SO₂ – 32 595 Mg
- NO_x – 21 824 Mg
- ash – 1 570 Mg
- CO – 1 497 Mg
- CO₂ – 10,004,616 Mg
- waste (mixture of ash and cinders) – 340 123 Mg.

Charges for using the environment due and paid for 2008 amounted to a total of PLN 31,395,938.55, of which:

- emissions from combustion for power production PLN 25,133,611.11
- vehicle emissions PLN 25,425.38
- waste storage PLN 5,012,055.36
- intake of water PLN 700,528.82
- discharge of cooling water PLN 365,410.65
- wastewater disposal PLN 158,907.23.

Elektrownia Koźienice S.A. paid charges for using the environment within the statutory time limit. It has no arrears with respect to the payment of charges and any amounts due in this respect are settled on time.

The reduction in charges for emissions of NO_x in 2008 due to modernisation work carried out on all power units amounted to **PLN 8,869,696** (the total reduction in emissions of NO_x amounted to **20,627.2 t**)

In 2008 the Power Plant did not receive any penalties for failing to comply with environmental protection regulations.

III. Environmental protection measures.

In 2008 a modernisation investment cycle was continued in the Power Plant which will result in a reduction in its adverse impact on the natural environment.

III.1 Protection of the air

III.1.1 Reduction of the dust content in fumes.

In 2008 the replacement of the electrostatic precipitator for power unit 1 was completed (having been commenced in 2007), the electrostatic precipitator for power unit 6, which guarantees dust concentration at its outlet of 50 mg/norm. m³, was replaced, and a general overhaul of the electrostatic precipitator for power unit 5 and medium overhauls of the electrostatic precipitators for power units 4 and 10 were carried out.

III.1.2 Reduction of emissions of nitric oxides

In reference to the problems concerning nitrogen oxides (NO_x), an agreement was concluded with the company FORTUM & HEAT Oy/SERVICE for implementing 'Modernisation of OP-650 boiler No. 5 to reduce NO_x emissions', with a guaranteed reduction in NO_x concentrations to a level below 400 mg/m³. The envisaged guarantee measurements will be carried out from June to July 2009.

III.1.3. Desulphurisation of fumes

In 2008 the construction of the IOS III installation for the desulphurisation of fumes by the wet method for 500 MW power unit 10 was commenced. The construction of IOS III is scheduled to be completed and the installation will be put into operation at the end of 2010.

III.1.4. Installation for the co-combustion of biomass.

On 31 August 2007 an installation for the co-combustion of biomass for 200 MW power units was put into operation, for which the maximum annual consumption of biomass amounts to 100,000 tonnes. The combustion of that quantity of biomass will replace approximately 50,000 tonnes of coal and will reduce CO₂ emissions by more than 100,000 tonnes.

On 10 December 2008, the Power Plant signed an agreement with Elektra Tarnów for the execution of stage II of the project

“Construction of Renewable Energy Sources – Biomass Feed Installation”, which is scheduled to be completed on 30 March 2009. The work includes plans to construct a second walking floor with a capacity of not less than 230 m³/h and a sifter with a capacity of 40 T/h, and there are also plans to construct a shredder with capacity of 15 T/h and a warehouse umbrella roof with a manoeuvring yard and to modernise the control system for the biomass feed installation.

The above work will result in:

- an increase in the biomass unloading capacity from 40 t/h to 80 t/h;
- the range of biomass delivered being extended (primarily the inclusion of briquettes of agricultural and forest origin and lesser quality forest biomass);
- improved delivery logistics due to the construction of warehouse space;
- increased availability of the installation due to the construction of alternative biomass delivery paths;
- improved safety of the operation of power units co-combusting biomass.

In 2008, 98,656.4 t of biomass were combusted. Burning that quantity of biomass results in the emission of 151,138 t of carbon dioxide being avoided.

III.1.5 Trading in emission rights.

The fuel combustion installation located in Koźienice Power Station included in National Distribution Plan II is subject to the Act on Trading in Rights to Emit Greenhouse Gases and Other Substances into the Air of 22 December 2004 (Journal of Laws No. 281, item 2784). By way of the Regulation of the Council of Ministers of 1 July 2008 on accepting the National Distribution Plan for carbon dioxide emission rights for the period 2008-2012 for Community trading in emission rights (Journal of Laws No. 202, item 1248), Elektrownia Koźienice S.A. received an average annual allocation of rights in the amount of 9,636,619 tonnes. On 9 February 2009, the Company obtained a positive verification of its Report on Annual CO₂ Emissions for 2008. The verification was carried out by SGS Polska Sp. z o.o. The quantity of verified emissions of CO₂ for 2008 amounted to 10,004,616 Mg. Pursuant to Article 45 of the Act on Trading in Rights to Emit Greenhouse Gases and Other Substances into the Air (Journal of Laws No. 281, item 2784 of 2004), the Power Plant is obliged to send a verified annual report for 2008 to the National Administrator of Emission Rights Trading and the Environmental Department of the Speaker's Office in Warsaw by 31 March 2009. The verified report was sent for confirmation of receipt on 26 February 2009. Because the actual quantity of CO₂ emissions (10,004,616 t) was greater than the emissions resulting from the number of rights held (9,636,619 t), the Power Plant submitted a request to the Provincial Speaker on 3 March 2009 for consent to the difference in rights, in the amount of 367,997 t of CO₂, to be covered with rights granted for 2009.

As at 27 March 2009, the National Administrator for Emissions Trading had not issued carbon dioxide rights for all the installations for 2008 and 2009. According to the latest information, this will be done in April, so that it is possible to settle the plants for 2008 within the statutory time limit, by the end of April 2009.

III.2 Protection of the ground (waste management).

Waste management in Elektrownia Koźienice S.A. is carried out in accordance with the applicable provisions of law in this respect, under the Waste Materials Act (Journal of Laws No. 62 of 27 April 2001) and an internal Order of the President of Elektrownia Koźienice S.A. No. 12/07 of 30 July 2007.

In order to protect the land from a possible oil leakage from the transformers, a further leak-proof concrete protective bowl was constructed under the power unit and tap transformer for 200 MW power unit No. 6.

In 2008, activities were undertaken aimed at making the greatest possible use of burner waste, with a waste use ratio of 48.45 per cent.

In 2008, 157,200 tonnes of gypsum resulting from the work of the IOS was used (the amount produced was 159,300 tonnes). Procedure for handling waste – waste materials are delivered to parties which hold appropriate waste management permits.

The procedure and locations for storing waste in Elektrownia Koźienice S.A. are compliant with the integrated permit – waste is stored in designated and secured storage facilities stored selectively in such a way as to prevent it from being mixed. The surfaces of the storage sites are hardened and secured against wastewater seeping into the ground. The area of storage locations is fenced off and marked and the storage facilities for gypsum and mixed ash and cinders are guarded. Waste storage periods are not exceeded.

Ash and cinders storage facility.

The impact of the storage facility on the environment is assessed with the frequency and scope specified in of the regulation (jointly for all storage facilities). The tests are carried out by a certified laboratory. Within the statutory time limit, the tests are delivered to the Radom Branch of the Provincial Environmental Protection Inspectorate in Warsaw. The tests for 2008 did not identify any significant changes in the parameters subject to testing.

For the purpose of reducing the impact of the storage facility on the environment, the following work was carried out in 2008:

- removing microspheres from the areas being operated;
- reclaiming embankments by covering them with humus sown with grass seeds by hydrosowing;
- sprinkling and irrigating the areas with water;
- covering reserve areas and open surfaces of waste with membrane-forming chemicals (in 2008 – 50 hectares, i.e. the 30-hectare field 5, the 14-hectare field 6 and the 6 hectare field 4b);
- maintenance and conservation, i.e. fertilising and mowing grass, filling in gaps in the embankments and desilting drainage ditches and return water, sprinkling embankments on dry and windy days, and planting trees and bushes;
- increasing planting areas and filling in gaps.

Maintenance teams carry out ongoing and periodic reviews of the technical condition of the storage facility and maintenance and conservation work. A record of waste stored in warehouses and storage facilities is maintained.

At the end of 2008, 27,898,900 Mg of waste was stored in the storage facility for ash and cinders.

The storage facility for ash and cinders is run in accordance with an approved operational manual.

The gypsum storage facility is not being operated yet (the need has not arisen because gypsum is transferred for utilisation). It has an approved operational manual (decision of the Governor of the Mazowieckie Province Ref. WŚR-R-6625/5/02 of 31 December 2002) and is taken into account in the integrated permit held by the Power Plant.

The storage facility for non-metallic waste is located in the protective zone of field 5 of the ash and cinders storage facility. It meets environmental protection requirements with regard to its construction and operational technology. Waste is stored in it, i.e. domestic waste and contaminated mineral wool generated in Koźienice Power Plant that does not meet the requirements of recipients. The storage facility is operated in accordance with an approved operational instruction manual.

III.3 Protection of water.

III.3.1 Water management.

Quantity of surface water taken in

In 2008 the following quantities of surface water were taken in:

- return water for cooling: 1 505 855 000. Cubic metres,
- non-return water: 6,676,596.32 cubic metres

including:

- for hydrotransport: 3,655,332.32 cubic metres;
- for the fume desulphurisation installation for 500 MW power units (IOS I): 376,091.0 cubic metres
- for the fume desulphurisation installation for 200 MW power units (IOS II): 905,640.320 cubic metres
- for technological purposes (DEMI II): 1,739,533 cubic metres

Compliance with conditions relating to taking in underground and surface water specified in the integrated permit.

- The quantity of surface water taken in did not exceed the quantity permitted by the water-rights permit $Q_{max} = 100.1 \text{ m}^3/\text{s}$, and in 2008 amounted to a maximum of $79.2 \text{ m}^3/\text{s}$;
- The average quantity of surface water taken in in 2008 amounted to $48 \text{ m}^3/\text{s}$;
- The intake of underground quaternary waters was a reserve intake from September 2005 and was not utilised; it was liquidated in November 2008;
- The equipment for taking in water and for measuring the quantity of water taken in is properly maintained;
- Tests of the quality of surface water taken in are carried out with the frequency specified in the decision, i.e. once a month;
- the quantity of surface water taken in is inspected with the frequency specified in the decision, i.e. continuously.

III.3.2 Wastewater management.

Quantity of wastewater disposal.

In 2008, the following quantities of wastewater were disposed of from the plant's installations:

- the total quantity of treated industrial wastewater that was disposed of from the fume desulphurisation installations (IOS I and IOS II) amounted to: 136,919.585 cubic metres

- total quantity of technological wastewater: 1,604,816.0 cubic metres

including:

8 x 200MW – 981,966.0 cubic metres;

2 x 500 MW – 622,850.0 cubic metres;

- quantity of sanitary wastewater: 268,769.00 cubic metres

In 2008, 1,505,855,093 cubic metres of cooling water was introduced into the Vistula river.

Protective equipment (treatment plants for wastewater from the fume desulphurisation installations) ensure that wastewater is sufficiently treated in terms of both quantity and quality. The wastewater treatment equipment is in appropriate technical condition and is operated properly, in accordance with the applicable operating manuals, by the Department of Water and Sewage Management.

Compliance with conditions for introducing sewage into water specified in the integrated permit.

The quantity of cooling water from the cooling system for the 8 x 200 MW power units introduced into the waters of the Vistula river via the cooling water discharge canal did not exceed the permitted quantity, i.e. $Q_{max} = 66.8 \text{ m}^3/\text{s}$, and in 2008 amounted to a maximum of $55.8 \text{ m}^3/\text{s}$.

The temperature of cooling water introduced into the Vistula river did not exceed the permitted temperature of 35°C and in 2008 amounted to a maximum of 34.9°C

The quantity of reflux from the combustion waste storage facility and water from the drainage of the storage facility and adjacent land, collected by a system of drainage ditches from the north and north-east side of the storage facility and introduced via Michałowski Ditch into the waters of the river Vistula, did not exceed $Q_{max} = 250 \text{ dm}^3/\text{s}$ and in 2008 amounted to a maximum of $190.61 \text{ dm}^3/\text{s}$.

The levels of pollution in reflux being disposed of did not exceed the concentrations permitted by the decision.

The quantity of cooling water from the cooling system for the 2 x 500 MW power units introduced into the waters of the Vistula river via the cooling water discharge channel did not exceed the permitted quantity, i.e. $Q_{max} = 33.3 \text{ m}^3/\text{s}$, and in 2008 amounted to a maximum of $30.9 \text{ m}^3/\text{s}$.

The temperature of cooling water introduced did not exceed the permitted temperature of 35°C and in 2008 amounted to a maximum of 35°C .

The levels of pollution in treated wastewater being disposed of did not exceed the concentrations permitted by the decision in 2008 (in any sample).

III.4 Obligations relating to protection against noise.

Elektrownia Kozienice S.A. is a large industrial facility which operates continuously at all times of the day. Due to the complexity of the power production technology, the quantity of equipment and facilities that generate noise and the size of the grounds on which the equipment and facilities are located, noise emission constitutes a major factor affecting the state of the environment. Emissions of noise and the nature of Elektrownia Kozienice S.A.'s impact on the environment are typical for such facilities, and the range of its influence covers a substantial area including residential areas.

Requirements relating to protection against noise were included in the currently binding integrated permit.

In order to fulfil those requirements, the Power Plant carries out environmental noise measurements once every two years. The last noise measurements in the vicinity of the Power Plant were carried out in 2007. The values of equivalent noise level A did not exceed, at any measurement point, the permitted values specified in the integrated permit. The results of noise measurements are delivered to the Speaker of Mazowieckie Province and to the Provincial Environmental Protection Inspectorate within 30 days from the date when they are carried out.

IV. Effects of modernisation measures.

Replacement of electrostatic precipitators – due to the replacement of electrostatic precipitators in the periods 1988-1995 and 2001-2008, the effectiveness of electrostatic precipitators is maintained above 99 per cent.

The average annual concentration of dust in fumes being disposed of amounted to 34 mg/Nm³ in 2008, the permitted quantity being 50 mg/Nm³. The unit rate of dust emissions for 2008 amounted to 0.133 kg/MWh.

Desulphurisation – the fume desulphurisation installation for the 200 and 500 MW power units enabled an environmental benefit to be obtained in 2008 in the form of a reduction in SO₂ emissions of 61,727.3 tonnes and a reduction in dust emissions of 897.4 tonnes. The average effectiveness of the IOSs for this period amounted to 94.52 per cent for IOS I and 95.29 per cent for IOS II.

The average concentration of sulphur dioxide in fumes which are disposed of from the Power Plant amounted to 715 mg/Nm³.

Replacement of burners with low-emission burners – carried out for 200 MW power units 1, 2, 4, 5, 6, 7 and 8 and 500 MW power units 9 and 10, to reduce NO_x emissions; enabled an average concentration in fumes being disposed of from the Power Plant of 478 mg/Nm³ to be achieved in 2008.

The unit rate for emissions of NO_x amounted to 1.851 kg/MWh (compared to 2.924 kg/MWh in 1997) for the entire Power Plant.

V. Financial outlays on investment projects implemented in 2008 associated with environmental protection.

Replacement of the electrostatic precipitator on power unit 6	-	PLN 24,706,320.00
Reduction of NO _x emissions on power unit 5	-	PLN 27,851,733.23
Fume desulphurisation installation IOS III	-	PLN 28,914,035.45
Fan cooling towers, stage IV	-	PLN 8,135,397.92
Biomass co-combustion installation II	-	PLN 1,276,877.73
TOTAL:	-	PLN 90,884,364.33

VI. The Power Plant's investment plans relating to environmental protection in 2009.

The environmental protection measures planned by Elektrownia Kozienice S.A. concern:

- a planned general overhaul of the electrostatic precipitator for power units 8 and 9;
- continuation of the construction of a fume desulphurisation installation for 500 MW power unit 10;
- - increasing the utilisation of combustion waste;
- the complete utilisation of gypsum from the installation for the wet desulphurisation of fumes for the 500 and 200 MW power units.

VII. Fulfilment of requirements associated with the implementation of the REACH regulation.

On 1 June 2008 the provisions of the regulation of the European Parliament and of the Council on the registration, evaluation, authorisation and restriction of chemicals (REACH) became effective. With regard to the Power Plant, the Regulation relates to substances such as ash, mixed ash and cinders, gypsum and microspheres, which were registered on a preliminary basis by 1 December 2008, which means the Company can carry out full registration of those substances by 1 December 2010, after appropriate testing. If preliminary registration had not been carried out, the Company would not be able to trade in those substances. In view of the high cost of the process of full registration, which involves very complex testing, the Power Plant took steps towards joining a consortium which is being set up to deal with the registration of combustion by-products.

VIII. Major industrial malfunctions.

Since hazardous substances occur in Elektrownia Kozenice S.A. which are classified on the basis of the risk phrases set out in tables 1 and 2 of the Regulation of the Minister of the Economy of 31 January 2006 amending the regulation on the types and quantities of hazardous substances in an establishment which cause it to be classified as an increased risk establishment or an establishment where there is a high risk of a major industrial malfunction (Journal of Laws No. 30, item 208), **ELEKTROWNIA KOZIENICE S.A. is classified as an establishment where there is an increased risk of a major industrial malfunction.**

In view of the above, the Power Plant prepared and delivered to the County Headquarters of the State Fire Brigade in Kozenice and to the Radom Branch of the Provincial Environmental Protection Inspectorate the following legally required documents which an establishment with the above-mentioned degree of risk should have:

- Increased Risk Establishment Report (ZGŁOSZENIE ZZR) of December 2002;
- PROGRAMME FOR THE PREVENTION OF MAJOR MALFUNCTIONS of May 2003;
- INTERNAL OPERATIONAL/RESCUE PLAN of December 2002.

Those documents present procedural principles for employees and the Company Fire-Fighting Unit in the event of a major malfunction caused by internal threats, as well as rules for procedure following a malfunction.

IX. Asbestos.

Asbestos has not yet been completely removed from Elektrownia Kozenice S.A.

In 2008, as part of the modernisation of the fan cooling towers, 949.84 Mg of asbestos contained therein was removed.

Asbestos still occurs in the facilities listed below:

- | | | |
|---|-------------------|--------------|
| • TPO Administrative Building | flat sheets | 5,0 ton |
| • 500 MW intake of water power unit | flat sheets | 2.8 tons |
| • underground cable tunnels | flat sheets | 5.0 tonnes |
| • 200 MW p.u. boiler house building (walls) | corrugated sheets | 102.9 tonnes |

On the basis of Article 163.1 of the Environmental Protection Law and the Regulation of the Minister of the Economy, Employment and Social Policy of 23 October 2003 (Journal of Laws 192 item 1876) on requirements with regard to the use and movement of asbestos and the use and cleaning of installations or equipment in which asbestos is or has been used, Elektrownia Kozenice S.A. punctually submits information to the Speaker's Office on *products which contain asbestos and places where they are used, as well as information on products containing asbestos the use of which has been completed.*

7.2.2. ENVIRONMENTAL PROTECTION – report for 2009.

I. Current formal/legal status.

Elektrownia Kozenice S.A. is a commercial condensation power plant with an open system for cooling the condensers with water from the Vistula river. Electricity is produced by 10 power units with the following pull-out power: 215 MW – 1 power unit; 220 MW – 1 power unit; 225 MW – 6 power units; 535 MW – 1 power unit; 560 MW – 1 power unit, which are fuelled by bituminous coal. The total pull-out power of Elektrownia Kozenice S.A. amounts to 2,880 MW and is higher than the planned pull-out power (2,600 MW) due to the modernisation of individual power units.

The operation of the installations causes:

- the introduction of polluting substances into the air (gases and dust);
- emissions of noise into the environment;
- the generation of hazardous and non-hazardous waste;
- the introduction of wastewater into surface waters.

Pursuant to the Regulation of the Minister of the Environment of 26 July 2002 on types of installations which can cause substantial pollution of individual elements of the environment or the environment as a whole, installations used in the power industry for burning fuels with a nominal power exceeding 50 MW must hold an integrated permit.

Elektrownia Kozienice S.A. holds all the necessary decisions to use the environment in accordance with the applicable provisions of law relating to taking in water and disposing of wastewater, managing waste and emissions of pollution into the air.

On 20 December 2005 the Power Plant obtained an integrated permit for the combustion of fuels for power production (decision No. WŚR.I.6640/13/6/05 and amending decisions No. WŚR.I.JB/6640/43/06 of 5 July 2007 and No. 55/08/PŚ.Z of 15 September 2008). The permit has a fixed validity period ending on 20 December 2015. Pursuant to the Environmental Protection Law (art. 216) the body issuing an integrated permit, after the lapse of five years from its issuance, conducts an obligatory inspection of the obligations set forth in the decision.

In 2009 the Power Plant commenced preparatory work for the amendment of the integrated permit in connection with changes in the functioning of its installations, including the start-up of the IOS fume desulphurisation installation for 500 MW power unit 10. The application for an amendment to the integrated permit is being prepared jointly with Energoprojekt Warszawa. Work on the preparation and submission of the application is planned so that a decision on an integrated permit can be obtained before the start-up of the IOS III fume desulphurisation installation.

By a decision of the Governor of Mazowieckie Province No. WŚR.II.EK/0717-3/16/06 of 29 March 2006, Elektrownia Kozienice S.A. obtained a permit to participate in the Community emission rights trading system covering the period from 1 January 2005 to 31 December 2014.

For the purposes of settling CO₂ emissions in the second settlement period covering the period 2008-2012, on 18 January 2008 Elektrownia Kozienice S.A. obtained a decision of the Speaker of Mazowieckie Province No. 1/08/PS.P amending the decision of 29 March 2006. That decision specifies the procedure for monitoring the quantity of carbon dioxide emissions from the combustion of coal for power production on the basis of measurements of coal consumption using certified automatic conveyor scales or, if the scales malfunction, by a substitute method for balancing changes in coal inventories. After the publication of the Regulation of the Minister of the Environment of 12 September 2008 on the procedure for monitoring the quantities of emissions of substances covered by the Community system of trading in emission rights, Elektrownia Kozienice S.A. applied to the Speaker's Office for a decision based on the new binding legal requirements. By a new decision, No. 2/09/PŚ.P, the Speaker of Mazowieckie Province granted the Company a permit to participate in the Community system of trading in emission rights from 1 January 2009 to 4 February 2019. In view of changes relating to the procedure for settling coal consumption, the equipment in the certified chemical laboratory of Kozienice Power Plant and a change in the measurement scope of the scales designated for measuring the quantity of combusted biomass, it was necessary to make changes to the monitoring plan. The new monitoring plan was approved in Speaker's Decision No. 30/09/PŚ.P of 19 November 2009.

The management of waste by Elektrownia Kozienice S.A. is regulated in legal/formal terms by the following decisions:

1. Decision No. WSR.I.6640/13/6/05 of the Governor of Mazowieckie Province of 20 December 2005 granting Elektrownia Kozienice S.A. an integrated permit and amending decisions: No. WCER.I.JB/6640/43/06 of 5 July 2007 and No. 55/08/PCE.Z of 15 September 2008. The decision is valid until 20 December 2015..
2. Decision No. WCER-R-6620/8/04 of the Governor of Mazowieckie Province of 30 June 2004 on the generation of waste, including a permit to conduct activities involving the neutralisation, recovery and transportation of waste and for the method and locations of waste storage. The decision is valid until 30 June 2014. The decision was amended by integrated permit WSR.I.6640/13/6/05. The decision is valid together with Ruling WSR-R-662018-2/04 of 6 October 2004 on the *ex officio* correction of an error identified in decision WSR-R-6620/8/04 of 30 June 2004.

The neutralisation of waste by storing it in company waste storage facilities is possible due to the following decisions being obtained approving operational manuals for the storage facilities:

1. Decision WŚR-R-6625/1/02 of the Governor of Mazowieckie Province of 31 December 2002 approving the operational manual for the cinders and ash storage facility.
2. Decision WŚR-R-6625/2/04 of the Governor of Mazowieckie Province of 30 June 2002 amending decision WŚR-R-6625/1/02 approving the operational manual for the cinders and ash storage facility.
3. Decision WŚR-R-6625/4/02 of the Governor of Mazowieckie Province of 31 December 2002 approving the operational manual for the Company's municipal waste storage facility.
4. Decision of the Governor of Mazowieckie Province WŚR-R-6625/4-1/02/04 of 22 September 2004 amending decision WŚR-R-6625/4/02 approving a manual for the utilisation of municipal waste.

5. Decision of the Governor of Mazowieckie Province WŚR-R-6625/5/02 of 31 December 2002 approving the operational manual for the storage facility for waste from the fume desulphurisation installations of Elektrownia Koźienice S.A.

Water management.

The Power Plant holds all the current water-rights permits required by the Water Law:

1. WŚR.IV.IM/6811/164/06 of 11 September 2006 of the Governor of Mazowieckie Province granting the Power Plant permission to: take in underground water from an intake consisting of tertiary formations for domestic purposes, take in underground water from the drainage of 8x200 MW and 2x500 MW power units and dispose of it into the waters of the Vistula river in an intake canal and a discharge canal, effect a lasting reduction in the level of the quaternary underground water table due to the drainage of the main building of the 200 MW and 500 MW power units, drain the main building for the 200 MW and 500 MW power units, introduce into the waters of the Vistula river, in an intake canal, cooling water and rain and industrial wastewater from 8 x 200 MW and 2 x 500 MW power units, and introduce cooling water and domestic wastewater into the waters of the Vistula river in a discharge canal.
2. WŚR.I.6640/13/6/05 of 20 December 2005 of the Governor of Mazowieckie Province (integrated permit) granting permission to take in quaternary underground waters, take in surface waters for cooling turbine condensers and making up for losses in the hydro-deashing circulation system, for the purposes of fume desulphurisation installations and steam/water circulation, dispose of cooling water from the cooling system of 200 and 500 MW power units, dispose of treated wastewater from fume desulphurisation installations, introduce reflux from a combustion waste storage facility and water from the drainage of the storage facility and adjacent land, collected by drainage systems from the north and north-east side of the storage facility and channelled via Michałowski Ditch, into the waters of the Vistula river, and introduce reflux from a combustion waste storage facility and water from the drainage of the storage facility and adjacent areas, collected by a system of drainage ditches from the south and south-east side of the storage facility, and water channelled from the upper section of Michałowski Ditch, into the waters of the Radomka river.
3. WŚR.I.JB/6640/43/06 of 5 July 2007 and No. 55/08/PŚ.Z of 15 September 2008 of the Governor of Mazowieckie Province, amending decision WŚR.I.6640/13/6 of 20 December 2005 granting Elektrownia Koźienice S.A. an integrated permit.

The monitoring carried out by Elektrownia Koźienice S.A. of the environmental parameters specified in administrative decisions in water and wastewater management (periodic measurements) in 2009 did not reveal any instances of permitted levels being exceeded. However, in the case of emissions of pollution into the atmosphere with regard to the permitted concentrations (continuous measurement) in 2009, instances occurred of the permitted values for dust being exceeded (10 instances of the levels being exceeded for 48 hours – 11 are permitted by law).

II. Emissions of pollution and charges paid for using the environment.

The system of monitoring emissions of pollution into the atmosphere installed in the Power Plant is used to monitor compliance with emissions standards and measure mass flows of sulphur dioxide, nitric oxides, carbon monoxide and dust. The results from continuous measurements of emissions are used to calculate emission charges paid into the account of the Speaker's Office in Warsaw.

A quality analysis of wastewater being disposed of is carried out by the certified laboratory of the Company's Chemical Department.

The quantity of sewage disposed of is measured continuously using certified equipment.

The quantity of water taken in from the Vistula river (for technological purposes and for cooling the turbine condensers) and the quantity of heated water disposed of by the discharge channel into the Vistula river is measured continuously using certified measurement equipment. Continuous monitoring is conducted of the temperature of cooling water being released into the Vistula river.

The quantity of combustion waste generated is calculated on the basis of the quantity and quality of solid fuels (coal and biomass) burned. The quantity of that waste, less emissions of dust into the atmosphere, the quantity of dust retained in fume desulphurisation installations and the quantity of waste sold, is transferred for storage in the Company's combustion waste storage facility.

The quantity of emissions of pollutants in 2009 amounted to:

- SO₂ – 32,241 Mg
- NO_x – 21,214 Mg
- dust – 1,042 Mg
- CO – 1,517 Mg
- CO₂ – 10,689,735 Mg
- waste (mixture of ash and cinders) – 479,291 Mg

Due and paid charges for using the environment for 2009 amounted to a total of PLN 34,921,503.86, of which:

emissions from combustion for power production	PLN 26,616,368.11
emissions	PLN 26,629.08
waste storage	PLN 7,231,427.54
intake of water	PLN 478,454.44
discharge of cooling water	PLN 402,219.02
disposal of wastewater	PLN 166,405.67.

Elektrownia Kozenice S.A. paid charges for using the environment within the statutory time limit. It has no arrears with respect to the payment of charges and any amounts due in this respect are settled on time.

The reduction of charges for emissions of NO_x in 2009, due to the modernisation of all power units, amounted to **PLN 10,088,666** (the total reduction in NO_x emissions amounted to **22,928.8 t**).

No penalties were imposed on the Power Plant for failing to comply with environmental protection regulations.

III. Environmental protection measures.

In 2009 a cycle of modernisation and investment work was continued in Elektrownia Kozenice S.A., leading to a reduction in its adverse impact on the natural environment.

III.1 Protection of the air.

III.1.1 Reduction of the dust content in fumes.

The cycle of modernisation, refurbishment and investment being carried out on the power units takes into account the need for the Power Plant to comply with the permitted concentration of dust in fumes being disposed of from each power unit, i.e. a level no greater than 50 mg/Nm³. In recent years, the electrostatic precipitators have been replaced on power unit 2 (in 2006), power unit 1 (in 2007) and power unit 6 (in 2008). In 2009 a general overhaul was carried out on the electrostatic precipitator for power units 8 and 9 and medium overhauls were carried out on power units 1, 2 and 3.

III.1.2. Reduction of emissions of nitric oxides

With regard to problems associated with reducing emissions of nitric oxides (NO_x), in 2009 the project "Modernisation of Furnace OP-650 No. 5 to Reduce Emissions of NO_x" was carried out, which guarantees a reduction in the concentration of NO_x to a level below 400mg/m³_u.

In view of the tightening of emissions standards for nitric oxides to a level of 200 mg/Nm³ from 2016, it will be necessary to construct a catalytic denitrification installation on individual power units of Elektrownia Kozenice S.A. Preparatory work was begun in 2009 associated with future investments in this respect.

III.1.3. Desulphurisation of fumes

The IOS I installation for desulphurising fumes by the wet limestone method put into operation in 2001 for capacity of 500 MW covers power units 9 and 10 and ensures that maximum use can be made of it, regardless of the operational arrangement or the load placed on the two power units.

The IOS II installation for desulphurising fumes by the wet limestone/gypsum method put into operation in 2006 is designated for five 200 MW power units (units 4-8). The equivalent electrical power of the power units cooperating with IOS II amounts to 800 MWe. By connecting fume canals, that installation can also accept fumes from power units 2 and 3 if the burden on the installation allows it, i.e. when not all of power units 4-8 are operating.

A product of the desulphurisation of fumes for IOS I and IOS II is gypsum with commercial value. The Power Plant sells it to be used by external recipients.

In 2008 the construction of the IOS III installation for the desulphurisation of fumes by the wet method for 500 MW power unit 10 was commenced. Pursuant to the signed agreement, the construction of IOS III is scheduled to be completed and the installation will be put into operation in December 2010.

The effects of air protection measures are determined by continuous measurement of the concentrations of gas pollutants (sulphur dioxide, nitric oxides and carbon monoxide) and dust and continuous measurement of the intensity of the flow of fumes, and by thus monitoring mass flows of those pollutants. The system of monitoring continuous measurements of emissions into the atmosphere is operated in accordance with the Regulation of the Minister of the Environment of 4 November 2008 on requirements with regard to conducting measurements of the quantity of emissions (Journal of Laws No. 206, item 1291) and in accordance with the requirements of standard PN-EN-14 181 "Emissions from Fixed Sources and Ensuring the Quality of Automatic Measurement Systems". The requirements resulting from procedure QAL-3) of that standard (ongoing supervision of equipment) are fulfilled by specialists from the Department of Measuring Equipment of Koziencice Power Plant, and the Company hires an external specialist firm to fulfil the requirements associated with the procedures QAL2 (parallel measurements carried out on a particular measurement system, carried out in Koziencice Power Plant every three years) and AST (annual inspections of the proper functioning of the systems). In 2009 those measurements were carried out by Energopomiar Gliwice.

Every quarter, the Power Plant sends monthly reports on continuous measurements of emissions to the Provincial Environmental Protection Inspectorate and the Environmental Department of the Speaker's Office.

III.1.4. Installation for the co-combustion of biomass.

On 31 August 2007 an installation was put into operation for the co-combustion of solid biomass for 200 MW power units, with a capacity of 40 t/h, on the basis of a design created by Elektra.

With this company, Elektrownia Koziencice S.A. signed an agreement on 10 December 2008 for the implementation of stage II of the project "Construction of Renewable Energy Sources – Biomass Feed Installation", which is scheduled to be completed on 30 March 2009. The implementation of the project made it possible to:

increase the biomass unloading capacity from 40 t/h to 80 t/h;

increase the range of biomass delivered (mainly to include briquettes of agricultural and forest origin and lower quality forest biomass);

improve delivery logistics by constructing warehouse space.

The solid biomass co-combustion installation has made it possible to produce electricity from renewable energy sources – 210,476.211 MWh were produced in 2009. Its extension in 2009 will enable Elektrownia Koziencice S.A. to increase production of energy from RESs. It will also be possible to increase the production of electricity from RESs in Elektrownia Koziencice S.A. after the start-up of a liquid biomass co-combustion installation, which is planned for the near future.

In 2009, 116,736.1 Mg of biomass was burnt as fuel. That amount of biomass consumed means a reduction in carbon dioxide emissions of 151,138 Mg.

III.1.5 Trading in emission rights.

By the Regulation of the Council of Ministers of 1 July 2008 on accepting the National Distribution Plan for carbon dioxide emission rights for the period 2008-2012 into the Community emissions rights trading system (Journal of Laws No. 202, item 1248), Elektrownia Koziencice S.A. received an average annual allocation of rights in the amount of 9,636,619 tonnes. On 15 January 2010, the Company obtained a positive verification of its Annual CO₂ Emissions Report for 2009. The verification was carried out by BSI Management Systems Polska Sp. z o.o., which was selected by way of an unrestricted tender procedure. The quantity of verified CO₂ emissions for 2009 amounted to 10,686,735 t. In accordance with Article 45 of the Act on Trading in Rights to Emit Greenhouse Gases and Other Substances into the Air (Journal of Laws No. 281, item 2784 of 2004), on 2 February 2010 Elektrownia Koziencice S.A. sent a verified annual report for 2009 to the National Administrator of Emission Rights Trading and to the Environmental Department of the Speaker's Office in Warsaw. In 2008 the actual quantity of CO₂ emissions was greater than the emissions resulting from the number of rights held by the Power Plant, by 367,997 t of CO₂. The shortfall in the number of rights was covered, with the consent of the Province Speaker, with rights granted for 2009. In 2009, 1,200,000 t of additional CO₂ emission rights were purchased. The balance of the quantity of rights held and exercised in 2009 resulted in a difference of 218,113 t of CO₂. The Power Plant applied to the Province Speaker for that difference to be covered with rights granted for 2010.

III.2 Protection of the ground (waste management).

An integrated system of managing waste from IPPC installations and auxiliary technological processes operates in Elektrownia Koźienice S.A., in which:

- waste is segregated in the places where it is generated;
- appropriately secured waste is temporarily stored in designated warehouses in the grounds of the power plant;
- waste is stored in compliance with permitted storage periods, i.e. for up to three years in justified situations (e.g. where there is no batch for despatching) for waste designated for recovery and up to one year for waste designated for neutralisation by storage;
- a record of waste is maintained, which enables the quantity and quality of waste generated, subjected to recovery processes or neutralised to be monitored, as well as allowing comprehensive monitoring of waste trading;
- waste designated for utilisation is delivered to recipients which hold the relevant permits;
- only waste for which there is no justification for other possible methods of utilisation is stored;
- storage facilities and warehouses are run in accordance with approved operational manuals;
- environmental monitoring is carried out around storage facilities, with special consideration for the impact of stored waste on the condition and quality of underground and surface waters and the air.

Elektrownia Koźienice S.A. has:

- a storage facility and warehouse space for combustion waste (mixed cinders and ash) resulting from the combustion of bituminous coal;
- a storage facility for waste gypsum and warehouses for surplus/commercial gypsum from the fume desulphurisation installations;
- a storage facility for municipal (non-metallic) waste, in which non-hazardous waste generated in Elektrownia Koźienice S.A. is stored.

Compliance with requirements set out in decisions

a) The basic post-production waste material in the Power Plant is ash and cinders from combustion. They are utilised by selling them for commercial use and storing them in a storage facility. The share of ash for commercial use exceeds 50% of ash produced.

b) Tests carried out over many years, in cooperation with Energopomiar Gliwice, on the quality of the environment in the vicinity of the storage facility for combustion waste, show that the degree and range of the impact of the storage facility on the elements of the environment subject to analysis is limited. There is no reason to change the way in which the land is used or eliminate agricultural crops on land in the direct vicinity of the storage facility.

c) An analysis of the results of measurements carried out in the vicinity of the storage facility shows that due to the reduction of the quantity of stored waste, improvement of operating techniques and the application of protection measures against dust generation, the range and quantity of secondary dust generation is limited.

Ash and cinders storage facility.

At the end of 2009, 27,378.2 tonnes of waste were stored in the storage facility for ash and cinders. Measures are being taken in the Power Plant aimed at the maximum utilisation of generated combustion waste. The rate of utilisation of such waste in 2009 amounted to 48.45 per cent.

In tests on the impact of the storage facility on the condition of the environment, no significant changes in the parameters subject to testing were identified.

For the purpose of reducing the impact of the storage facility on the environment, the following work was carried out in 2009:

- removing microspheres from the areas being operated;
- reclaiming embankments by covering them with humus sown with grass seeds by hydrosowing;
- sprinkling and irrigating the areas with water;
- covering reserve areas and uncovered surfaces of waste materials with membrane-forming chemicals (in 2009 – 66 hectares, i.e. 55 hectares in field 5 and 11 hectares in field 4b);

- maintenance and conservation, i.e. fertilising and mowing grass, filling in gaps in the embankments and desilting drainage ditches and return water, sprinkling embankments on dry and windy days, and planting trees and bushes;
- increasing the area of planting and filling in gaps – in both 2008 and 2009 1,000 units were planted).

Gypsum storage facility.

In 2009, 141,500 tonnes of gypsum resulting from the operation of the IOSs was utilised (143,600 tonnes were generated).

The gypsum storage facility is not yet being operated (the need has not arisen as gypsum is transferred for utilisation). It has an approved operational manual (decision of the Governor of Mazowieckie Province Ref. WŚR-R-6625/5/02 of 31 December 2002) and was taken into account in the integrated permit held by the Power Plant.

The storage facility for non-metallic waste is located in the protective zone of field 5 of the ash and cinders storage facility. It meets environmental protection requirements with regard to its construction and operational technology. Waste is stored in it, i.e. domestic waste and contaminated mineral wool generated in Koźienice Power Plant that does not meet the requirements of recipients. The storage facility is operated in accordance with an approved operational instruction manual.

III.3 Protection of water.

III.3.1 Water management.

Water taken in the Power Plant is primarily used for technological purposes. It is surface water from the Vistula river.

The management of water and wastewater from the installations is designed to save as much water as possible. Closed circulation has been applied where possible. Only losses from the hydro-deashing circulation systems, the IOS systems and steam losses are replenished with raw or treated water, as needed.

Quantity of surface water taken in.

In 2009 the following quantities of surface water were taken in:

- return water for cooling: 1 632 801,000. Cubic meters,
- non-return water: 4,790,240.0 cubic metres

including:

- for hydrotransport: 1,952,068 cubic metres
- for fume desulphurisation installations for power units (IOS I and II): 1,198,572 cubic metres
- for technological purposes (DEMI II): 1,639,600 cubic metres

Compliance with conditions relating to taking in underground and surface water specified in the integrated permit.

- The quantity of surface water taken in did not exceed the quantity permitted by the water-rights permit, i.e. $Q_{max} = 100.1 \text{ m}^3/\text{s}$, and in 2009 amounted to a maximum of $83.9 \text{ m}^3/\text{s}$;
- The average quantity of surface water taken in in 2009 amounted to $51.9 \text{ m}^3/\text{s}$;
- The intake of underground quaternary waters was a reserve intake from September 2005 and was not utilised; it was liquidated in November 2008;
- The technical condition of the equipment for taking in water and for measuring the quantity of water taken in is satisfactory condition;
- Tests of the quality of surface water taken in are carried out with the frequency specified in the decision, i.e. once a month;
- the quantity of surface water taken in is inspected with the frequency specified in the decision, i.e. continuously.

The results of measurements carried out on the quantity of water taken in indicate that Elektrownia Koźienice S.A. complies with the relevant requirements in the current water-rights permit.

III.3.2 Wastewater management.

Treated domestic sewage and industrial and rain wastewater and wastewater from the IOSs in Elektrownia Koźienice S.A., water from the drainage of a storage facility and adjacent areas, and reflux filtering through the embankments of the storage facility are disposed of into the Vistula river.

In 2009, the following quantities of wastewater were disposed of from the plant's installations:

- the total quantity of treated industrial wastewater that was disposed of from the fume desulphurisation installations (IOS I and IOS II) amounted to: 132,621.0 cubic metres

- total quantity of technological wastewater: 1,589,204.0 cubic metres

including:

- 8 x 200MW – 949,916.0 cubic metres;
- 2 x 500 MW – 639,288.0 cubic metres;

- quantity of sanitary wastewater: 296,589.00 cubic metres

In 2009, the amount of cooling water that was introduced into the Vistula river was 1 632 801, 000 cubic metres

Protective equipment (treatment plants for wastewater from the fume desulphurisation installations) ensure that wastewater is sufficiently treated in terms of both quantity and quality. The wastewater treatment equipment is in appropriate technical condition and is operated properly, in accordance with the applicable operating manuals, by the Department of Water and Sewage Management.

Compliance with conditions for introducing sewage into water specified in the integrated permit.

- The quantity of cooling water from the cooling system of the 8 x 200 MW power units introduced into the waters of the Vistula river via the discharge canal for cooling water did not exceed the permitted quantity, i.e. $Q_{max} = 66.8 \text{ m}^3/\text{s}$ and in 2009 it amounted to a maximum of $63.7 \text{ m}^3/\text{s}$.
- The temperature of cooling water introduced into the Vistula river did not exceed the permitted temperature of 35°C and in 2009 amounted to a maximum of 34.9°C .
- The quantity of reflux from the combustion waste storage facility and water from the drainage of the storage facility and adjacent land, collected by a system of drainage ditches from the north and north-east side of the storage facility and channelled via Michałowski Ditch into the waters of the river Vistula, did not exceed $Q_{max} = 250 \text{ dm}^3/\text{s}$ and in 2009 amounted to a maximum of $174.6 \text{ dm}^3/\text{s}$.
- The levels of pollution in reflux being disposed of did not exceed the concentrations permitted by the decision.
- The quantity of cooling water from the cooling system of the 2 x 500 MW power units introduced into the waters of the Vistula via the cooling water discharge channel did not exceed the permitted quantity, i.e. $Q_{max} = 33.3 \text{ m}^3/\text{s}$ and in 2009 it amounted to a maximum of $30.2 \text{ m}^3/\text{s}$.
- The temperature of cooling water introduced into the Vistula river did not exceed the permitted temperature of 35°C and in 2009 amounted to a maximum of 35°C .

As indicated by tests carried out, the quality of wastewater disposed of from the treatment plants and water disposed of via Michałowski Ditch meets the requirements set out in the current water-rights permit.

The range of the impact of the planned use of water is limited to the land to which Elektrownia Koźienice S.A. holds the legal title

III.4 Noise.

Once every two years the Power Plant carries out measurements of noise emitted into the environment, in accordance with the obligation provided in the integrated permit and the Regulation of the Minister of the Environment. The last measurements were carried out by Zakłady Pomiarowo Badawcze Energetyki "ENERGOPOMIAR" Sp. z o.o. in Gliwice in October 2009, both in the daytime and at night. That company is accredited with regard to carrying out measurements of industrial noise emissions. The measurements were taken at four measurement points.

The measurements did not reveal any instances of the norms specified in the permit being exceeded, either during the daytime or at night.

The results of noise measurements are delivered to the Speaker of Mazowieckie Province and to the Provincial Environmental Protection Inspectorate within 30 days from the date when they are carried out.

IV. Effects of modernisation measures.

Replacement of electrostatic precipitators – due to the replacement of electrostatic precipitators in the periods 1988-1995 and 2001-2008, the effectiveness of electrostatic precipitators is maintained above 99 per cent.

The average annual concentration of dust in fumes being disposed of amounted to $23 \text{ mg}/\text{Nm}^3$ in 2009, the permitted quantity being $50 \text{ mg}/\text{Nm}^3$. The unit rate of dust emissions for 2009 amounted to $0.086 \text{ kg}/\text{MWh}$.

Desulphurisation – the fume desulphurisation installation on the 200 MW (IOS II) and 500 MW (IOS I) power units reduced the Power Plant's impact on the environment in 2009 by reducing emissions of SO₂ by 60,234.5 tonnes and dust emissions by 717.0 tonnes. The average effectiveness of the IOSs for this period amounted to 94.52 per cent for IOS I and 95.29 per cent for IOS II.

The average concentration of sulphur dioxide in fumes disposed of from Elektrownia Koźienice S.A. amounted to 701 mg/Nm³. The unit rate of sulphur emissions for 2009 amounted to 2.66 kg/MWh.

For the purpose of reducing the concentration of NO_x to the required level of 500 mg/Nm³, a new combustion system was implemented in the Power Plant for the furnaces for 200 MW power units 1, 2, 4, 5, 6, 7 and 8 and 500 MW power units 9 and 10. The installed combustion system is based, among other things, on ROBTAS low-emissions burners provided by ICL – UK and a system of air nozzles installed on the front and rear walls of the furnaces over the burner zone ("OFA" and "SOFA" nozzles). Modernisation of burners was only carried out on power unit 3 (without replacing them). Those measures resulted in an average concentration in fumes disposed of in the Power Plant in 2009 of 461 mg/Nm³ being achieved.

The unit rate for emissions of NO_x amounted to 1.75 kg/MWh (compared to 2.924 kg/MWh in 1997) for the entire Power Plant.

V. Financial outlays on investment projects implemented in 2009 associated with environmental protection.

Fume desulphurisation installation for power unit 10 (IOS III)	PLN 194,237,283.52
Construction of renewable energy sources – biomass feed installation II	PLN 6,850,102.97
A new double-flue chimney	PLN 4,083,714.80
Modernisation of the ash and cinders storage facility – fields 4,5,6	PLN 1,370,938.45
Modernisation of power unit 5 – low NO _x emission burners	PLN 1,299,552.84
Vegetable oil combustion installation	PLN 625,682.55
Modernisation of the measurements of the K1 fume emissions settlement system	PLN 249,000.00
Modernisation of the measurements of the K-3 fume emissions settlement system	PLN 243,000.00
Modernisation of fan cooling towers	PLN 10,000
TOTAL:	PLN 231,069,573.17

VI. Investment plans of Elektrownia Koźienice S.A. relating to environmental protection in 2010.

The environmental protection measures planned by Elektrownia Koźienice S.A. concern:

- The planned replacement of the electrostatic precipitator of power unit 10 together with the de-ashing system;
- Continuation of the construction of the fume desulphurisation installation for 500 MW power unit 10;
- Modernisation of the settlement system for the measurement of fume emissions on chimney 2;
- Modernisation of the measurement system for fume emissions and increasing the certainty of measurements in the emissions settlement system;
- Construction of oil bowls for reserve transformers TR 1, TR 2 and TR3 (construction of oil bowls protecting the land and underground water in the event of a transformer malfunction and oil leakage);
- Construction of renewable energy sources (biomass installation II) – continuation of a project from 2009;
- Construction of a new double-flue chimney (H=150 m) for disposing of fumes from the AP-1650 furnaces (power units 9 and 10) and the fume desulphurisation installations (IOS I and IOS III); -
- Construction of a storage facility for filtering waste from IOS I, II and III (it is necessary to create a separate watertight storage facility for waste from the wastewater treatment plant for fume desulphurisation installations IOS I, II and III).
- increasing the utilisation of combustion waste;
- the complete utilisation of gypsum from the wet fume desulphurisation installation for the 500 MW and 200 MW power units.

VII. Chemical substances and preparations – REACH.

In light of the provisions of the Regulation of 1 June 2008 of the European Parliament and the Council on the registration, evaluation, authorisation and restriction of chemicals (REACH), Elektrownia KOZIENICE S.A. in Świerże Górne is both a "producer" of chemical substances (gypsum), fly-ash, cinders, and microspheres and a

“downstream user” which uses, during the energy production process, chemical substances and preparations made by producers of substances or sold by distributors of those substances.

The chemical substance produced in the plant (gypsum), fly-ash, cinders and microspheres, and chemical substances in their own form and as components of preparations being raw materials used in the plant are subject to the obligations provided in the REACH regulation.

The Power Plant filed a preliminary notification to the European Chemicals Agency regarding the gypsum, cinders, fly-ash and microspheres that it produces within the required time limit, i.e. by 1 December 2008, which carry out full registration of those substances by 1 December 2010 after carrying out appropriate tests. If preliminary registration had not been carried out, the Company would not be able to trade in those substances. In view of the very high cost of the process of full registration, which involves carrying out very complex tests, the Company has taken steps towards joining a consortium which is being set up to deal with the registration of combustion by-products.

VIII. Major industrial malfunctions.

In the grounds of Elektrownia Koźienice S.A. there are substances used at individual stages of the technological process of energy production which are classified as hazardous. Determining their type and quantity enabled Elektrownia Koźienice S.A. to be categorised, which resulted in the Power Plant being classified as a plant with an increased risk of a major industrial malfunction (on the basis of the Regulation of the Minister of the Economy of 9 April 2002 – Journal of Laws No. 58, item 535, as amended, Journal of Laws No. 30, item 208).

The Power Plant has a “Programme for the Prevention of Industrial Malfunctions in Elektrownia Koźienice S.A.” and a “Plan for Operational/Rescue Action to be Taken in the Grounds of Elektrownia Koźienice S.A. in the Event of Extraordinary Threats to the Power Plant”. Those documents were drawn up with due consideration for the requirements of the SEVESCO directive.

The plant’s installations and equipment are correctly designed and operated.

In accordance with the provisions of the Regulation of the Minister of Health of 1 December 2004 (Journal of Laws No. 280 of 2004, item 2771) on carcinogenic or mutagenic substances, preparations, factors or technological processes in the workplace, which came into force on 1 February 2005, on 3 March 2005 the Company’s Technical Director issued an official order in this matter. The Committee set up by that order identified carcinogenic or mutagenic substances and technological processes used within the grounds of Elektrownia Koźienice S.A. in Świerże Górze.

They include:

- hydrazine (25 % hydrate of hydrazine) – cat. 2 carcinogen;
- fuel oil (mazut) – cat. 2 carcinogen.

The following registers are kept in the Company:

1. A register of names of employees who come into contact with carcinogenic substances;
2. A register of work which necessitates contact with carcinogenic or mutagenic substances, preparations, factors or technological processes.

The Company plans to replace hydrazine with Nalco Elimin – OX(R) in the plant and hydrazine will be completely replaced with eliminox in the third quarter of 2011.

In 2010 both hydrazine and eliminox will be used – 3,700 kg and 1,400 kg respectively.

Planned use for 2011:

months 1-6: hydrazine – 2,800 kg, eliminox – 1,000 kg

month 7-12: eliminox – 5,000 kg

IX. Asbestos.

Asbestos has not yet been completely removed from Elektrownia Koźienice S.A.

In 2008, as part of the modernisation of the fan cooling towers, 949.84 Mg of asbestos contained therein was removed.

In 2009 no products containing asbestos were removed from the grounds of the Power Plant.

Asbestos still occurs in the facilities listed below:

- | | | |
|-------------------------------|-------------|----------|
| • TPO Administrative Building | flat sheets | 5,0 ton |
| • intake of water 500 MW. | flat sheets | 2.8 tons |
| • Underground cable tunnels | flat sheets | 5.0 tons |

- 200 MW p.u. boiler house building (walls) corrugated sheets 102.9 tonnes

All products containing asbestos are designated for successive removal from the grounds of the Power Plant during the refurbishment of individual facilities.

On the basis of Article 163.1 of the Environmental Protection Law and the Regulation of the Minister of the Economy, Employment and Social Policy of 23 October 2003 (Journal of Laws 192 item 1876) on requirements with regard to the use and movement of asbestos and the use and cleaning of installations or equipment in which asbestos is or has been used, Elektrownia Kozienice S.A. punctually submits information to the Speaker's Office on *products which contain asbestos and places where they are used, as well as information on products containing asbestos the use of which has been completed.*

X. Substances which deplete the ozone layer.

The Power Plant operates installations and equipment in which the active cooling agent is freon R-22, which is on the list of controlled substances.

The operation, maintenance, refurbishment and repair of installations containing controlled substances is carried out independently by the Power Plant. The employees who carry out that work hold qualifications certificates for the repair and technical operation of cooling equipment and installations containing controlled substances and trading in those substances.

The equipment and installations were marked and cards were established for equipment and installations containing 3 kg or more of freon R-22. Tests are being carried out on the integrity of the installations against leaking in accordance with Article 8 par. 3 of the Act on Substances which Deplete the Ozone Layer of 20 April 2004 (Journal of Laws No. 121 item 1263). A register is kept of controlled substances used in the Power Plant.

XI. Integrated Management System.

In accordance with Order No. 20/09 of the Management Board of Elektrownia Kozienice S.A. of 11 August 2009, an Integrated System for Managing Quality, the Environment and Health and Safety in the Workplace compliant with the standards PN-EN ISO 9001:2009, PN-EN ISO 14001:2005 and PN-N 18001:2004 (OHSAS 18001:2007) is being implemented in the Power Plant.

To that end, on 31 July 2009 the Management Board of Elektrownia Kozienice S.A. signed an agreement with the Simptest Product Quality Classification Centre in Poznań on the provision of advisory assistance, consulting and training with regard to the preparation, implementation and fine-tuning of organisation associated with the Integrated Management System.

The drafting, implementation and fine-tuning of the IMS and preparation for certification will be carried out within 18 months, i.e. from 14 September 2009 to 14 March 2011.

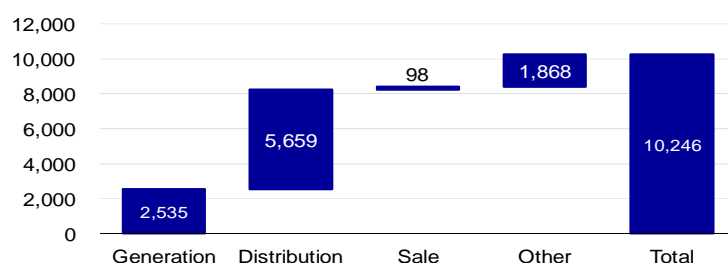
To ensure the efficient management of all work associated with preparing, implementing, maintaining and fine-tuning the IMS, an IMS Management Team and an IMS Documentation and Implementation Team have been set up in the Power Plant, and an Authorised Representative for the IMS has been appointed, whose task is to supervise and coordinate all work associated with the IMS.

7.3 Information on transactions securing currency risk.

As part of their operations neither ENEA S.A. nor its subsidiaries concluded any transactions securing currency exchange risk in H1 2010.

7.4 Structure of employment in ENEA Capital Group.

The structure of employment by operating segment as at 30 June 2010 in all the entities making up the ENEA Capital Group is shown in the diagram below.



7.5. Awards, distinctions and achievements.

ENEA S.A. was awarded the Acanthus Aureus statue for its participation in the EXPOPOWER 2010 International Power Industry Fair in Poznań, with the stand most likely to aid the implementation of its marketing strategy.

Nearly 200 exhibitors took part in the event organised on the grounds of the International Trade Fair in Poznań, including the leaders of the power sector. Awards were granted for exhibition stands whose design and graphic solutions build a positive image for the company and create an appropriate atmosphere for direct communication with customers and the market.

ENEA S.A. was recognised as a “Pearl of the Polish Stock Exchange”, placed fourteenth in a ranking of the most valuable listed companies organised by *Parkiet* newspaper and sixth place in the “Raw Materials and Power” sub-category.

The final result of individual companies was the sum total of points obtained for over a dozen indicators, including revenue growth rate, operating profit, net profit, equity and market value, which constituted a basis for assessing the strength of their foundations and how they are perceived by their investors.

ENEA S.A. obtained a high place (19th) in Newsweek’s ranking of Poland’s 100 most valuable companies in 2008.

The ranking exclusively featured companies which distinguish themselves by their revenues or profitability or are held in particularly high esteem by Poles as a brand. The value of the companies being assessed was measured using the DCF method, whereby the value of a company is determined by its ability to generate profits in the future. The parameters relating to the future were calculated on the basis of the companies’ actions, financial results, strategic plans and typical results for the industry. For listed companies, including ENEA S.A., market share prices were used as the most objective valuation method.

ENEA Capital Group was awarded a high place (17th) in a ranking prepared by *Polityka* weekly of the 500 largest Polish companies in 2009.

The main criterion taken into account by the analysts who prepared the ranking was revenues from sales. ENEA Capital Group moved up by four places relative to its position in 2008.

ENEA Capital Group was assigned 25th place in a ranking of the 500 largest companies prepared by *Rzeczpospolita* newspaper.

In an accompanying ranking classifying the most valuable Polish companies, ENEA obtained a promising 20th place. The value of our company was established on the basis of stock exchange listings, sales volume, book value and EBITDA, i.e. operating profit plus depreciation and amortisation.

ENEA was assigned 14th place in a ranking of the 500 largest commercial/services companies in Poland prepared by Home&Market monthly.

The ranking was prepared on the basis of revenues for 2009.

The ENEA brand was recognised as one of the strongest business brands in the B2B (Business-to-Business) sector in the Polish market.

This award is the only recognition in the market granted to a company’s marketing department for many years of work on building a strong brand. Superbrands are awarded by the international organisation Superbrands, which has been operating for 15 years in more than 85 countries, whose purpose is to promote the concept of branding. Winners of this award were selected for the third time in Poland.

Poznań, 27 August 2010

**DECLARATION OF THE MANAGEMENT BOARD
ON THE RELIABILITY OF THE CONSOLIDATED FINANCIAL STATEMENTS AND
ON THE ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS**

Declaration of the Management Board on the reliability of the consolidated financial statements:

The Management Board of ENEA S.A. declares that, to the best of its knowledge:

- the short-form consolidated financial statements for the first half of 2010, together with comparative data, were prepared in accordance with binding accountancy principles and reflect the property and financial situation of the ENEA Capital Group and the financial result of the ENEA Capital Group for the period presented in a manner which is true, reliable and clear,
- the report of the Management Board on the operations of the ENEA Capital Group for the first half of 2010 presents a true picture of the development, achievements and situation of the ENEA Capital Group, and this also extends to the description of fundamental risks and dangers.

Declaration of the Management Board on the entity authorised to audit the financial statements:

The Management Board of ENEA S.A. declares that Deloitte Audyt Sp. z o.o., the entity authorised to audit the financial statements which is conducting a review of the short-form consolidated financial statements of the ENEA Capital Group for the first half of 2010, was selected in accordance with applicable provisions of law. The entity and the auditors conducting the review of those financial statements met the criteria for issuing an impartial and independent report on the review of the mid-year short-form consolidated financial statements, in accordance with binding provisions of law and professional standards.

President of the Management Board Maciej Owczarek

Member of the Management Board Maksymilian Górniak

Member of the Management Board Hubert Rozpędek

Member of the Management Board Krzysztof Zborowski