

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

Poznań, 12 April 2011

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1. ORGANISATION OF THE ENEA CAPITAL GROUP

1.1. The ENEA Capital Group

As at 31 December 2010, the Capital Group consisted of the parent company ENEA S.A. (the "Company", or "Parent Company"), 19 subsidiaries and three associated companies. Within the ENEA Capital Group (the "Group"), there are three leading companies: ENEA S.A. (trade in electricity), ENEA Operator Sp. z o.o. (distribution of electricity) and Elektrownia Kozienice S.A. (generation of electricity). The remaining entities provide support activities in relation to the above companies.

A detailed description of the basic entities belonging to the ENEA Capital Group can be found in section 2 of this report under "Description of the Operations of the ENEA Capital Group".

General information regarding ENEA S.A.:

Name (business name):	ENEA Spółka Akcyjna
Legal form:	Spółka Akcyjna (Joint-stock company)
Country of registered office:	Republic of Poland
Registered office:	Poznań
Address:	ul. Nowowiejskiego 11, 60-967 Poznań
National Court Register - District Court Poznań – Nowe Miasto i Wilda 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
Business identification number (REGON):	630139960
Tax identification number (NIP):	777-00-20-640

As at 31 December 2010 the ENEA Capital Group carried out the following types of activities:

1. **ENEA S.A.** with its registered office in Poznań trades in electrical energy.
2. **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 1 July 2017. At the same time on 30 June 2007 the President of the ERO designated ENEA Operator Sp. z o.o. as the operator of an electrical energy distribution system for the life of the concession.
3. **Elektrownia Kozienice S.A.** with its registered office in Świerże Górne. The core business of Elektrownia Kozienice S.A. is the generation of electricity and heat co-generated with electricity.
4. **ENERGOMIAR Sp. z o.o.** with its registered office in 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.
5. **BHU Spółka Akcyjna** with its registered office in Poznań, trading in electrical power equipment, tools and materials.
6. **HOTEL EDISON Sp. z o.o.** with its registered office in Baranów, engaged in the hotel, restaurant, training, sports and recreation business.
7. **Energetyka Poznańska Zakład Transportu Sp. z o.o.** with its registered office in Poznań, established to provide road transport and vehicle maintenance services.
8. **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.
9. **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.
10. **Niepubliczny Zakład Opieki Zdrowotnej Centrum Rehabilitacyjno-Wczasowe ENERGETYK Sp. z o.o.** with its registered office in Inowrocław, operating in the field of sanatorium treatment services, healthcare and physiotherapy.

11. **Elektrownie Wodne Sp. z o.o.** with its registered office in Samociążek, engaged in the production of electrical energy and services with respect to the operation of hydro power plants as well as the development of operations involving power generation from renewable energy sources by implementing wind farm and biogas power plant projects.
12. **ENEOS Sp. z o.o.** with its registered office in Poznań, engaged in the operation and maintenance of street lighting.
13. **ENTUR Sp. z o.o.** with its registered office in Szczecin, engaged in recreation, hotel, tourism, training, restaurant as well as healthcare services.
14. **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.
15. **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.
16. **Miejska Energetyka Ciepła Piła Sp. z o.o.** with its registered office in Piła, engaged in the generation, transmission and distribution of heat and co-generation of electric energy and heat using power plant and heat generation units.
17. **Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.** with its registered office in Oborniki, engaged in the generation, transmission and distribution of heat.
18. **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.
19. **Energetyka Poznańska Biuro Usług Technicznych S.A.** with its registered office in Poznań engaged so far in providing services related to consulting, design, construction, operation, servicing, measurement and trading in the field of telecommunications and IT.
20. **FINEA Sp. z o.o.** in liquidation with its registered office in Poznań, so far providing debt collection services on behalf of the ENEA Capital Group. On 11 June 2010 the company was placed in liquidation.

Associated companies carry out the following activities:

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

As at 31.12.2010 the ENEA Capital Group included 19 subsidiaries, in which ENEA S.A. held shares with a total nominal value of PLN 5,583,063,300 and which, as at 31.12.2010, constituted 99.47 per cent of their share capital, amounting to PLN 5,553,670,800 in total.

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

Item	Company name and address	Share capital - nominal value [PLN '000]	Shareholding of ENEA S.A. [PLN '000]	Percentage of capital and voting rights held by ENEA S.A.
1	BHU Spółka Akcyjna ul. ul. Strzeszyńska 58, 60-479 Poznań	14 303, 10	13 083,10	91.47
2	Hotel EDISON Sp. z o.o. Baranowo k/Poznań, 62-081 Przeźmierowo	21 236,50	21 236,50	100.00
3	"Energetyka Poznańska Zakład Transportu" Sp. z o.o. ul. ul. Strzeszyńska 58, 60-479 Poznań	4 975,50	4 975,50	100.00
4	ENERGOMIAR Sp. z o.o. ul. ul. Strzeszyńska 58, 60-479 Poznań	2 749,00	2 749,00	100.00

5	Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o. Gronówko 30, 64-111 Lipno k/Leszna	7 634,00	7 634,00	100.00
6	ENERGO-TOUR Sp. z o.o. ul. Marcinkowskiego 27, 61-745 Poznań	9 543,00	9 535,00	99.92
7	ENEA Operator Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznań	4 678 050,00 *	4 678 050,00	100.00
8	Elektrownia Kozienice S.A. Świerże Górne, gmina Kozienice, 26-900 Kozienice 1	450 000,00**	450 000,00	100.00
9	ITSERWIS Sp. z o.o. ul. Zacisze 28, 65-775 Zielona Góra	6 364,00	6 364,00	100.00
10	Auto-Styl Sp. z o.o. ul. Zacisze 15, 65-775 Zielona Góra	2 200,00	2 200,00	100.00
11	Eneos Sp. z o.o. ul. Strzeszyńska 58, 60-479 Poznań	20 189,50	20 189,50	100.00
12	ENTUR Sp. z o.o. ul. Malczewskiego 5/7 71-616 Szczecin	4 134,50	4 134,50	100.00
13	Elektrownie Wodne Sp. z o.o. Samociążek 92, 86-010 Koronowo	213 841,00	213 841,00	100.00
14	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o. ul. Wilkońskiego 2, 88-100 Inowrocław	17 448,00	17 438,00	99.94
15	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. ul. Wybudowanie 56, 64-600 Oborniki	5 182,50	4 560,00	87.99
16	Miejska Energetyka Ciepła Sp. z o.o. ul. Kaczorska 20, 64-920 Piła	27 916,00	17 884,00	64.06
17	Kozienice II Sp. z o.o.	90 000,00	72 500,00	80.56
18	Energetyka Poznańska Biuro Usług Technicznych S.A. ul. Św. Wojciecha 7/9, 61-749 Poznań	1 973,70	1 973,70	100.00
19	FINEA Sp. z o.o. w likwidacji (in liquidation) ul. Warszawska 43, 60-028 Poznań	5 323,00	5 323,00	100.00
	TOTAL	5 583 063,30	5 553 670,80	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.

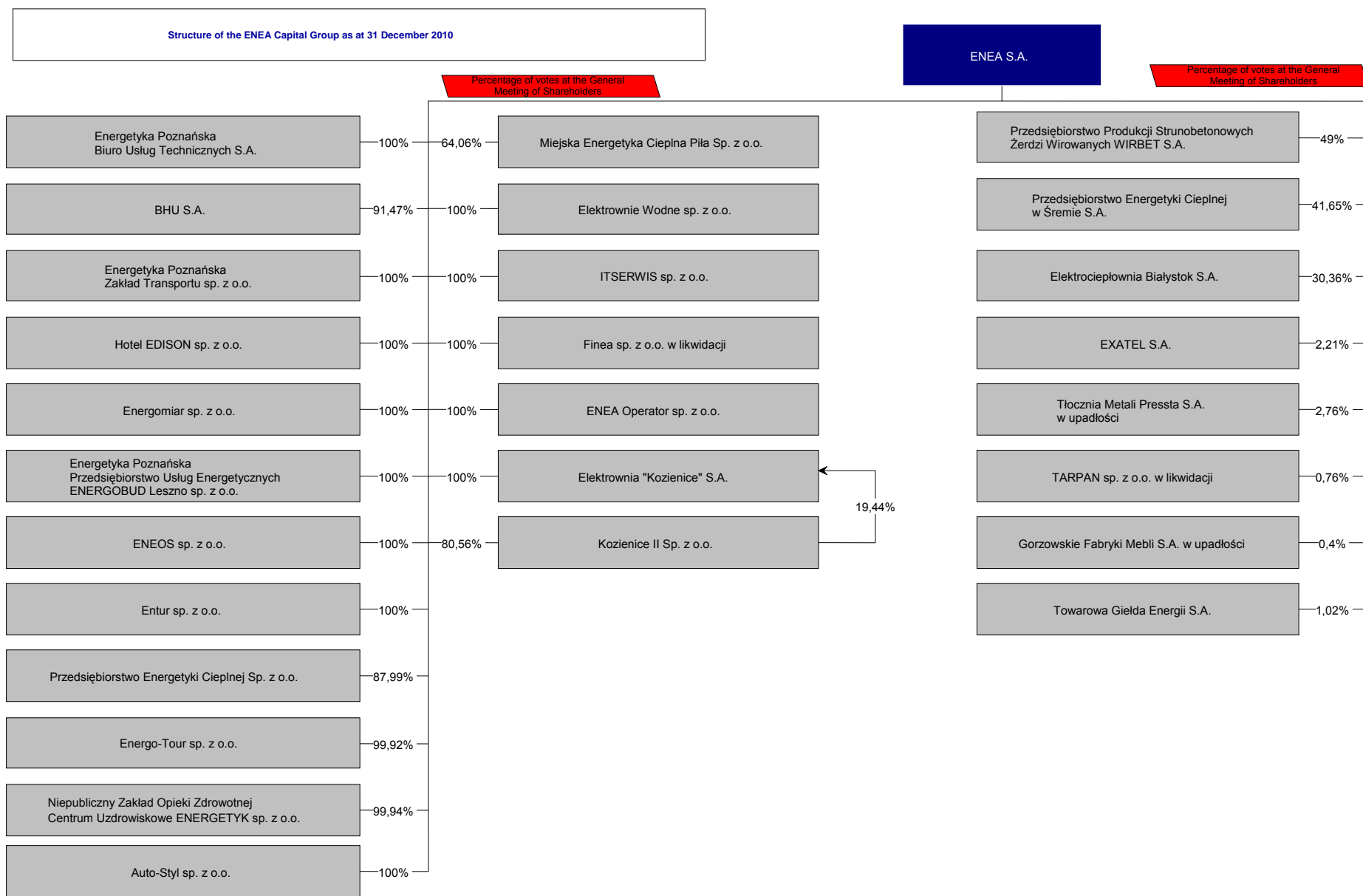
** Share capital in accordance with the statute and the National Court Register. In the financial statements drawn up in accordance with the EU IFRSs, the share capital is stated after adjustment for hyperinflation.

Associated companies.

	Company name and address	Share capital [PLN '000]	Shareholding of ENEA S.A - nominal value [PLN '000]	Percentage of share capital and voting rights held by ENEA 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

The organisational diagram below shows the structure of the Capital Group as at 31 December 2010.

Report of the Management Board on the operations of the ENEA Capital Group in 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 having enough capacity to at least meet the electricity needs of all customers of the Group.

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. In 2010 we were analysing the possibility of acquiring other entities active in the field of generating electricity from conventional fuels.

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 1000 MW. In addition, we are carrying out a preparatory analysis for the construction of a second 1000-MW power unit at the Kozienice Power Plant.

In connection with anticipated increases in the requirements for sales of electrical energy from renewable and co-generated energy sources, we are taking action aimed at increasing our control over the costs of meeting the legal requirements. To this end, we plan to continue concluding long-term agreements for the purchase of energy certificates for energy produced from renewable sources and cogeneration from external entities, and to carry out direct investments in such sources. Our intention is to invest in wind farm projects and biogas generators, already commenced and at different stages of development, by acquiring existing entities or investing in new projects in cooperation with external entities. There are four possible acquisition scenarios, depending on what stage a given project is at: searching for projects which 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 or biogas generators.

Furthermore, in the coming years we intend to acquire thermal power stations. Thermal plants acquired so far will be modernized and transformed into thermal-electric plants, including those fuelled by biomass, which will generate electricity and heat through cogeneration, enabling us to obtain additional energy certificates.

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

Within the strategic area of building a business which is socially responsible, targets will be set which will result, in the long term, in an increase in the value of the business by implementing responsible business principles in 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 of the Polish power industry.

1.3. Asset restructuring

After carrying out major organisational changes within the Group in previous years, in financial year 2010 further asset restructuring took place:

- On 15.01.2010, ENEA S.A. acquired from Agrogaz Sp. z o.o. an organized part of the business under the name "Elektrownia Biogazowa Liszkowo" following which in the organizational structure of ENEA S.A. the Company's Branch under the name ENEA S.A. Oddział Elektrownia Biogazowa Liszkowo was established.
- On 28.01.2010 by virtue of the Resolution of the Extraordinary General Meeting of Shareholders General Meeting of Shareholders the share capital of the company ENTUR Sp. z o.o. with its registered office in Szczecin was increased by PLN 100.000, i.e. up to PLN 4,134,500. All newly created shares were taken up by ENEA S.A. and paid for in cash. Such capital increase in ENTUR Sp. z o.o. was aimed at enabling the Company to carry out necessary investments and developments within the property which the Company received on 31.03.2009 in the form of a contribution in-kind. Registration of the share capital increase took place on 03.03.2010.
- On 01.02.2010 the share capital increase in Elektrownie Wodne Sp. z o.o. from PLN 204,690,500 by PLN 329,500, i.e. up to PLN 205,020,000, was recorded in the National Court Register. The Extraordinary General Meeting of Shareholders approving the Company's share capital increase in exchange for a contribution in kind in the form of the property was held on 18.12.2009. The purpose of such contribution in-kind was to properly structure asset holdings within the group by improving the Company's capacities in terms of its use of hydro technical infrastructure.
- On 04.02.2010 by virtue of the Resolution of the Extraordinary General Meeting of Shareholders the share capital of the company Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o. with its registered office in Inowrocław was increased by PLN 1,710,000, i.e. up to PLN 17,448,000. All newly created shares were taken up by ENEA S.A. and paid for in cash. Such capital increase in NZOZ CU ENERGETYK Sp. z o.o. enabled the Company to carry out necessary investments in overhaul and modernization works in one of the Company's buildings, adapting it to current requirements applicable to healthcare and sanatorium treatment facilities, as well as extending the Company's hotel room base which directly contributes to the improvement of competitiveness of health resort activities conducted by the Company. Registration of the share capital increase took place on 08.04.2010.
- On 02.04.2010 the share capital increase in EP ENERGOBUD Leszno Sp. z o.o. by PLN 2.151.500, i.e. up to PLN 5,676,000 was recorded in the National Court Register. The Extraordinary General Meeting of Shareholders General Meeting of Shareholders approving the Company's share capital increase in exchange for a contribution in kind in the form of the properties located in Piła and Gniezno was held on 22.12.2009. The purpose of such contribution in-kind was to properly structure asset holdings within the group.
- On 12.04.2010 the Extraordinary General Meeting of Shareholders General Meeting of Shareholders of ENEOS Sp z. o.o. took place, at which the share capital was increased by PLN 630,500, i.e. to PLN 20,189,500 by creating 1,261 new shares, which were covered by an in-kind contribution of the perpetual usufruct right to a property in Szczecin for which the District Court in Szczecin, the 12th Land and Mortgage Register Department keeps the land and mortgage register number SZ1S/00126250/8 and the ownership right to a gatehouse building located thereon. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 15.09.2010.
- On 08.06.2010 the share capital increase in BHU S.A. by PLN 3,923,800, i.e. up to PLN 14,062,200 was recorded in the National Court Register. The Extraordinary General Meeting of Shareholders General Meeting of Shareholders approving the Company's share capital increase by PLN 2,800,000 in exchange for cash and a PLN 1,123,800 contribution in kind in the form of the properties located in Gniezno, Wolsztyn, Świebodzin, Chodzież was held on 22.12.2009. The purpose of such contribution in-kind was to properly structure asset holdings within the group, whereas the cash injection was required in associated with the construction of a warehouse and commercial facilities in Gorzów Wlkp.
- On 29.06.10 the Extraordinary General Meeting of Shareholders General Meeting of Shareholders of EP ENERGOBUD Leszno Sp. z o.o. took place, at which the share capital was increased by PLN 540,000, i.e. to

PLN 6,216,000 by creating 1,080 new shares, which were covered by an in-kind contribution of the perpetual usufruct right to a property in Bydgoszcz for which the District Court in Bydgoszcz, the 10th Land and Mortgage Register Department keeps the land and mortgage register number BY1B/00084705/1 and the ownership right to an office and workshop building located thereon and constituting a title separate from the land. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 20.08.2010.

- On 29.10.2010 the Extraordinary General Meeting of Shareholders General Meeting of Shareholders of BHU S.A. adopted a resolution on increasing the Company's share capital by PLN 240,900, i.e. up to PLN 14,303,100 by issuing 2,409 series J shares, by way of a private placement, in exchange for an in-kind contribution in the form of the right of perpetual usufruct to a real property located in Gorzów Wielkopolski and the ownership title to the building located thereon for which the District Court in Gorzów Wielkopolski keeps the land and mortgage register number GW1G/00107179/9 with no right of pre-emption for the existing shareholders. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 28.12.2010.
- On 08.11.2010 the Extraordinary General Meeting of Shareholders General Meeting of Shareholders of Elektrownie Wodne Sp. z o.o. was held, at which the Company's share capital was increased by PLN 26,000,000, i.e. up to PLN 239,841,000, by issuing 52,000 new shares with a nominal value of PLN 500 each. On 01.12.2010 all the new shares in the share capital of Elektrownie Wodne Sp. z o.o. were taken up by the existing sole shareholder – ENEA S.A. and fully covered by an in-kind contribution in the form of an organised part of the business undertaking of ENEA S.A. operating under the business name: ENEA S.A. Oddział Elektrownia Biogazowa Liszkowo. Registration of the share capital increase took place on 07.02.2011.
- On 27.12.2010 the Extraordinary General Meeting of Shareholders of BHU S.A. adopted a resolution on increasing the Company's share capital by PLN 2,072,000, i.e. up to PLN 16,375,100, by issuing 20,720 series K shares, by way of a private placement, in exchange for an in-kind contribution in the form of the right of perpetual usufruct to a real property located in Zielona Góra and the ownership title to the building located thereon, for which property the District Court in Zielona Góra keeps Land and Mortgage Register No. ZG1E/00043008/5 with no right of pre-emption for the existing shareholders. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 21.01.2011.
- On 30.12.2010 the Extraordinary General Meeting of Shareholders was held at which the share capital of MEC Piła Sp. z o.o. was increased (involving transferring the heat energy infrastructure in Gozdnicza as an in-kind contribution) by PLN 773,000, i.e. up to PLN 28,689,000. The shares in the increased share capital were taken up in their entirety by ENEA S.A. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 24.02.2011.

1.4. Structure of main equity investments

In implementing the Company strategy as regards the development and restructuring of the ENEA Capital Group, the following capital investments were made in 2010:

- On 09.02.2010, ENEA S.A. sold a block of 6,000 shares held in PWE Gubin Sp. z o.o. (constituting 50 per cent of the share capital of the Company) to KWB Konin S.A. with its registered office in Kleczewo for PLN 931.55 per share or a total of PLN 5,589,300.00 for the block of shares. The shares were sold as there were no longer any reasons to keep the equity investment in the Company.
- 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, i.e. a block of 46 shares constituting 0.0661 per cent of the company's share capital, to Miejskie Przedsiębiorstwo Kanalizacji Sp z. o.o. with its registered office in Leszno for a price of PLN 992 per share or PLN 45,632 for the block of shares. The purpose of such sale was to properly structure asset holdings within the group.

- On 14 May 2010, ENEA S.A. sold all shares 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. The purpose of such sale was to properly structure asset holdings within the group.
- On 28.05.10, 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, during which a merger of the two companies was approved. The merger was carried out by incorporating EnergoPartner Sp. z o.o. in Elektrownie Wodne Sp. z o.o. as stipulated in Art. 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 acquired company's sole shareholder. On 01.07.2010, in a decision of the District Court in Bydgoszcz, 13th Commercial Division of the National Court Register, the two companies merged. 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, i.e. up to PLN 213,841,000, by establishing 17,642 new shares with a nominal value of PLN 500 each. The purpose of such consolidation was to create a single, large and strong entity engaged in the production of renewable energy within the ENEA Capital Group.
- On 11.06.2010 the Extraordinary General Meeting of Shareholders of Finea Sp. z o.o. decided to put the Company under liquidation.
- On 28.10.2010 the Extraordinary General Meeting of Shareholders was held and made a resolution to merge Miejska Energetyka Ciepła Piła Sp. z o.o. with its registered office in Piła (MEC Piła, Acquiring Company) with Przedsiębiorstwo Energetyki Ciepłej - Gozdnica Sp. z o.o. with its registered office in Gozdnica and with Cogen Sp. z o.o. with its registered office in Piła (Acquired Companies). The merger was carried out by transferring all assets of the Acquired Companies to MEC Piła. On 30.11.2010 the merger of the a/m companies was registered. In connection with the above the increase of the share capital of the Acquiring Company by PLN 509,000, i.e. up to PLN 27,916,000 was entered in the National Court Register. The shares in the increased share capital were taken up in their entirety by ENEA S.A. COGEN Sp. z o.o. was deleted from the National Court Register on 15.01.2011, whereas PEC Gozdnica Sp. z o.o. was deleted from the National Court Register on 12.01.2011.
The shareholder structure of MEC Piła Sp. z o.o. after consolidation as at 31.12.2010 is as follows:
 1. ENEA S.A.: 17,884 shares – 64.06 per cent
 2. District of Piła: 10,032 shares – 35.94 per cent
 The purpose of the merger was to create a heat generation area within the ENEA S.A. Capital Group and to strengthen the competitive position of the Group's entities operating in that area.
- On 29.10.2010 the Extraordinary General Meeting of Shareholders was held in order to approve the merger of EP PUE ENERGObUD Leszno Sp. z o.o. (Acquiring Company) with ZUP ENERGoTRANS Sp. z o.o. and EWINN Sp. z o.o. (Acquired Companies) by transferring all assets of the Acquired Companies to the Acquiring Company. Following the merger of the Companies the share capital of EP PUE ENERGObUD Leszno Sp. z o.o. was increased by PLN 1,418,000, i.e. up to PLN 7,634,000 by issuing 2,836 (219 - ZUP ENERGoTRANS Sp. z o.o.; 2,617 – EWINN Sp. z o.o.) equal and indivisible shares with a nominal value of PLN 500 each. The share capital increase was registered on 01.12.2010. Following the merger, as at 31.12.2010 the share capital of EP PUE ENERGObUD Leszno Sp. z o.o. amounted to PLN 7,634,000, divided into 15,201 shares of PLN 500 each. 67 shares were redeemed from net profits. EWINN Sp. z o.o. was deleted from the National Court Register on 27.12.2010, whereas ZUP ENERGoTRANS Sp. z o.o. was deleted on 07.01.2011. The restructuring processes thus completed make it possible, among other things, to create a product proposal covering the full voltage range and to further develop a competitive and strong grid execution company.
- On 28.06.2010 the Extraordinary General Meeting of Shareholders of Elektrownia Koźienice S.A. (ELKO) and the Extraordinary General Meeting of Shareholders of Koźienice II Sp z. o.o. consented to actions aimed at merging Koźienice II and ELKO by incorporating Koźienice II into ELKO. Since then the Management Boards of both companies carried out any legally required actions in order to prepare the entire procedure required for the Extraordinary General Meetings of ELKO and Koźienice II to adopt merger resolutions.

On 28.02.2011 the Extraordinary General Meeting of Shareholders of Kozenice II Sp. z o.o. and on 09.03.2011 the Extraordinary General Meeting of Shareholders of Elektrownia "Kozenice" S.A. were held and discussed the merger of Elektrownia "Kozenice" S.A. (Acquiring Company) with Kozenice II Sp. z o.o. (Acquired Company) by transferring all assets of the Acquired Company to the Acquiring Company with a concurrent increase of the Acquiring Company's share capital through an issue of shares to ENEA S.A. The share capital of Elektrownia "Kozenice" S.A. following the merger of the companies will be raised by PLN 12,482,440.00 up to PLN 462,482,440.00 by issuing 1,248,244 ordinary bearer series B shares of PLN 10 each. As at 30.03.2011 an appropriate entry was made in the National Court Register.

The purpose of the merger is to make use of the many years of experience and competences of Elektrownia "Kozenice" in managing generation assets and carrying out investments in new production capacities.

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

In 2010 the changes as described above took place in the organisation or management rules of the ENEA Capital Group. The basic purpose of the organizational changes in 2010 was to improve efficiency of the strategic management and work of selected areas of the ENEA Capital Group's operations. Besides capital increase processes in subsidiaries and a disposal of small blocks of shares in other entities ("remains") in 2010 we also carried out restructuring activities, including, but not limited to mergers.

1.6. Information on branches

By virtue of Resolution No. 6/VII/2010 of 19.02.2010 the Supervisory Board of ENEA S.A. gave its consent for supplementing the organizational structure of ENEA S.A. with the Branch under the name Elektrownia Biogazowa Liszkowo and at the same time approved new Organizational Rules for Business of the Company adopted by way of the Resolution of the ENEA S.A. Management Board No. 49/2010 of 19.01.2010. In the current Organizational Rules for Business of the Company adopted on 15.10.2010 by virtue of the resolution of the Management Board and approved by virtue of the Resolution of the Supervisory Board of 16.11.2010 the Branch Elektrownia Biogazowa Liszkowo was deleted (following the contribution of an organized part of the ENEA S.A. business operating under the business name ENEA S.A. Oddział Elektrownia Biogazowa Liszkowo as a contribution in-kind to the subsidiary Elektrownie Wodne Sp. z o.o. with its registered office in Samociążek).

ENEA S.A. had no other branches in 2010. Outside of Poznan, however, there are Sales Offices operating in Bydgoszcz, Gorzów Wlkp., Zielona Góra and Szczecin.

On the basis of the acquired company, EnergoPartner Sp z. o.o., the subsidiary Elektrownie Wodne Sp. z o.o. established a branch in Poznań continuing the existing operations of EnergoPartner Sp z. o.o., i.e. the development of wind farm projects. The branch was registered on the date of registration of the Company's share capital increase, i.e. on 1.07.2010.

The subsidiary EP PUE Energobud Leszno Sp. z o.o. by virtue of the resolution of the Extraordinary General Meeting of Shareholders of EP PUE Energobud Leszno Sp. z o.o. of 29.12.2011 established the Branch of High and the Highest Voltages in Poznań on the basis of EWINN Sp. z o.o. acquired through merger. Registration of the Branch took place on 31.01.2011.

2. THE OPERATIONS OF THE ENEA CAPITAL GROUP

2.1. Information on basic products, goods and services

As part of its basic activities, the ENEA Capital Group (the "Group") is involved in generating, distributing and trading in electricity. The Group's companies conduct these operations on the basis of 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.

2.1.1. 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 2,905 MW and is thus the largest bituminous coal-fired power plant in Poland. In 2009, the Koźienice Power Plant generated 12,122,187.4 MWh gross of electricity, and in 2010, 12,318,171.6 MWh gross.

In January 2008, the Koźienice Power Plant also began producing electricity from renewable sources (through the co-combustion of biomass). In 2009, the amount of energy from renewable sources, confirmed by energy certificates obtained from the President of the ERO, was 210,476.181 MWh. In 2010, the amount of energy generated from co-burning biomass, as confirmed by energy certificates issued by the President of the ERO, was greater by more than half, and reached a level of 322,150.283 MWh.

Generation of electricity from renewable sources is also the concern of our subsidiary, Elektrownie Wodne Sp. z o.o. In 2010, it obtained 156,035,137 energy certificates of energy from renewable sources. The annual power capacity of the hydroelectric plants and biogas plants belonging to our Group amounts to about 59 MW. Electricity generated in hydroelectric plants and biogas plants transferred to the grid in 2010 amounted to 153,812.158 MWh.

2.1.2. Distribution

Within our Group, the distribution of electricity is the responsibility of ENEA Operator Sp. z o.o. ("ENEA Operator"), which acts as the operator of the 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 127,500 km (including connections) and about 34,800 transmission stations (as at 31.12.2010).

2.1.3. Trade

In our Group, wholesale electricity trade and selling electricity to end consumers is primarily handled by ENEA S.A. for which it is one of the core operations. In 2010, the total sales from trading in energy amounted (without taking into account non-invoiced statistical sales – the readout date falls after the financial year end) to approximately 18.5 TWh, including sales to end users of approximately 15.5 TWh, including to customers connected to networks of distribution system operators other than ENEA Operator Sp. z o.o. of approximately 1.2 TWh. The number of end users as at 31.12.2010 was approximately 2.4 million.

In 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 2010 amounted to 0.242 GWh.

2.1.4. Other operations

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 and repair, as well as leasing, of vehicles); and
- social operations (tourist, restaurant and recreational facilities, healthcare services).

2.2. Sales markets

The portfolio of recipients to whom we sell electricity is highly diversified. Currently we sell electricity to approximately 2.4 million recipients, including some 2.1 million clients and 0.3 million business clients. In 2010, the value of electricity sales to our largest client was 5.0 per cent of the total value of sales of electricity and distribution services, and the share of the 10 largest clients was 13.4 per cent.

2.2.1. Sales to end users

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

Set of tariff groups	Description
Tariff group set A	energy sold and delivered to customers connected to a high-voltage grid
Tariff group set B	energy sold and delivered to customers connected to a medium-voltage grid
Tariff group set C	energy sold and delivered to customers connected to a low-voltage grid, with the exception of end users using electricity for household purposes
Tariff group set G	energy sold and delivered to end users using electricity for household purposes, regardless of 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 unspecified 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 specified term, usually 12 months.

Termination notice periods are usually one month (in approx. 2.3 million agreements), and less often for two, three or six months (approx. 100,000 agreements).

2.2.2. Other sales

In participating in the domestic electricity market we also sell on the wholesale market to other electricity traders who balance their own contractual positions this way. Sales volume results mainly from action to balance the hourly demand for electricity with previously concluded contracts, which optimises exposure on the balancing market.

2.2.3. Sales by value and amount

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

Item	Revenues from energy sales to end users [PLN '000]		
	2009	2010	Growth [%]
Tariff group set A	490 091,2	352 703,6	72.0
Tariff group set B	1 801 471,6	1 574 055,3	87.4
Tariff group set C	1 087 636,5	1 021 673,6	93.9
Tariff group set G	1 007 878,4	1 110 758,5	110.2
TOTAL	4 387 077,7	4 059 191,0	92.5

Compared with 2009, in 2010 there was a decrease in energy sales within almost all the tariff group sets. There was a growth in sales volume of 10.2 per cent only in tariff group set G. The largest decreases in energy sales were noted in tariff group sets A and B. In 2010, total sales of energy were down by PLN 327,886,700, i.e. by 7.5 per cent in comparison with 2009.

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

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

Item	Sales of energy [MWh]		
	2009	2010	Growth [%]
Tariff group set A	2 072 337	1 532 206	73.9
Tariff group set B	6 712 619	6 007 113	89.5
Tariff group set C	3 639 787	3 486 353	95.8

Tariff group set G	4 372 016	4 505 792	103.1
TOTAL	16 796 759	15 531 464	92.5

Comparing to 2009 in 2010 there was a decrease in energy sales volumes within almost all the tariff group sets. There was a growth in sales volume of 3.1 per cent only in tariff group set G. The largest decreases in energy sales were noted in tariff group sets A and B. In 2010, total sales of energy were down by PLN 1,265,295 MWh, that is, by 7.5 per cent in comparison with 2009.

Decreases of energy sales volumes and revenues for tariff group sets A, B, C, being partly a consequence of optimization of the client portfolio, with a simultaneous growth in energy sales volumes and revenues for tariff group sets G ultimately enabled to raise the total margin.

2.3. Supply markets

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

ENEA S.A., due to a limited local generation capacity in the area of ENEA Operator S.A., covers its clients' demand for electrical energy almost fully through the energy wholesale market. In 2010 the wholesale electrical energy portfolio was significantly diversified. The largest part of electrical energy was purchased by ENEA S.A. under bilateral agreements (by direct purchases from generators and trading companies or through brokerage trading platforms).

An essential part of the energy sold by ENEA S.A. was the electrical energy purchased by ENEA S.A. from its subsidiary Elektrownia "Kozienice" S.A. However, that was the case only before entry into force of amendments to regulations imposing on power companies the obligation stipulated in Art. 49a of the Energy Law (power companies producing electrical energy are required to sell no less than 15 percent of the electricity generated in a given year on commodity exchanges or on the regulated market, and additionally, power companies producing electrical energy entitled to compensation for stranded costs incurred are required to sell the generated electricity in its entirety in a manner that ensures public and equal access to the electricity, by way of an open tender, via the online trading platform on the regulated market or on commodity exchanges). Any remaining purchase contracts were entered into through Towarowa Giełda Energii S.A. and realized in the process of balancing on the balancing market (transactions on the balancing market of the Transmission System Operator resulting from the difference between estimated and actual trading positions).

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

In 2010, sales of electricity by Elektrownia Kozienice S.A. to entities belonging to the ENEA Capital Group amounted to 59.1 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 (36.3 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 2,961 MW, of which 2,905 MW is generated by the Kozienice Power Plant, and 56 MW by the 20 hydroelectric power stations within the Group. The technical generation potential of the Kozienice Power Plant is 14.1 TWh net (15.0 TWh gross) annually.

From 2005-2010, the Kozienice Power Plant generated a net total of, respectively, 11.4, 12.5, 11.6, 11.1, 11.2 and 11.4 TWh of electricity (corresponding to gross electricity volumes of 12.1, 13.2, 12.4, 11.8, 12.1 and 12.3 TWh).

The Kozienice Power Plant produced 12.3 TWh gross energy in 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 only generate about a gross 10.9 TWh of electricity annually without needing to purchase additional rights.

On the wholesale market in 2010, Elektrownia Kozienice S.A. purchased electricity under bilateral agreements and on trading platforms in the amount of 242.0 GWh, including 10.1 GWh within the ENEA Capital Group, and

231.9 GWh from entities outside the Group.

Considering the Corporate Strategy for the ENEA Capital Group for the years 2010 – 2015 looking towards 2020, providing for the establishment of a wholesale electricity trading Company, on 21 October 2010 a deed of incorporation for a company called ELKO Trading Sp. z o.o. with its registered office in Świerże Górne, with capital in the amount of PLN 33,000,000, was signed in the form of a notarial deed. In return for cash, Elektrownia “Kozienice” S.A. subscribed for 13,500 shares in ELKO Trading Sp. z o.o. with a nominal value of PLN 1,000 each and a total nominal value of PLN 13,500,000, which constitute the share capital of ELKO Trading Sp. z o.o., and covered the supplementary capital of ELKO Trading Sp. z o.o. with PLN 19,500,000 in cash. The main business of ELKO Trading Sp. z o.o. is trading in electricity.

2.3.3. Purchase of transmission services from PSE Operator

In 2010, ENEA Operator Sp. z o.o. bought transmission services from PSE Operator S.A. accounting for 8.02% of the net revenues of the ENEA Capital Group. PSE Operator S.A. is not affiliated with ENEA S.A.

2.3.4. Coal supply

The basic fuel used to produce electricity with the Issuer's production assets, i.e. Kozienice Power Station, is bituminous coal (it is also the case of other leading power companies in Poland). In 2010, the cost of coal comprised about 54 per cent of operating costs.

In the field of coal supplies, entities belonging to the Issuer's Capital Group depend on Lubelski Węgiel “Bogdanka” S.A., Katowicki Holding Węglowy S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. The Polish market for the supply of coal is monopolised to a large degree by companies which belong to the State Treasury and which control the overwhelming majority of domestic coal deliveries in terms of volume.

The largest coal supplier to the power plant is Lubelski Węgiel “Bogdanka” S.A. which in 2010 delivered about 3.0 million tonnes, which is 61 % of the total coal supply in quantitative terms. The main reason for choosing Lubelski Węgiel “Bogdanka” S.A. as the main supplier is its proximity to the power plant – about 130 km - when most Polish mines are located in Upper Silesia, about 300 km away. Coal from the Bogdanka mine has a high sulphur content, and due to the current level of efficiency of the desulphurisation systems in the Kozienice Power Plant, use of Bogdanka coal as the sole fuel for the Power Plant would mean exceeding permitted sulphur emission levels. For that reason as well as for supply diversification purposes, the power plant signed hard coal supply agreements with suppliers from Upper Silesia, i.e. Katowicki Holding Węglowy S.A., Kompania Węglowa S.A. and Jastrzębska Spółka Węglowa S.A. With LW “Bogdanka” S.A., KHW S.A. and JSW S.A. the power plant has long-term framework agreements under which every year prices and volumes of supplied coal are determined. With other suppliers the power plant enters into short-term agreements with due dates within one year.

2.3.5. Coal transport

The basic means of transport used to deliver bituminous coal to Kozienice Power Station is rail transport. In 2010 more than 90 per cent of deliveries of that raw material to Kozienice Power Station were carried out by the state carrier PKP Cargo, the largest rail carrier in Poland.

2.4. Information about agreements concluded

2.4.1. Agreements of significance to ENEA Capital Group operations

Below we set out significant agreements concluded by our Group, i.e. those which in the Company's opinion merit listing due to their significance for the Group's operations. With the exception of electricity transmission agreements concluded with PSE Operator and a coal transport agreement concluded with PKP Cargo, we are not dependent on other industrial, trade or financial agreements. Were the agreements with PSE Operator to be terminated, we would be forced to conclude electricity transmission agreements on new terms, and if the agreement with PKP Cargo, the largest rail carrier in Poland, were to be terminated, we might have difficulty in ensuring continuous deliveries of coal to the Elektrownia Kozienice power plant. We depend on four suppliers for our coal supplies: Lubelski Węgiel “Bogdanka” S.A., which in quantitative terms delivered 52 per cent of our coal in 2009 and 61 per cent in 2010; Katowicki Holding Węglowy S.A.; Jastrzębska Spółka Węglowa S.A., and

Kompania Węglowa S.A. All agreements under which coal supplies were made to Elektrownia Kozenice S.A. in 2010, as described in this point, were concluded in the normal course of operations.

Agreements under which fuel coal supplies were made in 2010:

Long-standing Agreement of 31.12.2003 concluded between Elektrownia Kozenice S.A. and Lubelski Węgiel "Bogdanka" S.A.

The subject of the agreement is to define the framework rules for the long-standing supply of power coal, in particular delivery deadlines and basic quantity and quality parameters of the coal. The agreement is effective from 31.12.2003 to 31.03.2011.

The long-standing agreement provides for the conclusion of yearly agreements which specify the conditions for supplies in succeeding years, such as: prices, specific amounts of supplies and specific conditions of supply and receipt (including the procedure and rules for documentation, rules for identifying and measuring coal amounts, and the complaints procedure). The Agreement includes a clause that obligates the Parties thereto, in the event of material changes to market conditions, to renegotiate its terms and conditions. The agreement provides for contractual penalties for the delivery of coal with characteristics worse than the limits specified in annual agreements or failure to deliver or failure to accept the amount of coal specified in the delivery schedule. Either party may terminate the agreement with a one-year notice period beginning on the first day of a financial quarter.

Fuel coal supply agreement of 29 February 2008 concluded between Elektrownia Kozenice 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 Kozenice S.A. Prices, specific conditions and supply amounts are negotiated when concluding yearly annexes thereto. Each of the parties may terminate the agreement with six months' notice. The agreement was concluded for a period until 31 December 2010.

Long-standing fuel coal supply agreement of 08.01.2009 concluded between Elektrownia Kozenice S.A. and Katowicki Holding Węglowy S.A.

The subject of the agreement is to define the framework rules for the long-standing supply of power coal, in particular delivery deadlines and basic quantity and quality parameters of the coal. The agreement is effective from 01.01.2009 to 31.12.2013.

The long-standing agreement provides for the conclusion of yearly agreements which specify the conditions for supplies in succeeding years, such as: prices, specific amounts of supplies and specific conditions of supply and receipt (including the procedure and rules for documentation, rules for identifying and measuring coal amounts, and the complaints procedure). The Agreement contains a clause which makes it possible, in the case of significant changes in coal prices, the rules for setting prices for energy producers, or other important factors affecting coal prices, to renegotiate prices on consent of the two Parties to the contract. The agreement provides for contractual penalties for the delivery of coal with characteristics worse than the limits specified in annual agreements or failure to deliver or failure to accept the amount of coal specified in the delivery schedule. Either party may terminate the agreement with a one-year notice period beginning on the first day of a financial quarter.

Annual Agreement of 03.08.2009 for the provision of fuel coal for 2010 (UR2010) constituting Attachment No. 5 to Long-standing Agreement between Elektrownia "Kozenice" S.A. and Lubelski Węgiel "Bogdanka" S.A.

The subject of the a/m Annual Agreement is the provision of fuel coal that meets specified quality parameters, carried out during the life of the agreement, i.e. 01.01.2010 - 31.03.2011 (UR2010), from the mine belonging to Lubelski Węgiel "Bogdanka" S.A.

The annual agreement sets out the price of coal, the basic quantities to be delivered, the parametric limits of the coal (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted. The agreements may be terminated by either Party upon

one year's notice, the first day of which will fall on the first day of a financial quarter, or at any moment as agreed by the Parties.

Either Party may impose contractual penalties for failure to deliver or failure to accept the amounts of coal according to the provisions specified in the Agreement.

Annual Agreement of 07.08.2009 for fuel coal supply in 2010 and 2011 (UR2010 and 2011) constituting Attachment No. 2 to the a/m Long-standing Agreement concluded between Elektrownia Kozenice S.A. and Katowicki Holding Węglowy S.A.

The subject of the a/m annual agreement is deliveries of energy coal carried out by the Seller in favour of Elektrownia "KOZIENICE" S.A during the life of the Agreement, i.e. from 01.01.2010 to 31.03.2012.

The annual agreement defines the basic quantities to be delivered together with an initial schedule of deliveries divided into quarters, the mines designated for providing the shipments, the price of specific categories of coal, the parametric quality limits (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for. The agreement may be terminated by either Party upon one year's notice, which will commence on the first day of a financial quarter. In the case of a failure to perform or improper performance of the Agreement, either Party may impose contractual penalties as provided for in the Agreement.

2010 coal sales agreement of 31.05.2010 concluded between Elektrownia Kozenice S.A. and Kompania Węglowa S.A.

The subject of the a/m agreement is deliveries of fuel coal carried out by the Seller in favour of Elektrownia "KOZIENICE" S.A during the life of the Agreement, i.e. from 01.06.2010 to 31.10.2010.

The agreement defines the basic quantities to be delivered together with an initial schedule of deliveries divided into quarters, the price of specific categories of coal, the parametric quality limits (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for. The agreement is furnished with a "rebus sic stantibus" clause. In the case of a failure to perform or improper performance of the Agreement, either Party may impose contractual penalties as provided for in the Agreement.

2010 coal sales agreement of 05.07.2010 concluded between Elektrownia Kozenice S.A. and Kompania Węglowa S.A.

The subject of the a/m agreement is deliveries of fuel coal carried out by the Seller in favour of Elektrownia "KOZIENICE" S.A during the life of the Agreement, i.e. from 01.08.2010 to 30.11.2010.

The agreement defines the basic quantities to be delivered together with an initial schedule of deliveries divided into quarters, the price of specific categories of coal, the parametric quality limits (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for. The agreement is furnished with a "rebus sic stantibus" clause. In the case of a failure to perform or improper performance of the Agreement, either Party may impose contractual penalties as provided for in the Agreement.

2010 coal sales agreement of 10.08.2010 concluded between Elektrownia Kozenice S.A. and Kompania Węglowa S.A.

The subject of the a/m agreement is deliveries of fuel coal carried out by the Seller in favour of Elektrownia "KOZIENICE" S.A during the life of the Agreement, i.e. from 01.09.2010 to 30.04.2011.

The agreement defines the basic quantities to be delivered together with an initial schedule of deliveries divided into quarters, the price of specific categories of coal, the parametric quality limits (beyond which the power plant may impose contractual penalties in its monthly settlement), the method of transport, the method of financial settlement as well as the particular provisions under which the amounts and quality of the coal are to be accounted for. The agreement is furnished with a "rebus sic stantibus" clause. In the case of a failure to perform or improper performance of the Agreement, either Party may impose contractual penalties as provided for in the Agreement.

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

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

Significant agreements concluded by ENEA S.A.

Information on agreements which are significant to the operations of ENEA S.A. can be found in the Report of the Management Board of ENEA S.A. for 2010, in pt. 2.4 under 'Information about agreements concluded'.

Agreements entered into in 2010 under which fuel coal supplies will be carried out in future years:

On 4 March 2010 the Management Board of Elektrownia Kozenice S.A. signed a long-standing fuel coal supply agreement with Lubelski Węgiel "Bogdanka" S.A. effective from 4 March 2010 until 31 December 2025 (Agreement). Contracted supplies will start from the 1st quarter 2011, and the estimated value of the Agreement, calculated on the basis of 2010 supply prices, is PLN 10,432,000,000. The Agreement requires annual agreements with the following data being signed every year: quantities, supply schedule, supply prices, supply logistic issues and supply settlements for the entire term of the Agreement. The Agreement may be terminated with a 2-year notice. Contractual penalties for failure to accept or supply the volume of coal envisaged in the delivery schedule were defined at 20 percent of the value of the coal in question, whereby both Parties may seek additional compensation under general rules if the contractual penalty does not compensate their loss. The remaining provisions of the agreement do not diverge from the market standards applied to this type of agreement.

2.4.2. Significant transactions with affiliated entities

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

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

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

All agreements with affiliated entities are concluded on market terms, and the prices applied in them do not diverge from the prices applied in transactions concluded with unaffiliated entities.

Agreements between companies belonging to the Group

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

Information on transactions with affiliated entities is to be found in the Financial Report of ENEA S.A. for financial year 2010, note No. 40.

2.4.3. Credit and loan agreements concluded and terminated

In 2010 ENEA S.A. had access to working capital loans from BZ WBK S.A., Pekao S.A. and PKO BP S.A.

The total limit on the foregoing working capital facilities as at 31.12.2010 was PLN 100,000,000, and as at 31 December 2010 the Company had no debts pertaining to them.

The status of the credits and loans as at 31.12.2010 is presented in the table below.

No.	Creditor	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Debt on credit facilities as at 31.12.2010 [PLN '000]	Starting date	Due date	Repayment period
Credit and loan facilities granted to ENEA S.A. in 2006 and 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	0,00	0,00	2007.04.12	2011.11.17	2011.11.17
3	Bank Zachodni WBK S.A.	40 000,00	2,20	0,00	2007.04.12	2011.11.17	2011.11.17
TOTAL			2,20	0,00			

During the financial year, ENEA S.A. only sporadically used credit facilities to finance current operations. The funds originated from BZ WBK S.A. This resulted from an occasional mismatch between inflows and outflows.

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. Securities for bank loans and credits referred to hereinabove are authorization to use current accounts with the banks where ENEA S.A. holds current accounts as well as declarations on voluntary submission to enforcement.

Information on credits and loans in the ENEA Capital Group can be found in the consolidated financial statements in Note 15 and Note 22.

Information on the average weighted interest on credits and loans can be found in Note 25.6.

2.4.4. Loans granted

During financial year 2010, the ENEA Capital Group did not grant any loans.

2.4.5. Granted and received sureties and guarantees

In 2010 ENEA S.A. did not have any new bank guarantees issued. During the financial year 2010 the Company signed with BZ WBK S.A. Annexes 3 and 4 to the Agreement on a guarantee in favour of Rondo Property Investment Sp. z o.o. under which the life as well as the amount of the guarantee is extended.

The status of guarantees issued to the order of ENEA S.A. as at 31.12.2010 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	14-12-2010	13-12-2011	RONDO PROPERTY INVESTMENT Sp. z o.o. in Warsaw	premises lease agreement	bank guarantee	25,400 EUR + 20,400 PLN
2.	24-11-2009	from 1 January 2010 to 15 February 2011	PGE ELEKTRA S.A. ul. Mysia 2, 00-496 Warsaw	electricity sales agreements	bank guarantee	132,007,000 PLN

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

The state of the sureties and guarantees granted as at 31 December 2010 is given in the table below:

No.	Date suretyship/ guarantee granted	Date of validity of suretyship/ guarantee	Entity for which suretyship/ guarantee was granted	Entity to which suretyship/ guarantee granted	Agreement number	Value of suretyship/ guarantee	Actual debt as at 31.12.2010 [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 Sp. z o.o.	Poznań Department of Communal Services and Housing	Surety's statement of 2 September 2003	PLN 194,000	-
						49,000 EUR*	-
Total:						PLN 194,000	-

*The mid-price EUR exchange rate as at 31.12.2010 was 3.9603 - NBP table No. 255/A/NBP/2010 from 31 December 2010.

The total off-balance sheet value of sureties and guarantees granted as at 31.12.2010 was PLN 194,000.

There are no 'threatened guarantees or sureties' among the sureties 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).

Other conditional obligations granted by ENEA S.A. as at 31 December 2010				
	Type of obligation	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 obligations assumed by the ENEA Capital Group are described in the consolidated financial statements for 2010 under Note 47.

2.4.6. Agreements between shareholders of the parent company

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

2.4.7. Insurance agreements

In 2010 ENEA S.A. entered into civil liability insurance agreements for members of its companies' governing bodies with the following insurers: TUiR Allianz Polska S.A., ACE European Group Ltd, Chartis Europe S.A. Branch in Poland

In addition, in order to assure insurance cover ENEA S.A. is continuing the corporate business and property use liability insurance agreement with the consortium of insurers PZU S.A. and TUiR Allianz Polska S.A. as well as the property insurance agreement with the consortium of insurers PZU S.A., STU EGGO HESTIA S.A. and TUiR Warta S.A.

2.4.8. Collaboration or cooperation agreements

In December 2010 ENEA S.A. concluded a framework cooperation agreement under which it obtained temporary exclusivity for negotiations and priority with regard to the purchase of shares in special purpose vehicles which own wind farm projects with target installed capacity of 214 MWe Additional information about the Company's strategy of investments in renewable energy sources may be found in section 4 below.

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

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

3.1.1. Financial performance – consolidated profit and loss account

Consolidated profit and loss statement

Profit and loss statement in PLN '000	2009	2010	Growth	Difference
Net sales revenue	7 153 509	7 836 875	109.6%	683 366
Operating costs from sales	6 607 052	7 059 855	106.9%	452 803
Other operating income	78 599	84 292	107.2%	5 693
Profit (loss) on sales and liquidation of property, plant and equipment	1 453	-7 124	x	-8 577
Write-down for impairment of property, plant and equipment	8 942	6 143	68.7%	-2 799
Other operating expenses	111 962	136 081	121.5%	24 119
Operating profit (loss)	505 605	711 964	140.8%	206 359
Financial expenses	33 020	41 003	124.2%	7 983
Financial revenue	170 370	140 493	82.5%	-29 877
Dividend income	2 335	774	33.1%	-1 561
Share in the net (loss)/profit of associates accounted for using the equity method	7 766	988	12.7%	-6 778
Profit (loss) before tax	653 056	813 216	124.5%	160 160
Income tax	139 446	173 835	124.7%	34 389
Net profit (loss) for the reporting period	513 610	639 381	124.5%	125 771
EBITDA	1 166 950	1 364 636	116.9%	197 686

Revenue:

In the reporting period, the Group posted revenues of PLN 7,836,875,000, an increase of PLN 683,366,000, i.e. 9.6 per cent, relative to 2009.

The table below shows the value and structure of sales revenues generated in 2010 by category.

Item	2009		2010		Growth	Difference
	[PLN '000]	%	[PLN '000]	%		
Revenue from the sale of electricity	4 620 236	64.6	4 995 638	63.8	108.1%	375 402
Revenue from the sale of distribution services	2 297 371	32.1	2 526 943	32.2	110.0%	229 572
Revenues from the sale of goods and materials	143 641	2.0	111 695	1.4	77.8%	-31 946
Revenues from the sale of other services	121 854	1.7	132 821	1.7	109.0%	10 967
Recovery of stranded costs	-77 381	-1.1	15 580	0.2	-20.1%	92 961

Revenue from the sale of thermal energy	47 788	0.7	54 198	0.7	113.4%	6 410
Total net sales revenue	7 153 509	100.0	7 836 875	100.0	109.6%	683 366

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 32.2 per cent of total revenues, respectively.

Revenue from sales of electricity in 2010 amounted to PLN 4,995,638,000, an increase of 8.1 per cent relative to the previous year. 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 837,244,000. At the same time sales of electricity by ENEA S.A. to end users declined by PLN 327,888,000, which resulted mainly from the lower volume of electricity sold by 1,265 GWh, with the average sales price unchanged. In addition, revenues from the sales of electricity to other entities declined by PLN 125,238,000, which stemmed mainly from lower volumes of electricity sold by 756 GWh.

Revenue from the sale of distribution services in 2010 amounted to PLN 2,526,943,000, an increase of 10.0 per cent relative to the previous year. The increase of those revenues was caused by an increase in the amount of electricity supplied to end users by 4.5 per cent, with a simultaneous increase in the average sale price of distribution services by 2.3 per cent. Additionally, sales of distribution services were influenced by an increase in revenues from network connection charges (by 305.0 per cent in comparison with 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 22.2 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 and IT Serwis.

The growth in revenues from sales of other services by 9.0 per cent stems from an increase in revenues under this item in the companies: Energobud Leszno and Eneos.

Revenues from the recovery of stranded costs in 2010 amounted to PLN 15,580,000 following the decision of the President of the ERO on final amounts of compensations for the period in question. Whereas, in 2009 those revenues were negative (PLN -77,381,000), which was largely affected by the decision issued by the President of the ERO in 2009, under which the amount of annual adjustment to stranded costs for 2008 was determined. On the basis of the a/m decision of the President of the ERO on adjustment to stranded costs for 2008, Koźienice power plant has to reimburse Zarządca Rozliczeń S.A. for the foregoing amount previously collected by the power plant as a part of advances for compensation for stranded costs. The power plant lodged an appeal but as yet there is no final judgment of the Court. Detailed information about long-term agreements (KDT) may be found in section 2.4.7 hereinbelow.

Revenues from the sale of heat energy in 2010 amounted to PLN 54,198,000, i.e. 0.7 per cent of revenues from sales. The increase of such revenues (growth of 113.4 per cent) was caused mainly by favourable atmospheric conditions, i.e. a long and cold winter.

Expenses:

In 2010, the total yearly cost of obtaining revenues from sales was PLN 7,059,855, an increase of 6.9 per cent over the previous year.

The table below shows the value and structure of the costs of obtaining revenues from sales attained in 2010.

Item	2009		2010		Growth	Difference
	[PLN '000]	%	[PLN '000]	%		
Amortisation and depreciation	661 345	10.0	652 672	9.2	98.7%	-8 673
Employee benefit costs	823 964	12.5	924 356	13.1	112.2%	100 392
Consumption of materials and raw materials and value of goods sold	1 573 232	23.8	1 535 465	21.8	97.6%	-37 767

Purchase of energy for sales purposes	2 350 461	35.6	2 689 513	38.1	114.4%	339 052
Transmission services	694 791	10.5	693 340	9.8	99.8%	-1 451
Other external services	331 998	5.0	364 550	5.2	109.8%	32 552
Taxes and charges	171 261	2.6	199 959	2.8	116.8%	28 698
Total cost of sales	6 607 052	100.0	7 059 855	100.0	106.9%	452 803

The largest items in the Capital Group's costs are, firstly, the cost of purchasing electricity and consumption of materials and, secondly, the value of goods sold, which constitute respectively 38.1 per cent and 21.8 per cent of the cost of sales.

The purchase of energy for sales needs rose in 2010 by PLN 2,689,513,000, an increase of 14.4 per cent over the previous year, and this was mainly caused by an increase in energy purchases on the external market. In 2010 58.7 per cent of revenues from electricity sales by Koziernice Power Plant constituted sales under contracts to ENEA S.A., while in the same period of the preceding year this share amounted to 94.4 per cent. A drop in the sale of electrical energy by Koziernice power plant to ENEA S.A. results from amendments to the Energy Law applicable to the sale of electrical energy by power plants which still settle stranded costs. Pursuant thereto, starting from 9 August 2010 electrical energy producers are obliged to carry out a public sale of energy. It should also be noted that the average price of electricity sold decreased by 6.7 per cent in relation to 2009.

Employee benefit costs in 2010 amounted to PLN 924,356,000, an increase of PLN 100,392,000 or 12.2 per cent, which was caused by increased provisions for employee benefits, mainly provisions for anniversary bonuses, by PLN 49,952,000, and provisions for retirement bonuses by PLN 16,092,000. Moreover, the increase of these costs in the period under review stemmed from the growth of average wages by 6.7 per cent, with a concurrent drop in average employment from 10,358.43 full-time equivalents to 10,233.23 full-time equivalents in 2010.

The costs of other external services grew in comparison with the preceding year by 9.8 per cent, which stemmed from increased costs of legal and advisory services, increased repair costs at the Koziernice Power Plant and higher advertising costs for ENEA S.A. and costs of non-contractual use of the property by ENEA Operator as well as higher costs of outsourced services at ENERGOBUD Leszno.

The costs of taxes and charges increased by 16.8 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 (ENEA Operator) and increases of charges for the commercial use of the environment, which stemmed from an increase in the generation of electricity (Koziernice Power Plant).

At the same time the consumption of materials, raw materials and the value of goods sold in 2010 dropped by 2.4 per cent which results mainly from lower expenses in such companies as ENEA Operator, BHU, IT Serwis, Auto-Styl and Energomiary, which translates also to lower revenues from the sale of goods and materials by these companies. At the same time there was a growth in costs of goods and materials incurred by Koziernice Power Plant which is mainly a consequence of increased costs for the use of biomass and other materials resulting from gross electrical energy production higher by 196 GWh.

In 2010, the ENEA Capital Group attained an operating profit of PLN 711,964,000, which was higher than the result attained in the previous year by 40.8 per cent, i.e. by PLN 206,359,000. This was due to increased revenues from operations in the amount of PLN 689,059,000 with a simultaneous increase in operational costs of PLN 482,700,000.

Consolidated profits before tax in 2010, i.e. after financial activities and the share in associated companies had been taken into account, amounted to PLN 813,216,000, an increase of PLN 160,160,000, i.e. 24.5 per cent relative to the previous year. That stems mainly from a better operating performance and lower financial revenues, in particular revenues from investment in financial assets (bonds, treasury bills, term deposits). At the same time the result has been adversely affected by impairment tests carried out for Białystok and Śrem Power and Heating Plants as at 31 December 2010.

The net profit generated by the Group in 2010 amounted to PLN 639,381,000 and was higher by PLN 125,771,000, i.e. by 24.5 per cent than the profit attained in the preceding year.

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

Consolidated balance sheet

Total assets in PLN '000	As at:		Growth	Difference
	31 Dec. 2009	31 Dec. 2010		
Non-current assets	8 374 673	8 737 868	104.3%	363 195
Tangible assets	8 060 674	8 308 650	103.1%	247 976
Perpetual usufruct right	28 090	29 208	104.0%	1 118
Intangible assets	47 985	145 141	302.5%	97 156
Investment properties	6 091	8 203	134.7%	2 112
Investments in associated entities, accounted for using the equity method	189 938	170 220	89.6%	-19 718
Financial assets held for sale	39 346	74 867	190.3%	35 521
Financial assets valued at fair value by the profit and loss account	1 219	1 411	115.8%	192
Trade and other receivables	1 330	168	12.6%	-1 162
Current assets	3 849 971	4 098 837	106.5%	248 866
Inventories	300 830	242 058	80.5%	-58 772
Trade and other receivables	925 513	922 460	99.7%	-3 053
Current income tax assets	12 828	1 819	14.2%	-11 009
Held-to-maturity investments	55 734	250 934	450.2%	195 200
Financial assets valued at fair value by the profit and loss account	1 652 523	1 781 939	107.8%	129 416
Cash and cash equivalents	902 543	899 627	99.7%	-2 916
Non-current assets designated for sale	5 044	0	x	-5 044
Total assets	12 229 688	12 836 705	105.0%	607 017

Total equity and liabilities in PLN '000	As at:		Growth	Difference
	31 Dec. 2009	31 Dec. 2010		
Total equity	9 372 628	9 876 471	105.4%	503 843
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	20 756	50 922	245.3%	30 166
Other reserves	-22 110	-22 110	100.0%	0
Retained earnings	3 985 386	4 458 944	111.9%	473 558

Minority interest in equity	23 778	23 897	100.5%	119
Total liabilities	2 857 060	2 960 234	103.6%	103 174
Non-current liabilities	1 406 198	1 373 976	97.7%	-32 222
Current liabilities	1 450 862	1 586 258	109.3%	135 396
Total equity and liabilities	12 229 688	12 836 705	105.0%	607 017

As at 31 December 2010, the balance sheet total of the ENEA Capital Group amounted to PLN 12,836,705,000, an increase of PLN 607,017,000, i.e. 5.0 per cent, relative to that as at 31 December 2009.

Non-current assets as at 31 December 2010 amounted to PLN 8,737,868,000, an increase of PLN 363,195,000 (4.3 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. Intangible assets also rose due to a higher value of CO₂ emission rights. Financial assets available for sale also went up as a result of a fair value valuation of shares held by Elektrownia Koźienice in the mine Bogdanka S.A. and a revaluation of shares held by ENEA S.A. in non-affiliated entities. However, investments in associated entities decreased, due to the valuation of the Białystok and Śrem cogeneration plants at the end of 2010.

As at the end of December 2010, current assets amounted to PLN 4,098,837,000, an increase relative to 2009 of PLN 248,866,000 (6.5 per cent). The growth of current assets was affected mainly by the increase in financial assets in which proceeds from the sales of shares on the WSE are invested. However, at the same time coal inventories in Koźienice Power Plant decreased.

The dominant source of financing the assets of the Group is equity, which at the end of December 2010 amounted to PLN 9,876,471,000, i.e. PLN 503,843,000 or 5.4 per cent more than at the end of December 2009. The equity growth is chiefly the effect of rising retained earnings following the allocation of profit for 2009 and a better financial result generated by the Company in 2010 comparing to the same period in 2009.

As at 31 December 2010, the value of the Group's long-term liabilities was PLN 1,373,976,000 and fell by PLN 32,222,000, i.e. by 2.3 per cent, in relation to the situation at the end of December 2009. That was attributable mainly to a lower balance of loans and credits in Koźienice Power Plant and a decreased balance of settlements on subsidies and connection charges in ENEA Operator. At the same time, provisions against other liabilities and charges rose, largely affected by provisions against non-contractual use of the land being under administration of the State Forests by ENEA Operator.

Current liabilities were at a level of PLN 1,586,258,000, having decreased by PLN 135,396,000 (9.3 per cent) relative to the previous year, mainly in connection with rising provisions against energy certificates and trade liabilities resulting from the growth of investment-related liabilities. In addition, employee benefit liabilities and settlements of revenues from subsidies and connections charges in ENEA Operator also increased.

3.1.3. Cash

Consolidated cash flow statement

Cash flow statement in PLN '000	As at		Growth	Difference
	31 Dec. 2009	31 Dec. 2010		
Net cash flows from operating activities	850 134	1 275 667	150.1%	425 533
Net cash flows from investing activities	-2 332 519	-1 067 613	45.8%	1 264 906
Net cash flows from financing activities	-235 731	-210 970	89.5%	24 761
Net increase (decrease) in cash and cash equivalents	-1 718 116	-2 916	0.2%	1 715 200

Cash and cash equivalents at the end of the reporting period	902 543	899 627	99.7%	-2 916
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The balance of cash and cash equivalents of the ENEA Capital Group at the end of December 2010 amounted to PLN 899,627,000, an increase of PLN 2,916,000 relative to the amount achieved as at the end of December 2009 (PLN 902,543,000).

Operating cash flows amounted to PLN 1,275,667,000 at the end of December 2010, an increase of PLN 425,533,000 relative to the end of December 2009 (PLN 850,134,000). This increase was due mainly to reductions in inventories and trade liabilities, increases in liabilities for employee benefits and growth in provisions against energy certificates in comparison to the changes that took place in 2009.

Cash flows from investment activities amounted to PLN -1,067,613,000 at the end of December 2010, changing by 1,264,906,000 in comparison with the end of December 2009, when they were PLN -2,332,519,000. This was due to the acquisition of financial assets in 2009 (investing proceeds obtained from the Company's public offering in November 2008).

Cash flow on financial operations amounted to a negative PLN 210,970,000 at the end of December 2010, compared to a negative PLN 235,731,000 at end of December 2009. This change (negative PLN 24,761,000) was caused mainly by a dividend paid to shareholders of the parent company being lower than in 2009.

3.1.4. Ratio analysis

Financial ratios

Item	Perf.	Perf.
	2009	2010
PROFITABILITY RATIOS		
ROE - return on equity		
<i>gross profit (loss)</i>	7.0%	8.2%
<i>equity</i>		
ROA - return on assets		
<i>operating profit (loss)</i>	4.1%	5.5%
<i>total assets</i>		
Net profitability		
<i>net profit (loss)</i>	7.2%	8.2%
<i>sales revenues</i>		
Operating profitability		
<i>operating profit (loss)</i>	7.1%	9.1%
<i>sales revenues</i>		
EBITDA		
<i>operating profit (loss) + amortisation and depreciation</i>	16.3%	17.4%
<i>sales revenues</i>		
LIQUIDITY AND FINANCIAL STRUCTURE RATIOS		
Current ratio		
<i>current assets</i>	2.7	2.6
<i>current liabilities</i>		
Equity-to-fixed assets ratio		
<i>equity</i>	111.9%	113.0%
<i>tangible assets</i>		
Total debt ratio		
<i>total liabilities</i>	23.4%	23.1%
<i>total assets</i>		
ECONOMIC ACTIVITY RATIOS		

Current receivables turnover in days		
<i>average net trade and other receivables x number of days</i>	43	42
<i>sales revenues</i>		
Turnover of trade and other liabilities in days		
<i>average trade and other liabilities x number of days</i>	61	62
<i>cost of products, goods and materials sold</i>		
Inventory cycle in days		
<i>average inventory x number of days</i>	19	17
<i>cost of products, goods and materials sold</i>		

In 2010, the ENEA Capital Group achieved a positive financial result and positive profitability ratios. EBITDA profitability amounted to 17.4 per cent, an increase relative to the actual figure for 2009 (16.3 per cent), which is a result of a higher operating profit being generated.

The net profitability achieved by the Group in 2010 amounted to 8.2 per cent, an increase relative to the profitability achieved in 2009 of 1.0 percentage points (from 7.2 per cent), the result of higher net profit being generated in the reporting period.

There was also an increase in the efficiency of the Group's operations, measured by the ROE and ROA business activity ratios. ROE in 2009 was 7.0 per cent, and increased in 2010 to 8.2 per cent as a result of a higher pre-tax profit earned in 2010 relative to the previous year. ROA increased from 4.1 per cent in 2009 to 5.5 per cent in 2010, the result of a higher operating profit.

The ENEA Capital Group is able to settle its current liabilities on time, which is confirmed by the level of the current liquidity ratio, which was 2.6 in 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 31 December 2010, the receivables turnover rate was at a rate very close to that at the end of the previous year, and amounted to 42 days. The liabilities turnover rate as at 31 December 2010, however, was 62 days, 1 day more than in the previous year. Please note that a correct relationship was maintained between the receivables and payables turnover rates (liabilities are settled after receivables are obtained), which in turn has a beneficial effect on the Group's financial liquidity. The inventory turnover rate was 17 days in 2010, 2 days less than in the previous year.

As at the end of December 2010 the general indebtedness ratio amounted to 23.1 per cent and was at a level very close to that at the end of the previous year. As at 31 December 2010, the equity-to-fixed assets ratio amounted to 113 per cent (compared to 111.9 per cent as at 31 December 2009).

3.2. Financial results forecasts

The Management Board of ENEA S.A did not publish any financial results forecasts for 2010.

3.3. 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 cash makes it possible to flexibly settle its ongoing liabilities. The Company's liquidity management is concentrated on a detailed analysis of the flow of receivables, ongoing monitoring of bank accounts as well as the ongoing concentration of cash resources in consolidated accounts. The Company is taking 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. As agreed, proceeds from the issue have been invested in minimum risk instruments, i.e. debt instruments issued, secured or guaranteed by the State Treasury, and bank deposits.

In 2010 ENEA S.A. had access to working capital loans from BZ WBK S.A., Pekao S.A. and PKO BP S.A. The total limit for the aforementioned working capital facilities as at 31.12.2010 was PLN 100,000,000. During the financial year, ENEA S.A. only sporadically used working capital facilities granted by BZ WBK S.A. to finance current operations due to an occasional mismatch between inflows and outflows.

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

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

Company	Bank	Limit	Amount drawn down as at 31.12.2010
BHU S.A.	BZ WBK S.A.	3,500,000	1,158,000
Hotel Edison Sp. z o.o.	BZ WBK S.A.	300,000	74,000
IT Serwis Sp. z o.o.	BZ WBK S.A.	1,500,000	911,300
ENEA Operator Sp. z o.o.	Pekso S.A.	50,000,000	0
Auto Styl Sp. z o.o.	Volkswagen Bank S.A.	6,500,000	4,481,122

3.4. 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.

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

- 1) *credit risk* – understood as the risk of loss resulting from the client's or the counterparty's failure to pay or untimely payment of receivables. The main factors influencing the appearance of a credit risk in the case of the Group are:
 - 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 Group 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* – understood as the risk of loss or limitation of the ability to settle current liabilities in the normal course of business of the Companies from the ENEA Capital Group assuming the profile of cash flows typical for their operations (structural liquidity risk), as well as the emergence of unexpected expenses, in terms of due dates and amounts, following extraordinary or non-standard events. The Group manages its liquidity risk matching the profile of availability of liquidity reserves, i.e. amounts and dates of available cash, with the profile of cash needs resulting from the nature of cash flows, assuring at the same time an availability of cash in the event of unexpected expenses. The Group is taking 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. In order to reduce its liquidity risk and ensure the stability of financing sources, the ENEA Capital Group diversifies external funding sources.
- 3) *exchange rate risk* - The Group is vulnerable to exchange rate risk, mainly in relation to foreign currency credit facilities held by Elektrownia Kozienice. Information on the influence of exchange risk has been presented in the consolidated financial statements for 2010 in Note 25.5.
- 4) *interest rate risk* – understood as the risk of volatility and interest revenues on contracted financial liabilities or financial assets held and the risk of volatility of financial liabilities and the value of financial

assets following changes of certain interest rates. The Group manages the interest rate risk for financial assets monitoring current and anticipated interest rates and their effect on financial assets held. In the context of contracted financial liabilities the Group manages the interest rate risk selecting an interest period convenient for the Group, depending, among other things, on WIBOR, EURIBOR and LIBOR rates as well as the ability to repay liabilities.

Information on the influence of the interest rate risk has been presented in the consolidated financial statements for 2010 in Note 25.6.

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

3.5. Unusual factors and events affecting the result

Unusual factors and events affecting the financial result in 2010 are presented in pt. 3.1 hereinabove, "Discussion of key economic and financial figures disclosed in the annual consolidated financial statements".

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

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

3.7. Description of key off-balance sheet items

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

3.8. Description of the Use of Issue Proceeds

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 the aforementioned investments and from investments of the Company's other funds in 2010 amounted to PLN 97,452,200. .

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

4. DEVELOPMENT PROSPECTS AND DESCRIPTION OF RISKS AND THREATS

ENEA Capital Group's development prospects depend on several internal and external legal and macroeconomic factors which, in the event of material deviations occurring from standard or assumed parameters (or circumstances associated with those factors), could also constitute risks and threats for the achievement of the desired results or development of the Group.

4.1. Essential operating development and risk factors

4.1.1. The general condition of the economy

The position of the Group in 2010 was to a certain extent shaped by the general trends in the national economy. 2010 was the year of economic growth for the Polish economy. According to figures from the Central Statistical Office, the Gross Domestic Product (GDP) in constant prices of the previous year grew by 3.8 per cent in 2010 yoy, compared to 1.7 per cent a year before.

Gross added value in the national economy in 2010 rose by 3.3 per cent yoy (as compared to +1.8 per cent yoy a year before). Gross added value in the industry rose by 9.2 per cent (as compared to a 0.3 per cent drop yoy a year before), in the construction sector it rose by 3.8 per cent (as compared to +9.9 per cent yoy a year before) and in the sector of market services by 1.5 per cent (as compared to +0.9 per cent yoy a year before).

Domestic demand increased by 3.9 per cent yoy (against -1.0 per cent yoy a year before), total consumption rose by 3.2 per cent (against +2.0 per cent yoy a year before) and individual consumption by 3.2 per cent (against +2.1 per cent yoy a year before).

According to experts, GDP growth by 3.8 per cent in 2010 is a great success but 2011 will be more difficult.

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

Item	unit of measure	2009	2010*
GDP	growth in %	1.7	3.8
Value added in industry	growth in %	-0.3	9.2
Domestic demand	growth in %	-1.0	3.9
Gross outlays on fixed assets	growth in %	-1.1	-2.0
Industrial production sold	growth in %	-4.5	11.5
Average gross salary	growth in %	6.5	5.4
Rate of unemployment	%	12.1	12.3
Inflation	%	3.5	3.1

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

Gross outlays on fixed assets decreased by 2.0 per cent yoy as compared to a 1.1 per cent decrease a year before. The rate of investments in the economy (i.e. gross outlays on fixed assets to GDP in current prices) amounted to 19.5 per cent as compared to 21.2 per cent a year before.

At the end of the past year private consumption rose significantly, but this year it is expected to grow more slowly. A slight rise in VAT rates starting from 1 January 2011 will bring adverse effects just like a general growth of inflation. Moreover, the rate of pay growth has slowed down and the rate of unemployment has started to rise again. On the other hand, at the end of 2010 lending to individuals accelerated. In the medium term the labour market is of critical importance for consumption expenses. It is expected to again support a stronger growth in 2012.

In 2011 investments are expected to really grow. The use of production capacities in the processing industry still has a distance to catch up to return to levels reported before the economic slowdown, but it is currently on levels which usually trigger investment growth. However, such growth can materialize only when uncertainty associated with the sovereign debt crisis in Eurozone countries disappears.

4.1.2. Factors related to business operations

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 a risk of unexpected and unfavourable decisions that could have a negative effect on our activity, financial results, financial situation or development prospects.

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

4.1.3. Legal regulation and tariffs

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

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

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

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

ENEA S.A. is obliged to submit tariffs for electricity sales to households connected to the ENEA Operator grid to the President of the ERO for approval. By law, the manner in which tariffs are calculated should ensure that the power company: (i) will have 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) can obtain a particular margin while ensuring that customers are protected from unreasonably high prices and rates for charges. Some tariff items are calculated on the basis of economic models and other assumptions approved by the President of the ERO that do not take into account the actual costs of our operations. 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.

In practice, tariffs are usually approved for a period of one year. If costs are incurred that were not considered in calculating a tariff or that were included in a lower amount, we are restricted in our ability to reflect them in the tariff. In practice, the president of the ERO will only accept a tariff adjustment if there is a substantial increase in costs for reasons that are beyond our control.

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

For purposes of sales to recipients from tariff group set G for 2010, on 8 September 2009 the President of the ERO called ENEA S.A. to submit a tariff request for approval. In reply to the call ENEA S.A. on 21 September 2009 applied to the President of the ERO for approval of the "Tariff for electricity" for G tariff groups for 2010. The administrative proceedings concerning approval of the "Tariff for electricity" for G tariff groups for 2009 were concluded by issuing Decision No. DTA-4211-75(19)/2009/2010/2688/III/BH of 12 January 2010, in which the President of the ERO approved the tariff for G tariff groups for the period until 31 December 2010. This tariff, in accordance with the Resolution of the Management Board of ENEA S.A. No. 25/2010 of 14 January 2010, started to apply on 27 January 2010.

With regard to sales of electricity to customers other than households (tariff group sets A, B and C), 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 17 December 2010, in Decision No. DTA-4211-51(17)/2010/2688/IV/BH, the President of the ERO approved ENEA's "Electricity Tariff" for customers using power for household purposes. It came into force pursuant to ENEA S.A. Management Board Resolution No. 877/2010 of 21 December 2010 as of 1 January 2011.

On 4 November 2009, ENEA Operator Sp. z o.o. with the letter ref. No. DO/OT/MS/242/2009 ENEA applied to the President of the ERO for approval of the "Tariff for Electricity Distribution Services" for 2010, thereby initiating administrative proceedings in the matter. By virtue of the decision of 17 December 2009, ref. No. DTA-4211-114(5)/2009/13854/III/BH, the President of the ERO approved the "Tariff for Electricity Distribution Services" for 2010 in a part relating to rates of temporary fees. By virtue of the decision of 23 December 2009, ref. No. DTA-4211-114(10)/2009/13854/III/BH, the President of the ERO approved the "Tariff for Electricity Distribution Services" for 2010 in any remaining parts. The tariff was introduced by Resolution No. 648/2009 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.

4.1.4. Wholesale electricity prices

Wholesale electricity prices depend on a number of factors, including market and regulatory factors. The wholesale market for electricity trading is currently fully liberalised, so the amount of costs and revenues that we generate depends on the electricity prices that are applicable on the market at a particular time. 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. The amendment to the Energy Law in that respect entered into force on 9 August 2010, which might have affected prices on the wholesale electrical energy market in transactions made after that period and for subsequent years.

4.1.5. Supplies and prices of bituminous coal and other fuels

The basic fuel used to produce electricity by our basic production assets, i.e. Kozenice Power Station, is bituminous coal. In 2010, the cost of coal constituted approximately 54 per cent of the Power Station's operating costs. We depend on four suppliers for our coal supplies: Lubelski Węgiel "Bogdanka" S.A. which delivered in 2007 over 57 per cent, in 2008 54 per cent, in 2009 52 per cent and in 2010 approx. 61% of that fuel in terms of quantity, Katowicki Holding Węglowy S.A, Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. 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 Kozenice Power Station or supplies of coal are suspended or interrupted for a different reason (e.g. as a result of a mine employees' strike), Kozenice 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 Kozenice 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 Station began to produce power from the co-combustion of biomass as fuel. Co-combustion of biomass is carried out in eight 215-225 MW power units. Sawdust pellets and briquettes as well as sunflower pellets and briquettes are primarily used as biomass. In 2010 the Power Station had agreements with some 19 biomass suppliers. In 2009, biomass consumption amounted to 116,736.1 tonnes, whilst in 2010 it was 176,510.7 tonnes (according to beltway scales).

4.1.6. 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 (green certificates); and (ii) that electrical energy is being generated in association with heat generation (cogeneration – red, yellow and violet certificates) 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. The quantity of electricity that we sell to end customers could also increase. The sources of renewable energy or energy produced in cogeneration that we have only enable us to fulfil our obligations related to redeeming certificates of origin to a limited extent. The Company therefore obtains certificates of origin from third parties or pays substitution charges, which significantly increase every year.

Moreover, the Act of 8 January 2010 on Amending the Energy Law and on Amending Certain Other Laws (Journal of Laws No. 21 item 104 of 8 February 2010) introduced new units generating energy in cogeneration, which are covered by the system of certificates (violet certificates). 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 for methane-fired power units is in effect until 31 March 2019. Currently there is a substitution charge defined for that obligation, but still there is no regulation which would indicate a percentage obligation.

4.1.7. 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), Kozenice Power Plant was granted rights to emit 9.6 million tonnes of CO₂ per year, a decrease of 8.6 per cent relative to the average annual allocation in the period 2005-2007. In view of the current scale and efficiency of the production capacity of the Kozenice Power Plant, that quantity of CO₂ emission rights corresponds to the production of approximately 10.9 TWh gross of electricity per year, i.e. 11.4

per cent less than the quantity of electricity that the Power Plant generated in 2010. Starting from 2013, it is expected that gratuitous allocations of CO₂ emission rights for the power sector will be completely ceased and replaced with a system of bidding for emission rights. There is a chance, however, that the energy sector will receive some entitlements under free distributions (70 per cent in 2013, decreasing by 10 per cent each year to 2020, when all entitlements will have to be acquired in an auction). It should be emphasised that, in order to obtain free entitlements in 2013-2020, a series of very complex requirements will have to be met, including the development by the Polish government and the European Commission of a credible, reliable investment program in connection with climate protection, in an amount corresponding to the price of possible free entitlements. 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.

4.1.8. Long-term contracts

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

The LTPPA compensation mechanism is as follows:

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

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

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

a/ 2008 payments

In 2008 Elektrownia Kozienice 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 Kozienice 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. advance payments received from Zarządca Rozliczeń S.A.) for the Elektrownia Kozienice 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 Kozienice S.A. in its financial statements for 2008 (as well as in the consolidated financial statements of the Group).

According to the management boards of Elektrownia "Kozienice" 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 LTPPA Termination Act are in many places erroneous or incorrectly applied. On 19 August 2009, Elektrownia "Kozienice" S.A. therefore filed an appeal with the Regional Court in Warsaw, at the Court of Competition and Consumer Protection. In that appeal, it also moved for abstention from the enforcement of that decision pending a ruling in the matter. In a decision of 23 September 2009, the Regional Court in Warsaw, Court of Competition and Consumer Protection, ruled to refrain from enforcing the contested decision above the amount of PLN 44,768,000, rejecting the remainder of the motion. As a result, on 30 September 2009 the Management Board of

Elektrownia "Kozienice" S.A. decided to return the advance payments resulting from the decision of the President of the ERO in the amount not suspended by the court.

On 2 October 2009, Elektrownia Kozienice 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 decision of the Court of Competition and Consumer Protection of 23 September 2009 and suspended the enforcement of the decision of the President of the ERO of 31 July 2009 on the annual adjustment of stranded costs in its entirety. The Court of Appeals stressed that the Court of Competition and Consumer Protection had no legal basis to refuse to suspend the enforcement of the decision in part. Therefore, since it found grounds to suspend the enforcement of the decision, it should have suspended the enforcement of the decision in its entirety. As a result of this decision, on 27 May 2010, Elektrownia "Kozienice" S.A. requested reimbursement of the sum of PLN 40,577,000 together with applicable interest from Zarządca Rozliczeń S.A. However, Zarządca Rozliczeń S.A. sent the Company a negative reply, arguing that a return may only be based on an amendment of the decision by the President of the ERO of 31 July 2009. On 5 July 2010, Elektrownia Kozienice S.A. submitted a final pre-litigation demand to Zarządca Rozliczeń S.A. for the return of PLN 40,577,000 together with interest due. In its 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 "Kozienice" S.A. resolved not to recognise any compensation proceeds and to recognise the adjustment of the 2008 compensation proceeds of PLN 77,380,000. The above adjustment is recognised as proceeds from sale (as a sum decreasing proceeds from sale) in the comprehensive income statement for the period from 1 January to 31 December 2009. If in the future the Court issues a ruling on the appeal against the decision of the President of the ERO under which Elektrownia Kozienice S.A. is required to return a lower amount than that resulting from the decision of the President of the ERO, this will improve the financial result.

b/ 2009 payments

On 29 July 2010, the President of the ERO issued a decision that indicates that the 2009 annual adjustment of stranded costs to be received by Elektrownia "Kozienice" S.A. from Zarządca Rozliczeń S.A. will amount to PLN 15,580,000. As this decision is also unfavourable for the Group, on 17 August 2010, an appeal against this decision was filed with the Court for Competition and Consumer Protection at the Regional Court in Warsaw. On 30 September 2010 Elektrownia „Kozienice” S.A. received the amount of 2009 annual adjustment equal to PLN 15,580,000 from Zarządca Rozliczeń S.A. The above amount was booked in these consolidated financial statements under sales revenues.

Assuming that Elektrownia "Kozienice" S.A. obtains favourable resolutions of the appeal against the decision of the President of the ERO with regard to 2008 and 2009 annual adjustment amounts:

- the company estimates its 2009 annual amount at + PLN 111,100,000

For 2010 the Company applied for an advance towards stranded costs in the amount of PLN 0.

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

On 19 January 2011 a hearing was held in the case XVII Amz 53/10 for Kozienice Power Plant's appeal against the decision of the President of the ERO of 26 July 2010 on refusal to grant access to some documents from the records of case KDT 2009. The Court in its judgment dismissed Kozienice Power Plant's appeal against the decision of the President of the ERO of 26 July 2010. Formal and procedural acts are also still being carried out.

Due to the absence of court decisions regarding the appeals submitted, it is not possible to assess the likelihood of the Company being awarded the above amounts (estimated on the basis of its current knowledge and available data) as part of annual adjustment for stranded costs.

4.1.9. The regulatory asset base

RAB (regulatory asset base) is the value of assets engaged in distribution activities, return on capital is supposed to provide funds for investing and may be used for dividends for owners. According to the RAB and return on capital determination method effective from the 2010 tariff year for purposes of the calculation of tariffs for electrical energy distribution services, the initial RAB providing the basis for further calculations will be estimated on the basis of the lost revenue method, i.e. on the basis of a determination of the value of the loss that the Distribution System Operator would incur if it were deprived of its network assets. The initial value

of the RAB was determined as at 31 December 2008 and was accepted as the lower of two values determined for each company by an independent entity on the basis of the following methods: replacement cost method (RC) and economic value method (EV).

The initial RAB, thus determined, is 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 is determined according to the formula:

$$AY_{t-1} = \frac{RAB_{t-1}}{BV_{t-1}} \cdot BA_{t-1}$$

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, is determined using the following formula:

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

where:

R_t - return on invested capital considered in the tariff for year t,

RAB_t - regulatory asset base as at the beginning of year t,

$WACC_t$ - weighted average cost of capital for year t,

$R(BO)_t$ - return on invested capital resulting from the 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:

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

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

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:

$$R_t = RAB_t \cdot WACC_t$$

4.1.10. The process of producing and distributing electricity

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

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

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

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

After preparation by the Company of the Development Plan for the years 2011-2015 and its approval by the President of the Energy Regulatory Office for 2011 as well as entry into force, starting from 01.01.2011, of the new Tariff for electrical energy distribution services, ENEA Operator Sp. z o.o. amended the rules for the calculation of connection charges for entities for whom such a charge is determined on the basis of actual outlays incurred for making the connection. Those rules also apply to producers of energy from renewable sources which are seeking to be connected to our network. In such cases, only outlays associated with making the connection are taken into account when calculating connection charges.

4.1.12. Market liberalisation

In connection with electricity market liberalisation and increasing competition in this area, ENEA 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 in the competitive market, taking measures to sell energy to customers connected to the grids of operators other than ENEA Operator Sp. z o.o. In 2010, we sold approximately 1.2 TWh to such customers.

4.1.13. 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. 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.

4.1.14. 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 electricity trading which is valid until the end of 2025; (ii) EnergoPartner holds a concession for electricity trading which is valid until the end of 2025; (iii) ENEA Operator holds a concession for electricity distribution which is valid until mid-2017; (iv) Elektrownia Kozienice holds a concession for electricity generation which is valid until the end of 2025, and a concession for electricity trading which is valid until the end of 2012; and (v) Elektrownie Wodne holds a concession for electricity generation which is valid until 31 December 2030.

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

4.1.15. 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 Kozielnice Power Station is rail transport. More than 90 per cent of deliveries of that raw material to Kozielnice 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.

4.1.16. Strategy implementation

We will exercise our best efforts to implement our development directions policy; however, we might not be able to carry out 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, i.e. 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.

4.1.17. Synergies

Our planned acquisitions and capital investments may not produce the expected results.

We plan to take over controlling interests or make other equity investments in several companies operating in the electricity sector. There is no guarantee, for example due to factors that are beyond our control, including competition from other energy companies, that our plans will be fulfilled. The valuation of our future acquisitions and investments will depend on market conditions, as well as on other factors that are beyond our control, and it might turn out that we are unable to correctly assess the value of the acquisitions and investments that we have carried out. Furthermore, the results achieved by companies in which we invest may transpire 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.

4.1.18. 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.

4.1.19. 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. 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. 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.

4.1.20. Insuring our operations

Insurance policies concluded for the benefit of Companies belonging to the ENEA Capital Group may not be sufficient to cover losses borne as a result of activities carried out. Such activities are associated with many risks. For example, malfunctions in the electricity system could prevent us from selling electricity or make it necessary to incur unforeseen costs in order to repair the distribution infrastructure. The Group's 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.

4.1.21. Management personnel

We may have difficulties in recruiting and retaining appropriately qualified management personnel. The Company's future success depends on its ability to recruit and retain management personnel with wide-ranging experience of managing energy businesses, and in identifying, acquiring, financing and realising energy projects, and also in respect of the recruitment and retention of technical personnel with appropriate energy related education. 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.

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.

4.1.22. Collective disputes and agreements

Collective disputes with employees may cause disruptions to our business.

ENEA S.A.

Approximately 50 % of our employees belong to trade unions. The position of trades unions in the power sector is particularly strong because of the volume of employment in the sector and its strategic influence on the functioning of the economy. Furthermore, the expectations of the trade unions are based on 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 2010 ENEA was a party to one collective dispute. It was initiated on 7 September 2009, and concerned the planned privatisation of the Company and the effects of a potential change to the shareholding structure on the Company's employees. In 2010 no new collective dispute was opened.

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.

Elektrownia "Kozienice" S.A.

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.

ENEA Operator Sp. z o.o.

In 2010 ENEA Operator was not involved in any collective disputes. As of the date of this report in ENEA Operator there is a collective dispute pending with three trade union organizations concerning pay increases.

4.1.23. Court and administrative proceedings

We are now and may be in the future a party to court and administrative proceedings.

In the event of administrative proceedings being taken against us by the President of the ERO or the president of the OCCP, if our actions are judged to be in conflict with the law, a penalty may be imposed 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.

ENEA S.A. is party to the following proceedings:

1. Litigation

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 a practice restricting competition, and ordered the practice to be stopped. He also imposed a fine on ENEA in the amount of PLN 160,000, constituting approximately 0.03 per cent of the maximum fine (the amount of the fine results from the fact that the President of the Office of Competition and Consumer Protection recognised that there was no need for repressive measures against ENEA, and that the fine was a disciplinary measure). On 30 September 2008, ENEA lodged an appeal against the above decision with the Regional Court in Warsaw – the 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. In its judgment of 27 January 2011 the Court of Competition and Consumer Protection upheld the cash fine imposed on the Company in the amount of PLN 10,000. Current the Company awaits a written justification of the judgment. A decision to appeal, if any, will be made after analyzing such justification.

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. In its judgment of 24 November 2010 (VI ACa 327/10) the Appeals Court revoked the judgment of the Regional Court in Warsaw – the Competition and Consumer Protection Court of 15 December 2009 and returned the case to the Competition and Consumer Protection Court for reconsideration and for awarding costs of appeal proceedings.

On 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.

Kozienice Power Plant is party to proceedings against CTL LOGISTIC S.A. pending before the Court of Appeals and the Supreme Court for compensation for non-performance of a forwarding agreement with the total value of PLN 10,579,908.

Kozienice Power Plant is also party to proceedings initiated by Centrum Konsultingu Menadżerskiego Gordion Sp. z o.o. for infringement of personal interests. The amount claimed is PLN 5,017,801.00.

Kozienice Power Plant is also party in the case filed by Gospodarstwo Ogrodnicze w Ryczywole Kamila Lewek Wiśniewska Jacek Pospiszyl spółka cywilna for damages in the amount of PLN 5,082,384.00 as compensation for losses caused by traffic generated by a plant belonging to Elektrownia Kozienice S.A.

As at the date of publication of this report, it is not possible to unequivocally determine the outcome of proceedings in the foregoing matters.

2. Administrative proceedings

Proceedings are being conducted by the President of the Office of Competition and Consumer Protection against a person 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 two proceedings before the Regional Court, the 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 year adjustment (for 2008) in compensation to cover stranded costs, in the amount of PLN 89.5 million, which it was obligated to return to Zarządca Rozliczeń 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 2 October 2009, Elektrownia Kozienice S.A. submitted a grievance against that decision to the Court of Appeals in Warsaw. On 20 January 2010, the Court of Appeals overturned the decision of the Court of Competition and Consumer Protection of 28 October 2009 on dismissing the grievance of Elektrownia Kozienice S.A. against the decision of the Court of Competition and

Consumer Protection of 23 September 2009 on the motion by the Company for refraining from enforcing in its entirety the decision of the President of the Energy Regulatory Office of 31 July 2009.

On 19 May 2010, the Court of Appeals amended the decision of the Court of Competition and Consumer Protection of 23 September 2009 and suspended the enforcement of the decision of the President of the ERO of 31 July 2009 on the annual adjustment of stranded costs in its entirety. The Court of Appeals stressed that the Court of Competition and Consumer Protection had no legal basis to refuse to suspend the enforcement of the decision in part. Therefore, since it found grounds to suspend the enforcement of the decision, it should have suspended the enforcement of the decision in its entirety. In view of the above decision, on 27 May 2010 Elektrownia "Kozienice" S.A. submitted a request to Zarządca Rozliczeń S.A. for the return of PLN 40,577,000 plus due interest. However, Zarządca Rozliczeń sent a negative response to the Company, with the justification that grounds for repayment can only be a change in the decision of the President of the ERO of 31 July 2009. On 5 July 2010, Elektrownia "Kozienice" S.A. sent a final demand to Zarządca Rozliczeń S.A. prior to litigation for the payment of PLN 40,577,000 plus due interest. In its letter of 12 July 2010, Zarządca Rozliczeń S.A. upheld its earlier position in this matter and declined to return the sum in question.

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

On 3 August 2010 the Power Plant received a decision of the President of the ERO of 29 July 2010 determining the 2009 annual adjustment at the amount of PLN 15,580,000. As this decision is also unfavourable for the Power Plant, on 17.08.2010 an appeal against it was filed with the Court for Competition and Consumer Protection at the Regional Court in Warsaw. In the financial statements for 2010, revenues in the amount of PLN 15,580,000 were reported in the statement of comprehensive income under sales revenues. However, if the Court resolves the dispute in favour of the Power Plant, the amount of the 2009 annual adjustment may reach up to PLN 111,084,000, i.e. it would be more beneficial by PLN + 95,504,000. On 30 September 2010 the Power Plant received the amount of the 2009 annual adjustment equal to PLN 15,580,000 from Zarządca Rozliczeń S.A.

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

The Company appealed against the aforementioned decisions to the Director of the Customs Chamber in Warsaw, who upheld the decisions of the Head of the Customs Office in Radom declining to refund excise tax overpayments for the months from January 2006 to December 2008 and assessing tax liabilities for those months. The Company subsequently 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 the years 2006 - 2008 and setting the tax liability for the period in question.

Moreover, on 24 November 2009, the Company submitted a motion with the Customs Office in Radom requesting the confirmation and return of excise tax overpayments on electricity for subsequent months, i.e. January 2009 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.

Proceedings concerning overpayments for January 2009 and February 2009 – the Head of the Customs Office in Radom issued decisions acknowledging electrical energy excise tax overpayments, issued decisions declining to refund such overpayments and determining anew the tax liabilities in amounts reduced by excise tax on energy from renewables sources for the period in question. The Company appealed against the aforementioned decisions to the Director of the Customs Chamber in Warsaw, who upheld the decisions of the Head of the Customs Office in Radom declining to refund excise tax overpayments for individual months in 2009 and assessing tax liabilities for those months.

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 in Radom

declining to refund overpayments of excise duty for January and February 2009 and setting the tax liability for the period in question.

On 12.01.2011 the Administrative Court in Warsaw, Division VIII Circuit in Radom, pronounced judgments in which the appeals of Elektrownia "Kozienice" S.A. were granted and revoked the decisions of the Director of the Customs Chamber in Warsaw and its preceding decisions of the Head of the Customs Office in Radom in the cases for determination of excise tax liabilities for the following months: April 2007, May 2007, June 2007, October 2007 and August 2006.

From 29 December 2009 to 17 February 2010, a tax inspection was conducted at the Company concerning the correctness of the tax bases and calculations declared and excise tax payments made for 2008 and the months of January and February 2009.

Following initiated administrative proceedings, Elektrownia "Kozienice" S.A. on 22 July 2010 obtained two decisions, 133/10/OŚ and 132/10/OŚ, issued by the Board Chairman of Mazowieckie Province in Warsaw on assessing charges for 2008 from the Power Plant, equal to the difference between due charges and charges resulting from the list provided by ELKO under the European Pollutant Release and Transfer Register (EPTR). The Power Plant appealed against those decisions to the Local Government Appeal Committee in Warsaw. At the end of 2010 the Power Plant was served the decision of the Local Government Appeal Committee in Warsaw upholding the disadvantageous decisions issued by the Province Board Chairman. The Power Plant paid accrued charges in the amount of: PLN 2,888,542 for the first half of 2008 and PLN 2,177,780 for the second half of 2008 (plus any due interest) and lodged an appropriate appeal to the Province Administrative Court in Warsaw.

4.1.24. 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 Kozienice 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. The permit together with amending decisions (No. WŚR.I.JB/6640/43/06 of 05.07.2007, No. 55/08/PŚ.Z of 15.09.2008, No. 40/10/PŚ.Z of 25 May 2010, No. 60/10/PŚ.Z of 1 July 2010, No. 117/10/PŚ.Z of 15 December 2010) is valid until 20 December 2015. Failure to comply with the provisions of permits, or rescission of those permits, can lead to our incurring liabilities, to penalties being imposed on us, or to suspension of the operation of certain facilities. Also, activities of ENEA Operator require regular measurements of electromagnetic field emissions when commissioning investments as well as certain permits to generate waste.

Legal conditions, including conditions set by the European Union concerning environmental protection, are subject to frequent changes, and there is a tendency to gradually increase requirements in the field of use of the environment, in particular in relation to entities in the power sector. These growing requirements may in the future create a need for us to incur additional investment 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.

4.1.25. Real estate

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

In connection with the general electrification and nationalisation carried out after World War II, and due to the absence of an appropriate legal framework relating to the use of real estate for the purposes of developing distribution grids, ENEA Operator uses many real properties on which its electricity distribution equipment is located without an appropriate legal title. This applies to approximately 33 per cent of all the real properties on which electricity infrastructure is located (except for electricity lines). As at 31.12. 2010 those data are as follows:

- network installations which we consider to be of key importance (high and medium voltage electrical distributors, transformer/switching stations) – ENEA Operator holds legal title to 94 per cent of the properties on which such installations are located,
- enclosed medium and low voltage transformer stations – approximately 67 per cent of the almost 14,700 enclosed transformer stations are located on real properties for which ENEA Operator does not hold appropriate legal title, and
- 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,
- in the case of non-network installations considered to be of key importance (management board, branch and regional office premises) – the Company holds legal title to 97 per cent of the properties on which such premises are located.

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

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

As at 31 December 2010 ENEA Operator Sp. z o.o. reported in its books the provision against claims for non-contractual use of the land in the amount of PLN 47,773,000.

The total value of provisions against claims before the courts to which ENEA S.A. was a party, as well as pre-court claims, amounted to PLN 18 million as at 31 December 2010.

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.

4.1.26. 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 pt. 1.2 '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 from debt. 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.

4.2. Development strategy

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

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

Our strategy is based on the mission of the Group which is focused on providing high-quality services to customers, ensuring a safe environment for our employees, and building shareholder value while caring for the natural environment.

We intend to implement that strategy by:

Developing the core operations of the Group

In this area we intend to focus on:

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

Improving the effectiveness of how the Group functions

In this area we intend to focus 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 this area we intend to focus 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,
- Power 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 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 1000-MW bituminous coal-fired power unit in Świerze Górne (we assume an average construction cost of EUR 1.3 million per 1 MW). Start-up is planned for 2016. We are currently implementing a procedure for selecting a contractor for the construction of a new unit with a power rating of 1,000 MW. We are planning to select such contractor in the fourth quarter 2011. Together with the construction of the new power unit, we intend to modernise the remaining 200-MW and 500-MW units operating at the Kozienice Power Plant. We are also conducting studies with regard to preparing for the construction of a second 1000 MW unit in Świerze Górne, which involves further investment outlays.

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 need to connect 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 that have been in service the longest. The amount of investment outlays in the distribution area is steadily increasing. Investment expenditure in 2009 increased by 22 per cent in relation to 2008 and in 2010 it increased by 18 per cent in relation to 2009. Crucially, we are observing a clear increase in spending on the modernisation and regeneration of existing assets. In 2009 it increased by 31.6 per cent in relation to 2008 and in 2010 it increased by 65 per cent in relation to 2009. In 2010 investment outlays in the distribution area reached about PLN 583 million as compared to budgeted PLN 575 million .

Pursuant to Art. 16 par. 6 of the Energy Law of 10 April 1997, ENEA Operator applied to the President of the Energy Regulatory Office for approval of a draft plan for development pertaining to satisfying the current and future demand for electricity, prepared for the years 2011-2015.

In December 2010, the President of the ERO approved the draft within its material scope for the year 2011, at the same time approving the level of justified investment outlays for that year in the amount of PLN 802,311,000. These are almost 40 per cent higher than those in the investment plan for 2010.

This is the first investment plan of ENEA Operator in which the majority of investments will concern modernisation and the creation of wealth in connection with improved quality of services and/or increased demand for capacity. These will comprise 55 per cent of the above amount.

The greater majority of the remaining outlays will be intended for connecting new end users and new sources of electricity generation.

In previous plans that relationship had been reversed – the majority of outlays had been for connecting new users and sources.

In the area of renewable energy sources we expect to further develop our generation capacities. By 2020 we intend to reach 250-350 MW of installed wind power. We also decided to invest into biogas capacity, planning to reach the capacity of approximately 40-60 MW in 2020.

On 15 January 2010 ENEA S.A. finalised the purchase of the first biogas power plant in Liszkowo (Kujawsko-Pomorskie Province), which has a capacity of 2.12 MWe. In 2011 we plan to acquire biogas power plants with total capacity of 5 MWe.

On 30 March 2011 in Bydgoszcz representatives of Elektrownie Wodne signed a notarial deed with the company Elektrownie Wiatrowe ZU-AN with its registered office in Bydgoszcz for the acquisition of a wind farm in Darżyno, Potęgowo district (Pomorskie Province). The acquisition of the farm is the first such venture within the ENEA Group and constitutes an implementation of the strategy aimed at raising the market share in the area of electrical energy production from renewable sources.

The wind farm in Darżyno was built in 2008. The investment was carried out by Nadmorskie Elektrownie Wiatrowe Darżyno and Elektrownie Wiatrowe ZU-AN. The farm consists of modern wind turbines Enercon E-82 with a rated power of 2 MW. The power of windmills, about 100 metres high, is 6 MW. Darżyno wind farm is located in an area featuring very advantageous wind conditions. Its productivity in 2009 amounted to 15 GWh.

In December 2010 ENEA S.A. concluded a framework cooperation agreement under which it obtained temporary exclusivity for negotiations and priority with regard to the purchase of shares in special purpose vehicles which own wind farm projects with target installed capacity of 214 MWe.

Depending on the market situation, our financial situation, the results of technical and economic analysis 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 approximately EUR 1.3 billion. That amount also covers the construction of a second 1,000 MW unit in Świerże Górne. Moreover we cannot rule out the implementation of an investment project involving the construction of a nuclear power plant with a capacity of about 1,600 MW. In such a case, additional outlays will amount to approximately PLN 14.4 billion (PLN 9.4 billion by 2020).

4.3. Assessment of the Feasibility of Implementing Investment Plans

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

4.4. Corporate strategy of the Group

Strategic approach to social responsibility of the business:

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

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

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

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

1. Ensuring well-balanced human resources management.
2. Ensuring a dialogue with all stakeholders, including local communities, and taking their opinions into account in business operations.
3. Promoting environment—friendly solutions and behaviour.

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

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

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

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

Strategy building process

Striving to run the business in a responsible way constantly creates corporate value. It requires, however, an in-depth analysis of needs and resources of the company and its environment as well as a long-term vision of the business. The "Strategy of social responsibility of the business of the ENEA Capital Group" was compiled for several months in parallel with work on the "Corporate Strategy for the ENEA Capital Group for the years 2010 – 2015 looking forward to 2020". Identifying CSR Strategy objectives contributing to pursuing the company's business goals required a lot of effort and is a success for all ENEA Group employees involved in the process.

From the very beginning an underlying key assumption for the process of creating the strategy of social responsibility of the business was the involvement and participation of representatives of all companies belonging to the ENEA Capital Group. Knowledge and experience of representatives of individual companies brought into the process was a particularly valuable contribution making it possible to ultimately adopt a strategy which can be implemented in the entire ENEA Capital Group.

CSR as a strategic investment in the future

The Strategy, as accepted by the ENEA Capital Group, is a starting point for a more systemic view of existing actions and for the implementation of subsequent good practices in the company. The CSR Strategy is aimed at increasing the efficiency of ENEA Group operations in many key areas of its business. Implementing the CSR in a well thought out and comprehensive fashion includes, among other things, a wider vision for managing risks and opportunities the company is facing. It is also the development of permanent relations with its key stakeholders. Individual companies from the ENEA Group prepare their own operating plans detailing the scope of actions contributing to pursuing CSR Strategy objectives. Operating plans take into account the specific nature of each company but assume at the same time a common striving to perform the adopted strategic objectives of the ENEA Group.

There is a lot of work required from ENEA S.A. and other Group companies. We are perfectly aware that the CSR Strategy is only the first step on the way to the systemic implementation of identified objectives and to reporting any operating outcomes. We are, however, determined to carry out all the accepted commitments and obligations. Undoubtedly the time and resources used to select strategic objectives in that area are an investment aimed at increasing the value of the company on a permanent basis and developing in appropriate directions.

5. AUTHORITIES OF THE ENEA CAPITAL GROUP

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

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

5.2. Principles of Remuneration

The remuneration of Members of the Management Board is set in accordance with the Act of 3 March 2000 on the Remuneration of Persons Managing Certain Legal Entities. Pursuant to Art. 8 point 3) the maximum amount of monthly remuneration of people employed in one-person companies established under commercial law by the State Treasury may not exceed six times the average monthly remuneration in the enterprise sector, net of payments of bonuses from profits, in the fourth quarter of the previous year as published by the President of the Central Statistical Office. Additionally Members of the Management Board may, by a motion of the Supervisory Board that presents the reasons for it, be awarded an annual bonus amounting to no more than three times the average monthly remuneration of an employee in the year preceding award of bonuses or other benefits, as determined by the workplace collective labour agreement. That agreement does not cover the principles of remuneration of Members of the Management and Supervisory Boards. Apart from monthly remuneration and an annual bonus, Members of the Management Board are entitled to severance pay amounting to three times their monthly remuneration in the event of their dismissal or the termination of their employment. Additionally a non-competition agreement is concluded between Members of the Management Board and the Company. Under this agreement the Employer undertakes, for a period of six months, to pay an employee monthly compensation amounting to the value of monthly remuneration received during the last full month for which his or her contract of employment was in force so long as he or she refrains from undertaking activity that competes with the Company.

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

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

5.3. Level of Remuneration

Remuneration for members of the Management Board of ENEA S.A in the financial year 2010 is presented in the following table:

Name	Position	Multiple *	Basic consideration **	Additional consideration***	Energy tariff (pursuant to the Collective Labor Agreement)	Total
Maciej Owczarek	President of the Management Board	6	247 060,12	51 176,13		298 236,25

Rozpędek Hubert	Member of the Management Board	5.9	163 056,16	19 095,43		182 151,59
Górniak Maksymilian	Member of the Management Board	5.9	173 732,46	22 219,40		195 951,86
Zborowski Krzysztof	Member of the Management Board	3.9	114 840,09	9 108,00		123 948,09
Malinowski Marek	Member of the Management Board	5.9	71 822,36	16 995,95	439,53	89 257,84
Jankiewicz Sławomir ¹	Member of the Management Board	5.9	164 657,85		953,26	165 611,11
Koczorowski Piotr	Member of the Management Board	5.9	70 970,46	5 564,28	254,88	76 789,62
Treider Tomasz ²	Member of the Management Board	5.9	143 644,69	11 328,78		154 973,47
Total	-	-	1 149 784,19	135 487,97	1 647,67	1 286 919,83

¹ payment of additional consideration under the anti-competition clause in the amount of PLN 26,100.00

² payment of additional consideration under the anti-competition clause in the amount of PLN 122,292.12

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

** Basic consideration, i.e.:

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

*** Additional consideration – this means:

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

Remunerations for members of the Management Board of ENEA S.A. in 2010 for holding offices in governing authorities of subordinated entities:

No.	Name	Remuneration for sitting on the supervisory board of ENEA subsidiaries
1	Owczarek Maciej	82 909.92
2	Rozpędek Hubert	53 155.96
3	Górniak Maksymilian	51 198.36
4	Zborowski Krzysztof	14 618.32

5	Malinowski Marek	15 775.92
6	Jankiewicz Sławomir	33 208.54
7	Koczorowski Piotr	22 399.05
8	Treider Tomasz	32 632.78

Remuneration for a member of the Management Board of ENEA S.A. in 2010 for holding office in ENEA subsidiary:

Name	Position	Multiple *	Basic consideration **	Additional consideration***	Energy tariff (pursuant to the Collective Labor Agreement)	Total
Zborowski Krzysztof	President of the Management Board	4	205 653.00	17 126.88	1 477,89	224 257.77

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

** Basic consideration, i.e.:

- monthly remuneration,
- annual bonus.

*** Additional consideration – this means:

- private use of company cars,
- contributions made to the Employee Pension Plan.

Remuneration for members of the Supervisory Board of ENEA S.A in the financial year 2010 is presented in the following table:

No.	NAME	2010
1	Dachowski Tadeusz	41 454.96
2	Pluciński Mieczysław	41 454.96
3	Łagoda Michał	9 806.6
4	Begier Piotr	9 806.6
5	Pawliotti Wiesław	9 806.6
6	Janas Marian	9 806.6
7	Chmielewski Wojciech	41 454.96
8	Wood Graham	41 454.96
9	Balcerowski Paweł	41 454.96
10	Kowalewski Michał	41 454.96
11	Aniołek Małgorzata	31 871.30
12	Nowicki Bartosz	31 871.30
13	Mordasewicz Jeremi	31 871.30

Members of the Supervisory Board of ENEA S.A during the financial year 2010 did not collect any remuneration for holding offices in governing authorities of subsidiaries.

5.4. List of shares and holdings in entities belonging to the ENEA Capital Group that are held by members of its management and supervisory authorities

Name	Position	Number of shares in ENEA S.A. held as at the date of this report
Tadeusz Dachowski	Member of the Supervisory Board	4 440
Paweł Balcerowski	Member of the Supervisory Board	4 140
Mieczysław Pluciński	Member of the Supervisory Board	4 140
Maksymilian Górniak	Member of the Management Board responsible for commercial affairs	3 740

As at the publication date of this report other persons managing or supervising the Company do not hold ENEA S.A. shares.

At the publication date of this report no members of ENEA S.A.'s Management and Supervisory Boards own shares in subsidiaries of ENEA S.A.

6. SHAREHOLDING AND SHARE CAPITAL STRUCTURE OF THE PARENT COMPANY

6.1. Share capital structure

In connection with a public offer of series C shares, at a closed hearing on 13 January 2009, the District Court for 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.

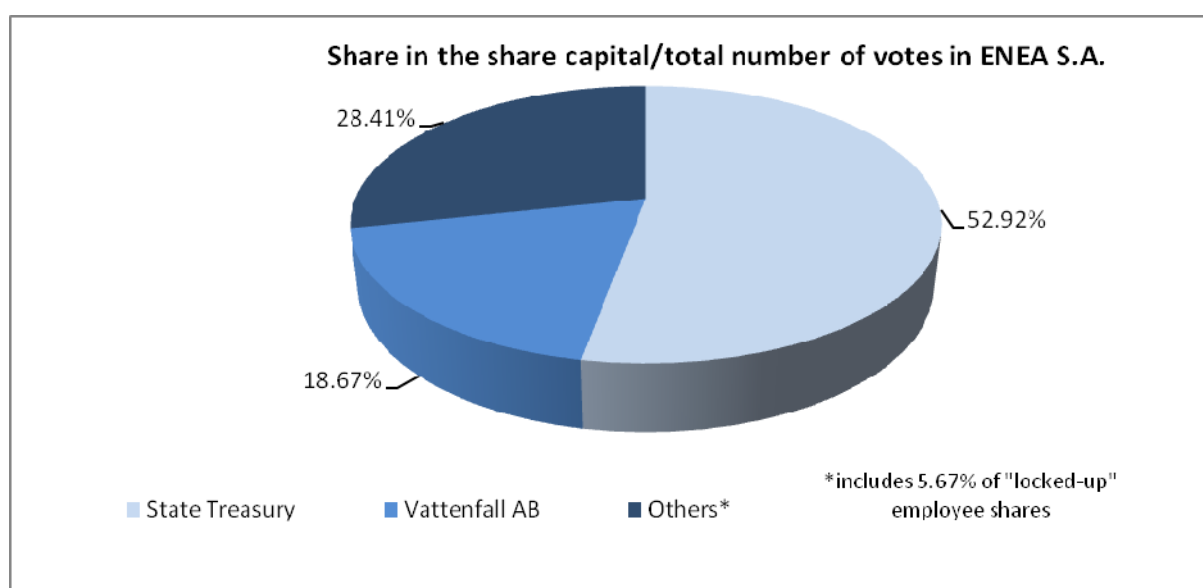
As at the date of this report and following the registration of the increase in the Issuer's share capital, the capital structure is as follows:

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

6.2. Shareholding structure

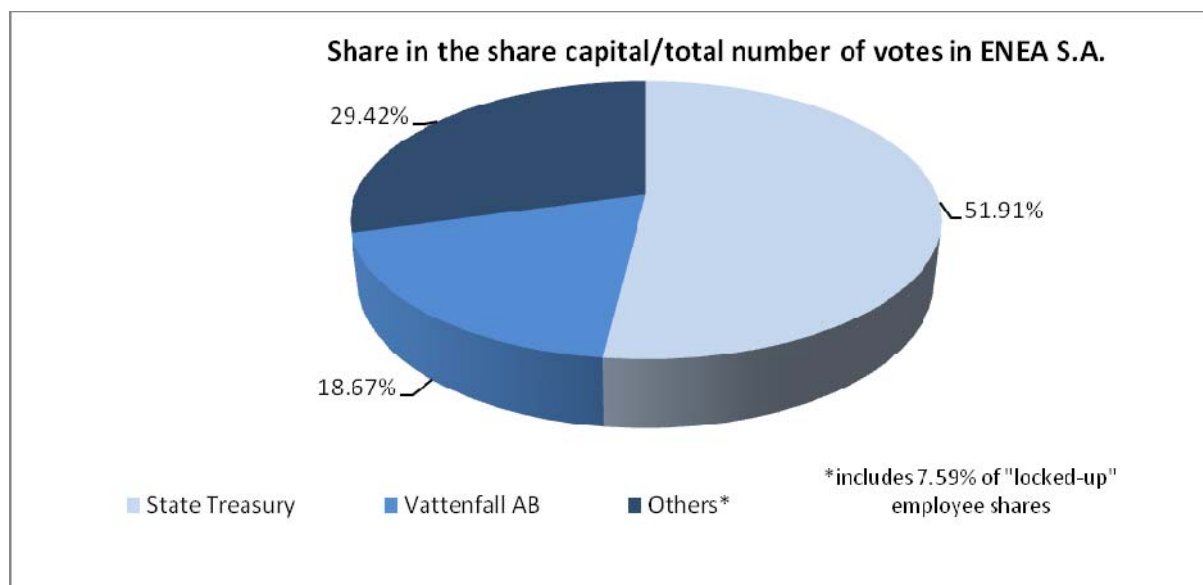
As at 31 December 2010, the structure of shareholders holding more than five per cent of the total number of votes at ENEA S.A.'s General Meeting of Shareholders was as follows:

No.	Shareholder	Number of shares	Share in share capital	Number of votes at the General Meeting of Shareholders	Share in the votes at the General Meeting of Shareholders
1	State Treasury	233 624 813	52.92%	233 624 813	52.92%
2	Vattenfall AB	82 395 573	18.67%	82 395 573	18.67%
3	Others	125 422 192	28.41%	125 422 192	28.41%
Total		441 442 578	100.00%	441 442 578	100.00%



As at the date of publishing this annual 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:

No.	Shareholder	Number of shares	Share in share capital	Number of votes at the general meeting of shareholders	Share in the votes at the general meeting of shareholders
1	State Treasury	229 160 835	51.91%	229 160 835	51.91%
2	Vattenfall AB	82 395 573	18.67%	82 395 573	18.67%
3	Others	129 886 170	29.42%	129 886 170	29.42%
Total		441 442 578	100.00%	441 442 578	100.00%



A process is currently under way in ENEA S.A. Capital Group of eligible employees of the group acquiring "employee shares" free of charge. The shares are transferred to eligible employees under agreements for the unpaid transfer of shares in ENEA S.A. by the State Treasury. The process referred to above is taking place in ENEA S.A. and Elektrownia "Kozienice" S.A. (hereinafter referred to as "Kozienice Power Plant"). The main part of the process of allocating employee shares in ENEA S.A. was completed at the beginning of December 2010, when the vast majority of eligible employees and their heirs concluded an agreement with the State Treasury. The right to acquire shares in ENEA S.A. free of charge expires on 16 May 2012 (in certain cases an heir can sign an agreement on the unpaid transfer of shares after 16 May 2012). Employee shares acquired free of charge are subject to a temporary lock-up. Pursuant to Art. 38 par. 3 of the Act on Commercialisation and Privatisation of 30 August 1996, shares acquired free of charge by employees or heirs of ENEA S.A. cannot be traded before 16 February 2012, i.e. before the lapse of two years from the date when the State Treasury transfers the first shares on general principles, and shares acquired by employees performing the function of member of the Management Board of ENEA cannot dispose of their shares until three years have elapsed from the date when the State Treasury transferred the first shares on general principles, i.e. until 16 February 2013.

Furthermore, in connection with the takeover by ENEA S.A. of Elektrownia "Kozienice" S.A. on 10 October 2007, eligible employees of Kozienice Power Plant obtained the right to an equivalent for the right to acquire shares free of charge (the "Equivalent").

Eligible employees who have acquired the right to the Equivalent could exercise the right to exchange that right for a right to acquire shares in ENEA S.A. free of charge up to 18 January 2008. Employee shares acquired by eligible employees of Kozienice Power Plant are not subject to the temporary lock-up and on 21 January 2011 they were admitted and introduced into trading, which the Issuer announced in Current Report No. 3 of 19 January 2011. Eligible employees of Kozienice Power Plant were allocated 8,141,025 shares in ENEA S.A.

All the series B shares of ENEA S.A., numbering 41,638,955 shares, are designated for purposes associated with carrying out the process of transferring employee shares.

6.3. Potential changes in the shareholder structure

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

However, please note that under the privatisation programme the Ministry of the State Treasury plans to dispose of its entire block of shares in ENEA S.A. (41,638,955 series B shares, i.e. 9.43 per cent of the share capital, are employee shares).

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

As announced in November 2009, in February 2010, the Ministry of the State Treasury (MST) carried out the next stage of the privatisation process of ENEA S.A., initiated in 2008. The privatisation of the MST entity was to

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

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

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

On 28 June 2010, the MST published an invitation to negotiate the purchase of 225,135,940 shares with a nominal value of PLN 1 each, owned by the State Treasury and accounting for 51 per cent of the Company's share capital. Initially, the deadline for potential investors to submit responses to the public invitation to negotiate was scheduled for 28 July 2010. However, on 23 July 2010 the MST extended this deadline until 13 August 2010. The next stage in the sale of shares in ENEA S.A. was to undertake negotiations with selected investors who submitted their initial offers for the purchase of 51 per cent of the Company's shares by 13 August 2010. Upon receiving the initial offers, the Minister of the State Treasury admitted five potential investors to the next stage. On 28 October, the MST decided to set a deadline for Kulczyk Holding S.A. (as the guarantor) and Elektron Sp. z o.o. (as the buyer) for exclusive negotiations as 3 November 2010. If the exclusivity period lapses ineffectively, the Minister of the State Treasury will undertake negotiations with another entity approved for the negotiations.

On 16 November 2010, the the Ministry of the State Treasury announced in a bulletin that in view of the lapse of the negotiation exclusivity period granted to Kulczyk Holding S.A. and Elektron Sp. z o.o. in the ongoing process of selling 225,135,940 shares (51.00 per cent of the share capital) in **ENEA S.A.**, it had decided to resume parallel negotiations with entities approved for negotiations. On 15 December 2010, in connection with the ongoing process of selling 225,135,940 shares (51.00 per cent of the share capital) in ENEA S.A., the Ministry of the State Treasury decided to set a deadline for Electricité de France S.A. for exclusive negotiations. The MST intends to complete the privatisation process of **ENEA S.A.** by the end of the first quarter of 2011.

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

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

6.4. Treasury shares

As at 31 December 2010, during the financial year 2010 as well as at the date of publication of this report, the Company did not hold any treasury shares.

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

6.5. Information on the system of inspecting employee share programmes

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

In February 2010 the Minister of the State Treasury notified ENEA about the number of shares to be delivered free of charge to eligible employees. Having received the notification referred to hereinabove, ENEA within 14 days compiled a list of eligible employees together with their periods of service in the state enterprise, its predecessor, in the company and the aggregate period of service in all such entities. The period of service in the company is counted as from its commercialisation until the date of sale of the first shares on general terms by the State Treasury. Then ENEA announced the date for publication of the list referred to hereinabove and procedures for lodging complaints concerning periods of service in the company. Such publication was made in March 2010.

Eligible employees whose period of service in the company was incorrectly defined were authorized to submit a complaint in writing within 14 days of the date of publication of the list of eligible employees including their periods of service. Complaints were examined by the committee appointed by the Management Board of ENEA. Such examination of complaints exhausted any possible complaint procedures. In the subsequent stage the Management Board of ENEA adjusted the list of eligible employees and then prepared the final list of eligible employees supplemented with data on the number of ENEA shares vested in each of those eligible employees. The list was forwarded to the Minister of the State Treasury. Then ENEA on behalf of the Minister of the State Treasury announced the commencement of the procedure for transferring shares to eligible employees. In October last year the procedure for transferring shares to eligible employees started.

If shares are acquired by employees free of charge, they cannot be traded for two years from the date when the State Treasury disposes of the first shares on general principles, and shares acquired by employees being members of the Company's Management Board cannot be disposed of for three years from the date when the State Treasury disposes of the first shares on general principles.

Apart from the Act on Commercialisation and Privatisation, employee entitlements to acquire shares at no cost as part of the process of consolidation are regulated by the Act on the Rules for Acquiring Shares from the State Treasury in the Process of Consolidation of the Power Industry. In the case of the process of consolidating companies in the electricity sector, employees who meet the conditions set forth in the Act on the Rules for Acquiring Shares from the State Treasury in the Process of Consolidation of the Power Industry are entitled to acquire shares at no cost or an equivalent from a consolidated or consolidating company. As a result of the consolidation of Elektrownia Koźienice involving transfer of 100 per cent of the shares of Elektrownia Koźienice to the share capital of ENEA, current and former employees of Elektrownia Koźienice became entitled to obtain shares at no cost or their equivalent. 2,169 persons exercised their entitlement to obtain an equivalent, and 1,388 persons chose to acquire Shares at no cost. The equivalent of the right to acquire Shares at no cost constitutes remuneration due from the Share buy-back. On 1 August 2008, the General Meeting of Shareholders adopted a resolution on buying back 10,594,129 Shares belonging to the State Treasury, for total compensation of PLN 291,127,000.

7. DECLARATION OF THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

7.1. The set of principles applied

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

7.2. Principles which have not been applied

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

Principle No. 6 Part III of Good Practices:

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

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

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

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

At the same time the Company notes that in 2010 it failed to comply with selected recommendations concerning good practices of listed companies contained in Part I of the Corporate Governance Principles.

Referring to recommendations referred to in point 1 of the a/m recommendations, under which the Company is supposed to keep a clear and effective information policy using traditional methods as well as modern technologies and state-of-the-art communication tools assuring swift, secure and efficient access to information, the Company hereby announces that in 2010 it failed to broadcast its general meetings through

the Internet and failed to record the course of general meetings and failed to publish them on its website. The Issuer's failure to comply with the above-mentioned part of the recommendations resulted from technical problems and imperfections of the IT infrastructure necessary to carry out online live broadcasts of its general meetings.

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

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

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

Referring to the recommendation contained in point 9 of the recommendations for the Corporate Governance Principles concerning the balanced participation of women and men holding office in management and supervisory authorities of public companies, the Company explains that currently balanced proportions of women and men in management and supervisory authorities of ENEA S.A. are not maintained. The only woman among persons holding office on the ENEA S.A. management and supervisory authorities in 2010 was Ms. Małgorzata Aniołek, being a member of the Supervisory Board.

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

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

The Management Board of ENEA S.A. is responsible for the internal control system in the Company and its effectiveness in the process of drawing up financial statements and periodic reports. The task of an effective internal control system in financial reporting is to ensure that the financial information set out in financial statements and periodic reports is appropriate and correct.

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

The financial data being the basis for financial statements and periodic reports and the monthly management and operational reporting carried out by ENEA S.A. is taken from the Company's financial and accounting system. After all the predetermined processes of closing the books of account at the end of each month have

been carried out, detailed management reports on financial and operational matters are drawn up. Those reports are drawn up by the Control Office, with the participation of middle and senior managers from individual organisational units. With regard to completed reporting periods, the Company's financial results as compared with budget assumptions are subject to a detailed analysis, and any deviations are identified and appropriately clarified.

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

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

The Company regularly assesses the quality of its internal control and risk management systems with regard to the process of drawing up financial statements. On the basis of an assessment, the Management Board of ENEA S.A. confirms that as at 31 December 2010 there were no shortcomings that could significantly affect the effectiveness of internal control as it relates to financial reporting.

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

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

7.4. Shareholders holding substantial blocks of shares

The shareholding structure as at 31 December 2010 was as follows:

N o.	Shareholder	Number of shares	Share in share capital	Number of votes at the General Meeting of Shareholders	Share in the votes at the General Meeting of Shareholders
1	State Treasury	233 624 813	52.92%	233 624 813	52.92%
2	Vattenfall AB	82 395 573	18.67%	82 395 573	18.67%
3	Others	125 422 192	28.41%	125 422 192	28.41%
Total		441 442 578	100.00%	441 442 578	100.00%

7.5. Holders of securities carrying special inspection rights

ENEA S.A. has not issued any securities that could give special inspection rights with respect to the Issuer.

7.6. Restrictions on exercising voting rights

There are no restrictions on exercising voting rights in the Company, other than those provided for in generally applicable provisions of law.

7.7. Restrictions on assigning the ownership title to securities

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

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

7.8. Principles relating to appointing and recalling management personnel

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

Management Board members or the entire Management Board are appointed and recalled by the Supervisory Board. In appointing management and supervisory board members application is made of the principles contained in the Regulation of the Council of Ministers of 18 March 2003 concerning qualification proceedings for management board members of certain commercial companies. Pursuant to the provisions of the Act on Commercialisation and Privatisation, if average annual employment in the Company amounts to 500 employees, the Supervisory Board appoints one person to the Management Board elected by the Company's employees for the term of the Management Board. The Company's Statute lays down the following principles and procedure for electing the Management Board member elected by the employees.

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

Upon the written request of at least 15 per cent of the total number of the Company's employees, the Supervisory Board will order a vote to be held on whether to recall the Management Board Member elected by the employees. The outcome of the vote will be binding for the Supervisory Board, provided that at least 50 per cent of all the employees take part in it and the same majority required for the Management Board Member to

be elected is returned. A motion on recalling the Management Board Member elected by the employees should be submitted to the Management Board, which will then deliver it to the Supervisory Board.

7.9. Powers of the Management Board members

The Management Board conducts the Company's affairs and represents it.

Any matters that exceed the scope of the Company's normal business require a resolution of the Management Board, in particular:

1. Adopting the Company's organisational regulations, subject to approval by the Supervisory Board;
2. Creating and liquidating branches;
3. Appointing an authorised signatory or an authorised representative, except for an attorney *ad litem*; appointing an authorised signatory requires the consent of all the members of the Management Board;
4. Taking out loans or credit facilities;
5. Adopting annual material and financial plans, including investment plans, and long-term strategic plans, subject to approval by the Supervisory Board;
6. Contracting conditional obligations, including the Company granting guarantees and sureties and issuing promissory notes;
7. Acquiring, disposing of or encumbering real property, rights of perpetual usufruct or shares in real property, on the basis of one or more legal acts in a period of 12 consecutive months, with a value greater than or equal to the equivalent of EUR 50,000;
8. Giving over the Company's real property under a leasing, tenancy, lease, lending or usufruct agreement or for any other use;
9. Taking over real property under a leasing, tenancy, lease or usufruct agreement or for any other use, on the basis of one or more legal acts in a period of 12 consecutive months, where the value of the rent for 12 consecutive months is greater than or equal to the equivalent of EUR 50,000;
10. Acquiring, disposing of or encumbering a fixed asset, except for real property, rights of perpetual usufruct or shares in real property, on the basis of one or more legal acts in a period of 12 consecutive months, with a value greater than or equal to the equivalent of EUR 50,000;
11. Giving over fixed assets, except for real property, under a leasing, tenancy, lease, lending or utilisation agreement or for any other use;
12. Taking over a fixed asset, except for real property, under a leasing, tenancy, lease or utilisation agreement or for any other use, on the basis of one or more legal acts in a period of 12 months, where the value of the rent for 12 consecutive months is greater than or equal to the equivalent of EUR 50,000;
13. Matters that the Management Board requests that the Supervisory Board or General Meeting of Shareholders consider;
14. Determining the manner in which the Company exercises its voting rights at the General Meeting of Shareholders or at shareholders meetings of Significant Subsidiaries, subject to Clause 20 par. 6 point 5

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

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

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

In accordance with the Statute, a resolution of the General Meeting of Shareholders amending the following wording of Clause 32 of the Statute:

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

- 1) the dissolution of the Company;
- 2) transferring the Company's registered office abroad;

- 3) changing the subject of the Company's business activities thereby limiting the possibility of it conducting the activities referred to in Clause 5 pt 1-4 of the Statute;
- 4) disposing of or leasing the Company's business undertaking or an organised part thereof, whose subject are the activities referred to in Clause 5 pt 1-4 of the Statute, or establishing a limited right *in rem* on the Company's business undertaking or an organised part thereof;
- 5) merging the Company by transferring all of its assets to a different company;
- 6) dividing the Company;
- 7) establishing preferential terms for shares;
- 8) incorporating a European company, transforming the Company into such a company, or acceding to such a company",

can be adopted if at least half of the Company's share capital is represented at the General Meeting of Shareholders, and it will require a majority of four fifths of the votes when and if the State Treasury ceases to hold more than 50 per cent of the share capital.

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

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

The Company's Statute states that the Management Board convenes a General Meeting of Shareholders in the situations specified in the provisions of law and in the Statute, and also if the shareholder being the State Treasury submits a written request to that effect.

As long as the State Treasury continues to be a shareholder of the Company, regardless of its share in the share capital, it can demand that an Extraordinary General Meeting of Shareholders be convened under Article 400 par. 2 of the Commercial Companies Code, as well as that particular matters be included on the agenda of the next General Meeting of Shareholders. The State Treasury must submit such a demand in writing to the Management Board not later than one month before the proposed date of the General Meeting of Shareholders. If the demand referred to in Paragraph 1 is submitted after the convocation of the General Meeting of Shareholders has been announced, it will be deemed to be a motion for another Extraordinary General Meeting of Shareholders to be convened.

If a General Meeting of Shareholders is not convened within two weeks from the date when a demand is submitted, the shareholder being the State Treasury will be entitled to convene a General Meeting of Shareholders under Article 354 par. 1 of the Commercial Companies Code.

A scheduled General Meeting of Shareholders on whose agenda certain matters have been included at the request of entitled entities, or which was convened at the request of entitled entities, can only be cancelled with the consent of the parties that submitted the request. In other cases, a scheduled General Meeting of Shareholders can be cancelled if holding that meeting is subject to extraordinary obstructions (an event of *force majeure*) or becomes clearly unnecessary. Such cancellation is effected in the same way as convening a meeting, ensuring that the adverse effects for the company and the shareholders are minimised, and in any event not later than three weeks before the originally planned time of the meeting. The scheduled time of a General Meeting of Shareholders is changed by the same procedure as cancelling it, even if the proposed agenda of the meeting has not changed.

Besides the matters specified in mandatory provisions of law, the powers of the General Meeting of Shareholders include:

- 1) appointing and recalling members of the Supervisory Board, subject to the provisions of the Company's Statute authorising the shareholder being the State Treasury to appoint and recall one member of the Supervisory Board (under Article. 354 par. 1 of the Commercial Companies Code);
- 2) adopting the Regulations of the General Meeting of Shareholders laying down the detailed principles for conducting meetings and adopting resolutions;
- 3) issuing convertible or exchangeable bonds and other instruments carrying an entitlement to acquire or take up shares in the Company.

Acquiring and disposing of real property, rights or perpetual usufruct or a share in a real property, i.e. the acts specified in Article 393 pt. 4 of the Commercial Companies Code, do not require the consent of the General Meeting of Shareholders.

As long as the State Treasury holds more than half of the total number of shares of the Company, the acts referred to in Article 18 par. 2 of the Act on Commercialisation and Privatisation of 30 August 1996 will require the consent of the General Meeting of Shareholders, except for:

1. Acts for which the Statute requires the consent of the Supervisory Board, provided that the Supervisory Board has granted such consent;
2. Other acts than those specified in Item 1 above, if those acts involve:
 - a) the Company incorporating or acceding to a different company in the Republic of Poland, if the price of acquiring or taking up the share (or shares) or a contribution towards a share in a partnership does not exceed EUR 5,000,000;
 - b) taking up or acquiring shares, where their par value does not exceed EUR 5,000,000;
 - c) disposing of or encumbering shares of a different company that have been acquired or taken up, if their par value does not exceed EUR 5,000,000;
 - d) acquiring shares in exchange for claims of the Company as part of mediation, corporate recovery, or bankruptcy proceedings.

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

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

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

The Management Board

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

Since the beginning of 2010 the Management Board operated in the following composition:

- Maciej Owczarek – President of the Management Board,
- Sławomir Jankiewicz – Member of the Management Board for Business Affairs ,
- Piotr Koczorowski – Member of the Management Board for Corporate Matters ,
- Marek Malinowski – Member of the Management Board for Strategy and Development ,
- Tomasz Treider – Member of the Management Board for Commercial Affairs .

On 16.04.2010 the Issuer's Supervisory Board made a resolution to dismiss all the aforementioned persons from the Management Board of the Company. At the same time on 16.04.2010 the Supervisory Board appointed the following persons to the Management Board:

- Maciej Owczarek as the President of the Management Board,
- Maksymilian Górniak as a Member of the Management Board for Commercial Affairs ,
- Hubert Rozpędek as a Member of the Management Board for Business Affairs ,
- Krzysztof Zborowski as a Member of the Management Board for Strategy and Development .

On 12.07.2010 the Supervisory Board approved amendments to *Operating Rules for the Management Board of ENEA Spółka Akcyjna*, including replacing the hitherto existing name of the position Member of the Management Board for Strategy and Development with a new name in the following wording: Member of the Management Board for Power Generation.

As at the date of this Report, the Company's Management Board has the following composition:

Name	Position
Maciej Owczarek	President of the Management Board
Maksymilian Górniak	Member of the Management Board for

Hubert Rozpędek	Commercial Affairs Member of the Management Board for Business Affairs
Krzysztof Zborowski	Member of the Management Board for Power Generation

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

Meetings of the Management Board take place at the registered office of the Company, on Tuesdays at 12 hours, unless the person referred to in the sentence below decides otherwise. Meetings of the Management Board of the Company are convened by the President of the Management Board or a Management Board Member designated by him, at the President's own initiative or upon a motion by two Members of the Management Board. Participation in meetings of the Management Board is compulsory.

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

The agenda and the necessary documents for a Management Board meeting are provided by the Management Board Office at least one business day before the meeting. For valid reasons, a meeting can be convened immediately and without materials being provided. For a meeting to be held, all the members of the Management Board must be effectively notified of the meeting.

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

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

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

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

The Supervisory Board

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

Since the beginning of 2010, the Supervisory Board of the 7th term has been operating in the following composition:

- Michał Łagoda – Chairman of the Supervisory Board,
- Tadeusz Dachowski – Vice-Chairman of the Supervisory Board,
- Piotr Begier – Secretary of the Supervisory Board,
- Paweł Balcerowski – Member of the Supervisory Board,
- Wojciech Chmielewski – Member of the Supervisory Board,
- Marian Janas – Member of the Supervisory Board,
- Michał Kowalewski – Member of the Supervisory Board,
- Wiesław Pawliotti – Member of the Supervisory Board,
- Mieczysław Pluciński – Member of the Supervisory Board.
- Graham Wood – Member of the Supervisory Board (independent Member).

On 26 March 2010 the Extraordinary General Meeting of Shareholders recalled the following persons from the Supervisory Board:

- Michał Łagoda,
- Piotr Begier,
- Marian Janas,
- Wiesław Pawliotti

and at the same time appointed to the Supervisory Board of the 7th term the persons listed below:

- Paweł Lisiewicz,
- Małgorzata Aniołek,
- Bartosz Nowicki,
- Jeremi Mordasewicz.

As at the date of this Report, the Company's Supervisory Board has the following composition:

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

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

In accordance with the Company's Statute, the Supervisory Board consists of from six to fifteen members appointed by: (i) the General Meeting of Shareholders, (ii) the Company's employees – to the extent of their entitlement under the Act on Commercialisation and Privatisation (the employees can elect two, three or four members of the Supervisory Board if it has up to six, from seven to ten, or more than 11 members respectively) and (iii) the State Treasury – the State Treasury has the right to appoint one member of the Supervisory Board. Furthermore, under the provisions of the Company's Statute, starting from the date falling one month after the date of the first listing of the Shares on the regulated market, at least one member of the Supervisory Board from among those appointed by the General Meeting of Shareholders should: (i) fulfil the independence requirements (ii) be elected by the General Meeting of Shareholders in a separate vote; and (iii) not be an employee of the Company or its subsidiaries or affiliates. The Supervisory Board member referred to in the previous sentence is elected by the General Meeting of Shareholders in a separate vote. Each shareholder of the Company present at the General Meeting of Shareholders held to elect the independent member of the Supervisory Board representing at least one per cent of the total number of votes represented at the General Meeting of Shareholders in question, has the right to nominate one candidate for that member of the Supervisory Board. If there are no nominations for candidates for independent members of the Supervisory Board, the Supervisory Board will nominate candidates and submit the nominations to the General Meeting of Shareholders for voting. The number of members of the Supervisory Board is determined by the General Meeting of Shareholders. On 25 February 2009, in accordance with the above-mentioned provisions of the Statute, the Extraordinary General Meeting of Shareholders elected Mr Graham Wood as independent Member of the Supervisory Board.

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

Meetings of the Supervisory Board are conducted by the Chairman of the Supervisory Board, or in the case of his absence, by the Deputy-Chairman or other member of the Supervisory Board chosen at the meeting. The proposed agenda can be changed if all the members of the Board are present at the meeting and no one objects to the agenda. Any matters that are not included on the agenda will be included on the agenda of the next meeting. Participation in Supervisory Board meetings is obligatory for Board members. A Supervisory Board member must provide reasons for not attending in writing. A resolution of the Board is required to excuse a member of the Board for being absent.

The Management Board can adopt resolutions if at least half of its members are present at the meeting and all of the members have been correctly notified of the meeting. The Management Board adopts resolutions by an absolute majority of votes, i.e. by a majority of more than half the votes cast. Abstentions are deemed to be votes cast against the resolution. In the event of an equal number of votes in adopting a Supervisory Board resolution, the casting vote is held by the chairman of the Supervisory Board. The Supervisory Board can also adopt resolutions in writing, by signing the same copy (or copies) or the draft resolution or separate documents with the same content, or by telephone or by other means of remote communication, in a manner that allows all the members participating in the meeting to directly communicate with each other. Adopting a resolution by this procedure requires that a justification for the resolution be drawn up in advance and that a draft resolution be presented to all the members of the Supervisory Board together with the justification. Resolutions cannot be adopted in writing or remotely using means of direct communication for elections of the Chair or Deputy-Chair of the Board, appointing a member of the Management Board or recalling or suspending those persons. Resolutions adopted in writing or remotely using means of direct communication are presented at the next meeting of the Supervisory Board with the outcome of the voting. Supervisory Board Members can participate in the adoption of resolutions by the Supervisory Board by voting in writing through another Supervisory Board Member, subject to Article 388 par. 2 and 4 of the Commercial Companies Code.

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

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

The task of the Audit Committee is to advise the Board regarding the internal policy and budget procedures adopted by the Company and inspect them and advise on the Company's contacts with the certified auditor, in particular:

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

- (r) cooperating with the Company's organisational units responsible for auditing and control and periodically assessing their work;
- (s) reviewing the Company's system of management accounting.

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

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

As at the date of this report, the Committees of the Supervisory Board of the Company are as follows:

1. Audit Committee:

- Graham Wood - Chairman
- Małgorzata Aniołek – Deputy Chairman
- Paweł Balcerowski - Member
- Wojciech Chmielewski – Member
- Michał Kowalewski - Member

2. Nominations and Remuneration Committee:

- Bartosz Nowicki - Chairman
- Tadeusz Dachowski – Deputy-Chairman
- Paweł Lisiewicz - Member
- Jeremi Mordasewicz - Member
- Mieczysław Pluciński - Member

In 2010 the Audit Committee held 3 meetings and adopted 8 resolutions (including 2 resolutions through e-mail voting pursuant to Art. 6 sec. 6 in conjunction with Art. § 7 sec. 12 of the Operating Rules for the Supervisory Board of ENEA S.A.).

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

- a recommendation for the Supervisory Board of ENEA S.A. concerning the appointment of: Deloitte Audyt Sp. z o.o. as the auditor responsible for carrying out reviews and audits of financial statements of ENEA S.A. and of companies belonging to ENEA Capital Group for 2010
- assessment of methods for auditing financial statements of the Company for the financial year 2009,
- acceptance of the "Report on internal audit activities for 2009",
- recommending a non-scheduled audit of works carried out for ENEA S.A. by external advisory companies under agreements entered into in the period 01.09.2009 - 31.09.2010 and examining them in terms of quality and compliance with internal rules and procedures in place in ENEA S.A.,
- giving opinions on planned changes in the operations of internal audit units in key companies of the ENEA Capital Group. Resolution No. 6/2010 on acceptance of information on the "Audit plan for 2011 in the ENEA Capital Group",
- giving opinions on the "Budget plan for the Control and Audit Office in 2011".

In addition, the Audit Committee :

- reviewed the financial statements for the first half of 2010,

- accepted the Report on internal audit activities for the first half of 2010,
- reviewed completed internal audits and accepted final reports ,
- accepted the information on the current status of the implementation of the Project “Development and implementation of risk management system in the ENEA Capital Group”,
- accepted the information on the centralisation of internal audit functions,
- accepted the information on “Development and implementation of an integrated market risk management system in the ENEA Capital Group”,
- accepted the information on the current status of works of the ENEA S.A. Risk Committee.

8. ADDITIONAL INFORMATION

8.1. The entity authorised to audit the financial statements

By a resolution of the Supervisory Board of 5 March 2010, Deloitte Audyt Sp. z o.o. was chosen to conduct the audit of the non-consolidated and consolidated annual financial statements of ENEA S.A. for 2010. The financial statements audit agreement was signed on 31 March 2010.

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

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

By a resolution of the Supervisory Board of 26 March 2009, Deloitte Audyt Sp. z o.o. was chosen to conduct the audit of the non-consolidated and consolidated annual financial statements of ENEA S.A. for 2009. The financial statements audit agreement was signed on 17 April 2009.

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

	01.01.2009 - 31.12.2009
Deloitte Audyt Sp. z o.o.’s remuneration for auditing and reviewing the non-consolidated and consolidated financial statements of ENEA S.A.	213
Deloitte Audyt Sp. z o.o.’s remuneration for other certification services provided to ENEA S.A. – including review of the financial statements	177
Deloitte Audyt Sp. z o.o.’s remuneration for tax advisory services	0
Deloitte Audyt Sp. z o.o.’s remuneration for other services	86
Total	476

8.2. Achievements in the area of research and development

In 2010, jointly with external experts we carried out analyses concerning developments on the market of electrical vehicles, in particular in the area of possible standardization and implementation of battery charging or replacement systems in such vehicles. Currently the Company is evaluating whether it is reasonable to become involved in the project.

8.3. Environmental issues

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

- The Environmental Protection Law of 27 April 2001, as amended (uniform text published in Journal of Laws No. 25, item 150 of 2008, as amended).
- The Waste Materials Act of 27 April 2001 (Journal of Laws No. 39, item 251 of 2005, as amended),
- The Water Law of 18 July 2001 (uniform text: Announcement of the Speaker of the Sejm of the Republic of Poland of 18 November 2005 Journal of Laws No. 239, item 2019, as amended),
- The Law on Trading in Rights to Emit Greenhouse Gases and Other Substances into the Atmosphere of 22 December 2004 (Journal of Laws No. 281 item 2784)
- The Act on Used Electrical and Electronic Equipment of 29 July 2005 (Journal of Laws No. 180, item 1495 of 2005)
- The Law on Making Information Available on the Environment, Environmental Protection, and Society's Participation in Environmental Protection and on Environmental Impact Assessments of 3 October 2008 (Journal of Laws No. 199 item 1227 of 2008)

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

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

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

Because ENEA S.A. fulfilled its obligations under environmental protection laws, in 2010 it was not threatened with any penal sanctions for failing to fulfil such requirements and it did not receive any penalties.

Specifications and nature of the operations of Elektrownia "Kozienice" S.A.

Elektrownia "Kozienice" 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 - 35,145 Mg
- NO_x - 21,718 Mg
- ash - 1,078 Mg
- CO - 1,437 Mg
- CO₂ - 10,835,725 Mg
- waste (mixture of ash and slag) - 390,623 Mg.

Reduction in the emission of pollutants

The power plant has fume anti-dust installations with high-efficiency electrostatic precipitators mounted on each of its energy units. Taken into account in the modernisation, renovation and investment cycle of the units is the need for the power plant to keep to the permissible level of concentration of dust in the fumes from each unit, which must not be higher than 50 mg/Nm³. The electrostatic precipitators were replaced in recent years on unit 2 (in 2006), unit 1 (2007), unit 6 (2008) and unit 10 (2010).

The power plant has in place installations for initial reduction of nitric oxides. Their role is to limit the concentration of nitric oxides to a guaranteed level of 500 mg/Nm³, utilising such devices as ROBTAS low-emission burners and a system of air nozzles installed on the front and rear walls of the furnaces above the burner zone (so-called OFA, SOFA nozzles). Due to the restriction of emissions standards after 2015 with regard to nitrates to 200 mg/Nm³, it will be necessary to build a catalytic de-nitration system on individual power units. In 2010 a tender for fumes denitration installations on 5 units 200 MW No. 5 – 8 was published. Currently received offers are under evaluation.

Restricting emissions of SO₂ is handled by fume desulphurisation installations using the wet limestone method: IOS I unit No. 9 with installed capacity of 560 MW and IOS II for installed capacity of 800 MW (4 units 200 MW each) connected to units 200 MW No. 2 to 8.

In December 2010 the General Contractor delivered the installation for fume desulphurisation using the wet limestone method IOS III for 560 MW unit No. 10. In order to adapt SO₂ emissions to more stringent standards resulting from the implementation of applicable EU laws, in 2010 works were commenced to build an IOS IV installation, the second consecutive installation after the IOS II installation for fume desulphurisation using the wet limestone method for 4 200 MW units.

Waste management

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

In 2010, activities were undertaken aimed at making the greatest possible use of burner waste, with a waste use ratio of 57.77 per cent. In 2010 152,800 tonnes of gypsum resulting from the operation of the IOSs was utilised (155,300 tonnes were generated).

The following sales are also important: fly-ash – 454,821.58 tonnes, microspheres – 2,118.02 tonnes, ACM 17,979.98 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 229,537.13 tonnes.

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

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

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

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

- the system for trading in CO₂ emission 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 2010 (the third year of settlement period II), have been approved.

A biomass co-burner installation built in 2007 makes possible the continuous production of electricity from RES – 322,150.283 MWh in 2010. It will be expanded in 2009 and 2010, and this, together with the planned startup in 2011 of a liquid biomass co-burner installation, will make it possible for us to increase our production of energy from RES.

In 2010, 176,510.7 Mg of biomass was burnt as fuel. That amount of biomass consumed means a reduction in carbon dioxide emissions of 295.487 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.

Additional information on environment protection related issues has been listed in pt. 4.2.25 of this report.

8.4. Information on employment

The table below shows ENEA S.A.'s employment level and average employment for the year 2010, divided into trade and other activities.

	State as at 31 December 2010	Annual average
TRADE	281.88	227.50
OTHER ACTIVITIES	237.25	213.87
TOTAL	519.13	441.37

The table below shows employment at subsidiaries in 2010.

Item	Employment at the end of the month in FTEs	Average employment, cumulative
Elektrownie Wodne	165.25	167.03
NZOZ Centrum Rehabilitacyjno - Wczasowe Energetyk	82.00	81.10
ENEOS	121.05	118.50
ENTUR	5.00	4.30
ZUT ZZE ITSERWIS	89.20	93.69
ZHU AUTO STYL	45.00	47.71
FINEA	2.00	6.56
ENERGOMIAR	201.25	205.01
B H U	171.75	170.07
B U T	5.00	7.67
Hotel EDISON	21.00	21.52
Zakład Transportu	61.25	61.58
ENERGO-TOUR	19.50	20.00
EP PUE ENERGOBUD Leszno	576.28	581.60
ENEA Operator Sp. z o.o.	5 552.11	5 609.88
Spółka Elektrownia "Kozienice" S.A.	2 370.75	2 377.00
Kozienice II	11.00	10.42

MEC PIŁA	164.88	169.03
PEC Oborniki	36.00	39.19
TOTAL	9 700.27	9 791.86

8.5. Glossary of industry terms

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

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

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

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

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

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

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

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

8.6. Signatures of the Management Board Members

The Report of the Management Board approved on: 12 April 2011

The Report of the Management Board published on: 28 April 2011

Signatures:

President of the Management Board **Maciej Owczarek**

**Member of the Management Board
for Commercial Affairs** **Maksymilian Górniak**

**Member of the Management Board
for Business Affairs** **Hubert Rozpędek**

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