

*Dear Sir/Madam,*

*The past year brought the expected economic slowdown. Thousands of businesses were faced with the necessity of cutting costs and cutting back on production, and this led to a drop in energy consumption nationally, affecting power companies' electricity sales. The power market regulatory body held onto its decision-making power over energy prices for individual users, and this was reluctantly accepted by a market ready for full liberalisation.*

*In these difficult circumstances, power companies attempted to increase revenues, and especially their net profit, in order to obtain essential resources designated for investments. The actions taken by the Management Board of ENEA were in this direction, and it is with great satisfaction that I can confirm that that plan was implemented successfully. We overcame an unfavourable market situation. The ENEA Capital Group noted a growth in revenues of 16.40 per cent, and in net profit of 138.48 per cent. This is the best possible confirmation of the effectiveness of our managerial personnel at all levels of management, and of our team of specialists supporting and implementing all the management process within the company.*

*Such an improvement in results in relation to the previous year provides grounds for optimism, and opens the way to carrying out ambitious investment plans. Our flagship undertakings, key to the development of the company and the whole capital group, remain: the construction of new power units in the Koziernice Power Plant, the construction or acquisition of wind farms of a total capacity of several hundred megawatts and of biogas plants, as well as the large-scale and, most importantly, the systematic modernisation of our distribution network. These tasks reflect the main policy direction set out in our new development strategy, a document which will certainly provide the basis for many business decisions of key importance to the future of the company and the entire capital group.*

*ENEA's effective management and the strengthening of its position on the market bore fruit in the sale of 16.05 per cent of the shares held by the State Treasury in mid-February of this year. Analysts have pointed out how smoothly and professionally the offer was conducted. And our success is all the greater for the sale having been conducted as a fully marketed offer. Without doubt, this is a good sign for the future, and proof that ENEA is a worthy business partner and a business with great potential for development. The success of this year's offer is also rebuilding trust on the part of investors and analysts, which had been weakened by the launch of the privatisation process last year, which was less successful, due solely to external factors.*

*The year 2010 brings challenges in connection with preparing for the final phase of privatisation and the continuation of key investment processes, as well as the development of new trading mechanisms relating to changes on the power market and in energy law which will lead to the obligation to trade energy on market. I am convinced that ENEA is well-prepared to meet these challenges, and will soon strengthen its position on the power market.*

*President of the Management Board  
Maciej Owczarek*

## Selected consolidated financial data of ENEA Capital Group

	in PLN'000		in EUR '000	
	12 months ended	12 months ended	12 months ended	12 months ended
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Net sales revenue	7 167 337	6 157 762	1 651 232	1 743 371
Profit/loss on operating activities	505 605	251 359	116 483	71 164
Profit/loss before tax	653 056	293 466	150 453	83 085
Net profit/loss of the reporting period	513 610	215 367	118 327	60 974
Net cash flows from operating activities	850 134	825 491	195 856	233 711
Net cash flows from investing activities	(2 332 519)	(899 524)	(537 372)	(254 671)
Net cash flows from financing activities	(235 731)	1 753 900	(54 308)	496 560
Total net cash flows	(1 718 116)	1 679 867	(395 825)	475 600
Weighted average number of shares	441 442 578	359 016 443	441 442 578	359 016 443
Zysk netto na akcję (w PLN na jedną akcję)	1,16	0,60	0,27	0,17
Diluted profit per share (in PLN / EUR)	1,16	0,60	0,27	0,17
	<b>As at</b>	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Total assets	12 229 688	11 985 917	2 976 897	2 872 667
Zobowiązania razem	2 857 060	2 961 664	695 453	709 823
Non-current liabilities	1 450 377	1 518 009	353 044	363 822
Current liabilities	1 406 683	1 443 655	342 409	346 001
Equity	9 372 628	9 024 253	2 281 444	2 162 845
Share capital	588 018	588 018	143 133	140 930
Book value per share (in PLN / EUR)	21,23	20,44	5,17	4,90
Diluted book value per share (in PLN / EUR)	21,23	20,44	5,17	4,90

The above financial data for 2009 and 2008 were translated into EUR in line with the following principles:

- individual assets and liabilities - as per the average exchange rate at 31 December 2009;– PLN/EUR 4,1082 (as at 31 December 2008 - PLN/EUR 4.1724);
- individual items from the income statement and the cash flow statement - as per the arithmetic mean of the average exchange rates determined by the National Bank of Poland as at the last day of each month of the financial period from 1 January to 31 December 2009 .– PLN/EUR 4.3406 (for the period from 1 January to 31 December 2008 – PLN/EUR 3.5321),

## AUDITOR'S OPINION

### To the Shareholders' Meeting and the Supervisory Board of ENEA S.A.

We have audited the attached consolidated financial statements of the ENEA Capital Group ("the Capital Group") in which ENEA S.A. with its registered office in Poznań, ul. Nowowiejskiego 11, acts as the Parent ("the Parent") including:

- consolidated balance sheet prepared as at 31 December 2009, with total assets and equity and liabilities of PLN 12,229,688 thousand;
- consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2009 disclosing a net profit of PLN 513,610 thousand and total comprehensive income of PLN 535,465 thousand;
- statement of changes in consolidated equity for the period from 1 January to 31 December 2009, disclosing an increase in equity by PLN 348,375 thousand;
- consolidated cash flows statement for the financial year from 1 January to 31 December 2009, showing a cash outflow of PLN 1,718,116 thousand;
- notes, comprising adopted summary of significant accounting policies and other explanatory information.

Preparation of these consolidated financial statements has been the responsibility of the Management Board of the Parent. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these consolidated financial statements.

The consolidated financial statements of the Capital Group for the previous financial year ended 31 December 2008 were audited by another certified auditor, which issued an opinion on these financial statements dated 17 April 2009 with a qualification. Our opinion refers only to the consolidated financial statements for the financial year ended 31 December 2009.

The consolidated financial statements were prepared using the full method with regards to 24 subsidiaries and using the equity method with regards to three associated entities and one co-controlled entity. The financial statements of 10 subsidiaries as well as one associated entity and one co-controlled entity were subject to audit by other entities authorized to audit financial statements. We received financial statements of the above subsidiaries, associated entity and one co-controlled entity with opinions on audit on these financial statements. Our opinion on the audit of the consolidated financial statements with regards to data of these entities is based on opinions of certified auditors authorized to audit financial statements. The financial statements of 8 subsidiaries

and two associated entities were not subject to audit by other entities authorized to audit financial statements. The data from the financial statements of subsidiaries in the case of which our audit was fully based on opinions of other certified auditors and which were not subject to audit by other entities authorized to audit financial statements, account for 1.8% and 3.1% of consolidated assets and consolidated sales revenues before consolidation adjustments respectively.

Our audit of the consolidated financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2009 No. 152, item 1223 with subsequent amendments);
- auditing standards issued by the National Council of Statutory Auditors in Poland;

in such a way as to obtain reasonable basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included, in particular, examination of the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessment of the accounting principles (policy) applied in preparation of the consolidated financial statements, related material estimates as well as evaluation of the overall presentation of the consolidated financial statements.

We believe that our audit provides a sufficient basis for our opinion.

In our opinion, based on the results of the audit and the opinions of other certified auditors, the consolidated financial statements of the Capital Group for the 2009 financial year, were prepared in all material respects in accordance with International Financial Reporting Standards as approved by the European Union and give a true and fair view of all information material for evaluation of the financial and economic position and the financial profit/loss of the Capital Group as at 31 December 2009 and for the 12-month period ended at that date.

Without qualifying the fairness and correctness of the audited consolidated financial statements, we would like to point out the information presented Note 40 in which the Management Board of ENEA S.A. presented information concerning the Decision of the President of the Energy Regulatory Office provided to Elektrownia “Kozienice” S.A. on 5 August 2009. The decision determined the amount of the annual adjustment of orphaned costs for Elektrownia “Kozienice” S.A. for the year 2008 and the decision’s impact on orphaned costs in 2009.

The Report on the activities of the Capital Group in the 2009 financial year is complete within the meaning of Article 49 clause 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and conditions of recognizing information required by the law of non-member states as equivalent, and it is consistent with the underlying information disclosed in the audited consolidated financial statements.

.....  
Marcin Samolik  
Certified auditor  
No. 10066

.....  
Represented by

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

Warsaw, 16 March 2010

***The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.***

**Consolidated financial statements  
of the ENEA Capital Group  
for the financial year ended 31 December 2009**

**Poznań, 16 March 2010**

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These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as approved by the European Union (EU) and were accepted by the Management Board of ENEA S.A.

**Members of the Management Board**

<b>Chairman of the Management Board</b>	<b>Maciej Owczarek</b>
<b>Member of the Management Board</b>	<b>Piotr Koczorowski</b>
<b>Member of the Management Board</b>	<b>Sławomir Jankiewicz</b>
<b>Member of the Management Board</b>	<b>Marek Malinowski</b>
<b>Member of the Management Board</b>	<b>Tomasz Treider</b>

**Poznań, 16 March 2010**

Prepared by: Robert Kiereta  
Consolidated Accounting Office Manager

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**Consolidated balance sheet**

	Note	As at	
		31.12.2009	31.12.2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	8 060 674	7 944 815
Perpetual usufruct of land	8	28 090	15 321
Intangible assets	9	47 985	36 606
Investment property	10	6 091	5 034
Investments in associated entities measured with equity method	11	189 938	189 941
Financial assets available for sale	12	39 346	8 965
Financial assets measured at fair value through profit or loss	12	1 219	1 033
Trade and other receivables	13	1 330	2 316
		<b>8 374 673</b>	<b>8 204 031</b>
<b>Current assets</b>			
Inventories	15	300 830	270 044
Trade and other receivables	13	925 513	780 098
Current income tax assets		12 828	5 538
Financial assets available for sale	12	-	4 806
Financial assets held to maturity	12	55 734	100 741
Financial assets measured at fair value through profit or loss	12	1 652 523	-
Cash and cash equivalents	16	902 543	2 620 659
		<b>3 849 971</b>	<b>3 781 886</b>
<b>Non-current assets held for sale</b>		<b>5 044</b>	<b>-</b>
<b>Total assets</b>		<b>12 229 688</b>	<b>11 985 917</b>

**ENEA S.A. Capital Group**

Consolidated financial statements prepared in line with EU IFRS for the financial year ended 31 December 2009

*(if not indicated otherwise, all amounts are denominated in PLN'000)*

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>As at</b>	
		<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Equity</b>			
Equity attributable to shareholders of the Parent			
Share capital	18	588 018	588 018
Treasury shares	18	-	(17 396)
Share premium	18	3 632 464	3 632 464
Share-based capital	18, 22	1 144 336	1 144 336
Revaluation reserve (financial instruments)	18	20 756	(1 099)
Other capitals	17, 18	(22 110)	(28 226)
Retained earnings	18	3 985 386	3 675 078
		<b>9 348 850</b>	<b>8 993 175</b>
<b>Minority interest</b>	18	23 778	31 078
<b>Total equity</b>		<b>9 372 628</b>	<b>9 024 253</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	20	107 056	152 785
Trade and other liabilities	19	58	708
Finance lease liabilities	24	2 291	1 515
Settlement of income due to subsidies and connection fees	21	791 296	767 514
Deferred tax liability	25	112 366	123 480
Liabilities due to employee benefits	26	407 093	438 796
Provisions for other liabilities and charges	28	30 217	33 211
		<b>1 450 377</b>	<b>1 518 009</b>
<b>Current liabilities</b>			
Loans and borrowings	20	46 609	52 605
Trade and other liabilities	19	991 482	865 581
Finance lease liabilities	24	1 178	877
Settlement of income due to subsidies and connection fees	21	41 856	26 079
Current income tax liabilities		71 359	18 705
Liabilities due to employee benefits	26	125 542	129 880
Liabilities due to an equivalent of the right to acquire shares free of charge	22	618	163 799
Provision for certificates of origin	27	46 539	101 403
Provisions for other liabilities and charges	28	81 500	84 726
		<b>1 406 683</b>	<b>1 443 655</b>
<b>Total liabilities</b>		<b>2 857 060</b>	<b>2 961 664</b>
<b>Total equity and liabilities</b>		<b>12 229 688</b>	<b>11 985 917</b>

The consolidated balance sheet should be analyzed together with notes that constitute an integral part of the consolidated financial statements

**Consolidated statement of comprehensive income**

		12 months ended	12 months ended
	Note	31.12.2009	31.12.2008
Sales revenue		7 432 132	6 376 006
Excise duty		(264 795)	(218 244)
<b>Net sales revenue</b>	29	<b>7 167 337</b>	<b>6 157 762</b>
Other operating revenue	32	78 599	80 914
Amortization	30	(661 345)	(631 364)
Costs of employee benefits	30, 31	(823 964)	(940 080)
Consumption: materials, raw materials, value of goods and mat. sold	30	(1 585 889)	(1 223 245)
Energy purchase for the purposes of sales	30	(2 350 461)	(1 893 710)
Transmission services	30	(694 791)	(670 930)
Other external services	30	(333 169)	(348 436)
Taxes and charges	30	(171 261)	(159 507)
(Profit) / loss on sale and liquidation of property, plant and equipment		1 453	(9 340)
Impairment loss on property, plant and equipment		(8 942)	-
Other operating expenses	32	(111 962)	(110 705)
<b>Operating profit</b>		<b>505 605</b>	<b>251 359</b>
Financial expenses	34	(33 020)	(51 178)
Financial revenue	33	172 705	92 871
Share in profits/losses of associates measured using the equity method	11	7 766	414
<b>Profit before tax</b>		<b>653 056</b>	<b>293 466</b>
Income tax	35	(139 446)	(78 099)
<b>Net profit for the reporting period</b>		<b>513 610</b>	<b>215 367</b>
<b>Other comprehensive income elements</b>			
Measurement of AFS financial assets		26 981	(3 193)
Income tax on other compr. income		(5 126)	542
<b>Other elements of net comprehensive income</b>		<b>21 855</b>	<b>(2 651)</b>
<b>Comprehensive income for the period</b>		<b>535 465</b>	<b>212 716</b>
<b>Including net profit:</b>			
attributable to shareholders of the Parent		513 589	215 361
attributable to minority interests		21	6
<b>Including comprehensive income:</b>			
attributable to shareholders of the Parent		535 444	212 710
attributable to minority interests		21	6
Net profit attributable to shareholders of the Parent		513 589	215 361
Weighted average number of ordinary shares		441 442 578	359 016 443
<b>Net earnings per share (in PLN per share)</b>	37	<b>1,16</b>	<b>0,60</b>
<b>Diluted earnings per share (in PLN)</b>	37	<b>1,16</b>	<b>0,60</b>

**ENEA S.A. Capital Group**

Consolidated financial statements prepared in line with EU IFRS for the financial year ended 31 December 2009

*(if not indicated otherwise, all amounts are denominated in PLN'000)***Consolidated statement of changes in equity**

		Share capital (nominal value)	Share capital revaluation	Total share capital	Treasury shares	Share-based payment capital	Share premium	Financial instruments revaluation reserve	Other capitals	Retained earnings	Minority interest	Total equity
<b>As at</b>	<b>01.01.2009</b>	<b>441 443</b>	<b>146 575</b>	<b>588 018</b>	<b>(17 396)</b>	<b>1 144 336</b>	<b>3 632 464</b>	<b>(1 099)</b>	<b>(28 226)</b>	<b>3 675 078</b>	<b>31 078</b>	<b>9 024 253</b>
Comprehensive income								21 855		513 589	21	535 465
Dividends	36									(203 281)	(6)	(203 287)
Sales of treasury shares under stabilizing option	18				17 396							17 396
Settlement of acquisition of subsidiaries	17								6 116		(7 315)	(1 199)
<b>As at</b>	<b>31.12.2009</b>	<b>441 443</b>	<b>146 575</b>	<b>588 018</b>	<b>-</b>	<b>1 144 336</b>	<b>3 632 464</b>	<b>20 756</b>	<b>(22 110)</b>	<b>3 985 386</b>	<b>23 778</b>	<b>9 372 628</b>

The consolidated statement of changes in equity should be analyzed together with notes that constitute an integral part of the consolidated financial statements

**ENEA S.A. Capital Group**

Consolidated financial statements prepared in line with EU IFRS for the financial year ended 31 December 2009

(if not indicated otherwise, all amounts are denominated in PLN'000)

		Share capital (nominal value)	Share capital revaluation	Total share capital	Treasury shares	Share-based payment capital	Share premium	Financial instruments revaluation reserve	Other capitals	Retained earnings	Minority interest	Total equity
<b>As at</b>	<b>01.01.2008</b>	<b>348 221</b>	<b>146 575</b>	<b>494 796</b>		<b>901 110</b>	<b>1 801 078</b>	<b>1 552</b>	<b>-</b>	<b>3 564 675</b>	<b>3 164</b>	<b>6 766 375</b>
Comprehensive income								(2 651)		215 361	6	212 716
Dividend	36									(115 552)	(269)	(115 821)
Redemption of shares	18	(10 594)		<b>(10 594)</b>						10 594		-
Cash equivalent exchanged to shares	22					224 042						224 042
Change in the fair value of employee shares program	22					19 184						19 184
Issue of shares	18	103 816		<b>103 816</b>			1 836 419					1 940 235
Treasury shares purchased under stabilizing option	18				(17 396)							(17 396)
Acquisition of subsidiaries											28 226	28 226
Put option regarding minority interest in acquired subsidiaries	17								(28 226)			(28 226)
Other	36						(5 033)				(49)	(5 082)
<b>As at</b>	<b>31.12.2008</b>	<b>441 443</b>	<b>146 575</b>	<b>588 018</b>	<b>(17 396)</b>	<b>1 144 336</b>	<b>3 632 464</b>	<b>(1 099)</b>	<b>(28 226)</b>	<b>3 675 078</b>	<b>31 078</b>	<b>9 024 253</b>

The consolidated statement of changes in equity should be analyzed together with notes that constitute an integral part of the consolidated financial statements

**Consolidated statement of cash flows**

		<b>12 months ended 31.12.2009</b>	<b>12 months ended 31.12.2008</b>
<b>Cash flows from operating activities</b>	<b>Nota</b>		
Net profit for the reporting period		513 610	215 367
Adjustments:			
Income tax disclosed in the income statement	35	139 446	78 099
Amortization	30	661 345	631 364
Costs of benefits due to share-based payments		-	19 433
(Profit) / loss on sale and liquidation of property, plant and equipment		(1 453)	9 340
Impairment loss on property, plant and equipment	7	8 942	7 784
Write-down on goodwill		16 832	-
(Profit) / loss on sale of financial assets		(25 740)	(1 469)
Interest income		(140 439)	(89 784)
Dividend income		(2 335)	(478)
Interest expense		11 524	15 673
Share in the (profit) / loss of associates		(7 766)	(414)
Exchange (gains) / losses on loans and borrowings		(782)	13 963
Other adjustments		(5 066)	(494)
		<b>654 508</b>	<b>683 017</b>
Income tax paid		(111 597)	(126 108)
Interest received		133 502	82 536
Interest paid		(12 204)	(16 514)
Changes in the working capital			
Inventories		(30 911)	(114 356)
Trade and other receivables		(141 188)	(77 049)
Trade and other liabilities		79 005	40 791
Liabilities due to employee benefits		(38 072)	128 239
Settlement of income due to subsidies and connection fees		27 873	66 283
Change in provisions for certificates of origin		(54 864)	34 757
Zmiana stanu zobowiązań z tytułu ekwiwalentu prawa do nieodpłatnego nabycia akcji		(163 181)	(127 328)
Change in provisions		(6 347)	35 856
		<b>(327 685)</b>	<b>(12 807)</b>
Net cash flows from operating activities		<b>850 134</b>	<b>825 491</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		(764 296)	(631 650)
Proceeds from disposal of property, plant and equipment		16 436	19 011
Acquisition of financial assets		(1 905 500)	(49 446)
Proceeds from disposal of financial assets		321 717	3 722
Acquisition of a subsidiary		-	(241 672)
Dividends received		10 515	1 322
Other outflows		(11 391)	(811)
Net cash flows from investing activities		<b>(2 332 519)</b>	<b>(899 524)</b>
<b>Cash flows from financing activities</b>			
Loans and borrowings received		1 390	2 924
Repayment of loans and borrowings		(52 031)	(67 859)
Dividend paid to Parent's shareholders		(203 064)	(100 629)
Outflows due to payment of finance lease liabilities		(3 740)	(2 339)
Proceeds from issuance of shares		-	1 940 235
Proceeds/(outflows) from sale/purchase of treasury shares		22 479	(17 396)
Other adjustments		(765)	(1 036)
Net cash flows from financing activities		<b>(235 731)</b>	<b>1 753 900</b>
<b>Net increase (decrease) in cash</b>		<b>(1 718 116)</b>	<b>1 679 867</b>
Opening balance of cash	16	2 620 659	940 792
<b>Closing balance of cash</b>	16	<b>902 543</b>	<b>2 620 659</b>

The consolidated statement of cash flows should be analyzed together with notes that constitute an integral part of the consolidated financial statements

## Notes to the consolidated financial statements

### 1. General information

#### 1.1. General information about ENEA S.A. and the ENEA Capital Group

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

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

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

As at 31 December 2009 the Parent Company’s shareholding structure was the following (after the increase of the share capital due to the issue of shares under the public offering, registered in the National Court Register on 13 January 2009): the State Treasury of the Republic of Poland – 76.48% of shares, Vattenfall AB – 18.67, other shareholders – 4.85%. The sale of own shares by ENEA S.A. (nominal value of PLN 1; the sale of 1 129 608 own shares at the average price of PLN 19.90 per share) was settled on 11 August 2009.

As at 31 December 2009 the Company’s statutory share capital registered in the National Court Register equaled PLN 441 443 thousand (PLN 588 018 thousand upon adoption of EU-IFRS and considering hyperinflation and other adjustments) and it was divided into 441 442 578 shares.

As at 31 December 2009 the Capital Group comprised the parent company ENEA S.A. (“the Company”, “the Parent Company”), 24 subsidiaries, 3 associates and 1 jointly controlled entity.

These consolidated financial statements have been prepared under the going concern assumption. There are no circumstances indicating that Group’s ability to operate as a going concern may be threatened.



## **1.2. Composition of the Management Board and the Supervisory Board**

As at 31 December 2009, the composition of the Management Board was as follows:

Maciej Owczarek – Chairman of the Board;

Sławomir Jankiewicz – Member of the Board for Financial Affairs;

Piotr Koczorowski – Member of the Board for Corporate Affairs;

Marek Malinowski – Member of the Board for Strategy and Development;

Tomasz Treider – Member of the Board for Commercial Affairs.

At its meeting of 26 March 2009, the Supervisory Board of ENEA S.A. adopted resolution no. 14/VI/2009 on dismissal of Mr. Paweł Mortas from the position of Chairman of the Board and resolution no. 15/VI/2009 on dismissal of Mr. Marek Hermach from the position of Member of the Board for Commercial Affairs. At the same time, pursuant to resolution no. 16/VI/2009 the responsibilities of Chairman of the Management Board of ENEA S.A. were assumed temporarily by Mr. Piotr Koczorowski (until the appointment of a new Chairman).

At its meeting of 22 May 2009, the Supervisory Board of ENEA S.A. adopted resolution no. 46/VI/2009 on appointment of Mr. Maciej Owczarek as a Member of the Company's Management Board for the 6th term of office. Mr. Maciej Owczarek assumed the position of Chairman of the Management Board on 1 June 2009.

At its meeting of 27 June 2009, the Supervisory Board of ENEA S.A. adopted resolution no. 61/VI/2009 on appointment of Mr. Tomasz Treider as a Member of the Company's Management Board for the 6th term of office. Mr. Tomasz Treider assumed the position of Member of the Management Board for Commercial Affairs on 1 August 2009.

At its meeting of 1 September 2009, the Supervisory Board of ENEA S.A. adopted resolution no. 17/VII/2009 on dismissal of Mr. Czesław Koltermann from the position of Member of the Company's Management Board elected by its employees.

As at 1 January 2009, the composition of the Supervisory Board for the 6th term was as follows:

Michał Łagoda

Wiesław Alfred Pawliotti

Marian Janas

Piotr Krzysztof Begier

Marzena Gajda

Tadeusz Dachowski

Andrzej Łopuszko

Mieczysław Pluciński.

In the financial year covered by these financial statements, the composition of the Supervisory Board changed as follows:

On 24 February 2009 Ms. Marzena Gajda submitted a statement of resignation from the position of Member of the Supervisory Board of ENEA S.A. as from 25 February 2009.

On 25 February 2009, the Extraordinary Shareholders' Meeting of ENEA S.A. appointed the following individuals as members of the Supervisory Board for the 6th term of office:

Wojciech Chmielewski

Marcin Bruszewski

Graham Wood.

On 30 June 2009 the Ordinary Shareholders' Meeting appointed the following members of the Supervisory Board of ENEA S.A. for the 7th term of office:

Michał Łagoda

Tadeusz Dachowski

Piotr Krzysztof Begier

Marian Janas

Wiesław Alfred Pawliotti

Mieczysław Pluciński

Paweł Balcerowski

Wojciech Chmielewski

Marcin Bruszewski

Graham Wood.

On 17 September 2009, the Extraordinary Shareholders' Meeting dismissed Mr. Marcin Bruszewski from the position of member of the Supervisory Board, appointing at the same time Mr. Michał Kowalewski.

## **2. Statement of compliance**

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as approved by the European Union (EU) and were accepted by the Management Board of ENEA S.A.

The Management Board of the Parent Company has used its best knowledge as to the application of standards and interpretations as well as measurement methods and principles applicable to the individual items of the consolidated financial statements of the ENEA Capital Group in accordance with IFRS UE as at 31 December 2009. The presented statements and explanations have been determined using due diligence. These consolidated financial statements were audited by a certified auditor.

## **3. Description of key accounting principles**

The key accounting principles applied in the preparation of these financial statements have been presented below. The principles have been applied consistently in all the presented financial periods.

### **3.1. Basis for preparation**

These consolidated financial statements for the financial year ended 31 December 2009 have been prepared in compliance with the requirements of the International Financial Reporting Standards as endorsed by the European Union ("EU-IFRS").

These consolidated financial statements have been prepared on the historical cost basis, except for financial assets measured at fair value through profit or loss as well as financial assets available for sale and share-based payments.

### **3.2. Consolidation principles**

#### *(a) Subsidiaries*

Subsidiaries include all entities whose financial and operational policy may be managed by the Group, which usually results from the majority of votes in the Company's decision-making bodies. When assessing whether the Group controls an entity, the existence and impact of potential voting rights that may be exercised or exchanged at a given moment are taken into consideration. The subsidiaries are subject to consolidation using the full method as from the date of the Group's assumption of control over such entities. They are not consolidated starting from the date when the Group loses control over them.

The cost of business combination, which is not under common control, is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired in a business combination are measured initially at their fair value at the acquisition date, irrespective of the minority interest, if any. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is lower than the fair value of the assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group's companies are eliminated. Unrealized losses are also eliminated unless there is an impairment indicator of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *(b) Associates and jointly controlled entities*

Associates include all entities over which the Group has a substantial influence without exercising control, which usually results from holding 20%-50% of the total number of votes in an entity's decision-making bodies. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Group's investment in associates includes goodwill determined at acquisition date.

Jointly controlled entities include all entities over which ENEA S.A. exercises control together with other companies based on contractual arrangements. Investments in these entities are settled in line with the equity

method and initially recognized at cost. The Group's investments in jointly controlled entities include goodwill determined as at the acquisition date.

The post-acquisition Group's share in profits or losses of associates and/or jointly controlled entities is recognized in the income statement, and Group's share of post-acquisition movements in other capitals is recognized in other capitals. The carrying value of investments is adjusted by post-acquisition cumulative changes in equity. When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the equity accounted associate or joint venture, including any other unsecured receivables, recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealized gains on transactions between the Group and associates or jointly controlled entities are eliminated proportionally to the Group's interest in these entities. Unrealized losses are also eliminated unless there is an impairment indicator of the transferred asset. Accounting policies of associates and jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **3.3. Business combinations/acquisitions of entities**

#### *Accounting principles (policy)*

Business combinations/acquisitions of jointly-controlled entities do not fall within the scope of IFRS regulations. Considering the lack of detailed IFRS regulations, in line with the guidelines laid down in IAS 8 – “Accounting Policies, Changes in Accounting Estimates and Errors”, the entity ought to develop accounting principles applicable to such transactions.

In line with the recommendation, the Group adopted an accounting policy according to which such transactions are recognized in book values.

The accounting principles adopted by the Company are as follows:

The acquirer recognizes the assets, equity and liabilities of the acquiree at their current book value adjusted only for the purpose of applying uniform accounting principles for the combined entities beginning from the acquisition date. Goodwill and negative goodwill are not recognized. Any difference between the book value of the net assets acquired and the fair value of the payment in the form of equity instruments and/or assets issued by the entity is recognized in the equity of the Group.

When applying the method based on book amounts, comparative data for presented historical periods are not restated.

Business combinations/acquisitions of entities other than jointly controlled companies are settled using the acquisition method in line with IFRS 3.

### **3.4. Foreign currency transactions and measurement of foreign currency items**

#### *(a) Functional and presentation currency*

Items presented in the financial statements of individual Group entities are measured in the currency of the primary economic environment in which the entity carries out its business activity (functional currency). The consolidated financial statements are presented in the Polish zloty (PLN), which is the functional and presentation currency of all Capital Group companies.

#### *(b) Transactions and balances*

Foreign currency transactions are translated upon their initial recognition to the functional currency at the exchange rate ruling as at the transaction date.

As at the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate (the average exchange rate published by the National Bank of Poland as at the measurement date).

Exchange gains and losses arising from settlement of foreign currency transactions and balance sheet measurement of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

### **3.5. Property, plant and equipment**

Property, plant and equipment is measured at acquisition price or manufacturing cost less accumulated depreciation and accumulated impairment losses.

ENEA S.A. Capital Group applied the optional exemption provided for in IFRS 1, and adopted the fair value of selected items of property, plant and equipment as the deemed cost as at the date of transition to EU-IFRS.

Further expenditures are recognized in the carrying amount of a given fixed asset or recognized as a separate fixed asset (where appropriate) only if it is probable that the Group will generate economic benefits in connection with such an asset, whereas the cost of an item may be reliably measured. Any other expenditures incurred for repair and maintenance are recognized in profit or loss in the period when they are incurred.

If a fixed asset is replaced, the cost of the replaced component of the asset is recognized in its carrying amount, whereas the carrying amount of the replaced component is derecognized from the balance sheet irrespective of whether it has been depreciated separately, and recognized in profit or loss.

Land is not subject to depreciation. Other fixed assets are depreciated using the straight-line method over the expected useful life of the asset. Depreciation is calculated based on the gross value reduced by the residual value, provided it is material. Each material component of a fixed asset with a different useful life

is depreciated separately.

The useful lives of fixed assets are as follows:

- buildings and structures	25 – 80 years
including power grids	33 years;
- technical equipment and machines	4 – 50 years
- vehicles	5 – 20 years
- other fixed assets	5 – 15 years

The residual value and useful lives of fixed assets are reviewed at least on an annual basis.

Depreciation begins when a given asset has been commissioned for use. Depreciation is no longer recognized when an asset is to be sold or derecognized from the balance sheet.

As an enterprise the Group receives a return, partial or in full amount, of expenditures for fixed assets concerning the connection of new clients to the national power grid. The fixed assets are valued at acquisition or production cost. The corresponding amount of return is at the same time recognized in revenues from connection fees and is accounted for in accordance with the depreciation period of a given asset.

The Company received free of charge street lighting equipment from communes and municipalities, and such fixed assets are recognized in line with IAS 20 – “Accounting for Government Grants”, i.e. disclosed under property, plant and equipment at their fair value and presented in the balance sheet as income from subsidies settled as revenue over the period of 35 years, in proportion to the accrued depreciation costs.

Gains and losses on disposal of fixed assets, which constitute the difference between revenue from sales and the carrying amount of the fixed asset disposed of, are recognized in profit or loss.

### **3.6. Right of perpetual usufruct**

Land owned by the State Treasury, local governments or their associations may be used based on the right of perpetual usufruct (RPU). The perpetual usufruct of land is a special property right based on which property may be used with the exclusion of other parties and the object (right) may be disposed of.

Depending on the method of acquisition, the Company classifies the right of perpetual usufruct as follows:

1. RPU acquired by virtue of the law free of charge pursuant to a decision of the Voivode or local government authorities is recognized as an operating lease;
2. RPU acquired for consideration from third parties is recognized as an asset under right of perpetual usufruct at acquisition price reduced by depreciation charges;
3. RPU acquired under a land perpetual usufruct agreement entered into with the State Treasury or local governments is recognized as a surplus of the first payment over the annual fee, disclosed as an asset under right of perpetual usufruct and depreciated.

The right of perpetual usufruct is depreciated in the period for which it was granted (40-99 years).

### **3.7. Intangible assets**

#### *(a) Goodwill*

Goodwill is the surplus of acquisition price over the fair value of the share of the Group's entities in identifiable assets, liabilities and contingent liabilities of the acquired subsidiary as at the acquisition date or associate as at the date of assuming a significant influence. Goodwill from acquisition of subsidiaries is recognized in intangible assets. Goodwill arising from acquisition of investments in associates is recognized in the carrying amount of the investment.

Goodwill is tested for impairment on an annual basis and disclosed in the balance sheet at the initial value less accumulated amortization charges. For impairment testing purposes goodwill is attributed to cash generating units that derive benefits from synergy effects.

Gains and losses on disposal of associates or subsidiaries include the carrying amount of goodwill relating to the entity disposed of.

#### *(b) Other intangible assets*

Other intangible assets include: computer software, licenses as well as other intangible assets. Intangible assets are measured at acquisition price or manufacturing cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated based on the straight-line method, taking into account the estimated useful life, which is as follows:

- |  |              |
|--|--------------|
| - for server licenses and software                                     | 2 - 7 years; |
| - for workstation licenses and software as well as anti-virus software | 4-7 years;   |
| - for other intangible assets  | 2-7 years.   |

*(c) CO<sub>2</sub> emission rights*

CO<sub>2</sub> emission rights granted free of charge by the State Distribution Plan (Krajowy Plan Rozdziału) as well as acquired rights are classified as intangible assets and are subject to the following distinction: rights granted free of charge are recognized at nil cost whereas acquired rights are recognized at acquisition price.

The provision for the actual CO<sub>2</sub> emission is recognized at nil, as long as the actual emission does not exceed the limits owned by the Group for the given year. If the actual emission exceeds the limits owned by the Group for a given year, the Group creates a provision for the purchase of additional emission rights at the actual - as at the balance sheet date - market price of CO<sub>2</sub> emission rights.

Revenues from the sale of surplus emission rights are recognized as at the selling date.

**3.8. R&D expenses**

R&D expenses are recognized in profit or loss in the period when they are incurred.

Like other intangible assets, R&D expenses meeting the capitalization criteria presented below are measured at acquisition price or manufacturing cost less accumulated amortization and accumulated impairment losses. Amortization is calculated based on the straight-line method, taking into account the estimated useful life, which is 2-7 years.

Capitalization criteria:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure the expenditure attributable to the intangible asset during its development reliably.



**3.9. Borrowing costs**

Borrowing costs that can be assigned directly to the acquisition, construction or manufacturing of a qualifying asset are capitalized as a part of the acquisition price or manufacturing cost of the asset. Other borrowing costs are recognized as expense in the period when they are incurred.

**3.10. Leases**

Lease agreements that transfer substantially all the risks and rewards incidental to ownership to the Group are classified as finance leases. Leases other than finance leases are regarded as operating leases.

The object of a finance lease is recognized in the assets as at the lease commencement date at the lower of: the fair value of the leased asset or the present value of the minimum lease payments. Each finance lease payment is divided into an amount reducing the balance of the liability and financial expenses so as to produce a constant rate of interest on the remaining balance of the liability. The interest component of each lease payment is recognized in the income statement over the lease period in such a way as to arrive at a fixed periodic interest rate compared to the unsettled liability amount. Depreciable assets acquired under finance lease agreements are depreciated over their useful life.

Lease payments under an operating lease (less any special promotional offers from the lessor) are recognized as an expense on a straight-line basis over the lease term.

**3.11. Impairment of assets**

The Group's assets are tested for impairment whenever there are indications that an impairment loss might have occurred.

**Non-financial assets**

An impairment loss is recognized up to the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of: the fair value less the costs of bringing an asset into condition for its sale or value in use (i.e. the present estimated value of the future cash flows expected to be derived from an asset or cash-generating unit). For the purpose of impairment testing, assets are grouped at the lowest possible level with respect to which separate cash flows may be identified (cash-generating units).

All impairment losses are recognized in profit or loss. Impairment losses may be reversed in subsequent periods (except from losses on goodwill) if events occur justifying the lack or change in the impairment of assets.

**Financial assets**

Financial assets are tested for impairment as at each balance sheet date so as to determine whether there are any indications of their impairment. It is assumed that financial assets have been impaired if there are objective indications that one or more events having a negative impact on the estimated future cash flows relating to the assets have occurred.

Individual financial instruments with material value are tested for impairment on a case-by-case basis. Other financial assets are tested for impairment by groups with similar credit risk.

The principles for recognition of impairment losses on financial assets have been presented in detail in Note 3.13.

**3.12. Investment property**

Investment real property is maintained in order to generate rental income, for capital appreciation or for both. After the initial recognition, the Group selected the acquisition cost model.

Investments in real property are depreciated according to the straight-line method. Depreciation begins in the month following the month of its commissioning. The estimated useful life period is as follows:

Buildings	25 – 33 years
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**3.13. Financial assets**

Financial instruments are classified to the following categories: financial assets measured at fair value through profit or loss, loans and receivables, investments held to maturity and financial assets available for sale.

The classification is based on the purpose of acquiring an investment. The assets are classified upon initial recognition and then reviewed at each balance sheet date, if required or accepted by IAS 39.

*(a) Financial assets measured at fair value through profit or loss*

The category includes two sub-categories:

- financial assets held for trading; an asset is classified as such if it has been acquired principally for the purpose of being sold in the short term;
- financial assets designated as measured at fair value through profit or loss upon initial recognition.

These assets are recognized as current assets, if the Company intends to sell or realize them within 12 months of the balance sheet date.

*(b) Loans and receivables*

Loans and receivables are financial assets with determined or determinable payments, which are not quoted on the active market, not classified as derivatives. They arise when the Group spends cash, delivers goods or services directly to the debtor without the intention of classifying them as receivables held for trading.

Loans and receivables are classified as current assets if their maturity as at the balance sheet date does not exceed 12 months. Loans and receivables whose maturity as at the balance sheet date exceeds 12 months are classified as non-current assets. Loans and receivables are recognized in the balance sheet under trade and other receivables.

*(c) Investments held to maturity*

Investments held to maturity are non-derivative financial assets with determined or determinable payments and fixed maturity that the Group intends to and is able to hold to maturity.

*(d) Financial assets available for sale*

Financial assets available for sale are non-derivative financial instruments designated as “available for sale” or not included in any other category. This category includes mainly shares in unrelated parties. AFS financial assets are recognized as non-current assets if the Group does not intend to dispose of the investment within 12 months of the balance sheet date.

Acquisition and sale of financial assets is recognized as at the date of the transaction, i.e. the day when the Group undertakes to purchase or sell a given asset. Financial assets are initially recognized at fair value increased by transaction costs, except for investments classified as financial assets measured at fair value through profit or loss, which are initially measured at fair value without transaction costs.

Financial assets are derecognized from the accounting records if the rights to the related cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards incidental to their ownership.

AFS and MFVTPL financial assets are initially recognized at fair value. AFS financial assets are measured at acquisition price less impairment losses if it is not possible to determine their fair value and they do not have a fixed maturity. Loans and receivables as well as financial assets held to maturity are measured at amortized cost using the effective interest rate.

The effects of measurement of financial assets at fair value through profit or loss are recognized in profit or loss in the period when they occurred. The effects of measurement of AFS financial assets are recognized in equity, except for impairment losses and exchange gains or losses on monetary assets. Upon derecognition of an asset classified as “available for sale” from the accounting records, the total accumulated profits and losses previously recognized in equity are recognized in profit or loss.

The fair value of investments quoted in an active market is determined with reference to their current purchase price. If there is no active market for financial assets (or the securities are not quoted), the Group determines their fair value using adequate measurement techniques which include: recent transactions conducted under arm's length conditions, comparison to other instruments which are identical in substance, an analysis of discounted cash flows, option valuation models and other techniques and models widely applied

in the market, adjusted to the specific situation of the issuer.

At each balance sheet date, the Group verifies whether there is any objective evidence indicating impairment of a financial asset or a group of financial assets.

If such evidence exists in case of financial assets available for sale, the total accumulated losses recognized in equity, determined as the difference between the acquisition price and their current fair value less possible impairment losses recognized previously in profit or loss, are excluded from equity and recognized in profit or loss. Impairment losses recognized in profit or loss and relating to equity instruments are not reversed in correspondence with profit or loss. The reversal of impairment losses on debt securities is recognized in profit or loss if the fair value increased as a result of subsequent events after the recognition of impairment in the periods following the recognition of the impairment loss.

If there are indications of impairment of loans and receivables or investments held to maturity measured at amortized cost, impairment losses are determined as the difference between the carrying amount of the assets and the present value of estimated future cash flows discounted using the original effective interest rate for such assets (i.e. the effective interest rate calculated upon initial recognition for assets based on a fixed interest rate and the effective interest rate determined for the last revaluation of assets based on a floating interest rate). Impairment losses are recognized in profit or loss. Impairment is reversed if in subsequent periods the impairment decreases and the reduction may be attributed to events that occurred after the impairment recognition. As a result of reversal of the impairment, the carrying amount of financial assets should not exceed the amortized cost which would be determined had no impairment loss been recognized. Reversal of impairment losses is recognized in profit or loss.

If there are indications of impairment of unquoted equity instruments measured at acquisition price (as their fair value may not be determined reliably), the amount of the impairment loss is determined as the difference between the carrying amount of the assets and the present value of the estimated future cash flows discounted using the current market rate of return for similar financial assets. Such impairment losses are not reversed.

### **3.14. Inventories**

Inventories are measured at acquisition price or manufacturing cost not exceeding the net selling price.

Cost is determined according to the FIFO method except from production coal, biomass and limestone powder whose costs are determined in line with weighted average acquisition price method.

### **3.15. Certificates of origin**

Pursuant to Article 9 of the Energy Law, ENEA S.A. – as an energy company involved in trading and sales of electricity to end customers connected to the power grids on the territory of the Republic of Poland – is obliged to:

- a) obtain a specific number of certificates of origin and to submit them to the President of the Energy

Regulatory Office in order to redeem them, or

b) pay a substitute fee.

A certificate of origin confirms the production of electricity from renewable resources or in the CHP (combined heat and power) system. The certificates are issued by the President of the Energy Regulatory Office at the request of an energy company producing electricity from renewable sources (wind, water, solar or biomass energy) and in the CHP system. Certificates of origin are transferable and traded on commodity exchanges.

Property rights to certificates of origin arise when a certificate of origin is entered into the register kept by the Polish Power Exchange (Towarowa Gielda Energii S.A. - TGE S.A.). The property rights to certificates of origin are transferred when an appropriate entry is made in the register of certificates of origin.

ENEA S.A. is obliged to obtain and submit for redemption certificates of origin in the amount corresponding to the limits defined in ordinances issued based on the Energy Law and expressed as a proportion of its total energy sales to end customers. The deadline for complying with the requirement of certificate redemption or substitute fee payment expires on 31 March of the following year.

The substitute fee is the product of the price stated in the Energy Law and the difference between the amount of electricity resulting from the requirement of acquisition and redemption of certificates of origin and the amount of electricity resulting from the certificates of origin which were submitted for redemption by an energy company in a given year.

Depending on the purpose of their purchase, the certificates of origin are classified as:

- long- or short-term financial assets, if acquired to be resold;
- a separate category of long- or short-term assets (“certificates of origin”), if acquired to be redeemed.

Certificates of origin produced by the Group are recognized at the moment of producing electricity (or as at the date on which their issuance has become probable), unless there is a reasonable doubt regarding ERO President’s ability to issue them.

Certificates of origin are initially measured at acquisition price, while those produced by the Company are measured at market prices of the last month in which electricity covered with these certificates was produced.

During the financial year and until 31 March of the following year, the Group submits certificates of origin for redemption. In the accounting records redemption of certificates of origin is recognized in line with the detailed calculation method.

As at the balance sheet date, certificates of origin – except from those purchased for resale – are measured at acquisition price, reduced by impairment loss, if any, while those produced by the Company are measured at the market price of the last month in which electricity covered by these certificates was produced.

As at the balance sheet date, certificates of origin acquired for resale are measured at fair value, whereas the effects of the measurement are recognized in profit or loss.

If as at the balance sheet date the number of certificates of origin held by the Group is insufficient, a provision for the substitute fee or for acquisition of certificates on the Polish Power Exchange required to satisfy the requirements imposed by the Energy Law is recognized. The provision covers a number of certificates which represents the difference between the number of certificates redeemed for a given financial year and the number required to be redeemed according to the Energy Law. Provisions are measured primarily based on the acquisition price for the certificates held by the Company but not redeemed as at the balance sheet date and optionally based on the unit substitute fee or (if the volumes of transactions on the Polish Power Exchange are sufficient to effect the required transactions in a period allowing to redeem the certificates by 31 March of the following financial year) based on the weighted average value of indexes published by TGE from the last four trading sessions preceding the end of a quarter.

The amount of certificates of origin held by the Group reduces the provision.

### **3.16. Cash and cash equivalents**

Cash and cash equivalents include cash in hand, call deposits with banks and other short-term investments maturing within three months, with high liquidity.

### **3.17. Share capital**

The share capital of the Capital Group is recognized in the amount stipulated in the by-laws and registered in the National Court Register, adjusted by the effects of hyperinflation as well as settlement of the effects of business combinations and acquisitions, respectively. Increases in the share capital covered by the shareholders as at the balance sheet date and not yet registered in the National Court Register are also disclosed as share capital.

### **3.18. Loans and borrowings**

Upon initial recognition financial liabilities are measured at fair value less transaction costs incurred by the Group.

Following their initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

**3.19. Income tax (including deferred income tax)**

Statutory appropriations of the financial profit/loss include: current tax and deferred tax.

The current tax liability is calculated based on the taxable profit (tax base) for a given reporting period. The taxable profit (loss) differs from net accounting profit (loss) due to the exclusion of taxable income and expenses classified as tax-deductible in the following years as well as expenses and revenue which will never be subject to taxation. Tax liabilities are calculated based on tax rates applicable in a given reporting period.

The deferred tax liability resulting from taxable temporary differences between the tax value of assets and liabilities and their carrying amount are recognized in the consolidated financial statements in their full amount.

The deferred tax asset is recognized if it is probable that the Group will generate taxable income which will allow it to deduct temporary differences or use tax losses in the future.

The Group does not recognize a deferred tax asset and liability if they result from the initial recognition of an asset or liability arising from a transaction if the transaction is not a business combination and if it does not have an impact on the gross financial profit/loss or the taxable income when it is effected. Additionally, the deferred tax liability is not recognized with respect to temporary differences arising upon initial recognition of goodwill or goodwill whose amortization is not regarded as a tax-deductible expense.

The deferred tax asset and liability are recognized with respect to all temporary differences relating to investments in related parties, except for cases where both of the following conditions are met:

- the Group is able to control the timing of the reversal of the temporary differences; and
- it is probable that the temporary differences will not reverse in the foreseeable future.

The deferred income tax is determined based on tax rates (and regulations) which are expected to be applicable when an asset is used and the liability settled, on the basis of the tax rates (and regulations) which were legally or actually applicable as at the balance sheet date.

Deferred tax is recognized in profit or loss for a given period, except for instances when deferred tax:

1. pertains to a transaction or event that is recognized directly in comprehensive income, in which case it is also recognized in the relevant other item of comprehensive income; or
2. results from business combinations, in which cases it affects the value of goodwill or the surplus of the interest in the net fair value of assets over business combination costs.

Deferred tax asset and liabilities are set off if there is a legally enforceable right to set off a current tax asset against a current tax liability when the deferred tax asset and liability relate to income taxes levied by the same taxation authority on the same taxable entity.

### **3.20. Employee benefits**

The following types of employee benefits are recognized by the Capital Group:

#### **A. Short-term employee benefits**

Short-term employee benefits include but are not limited to: monthly wages, salaries, annual bonuses, electricity allowance, short-term paid leave with social security contributions.

Liability due to short-term (accrued) paid leave (compensation for paid leave) even if employees are not entitled to receive payment in lieu of holiday. The Group determines the projected cost of accumulated paid leave as an additional amount that, according to projections, it shall pay as a result of the unused title defined as at the balance sheet date.

#### **B. Defined benefit plans**

Defined benefit plans of the Capital Group include:

##### *1) Retirement benefits*

Employees retiring (eligible for disability benefits) are entitled to receive retirement benefits in the form of cash compensation. The value of such benefits depends on the length of service and the remuneration received by the employee. The related liabilities are estimated using actuarial methods.

##### *2) Electricity allowance for pensioners*

Retiring employees who have worked for the Group for at least one year are entitled to a reduced price of consumed energy amounting to 3,000 kWh/year. In case of an employee's death, the right is transferred to his/her spouse if that person receives a family allowance. The related liabilities are estimated using actuarial methods.

Pensioners and disability pensioners acquire the right to an electricity allowance in the amount of 3000 kWh x 80% of the electricity price and the variable component of the transmission charge and 100% the fixed network charge and subscription charge at the single-zone rate household tariff. The equivalent is paid twice a year: by 15 May and by 15 September, each time in the amount of the half of the annual equivalent.

##### *3) Jubilee benefits*

Other long-term employee benefits include jubilee benefits. Their value depends on the length of service and the remuneration received by the employee. The related liabilities are estimated using actuarial methods.

##### *4) Appropriation to the Company's Social Benefits Fund for pensioners*

Pursuant to the Collective Labor Agreement, when calculating the annual appropriation to the Social Benefits Fund, the Group also takes into consideration pensioners entitled to the benefits. The liability is recognized proportionally to the expected period of performing work by employees. The value of the provision is estimated using actuarial methods.



Liabilities relating to the benefits referred to in points 1-4 are estimated by an actuary using the projected unit credit method. The total value of actuarial gains and losses is recognized in profit or loss.

### **C. Defined contribution plan**

Pursuant to Appendix No. 18 to the Collective Labor Agreement, the Group operates an Employee Pension Scheme in the form of unit-linked group employee insurance in line with the statutory principles and under conditions negotiated with the trade unions.

The Employee Pension Scheme is available to all employees after one year of service, irrespective of the type of their employment contract.

Employees join the Employee Pension Scheme under the following terms and conditions:

- a) the insurance is a group life insurance with insurance protection;
- b) the amount of the basic premium is set at 7% of the participant's salary;
- c) 90% of the basic premium is allocated to investment premium and 10% to insurance protection.

### **D. Share-based payments**

Share-based payments relate to equity-settled or cash-settled transactions in which the Group receives services (work performed by employees) as consideration for its equity instruments (shares) or their cash equivalent.

The Group recognizes the services provided under equity-settled share-based payments and the corresponding increase in equity upon their receipt. If the services rendered in share-based payment transactions may not be classified as assets, they are recognized as a cost.

The value of such cost is determined based on the fair value and measured at grant date. As the fair value of the services provided by employees may not be determined directly, it is estimated based on the fair value of equity instruments granted by the Company.

In cash-settled share-based payments the Group measures its liability at fair value as at each reporting date and as at the settlement date, whereas any changes in the value are recognized in profit or loss for a given period.

### **3.21. Provisions**

Provisions are created if the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, discounted at the balance sheet date.

### **3.22. Revenue recognition**

Sales revenue is measured at the fair value of the consideration received or receivable less the value added tax, discounts and rebates.

Revenue from the sales of energy and distribution services is recognized upon delivery of the energy or transmission services to the customer.

In order to determine the value of revenue for a period from the last billing date to the balance sheet date, an estimate is made and disclosed in the balance sheet under trade and other receivables.

Revenue from the sales of goods and materials is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods and materials it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from lease of investment property is recognized in the income statement according to the straight-line method over the term of the lease.

Interest income is recognized on an accrual basis using the effective interest rate if its receipt is not doubtful.

Dividend income is recognized when the Company acquires the right to receive the related payments.

### **3.23. Grants**

The Group receives grants in the form of fixed assets and compensation for expenses incurred for fixed assets. Such grants are recognized in accordance with IAS 20 – “Government Grants”.

Grants are recognized in the balance sheet as deferred income when there is reasonable assurance that they will be received and that the Group will comply with appropriate conditions related to such grants. Grants received as compensation for costs already incurred by the Group are recognized on a systematic basis as revenue in profit or loss the periods in which the entity recognizes as expenses the related costs. Grants received by the Group as compensation for capital expenditure incurred are recognized on a systematic basis in proportion to the depreciation charges as other operating revenue in profit or loss over the useful life of an asset.

### **3.24. Compensation to cover orphaned costs originating from early termination of long-term power and electricity sales contracts (LTC)**

Compensation to cover the orphaned costs is recognized in the income statement as revenue in the periods when the related orphaned costs are incurred.

Compensation to cover orphaned costs is recognized in the amount of advances due for a given financial period as determined in Appendix 4 to the Act on principles to cover producers' costs originating from early termination of LTC of 29 June 2007 adjusted by an estimated adjustment amount for the given period. The compensation for orphaned costs for the given year is settled by the President of ERO by 31 July of the subsequent year and by 31 August following the last year of LTC remaining in force.

### **3.25. Connection fees**

Contractors connected to the grid by the Group refund a portion of or entire amount of costs incurred by the Group in relation to the connection. The amount of refunded connection costs is recognized in Group's liabilities and charged to revenue over the connection depreciation period, i.e. 35 years.

### **3.26. Dividend payment**

Payments of dividends to shareholders (including minority shareholders for dividends of subsidiaries) are recognized as a liability in the financial statements of the Group for the period when they were approved by the Parent's shareholders.

Profit-sharing payments received from companies wholly owned by the State Treasury, amounting to 15% of the gross profit less income tax due, are also regarded as dividends.

### **3.27. Segment reporting**

The business segment is the primary reporting format. A business segment is a group of assets and liabilities engaged in providing products and services that are subject to risks and returns on investments different from other business segments. There are four business segments in the Capital Group:

- trade – sale of electricity to end customers;
- distribution – electricity transmission services;
- production – electricity generation;
- other activities.

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

### **3.28. Assets held for sale**

Non-current assets meet the criteria necessary to be classified as held for sale in line with IFRS 5 and are presented separately in the balance sheet. Non-current HFS assets are measured by the Company in the lower of the two amounts: the carrying amount or the fair value reduced by costs of bringing the asset to the condition for sale. An asset is actively offered for sale at the price being a reasonable reference to its current fair value.

### **3.29. Statement regarding applied International Financial Reporting Standards**

#### ■ IAS 1 (revised) – Presentation of Financial Statements

The revised standard is applicable as from 1 January 2009. It concerns the presentation of financial statements. The revision covers changes in the names of the basic financial statements and presentation of the balance sheet, income statement and statement of changes in equity. The aforementioned revisions do not affect the Group's performance and equity.

#### ■ IAS 23 (revised) – Borrowing Costs

The revised standard is applicable as from 1 January 2009. The revision has eliminated the previous model approach which required entities to recognize borrowing costs directly in profit or loss and imposed the obligation of cost capitalization.

The revised standard will not have an impact on the Group's financial statements.

#### ■ IFRS 8 – Operating Segments

The revised standard is applicable as from 1 January 2009 or in later periods. The Standard requires segment disclosure based on the components of the entity monitored by the management in making operations-related decisions. Application of the standard will not affect the Company's performance and equity.

#### ■ IFRS 1 (revised) – First-time Adoption of International Financial Reporting Standards and IAS 27 (revised) – Consolidated and Separate Financial Statements

The revised standard is applicable as from 1 January 2009 and in later periods. It allows entities applying IFRS for the first time to use the deemed cost determined as the fair value or the carrying amount in line with the previous accounting policy, in order to specify the initial cost of investments in subsidiaries, co-subsidiaries and associates in the separate financial statements.

The revised standard does not impact the Group's financial statements.

#### ■ IAS 38 (amended) – Advertising and Promotional Activities

The revised standard is applicable as from 1 January 2009. An advance payment may be recognized only if it was made in advance, prior to acquiring access to goods or receipt of services.

The revised standard will not have an impact on the Group's financial statements.

#### ■ IAS 40 (revised) – “Investment Property” (and the resulting revision to IAS 16)

The revised standard is applicable as from 1 January 2009. If the fair value model is applied, investment property under construction is measured at fair value if possible.

The standard does not have an impact on the Group's financial statements.

#### ■ IAS 20 (revised) – Accounting for Government Grants and Disclosure of Government Assistance (applicable as from 1 January 2009)

The revised standard is applicable as from 1 January 2009. The benefits of a government loan at a below-market rate of interest are measured as the difference between the carrying amount (in line with IAS 39 – Financial Instruments: Recognition and Measurement) and the proceeds received with the benefit settled in accordance with IAS 20.

The revision is not applicable to the Group.

■ IAS 31 (revised) – Interests in Joint Ventures (and the resulting revision to IAS 32 and IFRS 7) (applicable as from 1 January 2009).

The revised standard is applicable as from 1 January 2009. When an investment in a joint venture is accounted for in accordance with IAS 39, only certain disclosures required by IAS 31 have to be made to supplement the disclosures under IAS 32 – Financial Instruments: Disclosure and Presentation and IFRS 7 – Financial Instruments: Disclosures.

The revision is not applicable to the Group.

■ IFRS 2 (revised) – Share-based Payment

The revised standard is applicable as from 1 January 2009. The revised standard lays down the rules related to vesting conditions and cancellations. It specifies detailed vesting conditions, including only the service provision condition as well as those relating to the entity's business operations. The remaining features of share-based payments are not regarded as vesting conditions.

The standard does not have an impact on the Group's financial statements.

■ IFRIC 11 – IFRS 2 - Group and Treasury Share Transactions

The interpretation provides guidelines as to whether treasury share or group transactions ought to be disclosed in the separate financial statements of the parent and group companies as share-based, equity-settled or cash-settled transactions.

The interpretation does not have an impact on the Group's financial statements.

■ IFRIC 13 – Customer Loyalty Programs

The interpretation applies to financial statements prepared for periods beginning on 1 January 2009. It explains that if goods or services are sold with customer loyalty incentives, the contracts include numerous elements and the remuneration due from the customer is allocated to individual elements at fair value.

The interpretation does not have an impact on the Group's financial statements.

■ IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The interpretation applies to financial statements prepared for periods beginning on or after 1 January 2009. It provides guidelines regarding estimation of the limitation specified in IAS 19 to the surplus that may be recognized as an asset. It also explains the potential impact of statutory or contractual

minimum funding requirements on assets or liabilities relating to retirement benefits. The interpretation does not have an impact on the financial statements.

■ **IFRS (revised) – Business Combinations**

The revised standard is applicable as from 1 January 2009. All payments made due to acquisition of a business entity should be recognized at fair value at the acquisition date, whereas contingent payments classified as liabilities are remeasured through profit or loss at a later date. In case of each individual acquisition a decision can be made on selection of measurement of the non-controlling interest in the acquiree either at fair value or the proportionate share in the net asset of the acquiree attributable to non-controlling interest. All costs relating to the acquisition ought to be recognized in profit or loss.

If such an event occurs, the Group will begin to apply IFRS 3 (revised) prospectively to all business combinations as from 1 January 2010.

■ **IAS 27 (revised) – Consolidated and Separate Financial Statements**

The revised standard is applicable to reporting periods beginning on or after 1 July 2009. If an investment in a subsidiary accounted for in accordance with IAS 39 – Financial Instruments: Recognition and Measurements, it is classified as held for sale in line with IFRS 5 – Non-current Assets Held for Sale and Discounted Operations and IAS 39 is still applicable.

The revision has no impact on the Group's operations.

■ **IAS 39 (revised) – Financial Instruments: Recognition and Measurement**

The revised standard is applicable to reporting periods beginning on or after 1 July 2009. Earlier adoption is permissible. It explains issues related to hedge accounting: classification of inflation as risk or part of risk subject to a hedge and option hedges. The changes also specify that a risk-free or model interest rate may be separated and reliably measured and hence it may be hedged. The amended IAS 39 allows entities to designate options as hedges of financial or non-financial items. The entity may designate an option as a hedge on the changes in cash flows or the fair value of the hedged item or below the specified price or in line with a different variable (one-sided risk).

As the Group does not apply hedge accounting, the standard is not applicable.

■ **IAS 39 (revised) – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures**

The revised standard is applicable as from 1 January 2009. The change concerns reclassification of financial assets. Applicable to reclassifications carried out before 1 November 2008. The Company may reclassify financial assets with the effective date 1 July 2008 (but not earlier) or as at any other date after 1 July 2008, no later however than as at 31 October 2008.

The amendment is not applicable to the Group.

■ IFRIC 12 – Service Concession Arrangements

The interpretation is applicable to annual periods beginning on or after 30 March 2009. It provides guidelines to operators regarding concession arrangements for services between the public and private sector as regards the accounting recognition of such arrangements.

The interpretation is not applicable to the Group.

■ IFRIC 15 – Agreements for the Construction of Real Estate

The interpretation has been effective since 1 October 2008. It specifies which standard – IAS 18 – Revenue or IAS 11 – Construction Contracts, ought to be applicable to certain transactions.

The interpretation is not applicable to the Group.

■ IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The interpretation has been effective since 1 October 2008. It defines the accounting approach to hedges of net investments.

The interpretation does not impact the Group's financial statements.

■ IFRIC 18 “Transfers of Assets from Customers”

The Interpretation is effective from 1 January 2010. It applies to contracts based on which a customer transfers to an entity property, plant and equipment, which is subsequently used either to connect the client to the grid or to allow the client continuous access to goods or services, or for both these purposes. Further, the interpretation applies to contracts based on which customers provide the entity with cash used for manufacturing or purchasing of property, plant and equipment. The entity receiving the funds recognizes a property, plant and equipment item if it meets the definition of an asset. Revenue is recognized in correspondence to the asset. The time of recognizing the revenue depends on detailed circumstances and characteristics of the concluded contract. The Interpretation will impact the Group's financial statements as from 2010.

No published standards and interpretations, which have not come into force yet, were applied in the course of preparation of these financial statements.

#### 4. Material estimates and assumptions

The preparation of these financial statements in accordance with EU-IFRS requires that the Management Board makes certain estimates and assumptions that affect the adopted accounting policies and the amounts disclosed in the financial statements and notes thereto. The adopted assumptions and estimates are based on the Management Board's best knowledge about current and future activities and events. The actual figures, however, can be different from those assumed.

The key areas in which the estimates made by the Management Board have a material impact on the financial statements include:

- **employment and post-employment benefits** – the provisions for employee benefits are measured using a method which involves determination of the opening balance of liabilities due to expected future benefit payments as at the balance sheet date, calculated in line with actuarial methods; an increase in the discount rate and the long-term pay rise rate affect the accuracy of the estimate made (Note 26);
- **revaluation write-downs on trade and other receivables** – their value is determined as the difference between the carrying amount and the present value of estimated future cash flows, discounted using the original interest rate; a change in the value of estimated future cash flows shall cause a change in estimated revaluation write-downs on receivables (note 13);
- **unbilled sales revenue at the end of the financial year** – the value of unbilled energy sales is estimated based on the estimated consumption of electricity in the period from the last meter reading date until the end of the financial period (Note 13);
- **economic useful lives** – the remaining useful life of fixed assets is estimated based on the currently available information on the expected useful life of a given asset, subject to periodic review in line with the binding legal regulations (Note 7);
- **compensation for non-contractual use of property** – the potential payment of compensation for the so called non-contractual use of land and rental fee is estimated by the technical staff of the Group based on analyses of claims filed on a case-by-base basis (Note 28 and 45.4);
- **provision for land reclamation** - Elektrownia "Kozienice" S.A., having filled or closed a slag and ash dump, is obliged to reclaim the land. As the company has large unfilled dumps, land reclamation is planned for 2060. Future estimated costs of land reclamation were discounted to their current value as at 31 December 2009, using a 16.5% discount rate (note 28);
- **provision for costs of disposing or dumping of ash and slag mix** – in the coal combustion process, Elektrownia "Kozienice" S.A. produces two types of waste: ash and ash and slag mixture. As the company incurs costs related to mixture disposal, it creates an appropriate provision. Future estimated costs of disposing or dumping ash and slag mixture were discounted to their current value as at 31 December 2009, using a 6.15% discount rate (note 28);
- **share-based payment** – the Group recognizes the services provided under equity-settled share-based payments (performance of work) and the corresponding increase in equity upon their receipt. As the fair value of the services provided by employees may not be determined directly, it is estimated based on the fair value of equity instruments granted by the Group. As at 31 December 2009, the Management Board decided that the value of the employee stock ownership plan would no longer be subject to revaluation



(Note 22);

- **compensation to cover orphaned costs** originating from early termination of LTC are recognized in the amount of advances due for the given period adjusted by an estimated adjustment amount to be calculated by the President of ERO and depending upon a number of factors, including in particular performance of the generator, sales volume and average market price of electricity (note 40).

#### 5. Composition of the capital group – list of subsidiaries, associates and jointly-controlled entities

No.	Name and address of the company	ENEA S.A. percentage share in the total number of votes 31.12.2009	ENEA S.A. percentage share in the total number of votes 31.12.2008
1.	ENERGOMIAR Sp. z o.o. <i>Poznań, ul Strzeszyńska 58</i>	100	100
2.	BHU S.A. <i>Poznań, ul Strzeszyńska 58</i>	87.97	87.97
3.	Energetyka Poznańska Biuro Usług Technicznych S.A. <i>Poznań, ul. Dziadoszańska 10</i>	100	100
4.	Hotel „EDISON” Sp. z o.o. <i>Baranowo near Poznań</i>	100	100
5.	Energetyka Wysokich i Najwyższych Napięć “EWiNN” Sp. z o.o. <i>Poznań, ul Strzeszyńska 58</i>	100	100
6.	Energetyka Poznańska Zakład Transportu Sp. z o.o. <i>Poznań, ul Strzeszyńska 58</i>	100	100
7.	COGEN Sp. z o.o. <i>Poznań, ul. Nowowiejskiego 11</i>	100	100
8.	EnergoPartner Sp. z o.o. <i>Poznań, ul. Warszawska 43</i>	100	100
9.	Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych Energobud Leszno Sp. z o.o. <i>Lipno, Gronówko 30</i>	100	100
10.	ENERGO-TOUR Sp. z o.o. <i>Poznań, ul. Marcinkowskiego 27</i>	99.92	99.92
11.	ENEOS Sp. z o.o. <i>Szczecin, ul. Ku Słońcu 34</i>	100	100
12.	ENTUR Sp. z o.o. <i>Szczecin, ul. Malczewskiego 5/7</i>	100	100
13.	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowiskowe ENERGETYK Sp. z o.o. <i>Inowrocław, ul. Wilkońskiego 2</i>	99.94	99.92
14.	Elektrownie Wodne Sp. z o.o. <i>Samociążek, 86-010 Koronowo</i>	100	100
15.	Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o. <i>Gorzów Wlkp., ul. Energetyków 4</i>	100	100
16.	“PWE Gubin” Sp. z o.o. <i>Sękowice 100, municipality of Gubin</i>	50	50
17.	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. <i>Oborniki, ul. Wybudowanie 56</i>	87.99	87.99
18.	„ITSERWIS” Sp. z o.o. <i>Zielona Góra, ul. Zacisze 28</i>	100	100
19.	“Auto – Styl” Sp. z o.o. <i>Zielona Góra, ul. Zacisze 15</i>	100	100
20.	FINEA Sp. z o.o. <i>Poznań, ul. Warszawska 43</i>	100	100
21.	Przedsiębiorstwo Energetyki Ciepłej - Gozdnicza Sp. z o.o. <i>Gozdnica, ul. Świerczewskiego 30</i>	100	100

<b>22.</b>	ENEA Operator Sp. z o.o. <i>Poznań, ul Strzeszyńska 58</i>	100	100
<b>23.</b>	Elektrownia "Kozienice" S.A. <i>Świerże Górne, municipality of Kozienice, Kozienice 1</i>	100	100
<b>24.</b>	Miejska Energetyka Ciepła Piła Sp. z o.o. <i>64-920 Piła, ul. Kaczorska 20</i>	63.396	64.997
<b>25.</b>	Kozienice II Sp. z o.o. <i>Świerże Górne, municipality of Kozienice, Kozienice 2</i>	100	100
<b>26.</b>	Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET S.A. <i>Ostrów Wlkp., ul. Chłapowskiego 51</i>	49	49
<b>27.</b>	Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A. <i>Śrem, ul. Staszica 6</i>	41.65	41.65
<b>28.</b>	Elektrociepłownia Białystok S.A. <i>Białystok, ul. Gen. Andersa 3</i>	30.36	30.36

**Changes in the Capital Group structure in the period covered by the consolidated financial statements**

On 23 February 2009, the Extraordinary Shareholders' Meeting of Kozienice II Sp. z o. o. adopted a resolution to increase the share capital by PLN 34,000 thousand. ENEA S.A. acquired 17,200 new shares with the face value of PLN 1,000 each. The remaining shares were assumed by Elektrownia "Kozienice" S.A. After the capital increase, Elektrownia „Kozienice” S.A. and ENEA S.A. hold 50% in the share capital and in the total number of votes at the Shareholders' Meeting. Appropriate entry to the National Court Register was made on 7 April 2009.

On 31 March 2009 the Extraordinary Shareholders' Meeting of ZZE S. A. „IT SERWIS” Sp. z o. o. adopted Resolution No. 1 to increase the company's share capital by PLN 6,264 thousand up to PLN 6,364 thousand, by issuing of 12,528 new shares of the face value of PLN 500 each. All new shares in the company's share capital were assumed by the sole shareholder ENEA S.A. The shares were covered with a contribution in kind. The increase in capital was registered on 15 May 2009.

On 31 March 2009 the Extraordinary Shareholders' Meeting of ENTUR Sp. z o. o. passed a Resolution No. 1 to increase the company's share capital by PLN 3,934.5 thousand to PLN 4,034.5 thousand, by way of creating 7,869 new shares with the face value of PLN 500 each. All new shares in the company's share capital were assumed by the sole shareholder ENEA S.A. The shares were covered with a contribution in kind. The increase in capital was registered on 9 June 2009.

On 31 March 2009 the Extraordinary Shareholders' Meeting of Zakład Usług Przewozowych "ENERGOTRANS" Sp. z o. o. adopted Resolution No. 1 to increase the company's share capital by PLN 500 thousand up to PLN 1,385 thousand, by way of creating 1,000 new shares with the nominal value of PLN 500 each. All new shares in the company's share capital were assumed by the sole shareholder ENEA S.A. On 1 April 2009 the shares were covered with a cash contribution. The increase in capital was registered on 28 May 2009.

On 4 May 2009 the Extraordinary Shareholders' Meeting of COGEN Sp. z o. o. passed a Resolution No. 1 to increase the company's share capital by PLN 622.5 thousand up to PLN 1,622.5 thousand, by way of creating 1,245 new shares with the face value of PLN 500 each. All new shares in the company's share capital were assumed by the sole shareholder ENEA S.A. The increase in capital was registered on 2 June 2009.

On 25 May 2009 the Extraordinary Shareholders' Meeting of "PWE GUBIN" Sp. z o. o. passed a Resolution to increase the company's share capital by PLN 11,000 thousand. ENEA S.A. assumed 5,500 new shares with the face value of PLN 1,000 each. The remaining shares were assumed by Kopalnia Węgla Brunatnego "Konin" w Kleczewie S.A. After the capital increase, ENEA S.A. and Kopalnia Węgla Brunatnego "Konin"

hold 50% in the share capital and in the total number of votes at the Shareholder's Meeting each. The increase in capital was registered on 12 August 2009.

On 1 July 2009 a business combination consisting in the acquisition of STEREN Sp z o.o. with its registered office in Bydgoszcz by ENERGOMIAR Sp. z o.o. with its registered office in Poznań was registered in the National Court Register. As a result, a new entity was established under the name of ENERGOMIAR Sp z o.o. with its registered office in Poznań.

On 27 July 2009, the Extraordinary Shareholders' Meeting of EnergoPartner Sp. z o. o. adopted a Resolution to increase the share capital by PLN 200 thousand, i.e. up to PLN 8 200 thousand, by way of creating 200 new shares with the nominal value of PLN 1 000 each. All new shares in the company's share capital were assumed by the sole shareholder ENEA S.A. and cash covered.

On 31 August 2009 the Extraordinary Shareholders' Meeting of EnergoPartner Sp. z o. o. adopted Resolution No. 1 to increase the company's share capital by PLN 2,900 thousand to PLN 11,100 thousand, by way of creating 2,900 new shares with the nominal value of PLN 1,000 each. All new shares in the company's share capital were assumed by the sole shareholder ENEA S.A. and cash covered.

On 23 October 2009 the Extraordinary Shareholders' Meeting of Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowskie ENERGETYK Sp. z o. o. with its registered office in Inowrocław decided to increase the company's share capital by PLN 3,250 thousand to PLN 15,738 thousand, by way of creating 6,500 new shares with the nominal value of PLN 500 each. The new shares in the company's share capital were acquired by the sole shareholder – ENEA S.A. and covered with a cash contribution. The increase in capital was registered on 22 December 2009.

On 26 October 2009 the Extraordinary Shareholders' Meeting of "COGEN" Sp. z o. o. adopted Resolution No. 2 to increase the company's share capital by PLN 750 thousand up to PLN 2,372.5 thousand, by way of creating 1,500 new shares with the nominal value of PLN 500 each. The new shares in the company's share capital were acquired by the sole shareholder – ENEA S.A. and covered with a cash contribution. The increase in capital was registered on 3 December 2009.

On 4 December 2009 the Extraordinary Shareholders' Meeting of Koziencice II Sp. z o.o. adopted Resolution No. 1 to increase the company's share capital by PLN 55,000 thousand up to PLN 90,000 thousand, by way of creating 55,000 new shares with the nominal value of PLN 1,000 each. The new shares in the company's share capital were acquired by the sole shareholder – ENEA S.A. and fully covered with a cash contribution, which changed the share parity for ENEA S.A. from 50% to 80.56%. The share capital increase was registered on 31 December 2009.

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On 18 December 2009 the Extraordinary Shareholders' Meeting of Elektrownie Wodne Sp. z o.o. adopted Resolution No. 1 to increase the company's share capital by PLN 329.5 thousand up to PLN 205,020 thousand, by way of creating 659 new shares with the nominal value of PLN 500 each. The new shares in the company's share capital were acquired by the sole shareholder – ENEA S.A. and covered with a contribution in kind.

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*(if not indicated otherwise, all amounts are denominated in PLN'000)***6. Segment reporting**

Key reporting: industry segments

Segment reporting for the period from 1 January to 31 December 2009:

	Turnover	Distribution	Production	All other segments	Exclusions	Total
Net sales revenue	4 489 714	2 301 447	7 215	368 961	-	7 167 337
Inter-segment sales	385 106	-	2 370 942	412 219	(3 168 267)	-
<b>Total net sales revenue</b>	<b>4 874 820</b>	<b>2 301 447</b>	<b>2 378 157</b>	<b>781 180</b>	<b>(3 168 267)</b>	<b>7 167 337</b>
Total expenses	(4 639 360)	(2 160 692)	(2 162 632)	(751 368)	3 113 757	(6 600 295)
<b>Segment profit/loss</b>	<b>235 460</b>	<b>140 755</b>	<b>215 525</b>	<b>29 812</b>	<b>(54 510)</b>	<b>567 042</b>
Unassigned Group costs (general and administrative expenses)						(61 437)
<b>Operating profit</b>						<b>505 605</b>
Financial expenses						(33 020)
Financial revenue						172 705
Net profit/loss sharing in associated entities						7 766
Income tax						(139 446)
<b>Net profit</b>						<b>513 610</b>
Share in minority interest profit						21

Segment reporting for the period from 1 January to 31 December 2008:

	Turnover	Distribution	Production	All other segments	Exclusions	Total
Net sales revenue	3 393 620	2 278 735	202 819	282 588	-	6 157 762
Inter-segment sales	287 027	-	1 531 763	454 758	(2 273 548)	-
<b>Total net sales revenue</b>	<b>3 680 647</b>	<b>2 278 735</b>	<b>1 734 582</b>	<b>737 346</b>	<b>(2 273 548)</b>	<b>6 157 762</b>
Total expenses	(3 436 479)	(2 209 614)	(1 666 610)	(731 179)	2 259 101	(5 784 781)
<b>Segment profit/loss</b>	<b>244 168</b>	<b>69 121</b>	<b>67 972</b>	<b>6 167</b>	<b>(14 447)</b>	<b>372 981</b>
Unassigned Group costs (general and administrative expenses)						(121 622)
<b>Operating profit</b>						<b>251 359</b>
Financial expenses						(51 178)
Financial revenue						92 871
Net profit/loss sharing in associated entities						414
Income tax						(78 099)
<b>Net profit</b>						<b>215 367</b>
Share in minority interest profit						6

\* Include other operating revenue and expenses

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Key reporting: industry segments (cont.)

Other segment reporting information as at 31 December 2009 and for the 12-month period ended as at that date:

	<b>Turnover</b>	<b>Distribution</b>	<b>Production</b>	<b>All other segments</b>	<b>Exclusions</b>	<b>Total</b>
Property, plant and equipment	19 609	4 724 365	2 832 857	340 394	(68 090)	7 849 135
Trade and other receivables	528 425	355 886	268 461	157 840	(389 342)	921 270
Total	548 034	5 080 251	3 101 318	498 234	(457 432)	8 770 405
ASSETS excluded from segmentation						3 459 283
- including property, plant and equipment						211 539
- including trade and other receivables						5 573
<b>TOTAL: ASSETS</b>						<b>12 229 688</b>
Trade and other liabilities	426 258	404 541	289 852	144 341	(389 342)	875 650
Equity and liabilities excluded from segmentation						11 354 038
- including trade and other liabilities						115 890
<b>TOTAL: EQUITY AND LIABILITIES</b>						<b>12 229 688</b>
Investment layouts for PPE and intangible assets excluded from segmentation	-	412 015	302 369	80 009	(32 352)	762 041
Investment layouts for PPE and intangible assets excluded from segmentation						70 688
Amortization	353	345 190	246 344	59 964	3 381	655 232
Amortization excluded from segmentation						6 113
Revaluation write-down on receivables as at 31.12.2009	81 976	8 971	53 916	5 769	-	150 632

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Key reporting: industry segments (cont.)

Other segment reporting information as at 31 December 2008 and for the 12-month period ended as at that date:

	<b>Turnover</b>	<b>Distribution</b>	<b>Production</b>	<b>All other segments</b>	<b>Exclusions</b>	<b>Total</b>
Property, plant and equipment	18 439	4 546 657	2 777 132	386 527	(29 356)	7 699 399
Trade and other receivables	381 685	332 397	309 470	146 052	(403 066)	766 538
Total:	400 124	4 879 054	3 086 602	532 579	(432 422)	8 465 937
ASSETS excluded from segmentation						3 519 980
- including property, plant and equipment						245 416
- including trade and other receivables						15 876
<b>TOTAL: ASSETS</b>						<b>11 985 917</b>
Trade and other liabilities	508 560	244 077	280 232	109 904	(403 066)	739 707
Equity and liabilities excluded from segmentation						11 246 210
- including trade and other liabilities						126 582
<b>TOAL: EQUITY AND LIABILITIES</b>						<b>11 985 917</b>
Investment outlays for PPE and intangible assets	-	410 282	212 272	20 184	(22 632)	620 106
Investment outlays for PPE and intangible assets excluded from segmentation						24 813
Amortization	321	350 454	237 001	27 469	(4 059)	611 186
Amortization excluded from segmentation						20 178
Revaluation write-downs on receivables as at 31.12.2008	92 751	2 762	22 597	6 122	-	124 232



The segment revenue is that generated from the sales to external clients and transactions with other segments, which are directly attributable to a given segment and a relevant portion of the Group's revenue and are assignable on a reasonable basis.

The segment costs are those consisting of costs of goods sold to external clients and costs of transactions with other Group segments, which result from operations of a given segment and are directly attributable to a given segment with a relevant portion of the Group's costs and which are assignable on a reasonable basis.

Market prices apply to inter-segment transactions which provides individual entities with a margin sufficient for independent functioning on the market. Prices specified in the Energy Law, i.e. the Energy Law of 10 April 1997 and relevant secondary legislation, apply in terms of trading in electricity and providing transmission services.

#### **Supplementary reporting – geographical segments**

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

**7. Property, plant and equipment**

	Land	Buildings and structures	Technical equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
<b>As at 1.01.2009</b>							
Gross value	29 596	6 322 220	4 135 483	102 909	360 048	204 289	11 154 545
Depreciation	-	(1 741 248)	(1 191 243)	(42 640)	(226 815)	-	(3 201 946)
Revaluation write-down	-	(3 901)	(3 809)	(9)	(65)	-	(7 784)
<b>Net book value</b>	<b>29 596</b>	<b>4 577 071</b>	<b>2 940 431</b>	<b>60 260</b>	<b>133 168</b>	<b>204 289</b>	<b>7 944 815</b>
<b>Changes in 12 months ended 31.12.2009</b>							
Reclassifications	-	36 448	92 798	516	1 132	(136 257)	(5 363)
Acquisition	4 151	293 666	96 663	16 556	21 249	391 098	823 383
Disposal (gross value)	(450)	(8 843)	(2 915)	(2 783)	(1 332)	-	(16 323)
Disposal (depreciation)	-	2 152	2 087	2 615	1 282	-	8 136
Amortization	-	(334 406)	(277 231)	(9 264)	(16 734)	-	(637 635)
Revaluation write-down	-	(413)	(1 006)	(2)	(4)	(7 517)	(8 942)
Settlement of acquisition of subsidiaries (initial value)	-	(39 307)	(5 121)	(309)	(69)	(290)	(45 096)
Settlement of acquisition of subsidiaries (depreciation)	-	599	870	23	17	-	1 509
Liquidation (initial value)	-	(14 515)	(8 354)	(252)	(3 198)	-	(26 319)
Liquidation (depreciation)	-	7 296	6 822	184	3 027	-	17 329
Other (initial value)	(20)	7 536	(1 254)	682	981	(3 542)	4 383
Other (depreciation)	-	(178)	785	(50)	240	-	797
<b>As at 31.12.2009</b>							
Gross value	33 277	6 597 205	4 307 300	117 319	378 811	455 298	11 889 210
Depreciation	-	(2 065 785)	(1 457 910)	(49 132)	(238 983)	-	(3 811 810)
Revaluation write-down	-	(4 314)	(4 815)	(11)	(69)	(7 517)	(16 726)
<b>Net book value</b>	<b>33 277</b>	<b>4 527 106</b>	<b>2 844 575</b>	<b>68 176</b>	<b>139 759</b>	<b>447 781</b>	<b>8 060 674</b>

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	Land	Buildings and structures	Technical equipment and machines	Vehicles	Other fixed assets	Fixed assets under construction	Total
<b>As at 01.01.2008</b>							
Gross value	27 303	5 940 932	3 859 461	91 116	342 153	164 970	10 425 935
Depreciation	-	(1 391 220)	(909 496)	(36 780)	(217 278)	-	(2 554 774)
Revaluation write-down	-	-	-	-	-	-	-
<b>Net book value</b>	<b>27 303</b>	<b>4 549 712</b>	<b>2 949 965</b>	<b>54 336</b>	<b>124 875</b>	<b>164 970</b>	<b>7 871 161</b>
<b>Changes during 12 months ended 31.12.2008</b>							
Reclassification	-	20 281	153 494	1 592	1 344	(177 246)	(535)
Acquisition	2 306	286 788	80 748	10 735	21 812	222 387	624 776
Acquisition of subsidiaries (initial value)	-	77 941	51 028	1 272	699	579	131 519
Acquisition of subsidiaries (depreciation)	-	(20 788)	(28 526)	(856)	(595)	-	(50 765)
Disposal (initial value)	(8)	(1 426)	(2 493)	(626)	(1 001)	-	(5 554)
Disposal (depreciation)	-	247	1 835	682	905	-	3 669
Amortization	-	(335 878)	(259 922)	(7 055)	(14 121)	-	(616 976)
Revaluation write-down	-	(3 901)	(3 809)	(9)	(65)	-	(7 784)
Liquidation (initial value)	-	(14 497)	(5 663)	(1 876)	(3 164)	-	(25 200)
Liquidation (depreciation)	-	6 500	3 722	1 276	2 972	-	14 470
Other (initial value)	(5)	12 201	(1 092)	696	(1 795)	(6 401)	3 604
Other (depreciation)	-	(109)	1 144	93	1 302	-	2 430
<b>As at 31.12.2008</b>							
Gross value	29 596	6 322 220	4 135 483	102 909	360 048	204 289	11 154 545
Depreciation	-	(1 741 248)	(1 191 243)	(42 640)	(226 815)	-	(3 201 946)
Revaluation write-down	-	(3 901)	(3 809)	(9)	(65)	-	(7 784)
<b>Net book value</b>	<b>29 596</b>	<b>4 577 071</b>	<b>2 940 431</b>	<b>60 260</b>	<b>133 168</b>	<b>204 289</b>	<b>7 944 815</b>

Collateral established on the Group's property, plant and equipment is disclosed in note 14.

### **Impairment test (property, plant and equipment)**

The Group carried out an impairment test of property, plant and equipment as at 30 June 2008. Based on the test, as at 30 June 2008 there was no impairment of property, plant and equipment related to distribution.

As a result of changes in the regulatory environment related to energy distribution, which were not consistent with the assumptions made when preparing the test as at 30 June 2008, as at 31 December 2008 the Group repeated impairment test for property, plant and equipment related to distribution.

The assumptions used for the analysis as at 30 June 2008 changed. The Group adjusted operating expenses projections to the new situation, considering actions taken by the Group in order to minimize the impact of the regulatory changes on the Group's profit/loss.

Based on the test, as at 31 December 2008 there was no impairment of property, plant and equipment related to distribution. As at 31 December 2009, no circumstances indicated the need to retest distribution-related property, plant and equipment for impairment.

The methodology used in calculating the return on capital employed from the 2010 tariff year has been presented in the document "Methodology of determining the regulatory value of assets and return on capital employed". The document was approved by ENEA Operator Sp. z o.o. and the President of the Energy Regulatory Office. When calculating the return on capital employed the entity assumes a track to reach the full coverage of the regulatory value of assets. The length of the track will depend on the initial level of the regulatory value of assets, determined in line with the methodology presented in the aforementioned document. Upon completion of works related to estimating the regulatory value of assets in line with the new methodology, which is advantageous for the Group, reports obtained a positive opinion of certified auditors and were submitted to the President of ERO. The President of ERO accepted the recommendations regarding the actual fee increase rate and opening balances of the regulatory value of assets as determined in reports for all Distribution System Operators and implemented the new method as from 2010.

## Finance leases

The Group uses the following property, plant and equipment under finance leases:

	31.12.2009			31.12.2008		
	Initial value	Depreciation	Net carrying amount	Initial value	Depreciation	Net carrying amount
Tech. equipment and machines	256	(238)	18	461	(364)	97
Vehicles	5 834	(1 064)	4 770	3 509	(522)	2 987
<b>Total</b>	<b>6 090</b>	<b>(1 302)</b>	<b>4 788</b>	<b>3 970</b>	<b>(886)</b>	<b>3 084</b>

The Group does not enter into finance lease agreements as a financing party.

## 8. Perpetual usufruct of land

	31.12.2009	31.12.2008
<b>Gross value opening balance</b>	<b>16 238</b>	<b>13 577</b>
Acquisition	6 723	1 062
Acquisition of subsidiaries	-	1 611
Settlement of acquisition of subsidiaries	7 013	-
Disposal (gross value)	(351)	(12)
<b>Gross value closing balance</b>	<b>29 623</b>	<b>16 238</b>
<b>Opening balance of depreciation</b>	<b>(917)</b>	<b>(211)</b>
Disposal (accumulated depreciation)	118	-
Acquisition of subsidiaries (depreciation)	-	(670)
Accumulated depreciation for the period	(734)	(36)
<b>Closing balance of depreciation</b>	<b>(1 533)</b>	<b>(917)</b>
<b>Net value opening balance</b>	<b>15 321</b>	<b>13 366</b>
<b>Net value closing balance</b>	<b>28 090</b>	<b>15 321</b>

## 9. Intangible assets

2009	R&D expenses	Goodwill	Computer software, licences, concessions and patents	CO2 emission rights	Total
<b>As at 1.01.2009</b>					
<b>Gross value</b>	<b>212</b>	<b>385</b>	<b>115 280</b>	-	<b>115 877</b>
Accumulated depreciation	(193)	-	(79 133)	-	(79 326)
Revaluation write-down	-	-	55	-	55
<b>Net value</b>	<b>19</b>	<b>385</b>	<b>36 202</b>	-	<b>36 606</b>
<b>Changes during 12 months ended</b>					
<b>31.12.2009</b>					
Reclassifications	5	-	3 156	-	<b>3 161</b>
Acquisition	-	-	9 346	-	<b>9 346</b>
Disposal (initial value)	-	-	(759)	-	<b>(759)</b>
Disposal (depreciation)	-	-	603	-	<b>603</b>
Amortization	(17)	-	(18 616)	-	<b>(18 633)</b>
Revaluation write-down	-	-	(55)	-	<b>(55)</b>
Settlement of acquisition of subsidiaries (initial value)	-	18 684	(136)	15 800	<b>34 348</b>
Settlement of acquisition of subsidiaries (write-down/depreciation)	-	(16 878)	49	(3 950)	<b>(20 779)</b>
Liquidation (gross value)	-	-	(487)	-	<b>(487)</b>
Liquidation (accumulated depreciation)	-	-	487	-	<b>487</b>
Other (initial value)	2	-	4 666	-	<b>4 668</b>
Other (depreciation)	-	-	(521)	-	<b>(521)</b>
<b>As at 31.12.2009</b>					
<b>Gross value</b>	<b>219</b>	<b>19 069</b>	<b>131 066</b>	<b>15 800</b>	<b>166 154</b>
Depreciation	(210)	-	(97 131)	(3 950)	(101 291)
Revaluation write-down	-	(16 878)	-	-	(16 878)
<b>Net book value</b>	<b>9</b>	<b>2 191</b>	<b>33 935</b>	<b>11 850</b>	<b>47 985</b>

2008	R&D expenses	Goodwill	Computer software, licenses, concessions and patents	Total
<b>As at 01.01.2008</b>				
Gross value	212	385	107 862	108 459
Depreciation	(151)	-	(67 790)	(67 941)
Revaluation write-down	-	-	-	-
Net value	61	385	40 072	40 518
<b>Changes during 12 months ended 31.12.2008</b>				
Reclassification	-	-	1 346	1 346
Acquisition	-	-	6 500	6 500
Acquisition of subsidiaries	-	-	540	540
Acquisition of subsidiaries (depreciation)	-	-	(264)	(264)
Disposal (initial value)	-	-	(464)	(464)
Disposal (depreciation)	-	-	464	464
Amortization	(42)	-	(11 992)	(12 034)
Revaluation write-down	-	-	55	55
Liquidation (initial value)	-	-	(67)	(67)
Liquidation (depreciation)	-	-	12	12
Other (initial value)	-	-	(437)	(437)
Other (depreciation)	-	-	437	437
<b>As at 31.12.2008</b>				
Gross value	212	385	115 280	115 877
Depreciation	(193)	-	(79 133)	(79 326)
Revaluation write-down	-	-	55	55
Net book value	19	385	36 202	36 606

No collateral has been established on intangible assets.

## 10. Investment property

	31.12.2009	31.12.2008
<b>Gross value opening balance</b>	<b>5 711</b>	<b>4 839</b>
Acquisition	163	415
Reclassification from / to property, plant and equipment	862	457
<b>Gross value closing balance</b>	<b>6 736</b>	<b>5 711</b>
<b>Opening balance of depreciation</b>	<b>(677)</b>	<b>(507)</b>
Acquisition	(3)	-
Accumulated depreciation for the period	(182)	(170)
<b>Closing balance of depreciation</b>	<b>(645)</b>	<b>(677)</b>
<b>Net value opening balance</b>	<b>5 034</b>	<b>4 332</b>
<b>Net value closing balance</b>	<b>6 091</b>	<b>5 034</b>

No collateral has been established on investment property.

**11. Investments in subsidiaries, associates and jointly controlled entities**

	<b>31.12.2009</b>	<b>31.12.2008</b>
Opening balance	189 941	5 207
Net share in the changed balance of assets	5 366	(430)
Acquisition of investments	5 500	185 164
Reclassification of non-current assets held for sale	(5 044)	-
Revaluation write-down	(900)	-
Amortization of surplus of the fair value of net assets over book value	(4 925)	-
<b>Closing balance</b>	<b>189 938</b>	<b>189 941</b>

In 2008, the Company acquired shares in two associates: Przedsiębiorstwo Energetyki Ciepłej w Śremie S. A. and Elektrociepłownia Białystok S. A. for the total amount of PLN 184,664 thousand. The acquisition transactions are finally settled in these consolidated financial statements. Detailed information is provided in note 17.

In 2008, ENEA S. A. created a joint venture named PWE Gubin Sp. z o. o. with Kopalnia Węgla Brunatnego „KONIN” w Kleczewie S. A. („KWB Konin”). ENEA S.A. and KWB Konin each hold 50% of shares in the joint venture.

In a Resolution of 15 December 2009, the Management Board of ENEA S.A. agreed to the sale of shares in PWE Gubin Sp. z o.o. with the registered office in Sękowice. The shares were sold according to a contract of 9 February 2010. Therefore, shares held in PWE Gubin Sp. z o.o. are recognized in the consolidated financial statements as "assets held for sale", not as "investments in associates and jointly controlled entities".

The share in the net profit/loss of associates and jointly controlled entities consolidated in line with the equity method for 2009 amounted to PLN 7,766 thousand (PLN 414 thousand for 2008).



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*(if not indicated otherwise, all amounts are denominated in PLN'000)*

The following table presents the key financial data regarding associates and jointly controlled entities consolidated in line with the equity method.

<b>31.12.2009</b>	<b>Ownership share</b>	<b>Current assets</b>	<b>Non-current assets</b>	<b>Total assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Total liabilities</b>	<b>Revenue</b>	<b>Expense</b>	<b>Net profit</b>
Wirbet S.A. (associate)	49,00%	9 441	8 895	<b>18 336</b>	5 401	849	<b>6 250</b>	29 347	(26 654)	2 693
Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A. (associate)	41,65%	10 803	7 928	<b>18 731</b>	1 382	-	<b>1 382</b>	9 616	(9 246)	370
Elektrociepłownia Białystok S.A. (associate)	30,36%	98 596	388 201	<b>486 797</b>	20 936	-	<b>20 936</b>	318 940	(274 472)	44 468
PWE Gubin Sp. z o.o. (jointly controlled)	50,00%	10 242	3	<b>10 245</b>	156	-	<b>156</b>	317	(2 018)	(1 701)
		<b>129 082</b>	<b>405 027</b>	<b>534 109</b>	<b>27 875</b>	<b>849</b>	<b>28 724</b>	<b>358 220</b>	<b>(312 390)</b>	<b>45 830</b>

<b>31.12.2008</b>	<b>Ownership share</b>	<b>Current assets</b>	<b>Non-current assets</b>	<b>Total assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Total liabilities</b>	<b>Revenue</b>	<b>Expense</b>	<b>Net profit</b>
Wirbet S.A. (associate)	49,00%	8 093	7 991	<b>16 084</b>	4 588	1 532	<b>6 120</b>	25 810	(24 470)	1 340
Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A. (associate)	41,65%	9 900	8 590	<b>18 490</b>	1 232	217	<b>1 449</b>	8 600	(8 296)	304
Elektrociepłownia Białystok S.A. (associate)	30,36%	98 973	383 002	<b>481 975</b>	42 946	43 973	<b>86 919</b>	208 324	(182 630)	25 694
PWE Gubin Sp. z o.o. (jointly controlled)	50,00%	926	5	<b>931</b>	140	-	<b>140</b>	2	(211)	(209)
		<b>117 892</b>	<b>399 588</b>	<b>517 480</b>	<b>48 906</b>	<b>45 722</b>	<b>94 628</b>	<b>242 736</b>	<b>(215 607)</b>	<b>27 129</b>

## 12. Financial assets

	31.12.2009	31.12.2008
Long-term financial assets available for sale (shares in unrelated parties)	39 346	8 965
Non-current financial assets measured at fair value through profit or loss	1 219	1 033
<b>Total long-term financial assets</b>	<b>40 565</b>	<b>9 998</b>
Current financial assets available for sale	-	4 806
Current financial assets held to maturity	55 734	100 741
Current financial assets measured at fair value through profit or loss	1 652 523	-
<b>Total current financial assets</b>	<b>1 708 257</b>	<b>105 547</b>
<b>Total</b>	<b>1 748 822</b>	<b>115 545</b>

## 13. Trade and other receivables

	31.12.2009	31.12.2008
	Carrying amount	Carrying amount
<b>Current trade and other receivables</b>		
Trade receivables	742 126	594 753
Tax receivables (excluding income tax) and other similar benefits	26 110	46 482
Other receivables	46 658	39 612
Advance payments	2 063	1 202
Receivables due to unbilled sales	240 780	219 073
Prepaid property insurance	18 408	3 208
	<b>1 076 145</b>	<b>904 330</b>
Less: revaluation write-down on receivables	(150 632)	(124 232)
<b>Net current trade and other receivables</b>	<b>925 513</b>	<b>780 098</b>
	31.12.2009	31.12.2008
	Carrying amount	Carrying amount
<b>Non-current trade and other receivables</b>		
Non-current trade receivables	1 131	2 203
Other receivables	199	113
<b>Net non-current trade and other receivables</b>	<b>1 330</b>	<b>2 316</b>
<b>Total net trade and other receivables</b>	<b>926 843</b>	<b>782 414</b>

Revaluation write-downs on trade and other receivables

	31.12.2009	31.12.2008
<b>Opening balance of revaluation write-down on receivables</b>	<b>124 232</b>	<b>123 818</b>
Created	63 641	17 306
Released	(31 462)	(15 426)
Applied	(5 779)	(1 466)
<b>Closing balance of revaluation write-down on receivables</b>	<b>150 632</b>	<b>124 232</b>

Collateral and encumbrances established on the Group's receivables are disclosed in note 14.

#### 14. Encumbrances and collateral established on the group's assets

Property, plant and equipment with limited ownership of the Company classified as collateral of liabilities

Name (company):	Collateral title	Type of collateral	Entity for which the collateral has been established	Debt as at 31 December 2009	Debt as at 31 December 2008	Collateral period
BHU S.A.	Overdraft	Capped mortgage up to PLN 5,250 thousand	Bank Zachodni WBK S.A.	-	-	November 2010
EP PUE ENERGOBUD Leszno Sp. z o.o.	Investment borrowing	Mortgage of PLN 3,500 thousand Capped mortgage up to PLN 225 thousand	Bank Zachodni WBK S.A. Leszno Branch	-	505	June 2009
Elektrownie Wodne Sp. z o.o.	Borrowing Interest and proceeding costs, if any	Mortgage of PLN 3,500 thousand Capped mortgage up to PLN 1,440 thousand	Bank Ochrony Środowiska S.A. w Warszawie O/Poznań	839	1 670	December 2010
Energetyka Wysokich i Najwyższych Napięć „EWiNN” Sp. z o.o.	Investment borrowing	Mortgage of PLN 4,000 thousand	Nordea Bank Polska S.A.	2 214	2 573	February 2016
Energetyka Poznańska Hotel „EDISON” Sp. z o.o.	Overdraft	Capped mortgage up to PLN 400 thousand	BZ WBK S.A.	93	-	October 2010
„ITSERWIS” Sp. z o.o.	Overdraft	Capped mortgage	BGŻ S.A.	541	-	August 2010
Zakład Handlowo-Usługowy Auto-Styl Sp. z o.o.	Investment borrowing	Registered pledge on machines and equipment in the amount of PLN 329 thousand	BGŻ S.A.	155	224	March 2012
PEC Sp. z o.o. in Oborniki	Leases	Capped mortgage, assignment of receivables	BZ WBK Finanse & Leasing S.A.	349	438	November 2012
PEC Sp. z o.o. in Oborniki	Working capital loan	Assignment of receivables	BZ WBK S.A.	800	960	March 2010
Elektrownia “Kozienice” S.A.	Long-term loan	Assignment of receivables, statement of submission to enforcement proceedings	NFOŚiGW	11 907	19 907	June 2011
Elektrownia “Kozienice” S.A.	Long-term borrowing	Registered pledge on fixed assets, 16 blank bills of exchange, authorization to the bank account, assignment of insurance policy title	Nordic Investment Bank S.A.	77 275	94 666	November 2014
Elektrownia “Kozienice” S.A.	Long-term borrowing	Registered pledge on fixed assets, assignment of insurance policy title	PKO BP S.A.	54 613	72 817	December 2012

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Other collateral, including related to loans and borrowings presented in the preceding table.

No.	Name (company):	Collateral title	Type of collateral	Entity for which the collateral has been established	Debt as at 31 December 2009	Debt as at 31 December 2008	Collateral period
1.	<b>Energobud Leszno</b>	Investment borrowing	Assignment of insurance policy title, authorization to charge the borrower's bank account	<b>BZ WBK S.A.</b>	-	505	June 2009
2.	<b>Energobud Leszno</b>	Claims arising from the contract on purchase of products and services secured with Fleet Cards	Blank bills of exchange	<b>PKN Orlen S.A.</b>	Undetermined	Undetermined	Unlimited
3.	<b>Energobud Leszno</b>	Collateral of leases	Blank bills of exchange	<b>Pekao Leasing Sp. z o.o.</b>	70	163	July 2012
4.	<b>Energobud Leszno</b>	Collateral of a contract for tender bonds	Blank bills of exchange	<b>PZU S.A.</b>	Undetermined	Undetermined	Unlimited
5.	<b>Energobud Leszno</b>	Collateral of a contract for tender bonds	Blank bills of exchange	<b>TUIR WARTA S.A.</b>	Undetermined	-	2 July 2010
6.	<b>EWiNN</b>	Investment borrowing	Authorization to charge the bank account, assignment of insurance policy title	<b>NORDEA BANK POLSKA S.A.</b>	2 214	2 573	February 2016
7.	<b>EWiNN</b>	Collateral of claims arising from concluded contracts	Performance bond and defect liability certificate	<b>MTP Sp. z o.o. Poznań</b>	42	42	31 August 2010
8.	<b>EWiNN</b>	Collateral of claims arising from concluded contracts	Performance bond and defect liability certificate	<b>PSE Zachód Poznań</b>	35	42	January 2010
9.	<b>Elektrownie Wodne</b>	Investment borrowing	Authorization to charge the bank account, assignment of receivables from the power sales contract, assignment of insurance policy title on real property of Dobrzyca hydro-power station, on which a mortgage has been established and blank bill of exchange	<b>Bank Ochrony Środowiska S.A. w Warszawie O/Poznań</b>	839	1 670	December 2010
10.	<b>Elektrownie Wodne</b>	Collateral of leases	Blank bill of exchange	<b>Europejski Fundusz Leasingowy</b>	12	45	August 2010
11.	<b>Eneos</b>	Investment borrowing	Assignment of a contract and blank bills of exchange	<b>PKO BP S.A.</b>	3 168	3 935	November 2017
12.	<b>Auto-Styl</b>	Overdraft	Blank bills of exchange	<b>Volkswagen Bank Polska S.A.</b>	248	715	June 2010
13.	<b>Auto-Styl</b>	Revolving loan	Blank bills of exchange and assignment of insurance policy title	<b>Volkswagen Bank Polska S.A.</b>	3 342	2 072	March 2010
14.	<b>Auto-Styl</b>	Bank guarantee	Assignment of insurance policy title	<b>BGŻ S.A.</b>	459	388	June 2010
15.	<b>BHU</b>	Collateral of a purchase limit	Blank bill of exchange; bill guarantee	<b>Philips Lighting Farel Mazury Sp. z o.o.</b>	400	400	Contract term
16.	<b>BHU</b>	Collateral of leases	Blank bills of exchange	<b>BRE Leasing Sp. z o.o.</b>	134	170	December 2010
17.	<b>ENEA</b>	Collateral of receivables	Blank bill of exchange	<b>PSE Operator S.A.</b>	15 000	15 000	Contract term
18.	<b>ENEA</b>	Space rental agreement	Bank guarantee	<b>RONDO PROPERTY INVESTMENT Sp. z o.o.</b>	10	120	13 December 2010
19.	<b>ENEA</b>	Purchase of electricity	Bank guarantee	<b>PGE Elektra</b>	132 007	-	15 February 2011
20.	<b>Energomiar</b>	Collateral of leases	Blank bill of exchange	<b>Raiffeisen-Leasing Polska S.A.</b>	24	19	April 2011
21.	<b>Energomiar</b>	Collateral of leases	Blank bill of exchange	<b>Volkswagen Leasing Polska Sp. z o.o.</b>	165	33	November 2012

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22.	<b>Energomiar</b>	Collateral of leases	Blank bill of exchange	<b>Renault Credit Polska</b>	4	-	April 2010
23.	<b>Zakład Transportu</b>	Guarantee of defect liability in an insurance contract	Bill of exchange for PLN 50 thousand	<b>PZU S.A.</b>	-	Undetermined	25 May 2009
24.	<b>Zakład Transportu</b>	Collateral of claims arising from product promotion fee	Bill of exchange for PLN 58 thousand	<b>Castrol Lubricant Sp.z o.o.</b>	Undetermined	Undetermined	24 July 2010
25.	<b>ITSERWIS</b>	Collateral of claims arising from an agency contract	Blank bill of exchange up to PLN 2,950 thousand	<b>Polkomtel S.A.</b>	2 661	1 110	30 June 2010
26.	<b>ITSERWIS</b>	Collateral of leases	Blank bills of exchange	<b>BZ WBK Leasing S.A.</b>	41	86	20 December 2010
27.	<b>ITSERWIS</b>	Overdraft	Blank bills of exchange and authorization to charge the bank account	<b>BRE Bank S.A.</b>	-	588	12 September 2009
28.	<b>ITSERWIS</b>	Overdraft	Blank bills of exchange	<b>BZ WBK S.A.</b>	-	781	15 September 2009
29.	<b>ITSERWIS</b>	Overdraft	Assignment of the insurance policy title	<b>BGŻ S.A.</b>	541	-	31 August 2010
30.	<b>Hotel Edison</b>	Trade agreement	Blank bill of exchange up to PLN 5 thousand	<b>FEDRUS S.A.</b>	-	-	Contract term
31.	<b>MEC Sp. z o.o. w Pile</b>	Loan	Blank bills of exchange and assignment of receivables	<b>WFOŚiGW</b>	1 570	1 783	20 May 2014
32.	<b>Elektrownia Kozienice</b>	Subsidy	Blank bill of exchange (collateral amount of PLN 4,418 thousand)	<b>NFOŚiGW</b>	Undetermined	Undetermined	4 December 2011
33.	<b>Elektrownia Kozienice</b>	Subsidy	Blank bill of exchange (collateral amount of PLN 4,497 thousand)	<b>NFOŚiGW</b>	Undetermined	Undetermined	31 August 2012
34.	<b>ENEA Operator</b>	Investment borrowing	Authorization to charge the bank account	<b>PKO BP S.A.</b>	-	4 000	22 March 2009

Additionally, in line with loan agreements signed by ENEA S.A. authorization to charge current accounts in banks serving ENEA and statements of voluntary submission to enforcement secure open and unused loan facilities.

## 15. Inventories

	31.12.2009	31.12.2008
Materials	283 891	252 347
Semi-finished products and work in progress	409	2 291
Finished products	37	214
Goods	18 704	20 058
	<b>307 107</b>	<b>274 910</b>
Revaluation write-down on inventories	(6 277)	(4 866)
<b>Total:</b>	<b>300 830</b>	<b>270 044</b>

No collateral has been established on inventories.

## 16. Cash and cash equivalents

	31.12.2009	31.12.2008
<b>Cash in hand and at bank</b>	<b>648 412</b>	<b>2 528 625</b>
- cash in hand	849	814
- cash at bank	647 563	2 527 811
<b>Other cash</b>	<b>254 131</b>	<b>92 034</b>
- cash in transit	964	746
- deposits	253 134	91 279
- other	33	9
<b>Total cash and cash equivalents</b>	<b>902 543</b>	<b>2 620 659</b>
<b>Cash disclosed in the cash flows statement</b>	<b>902 543</b>	<b>2 620 659</b>

Collateral established on cash is disclosed in note 14.

ENEA S.A. fulfilled the conditions necessary to release funds from the ESCROW account due to the issuance of shares at the WSE. A specialized financial institution professionally manages the funds which amounted to PLN 1,652,523 thousand as at 31 December 2009. In accordance with the Agreement, transferred funds will be invested only in safe securities (treasury bills and bonds worth PLN 1,348,262 thousand) and deposits (in banks specified by the Company - PLN 304,261 thousand), based on the following scheme:

Type of assets	Minimum share	Maximum share
Debt instruments with a surety or guarantee of the State Treasury or the National Bank of Poland	0%	100%
Bank deposits	0%	30%

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

## 17. Settlement of acquisition of new subsidiaries and associates

In December 2008 the Parent Company acquired two subsidiaries: Przedsiębiorstwo Energetyki Ciepłej Sp. z o. o. in Oborniki ("PEC Oborniki"), Miejska Energetyka Ciepła Sp. z o. o. in Piła ("MEC Piła") and two associates: Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A. and Elektrociepłownia Białystok S.A. As at 31 December 2009 the Group carried out the primary estimated settlement. It assumed that

the differences between the acquisition price of particular companies and net book value of assets related to the acquired shares results from the difference between the fair value of property, plant and equipment and their book value as at the date of acquiring particular companies. The final settlement of the acquisition transactions is presented in these consolidated financial statements. Detailed information is provided in the following table.

The agreements on the acquisition of shares in PEC Oborniki and MEC Piła include irrevocable offers of shares repurchasing valid in the period of 6 and 5 years from the date of concluding the agreement, respectively. These purchase options have been measured in these consolidated financial statements. The Company recognized the financial liability resulting from these options as at 31 December 2009 in the amount of PLN 22,110 thousand (upon initial settlement, the option value was established at PLN 28,226 thousand) in correspondence with other capitals, whereas the amount of PLN 1,691 thousand, constituting a difference between measurement as at 31 December 2009 (PLN 20,419 thousand) and as at 31 December 2008 (PLN 22,100 thousand) in correspondence with financial revenue.

**Settlement of acquisition of subsidiaries**

	<b>"MEC Piła"</b>	<b>"PEC Oborniki"</b>
Number of shares (%)	64,997%	87,99%
Number of votes (%)	64,997%	87,99%
Net book value of assets	41 582	8 034
Adjustments to net fair value of assets:	11 178	1 506
<i>Intangible assets (+)</i>	15 667	(3)
<i>Fixed assets (+)</i>	(283)	2 181
<i>Other assets (+)</i>	4	-
<i>Liabilities (-)</i>	(434)	319
<i>Provision for deferred income tax (-)</i>	4 408	666
<i>Deferred income tax asset (+)</i>	1 888	313
<i>Provision for retirement and similar benefits</i>	2 124	0
Purchase cost including:	49 384	11 986
<i>Transaction cost</i>	734	358
Net fair value of assets (100%)	52 760	9 540
Net fair value of purchased assets	34 292	8 394
Goodwill attributable to shares held	15 046	3 592
Impairment of goodwill	13 240	3 592
Impairment allocated to other assets	-	728

**Settlement of acquisition of associates**

	<b>Elektrociepłownia Białystok S.A.</b>	<b>Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A.</b>
Number of shares (%)	30,36%	41,65%
Number of votes (%)	30,36%	41,65%
Book value attributable to the purchased shares	119 939	7 093
Adjustments to net fair value of assets: <input type="checkbox"/> corresponding to purchased shares	51 320	1 445
Purchase cost including:	175 434	9 230
<i>Transaction cost</i>	1 834	175
Net fair value of purchased assets	171 259	8 538
Goodwill attributable to shares held	4 175	692
Impairment of shares	-	900

## 18. Equity

### Balance as at 31.12.2009

As at 31.12.2009

Series of shares	Number of shares (items)	Nominal value per share (in PLN)	Share capital
"A" series	295 987 473	1	295 988
"B" series	41 638 955	1	41 639
"C" series	103 816 150	1	103 816
<b>Total number of shares</b>	<b>441 442 578</b>		
<b>Total share capital</b>			<b>441 443</b>
<b>Share capital (nominal value)</b>			<b>441 443</b>
Capital from business combination			38 810
Share capital adjusted by hyperinflation effect			107 765
<b>TOTAL SHARE CAPITAL</b>			<b>588 018</b>
Share premium			3 632 464
Share-based capital			1 144 336
Retained earnings			3 985 386
Minority interest			23 778
Treasury shares			-
Financial instruments revaluation reserve			20 756
Other capitals			(22 110)
<b>TOTAL EQUITY</b>			<b>9 372 628</b>

### Balance as at 31 December 2008

As at 31.12.2008

Series of shares	Number of shares (items)	Nominal value per share (in PLN)	Share capital
"A" series	295 987 473	1	295 987
"B" series	41 638 955	1	41 639
"C" series	103 816 150	1	103 816
<b>Total number of shares</b>	<b>441 442 578</b>		
<b>Total share capital</b>			<b>441 443</b>
<b>Share capital (nominal value)</b>			<b>441 443</b>
Capital from business combination			38 810
Share capital adjusted by hyperinflation effect			107 765
<b>TOTAL SHARE CAPITAL</b>			<b>588 018</b>
Share premium			3 632 464
Share-based capital			1 144 336
Retained earnings			3 675 078
Minority interest			31 078
Treasury shares			(17 396)
Financial instruments revaluation reserve			(1 099)
Other capitals			(28 226)
<b>TOTAL EQUITY</b>			<b>9 024 253</b>



In relation to the public offering of shares and listing of allotment certificates on Warsaw Stock Exchange, by 31 December 2008 the Company acquired 1,129,608 allotment certificates for treasury shares for the total amount of PLN 17,396 thousand under the stabilization option.

On 11 August 2009, treasury shares sales transactions of the nominal value of PLN 1 were settled resulting in the disposal of 1,129,608 shares.

On 30 June 2009 the General Shareholders' Meeting of ENEA S.A. adopted a resolution No. 4 concerning net profit distribution for the financial period from 1 January 2008 to 31 December 2008 under which the amount of PLN 416 thousand was assigned to reserve capital.

## 19. Trade and other liabilities

	31.12.2009	31.12.2008
	Carrying amount	Carrying amount
<b>Non-current trade and other liabilities</b>		
Non-current trade liabilities	58	-
Other	-	708
	<b>58</b>	<b>708</b>
<b>Current trade and other liabilities</b>		
Trade liabilities	662 513	604 316
Advance payments received for deliveries, works and services	24 263	26 921
Tax and similar liabilities (except for income tax)	184 209	154 439
Liabilities arising from profit distribution	-	8 464
Special funds	10 415	9 955
Liabilities arising from option of purchasing other shares in subsidiaries	20 419	28 226
Other	89 663	33 260
<b>Total short-term</b>	<b>991 482</b>	<b>865 581</b>
<b>Total</b>	<b>991 540</b>	<b>866 289</b>

## 20. Loans and borrowings

	31.12.2009	31.12.2008
	Carrying amount	Carrying amount
<b>Long-term</b>		
Bank loans	102 312	151 310
Loans	4 744	1 475
	<b>107 056</b>	<b>152 785</b>
<b>Short-term</b>		
Bank loans	37 634	52 031
Loans	8 975	574
	<b>46 609</b>	<b>52 605</b>
<b>Total</b>	<b>153 665</b>	<b>205 390</b>

**Repayment timeline of loans and borrowings**

	<b>31.12.2009</b>	<b>31.12.2008</b>
From 1 to 3 years	74 475	84 906
From 3 to 5 years	32 410	51 305
Over 5 years	171	16 574
<b>Total</b>	<b>107 056</b>	<b>152 785</b>

**21. Settlement of income due to subsidies and connection fees**

	<b>31.12.2009</b>	<b>31.12.2008</b>
	<b>Carrying amount</b>	<b>Carrying amount</b>
<b>Long-term</b>		
Deferred income due to grants	216 061	229 900
Settlement of revenue from connection fees	575 235	537 614
	<b>791 296</b>	<b>767 514</b>
<b>Short-term</b>		
Deferred income due to grants	14 640	14 020
Settlement of revenue from connection fees	27 216	12 059
	<b>41 856</b>	<b>26 079</b>
<b>Deferred income schedule</b>		
	<b>31.12.2009</b>	<b>31.12.2008</b>
Up to 1 year	41 856	26 079
1 to 5 years	99 694	97 322
Over 5 years	691 602	670 192
	<b>833 152</b>	<b>793 593</b>

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

On the basis of the Act on Commercialization and Privatization dated 30 August 1996 (Act on Commercialization and Privatization) employees of the ENEA Capital Group are entitled to acquire 15% of the shares of ENEA S.A. free of charge under the program ("program"). Employees eligible to acquire shares are persons who were employed in the ENEA SA Capital Group in time of the company commercialization (i.e. in 1993 and 1996) and filed a written declaration of will to acquire shares within 6 months from commercialization date. Act on Commercialization and Privatization specifies the total number of shares to be transferred, but it does not stipulate the number of shares per one employee. The number of shares granted to particular employees will depend on the total number of years with the company including the number of years in the company before commercialization and after commercialization until the date of the sale of shares by the State Treasury.

According to IFRS 2, program costs should be recognized in the period when eligible employees performed work and the cost of work should be determined as at the Grant Date, i.e. as at the date when all significant conditions of granting shares to employees were determined.

The value of the employee shares program was determined by the Company based on the measurement of shares of ENEA S.A. as at the date of drawing up the financial statements for the financial years ended 31

December 2007, 31 December 2006 and 31 December 2005 included in the prospectus of ENEA S.A. The value of the program was determined at PLN 901 million. The ENEA SA Capital Group recognized the total program costs as the previous years' adjustment in equity of the oldest period presented in these financial statements, i.e. as at 1 January 2005 and it did not revalue the costs as at any of the dates ending the later financial years, i.e. 31 December 2005, 31 December 2006, 31 December 2007 and 31 December 2008.

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

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

Considering the above, the Management Board of ENEA SA decided that the program value would not be changed. As a result, the value of the program as at 31 December 2009 stood at PLN 921 million.

Pursuant to the Act of 7 September 2007 on the acquisition of shares from the State Treasury as a result of the energy sector consolidation process, the Eligible Employees of "Kozienice" S.A. were supposed to place a declaration of the intention to exchange the equivalent for the right to acquire shares of ENEA S.A. free of charge by 18 January 2008. Once the declarations and the result of the complaint procedure have been examined, the value of shares to be settled in the form of an equivalent was PLN 291,127 thousand (PLN 514,920 thousand as at 31 December 2007). Exchange of the value of the equivalent for an allotment certificate worth PLN 224,042 thousand was disclosed under the Group's capital under "Share-based capital".

As at 31 December 2009, a part of the equivalent was paid to the Eligible Employees of Elektrownia "Kozienice" S.A. As at 31 December 2009, other liabilities due to the equivalent amounted to PLN 618 thousand (as at 31 December 2008, the liability was PLN 163,799 thousand).

Following the State Treasury selling the first shares to investors on general terms, three months after 10 February 2010, the title to obtain the shares free of charge will occur and expire after 24 months from its origination.

## **23. Financial instruments**

### **23.1. Financial risk management principles**

The Capital Group is exposed to the following categories of risk related to financial instruments:

- Credit risk

- Liquidity risk
- Market risk
- Currency risk
- Interest rate risk

This note presents information on the Group's exposure to each of the aforementioned risks as well as the risk and capital management objectives, policy and procedures. The relevant figures have been disclosed in these consolidated financial statements.

Development and compliance with the risk management policy is the responsibility of the Management Board of the Parent.

Risk is managed on an ongoing basis in the Capital Group. Risks are analyzed in connection with the impact of the external environment as well as changes in the structure and activity of the Group. Taking these into consideration, the steps are undertaken aimed at mitigation of the risk or its transfer beyond the capital group. In order to do so, its employees are educated on possibilities of risks occurrence and their influence on the activity of individual organizational units and the Group as a whole.

Aware of the risks relating to its business activities, in 2009 ENEA S.A. undertook measures aimed at development of an integrated, formalized risk management system.

To this end:

- a risk identification and assessment process was carried out;
- a framework structure of the risk management system was designed.

The risk identification and assessment process allowed to create a risk register and map with respect to different areas of its operations.

The framework structure of the risk management system allowed to:

- define the risk management process participants together with the scope of their competence and
- draft formal documents supporting the practical risk management process at the company, i.e. the integrated risk management policy of ENEA S.A. and the integrated risk management manual of ENEA S.A.

At present, the aforementioned documents are being implemented in line with the Company's internal regulations. The newly developed risk management system will function in the Company until a risk management system is developed and implemented for the ENEA Capital Group (planned for 2010).

In the current period, the Parent and its subsidiaries have not concluded any transaction on risk hedging instruments. Elektrownia Białystok S.A., an associate, is the only entity that concluded a currency purchase contract hedging currency risk related to purchase of coal in USD denominated contracts. As at the balance sheet date, the transaction generated gains of immaterial amount compared to the Group performance.

## **23.2. Credit risk**

Credit risk is the risk of financial losses which may be incurred if a customer or a contractor being a party to a financial instrument fails to meet its contractual obligations.

Credit risk is mainly related to debt collection. The key factors that affect the occurrence of credit risk at the Group include:

- a substantial number of customers resulting in an increase in the costs incurred to monitoring debt collection;
- the necessity to supply electricity to budgetary units facing financial difficulties;
- legal requirements defining the principles for electricity supply suspension as a result of default on payment.

The Management Board applies a credit policy which provides for credit risk monitoring on an ongoing basis. The Group carries out a credit standing analysis for all clients requiring loans exceeding a pre-determined cap. The Group does not require collateral from its clients in relation to financial assets.

The maximum exposure of the Group to credit risk is presented below:

	<b>31.12.2009</b>	<b>31.12.2008</b>
	<b>Carrying amount</b>	<b>Carrying amount</b>
	<hr/>	<hr/>
Current and non-current financial assets held to maturity	55 734	100 741
Current and non-current financial assets measured at fair value through profit or loss	1 653 742	1 033
Other trade and other receivables	926 843	782 414
Cash and cash equivalents	902 543	2 620 659
<b>Total</b>	<b>3 538 862</b>	<b>3 504 847</b>

The credit risk relating to receivables differs for individual market segments in which the Group carries out its business activities:

- electricity and distribution service sales to individual customers – a considerable amount of past due receivables. Although they do not represent a serious threat to the Group’s financial position, measures aimed at their reduction have been undertaken. Implementation of a uniform debt collection policy allowed reduction of the response time as well as avoiding a long and frequently ineffective court enforcement procedure. Legal measures are applied to cases whose value is higher than the cost-benefit ratio for debt collection;
- sales of electricity to bulk customers and the nationalized industry, i.e. small business entities – the amounts of past due receivables in this segment are higher than in the case of individual customers. However, the collection procedure is similar and collection measures are undertaken within 4-5 business days of the payment date;
- other receivables – compared to the above segments the amounts of past due receivables are immaterial.

A key role in the debt collection process is played by employees supervising contacts with customers, who are responsible for debt collection monitoring. The Group tends to collect overdue receivables through direct contact with a customer. Cooperation with a debtor as well as obtaining information on its current and future financial position is one of the main tasks of the function established for that purpose.

The Group monitors the amount of past due receivables on an ongoing basis and in justified cases files legal complaints and recognizes appropriate revaluation write-downs.

The Group makes current financial investments which include mainly bank deposits as well as treasury bills and bonds.

The Group does not grant sureties or guaranties to unrelated parties.

### **23.3. Liquidity risk**

The liquidity risk is the risk that the Group will be unable to meet its financial obligations at due date.

The Group's liquidity risk policy involves ensuring sufficient funds necessary to settle financial and investment liabilities applying the most attractive financing sources, e.g. issuing debt securities.

Liquidity management focuses on a detailed analysis of the receivables collection scheme, the on-going monitoring of bank accounts and cash concentration in consolidated accounts. The Group undertakes measures aimed at reducing the receivables collection period and extending the settlement period for its liabilities, whereas the excess funds are invested in current assets in the form of term deposits.

Taking into account ongoing risk management as well as the market and financial position of the Group it may be concluded that its liquidity risk remains at a minimum level.

Another liquidity risk management tool involves maintaining of open and unused loan facilities in the amount of PLN 156,938 thousand as at 31 December 2009 (PLN 107,916 thousand as at 31 December 2008).

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*(if not indicated otherwise, all amounts are denominated in PLN'000)*

The Group's financial assets and liabilities by maturity are presented in the table below:

	<b>Trade and other liabilities</b>	<b>Finance lease liabilities</b>	<b>Bank loans</b>	<b>Loans</b>	<b>Cash and cash equivalents</b>	<b>Trade and other receivables</b>	<b>Financial assets measured at fair value through profit or loss</b>	<b>Financial instruments held to maturity</b>	<b>Total</b>
<b>31.12.2009</b>									
Carrying amount	991 540	3 469	139 946	13 719	(902 543)	(926 843)	(1 653 742)	(55 734)	<b>(2 390 188)</b>
Undiscounted contractual cash flows	(991 540)	(3 789)	(148 080)	(14 074)	902 543	926 843	1 653 742	56 772	<b>2 382 417</b>
up to 6 months	(988 100)	(803)	(20 780)	(4 552)	902 543	921 256	1 652 523	56 182	<b>2 518 269</b>
6 - 12 months	(3 382)	(490)	(20 565)	(4 719)	-	4 257	-	590	<b>(24 309)</b>
1 – 2 years	(58)	(1 605)	(37 508)	(4 598)	-	1 330	1 219	-	<b>(41 220)</b>
2 – 5 years	-	(890)	(68 796)	(94)	-	-	-	-	<b>(69 780)</b>
Over 5 years	-	(1)	(431)	(111)	-	-	-	-	<b>(543)</b>

	<b>Trade and other liabilities</b>	<b>Finance lease liabilities</b>	<b>Bank loans</b>	<b>Loans</b>	<b>Cash and cash equivalents</b>	<b>Trade and other receivables</b>	<b>Financial instruments held to maturity</b>	<b>Total</b>
<b>31.12.2008</b>								
Carrying amount	866 289	2 392	203 341	2 049	(2 620 659)	(782 414)	(100 741)	<b>(2 429 743)</b>
Undiscounted contractual cash flows	(866 289)	(2 599)	(230 722)	(2 049)	2 620 770	782 414	104 745	<b>2 406 270</b>
up to 6 months	(863 409)	(550)	(32 682)	(561)	2 620 770	771 837	31 012	<b>2 526 417</b>
6 - 12 months	(2 172)	(441)	(28 895)	(13)	-	8 261	73 733	<b>50 473</b>
1 – 2 years	(708)	(1 065)	(52 400)	(52)	-	2 209	-	<b>(52 016)</b>
2 – 5 years	-	(543)	(98 833)	(1 287)	-	107	-	<b>(100 556)</b>
Over 5 years	-	-	(17 912)	(136)	-	-	-	<b>(18 048)</b>



### 23.4. Market risk

Market risk is related to changes in supply, demand and prices as well as other factors which may affect the group's performance or the value of assets (such as exchange rates, interest rates, cost of capital). The objective of market risk management is to maintain the risk exposure within an acceptable level while optimizing the return on risk.

One of the key market risks results from the fact that being an integrated energy company operating based on an electricity trading license, the Group is required to provide electricity tariffs for the household and prepaid G tariff groups for approval. On the other hand, companies engaged in energy production and trading are released from the above obligation. The Group acquires energy at market prices and calculates its tariff based on costs regarded as legitimate by the President of the Energy Regulatory Office as well as margins (for electricity trading) or return on equity (for distribution) planned to be earned in the subsequent tariff period. Therefore, during the tariff period the Group's ability to transfer adverse changes in its operating costs to electricity end users is limited. A tariff adjustment request may be filed to the President of the ERO only in the event of a dramatic rise in costs for reasons beyond the Company's control.

### 23.5. Currency risk

The exposure of the Group to currency risk is presented below.

31.12.2009	Carrying amount	Including foreign currency amount denominated in functional currency (PLN)	Currency risk impact on profit/loss	
			1%	-1%
<b>Financial assets</b>				
Cash and cash equivalents	902 543	4 051	41	(41)
Trade and other receivables	926 843	7 840	78	(78)
Other financial assets	1 748 822	-	-	-
<b>Financial liabilities</b>				
Loans and borrowings	(153 665)	(76 734)	(767)	767
Trade and other liabilities	(991 540)	(6 173)	(62)	62
Finance lease liabilities	(3 469)	(110)	--	--
Impact on profit/loss before tax			(710)	710
19% tax			135	(135)
<b>Impact on profit/loss after tax</b>			<b>(575)</b>	<b>575</b>

31.12.2008	Carrying amount	Including foreign currency amount denominated in functional currency (PLN)	Currency risk impact on profit/loss	
			1%	-1%
<b>Financial assets</b>				
<b>Cash and cash equivalents</b>	2 620 659	17	-	-
Trade and other receivables	782 414	-	-	-
Other financial assets	115 545	-	-	-
<b>Financial liabilities</b>				
Loans and borrowings	(205 390)	(94 666)	(947)	947
Trade and other liabilities	(866 289)	(211)	(2)	2
Finance lease liabilities	(2 392)	-	-	-
Impact on profit/loss before tax			(949)	949
19% tax			180	(180)
<b>Impact on profit/loss after tax</b>			<b>(768)</b>	<b>768</b>

### 23.6. Interest rate risk

The interest rate risk applies to interest on loans and bank deposits. The interest rate is floating as it is based on the WIBOR rate. Changes in the interest rate on financial assets and liabilities are synchronized both in terms of percentage and timing. The Group limits the interest rate risk on loans through selecting a favorable interest period, depending among others on the WIBOR rate and solvency level. Certain risks cannot be avoided, since they are caused by macro-economic trends.

The table below, presenting financial assets and liabilities by fixed and floating interest rates, shows the Group sensitivity to interest rate risk:

	31.12.2009	31.12.2008
<b>Fixed rate instruments</b>		
Financial assets	977 320	793 184
Financial liabilities	(991 540)	(866 289)
<b>Total</b>	<b>(14 220)</b>	<b>(73 105)</b>
<b>Floating rate instruments</b>		
Financial assets	2 560 316	2 710 630
Financial liabilities	(157 134)	(207 782)
<b>Total</b>	<b>2 403 182</b>	<b>2 502 848</b>

Effective interest rate applicable to interest bearing assets and liabilities is presented in the table below:

	31.12.2009		31.12.2008	
	Average weighted interest rate (%)	Carrying amount	Average weighted interest rate (%)	Carrying amount
Cash and cash equivalents	3,43	902 543	5,75	2 620 659
Finance lease liabilities	4,90	(3 469)	5,26	(2 392)
Loans	2,85	(13 719)	-	(2 049)
Floating interest bank loans	3,09	(139 946)	5,45	(203 341)
<b>Total</b>		<b>745 409</b>		<b>2 412 877</b>

The effective interest rates presented in the table above are determined as the weighted average of interest rates.

The table below presents the impact of interest rate changes on the Group's financial profit/loss.

	Carrying amount	Impact of interest rate risk on performance (12 months)		Carrying amount	Impact of interest rate risk on performance (12 months)	
	31.12.2009	+ 1 p.p.	- 1 p.p.	31.12.2008	+ 1 p.p.	- 1 p.p.
<b>Financial assets</b>						
Cash	902 543	9 025	(9 025)	2 620 659	26 207	(26 207)
Trade and other receivables	926 843			782 414		
Other financial assets	1 748 822	17 488	(17 488)	115 545		
Impact on profit/loss before tax		26 514	(26 514)		26 207	(26 207)
19% tax		(5 038)	5 038		(4 979)	4 979
Impact on profit/loss after tax		<b>38 964</b>	<b>(38 964)</b>		<b>21 227</b>	<b>(21 227)</b>
<b>Financial liabilities</b>						
Loans and borrowings	(153 665)	(1 537)	1 537	(205 390)	(2 054)	2 054
Trade and other liabilities	(991 540)			(866 289)		
Finance lease liabilities	(3 469)	(35)	35	(2 392)	(24)	24
Impact on profit/loss before tax		(1 571)	1 571		(2 078)	2 078
19% tax		299	(299)		395	(395)
Impact on profit/loss after tax		<b>(1 273)</b>	<b>1 273</b>		<b>(1 683)</b>	<b>1 683</b>
<b>Total</b>		<b>37 691</b>	<b>(37 691)</b>		<b>19 544</b>	<b>(19 544)</b>

### 23.7. Capital management

The key assumption of the capital management policy developed by the Group is maintaining an optimum capital structure with the objective to reduce its cost, ensuring a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value. It is also important to maintain a strong capital base being a foundation for building confidence of future investors, creditors and market, and ensuring the future development of the Group. In order to maintain or adjust its capital structure, the Group may issue new shares or sell its assets. The Group monitors its capital using the debt ratio and the return on equity ratio. Its objective is to ensure an optimum level of the aforementioned ratios.

### 23.8. Fair value

The table below presents the fair values as compared to carrying amounts:

	31.12.2009		31.12.2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial assets available for sale (shares in unrelated parties)	39 346	39 346	8 965	8 965
Non-current financial assets measured at fair value through profit or loss	1 219	1 219	1 033	1 033
Current financial assets available for sale	-	-	4 806	4 806
Current financial assets held to maturity	55 734	55 734	100 741	100 741
Current financial assets measured at fair value through profit or loss	1 652 523	1 652 523	-	-
Trade and other receivables	926 843	926 843	782 414	782 414
Cash and cash equivalents	902 543	902 543	2 620 659	2 620 659
Bank loans and borrowings	153 665	153 406	205 390	204 648
Finance lease liabilities	3 469	3 469	2 392	2 392
Trade and other liabilities	991 540	991 540	866 289	866 289

Financial assets available for sale include shares in unrelated parties for which the ratio of interest in capital to the nominal value is lower than 20%.

Long-term financial assets measured at fair value through profit or loss include units in the "Pioneer" Investment Fund which can be traded on an active market, as a result of which their fair value may be determined. The fair value of the above units was measured at the market price of participation units, whereas its changes in the financial period recognized in profit or loss.

Current financial assets measured at fair value through profit or loss include an investment portfolio (securities, Treasury bills and bonds and deposits) held for trading.

### 24. Finance lease liabilities

	31.12.2009	31.12.2008
Finance lease liabilities – minimum lease payments		
Up to 1 year	1 178	877
1 – 5 years	2 274	1 515
Over 5 years	17	-
<b>Present value of lease payments</b>	<b>3 469</b>	<b>2 392</b>

## 25. Deferred income tax

	31.12.2009	31.12.2008
	Carrying amount	Carrying amount
<b>Deferred tax asset</b>		
- deferred tax asset realizable after 12 months	253 771	238 991
- deferred tax asset realizable within 12 months	113 290	134 722
	<b>367 061</b>	<b>373 713</b>
Offset of deferred tax asset against deferred tax liability within the Group	<b>(367 061)</b>	<b>(373 713)</b>
<b>Deferred tax asset disclosed in the balance sheet</b>	<b>-</b>	<b>-</b>
<b>Deferred tax provision</b>		
- deferred tax provision to be settled after 12 months	352 427	365 855
- deferred tax provision to be settled within 12 months	127 000	131 338
	<b>479 427</b>	<b>497 193</b>
Offset of deferred tax asset against deferred tax provision within the Group	<b>(367 061)</b>	<b>(373 713)</b>
<b>Deferred tax provision disclosed in the balance sheet</b>	<b>112 366</b>	<b>123 480</b>

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

	31.12.2009	31.12.2008
<b>Opening balance</b>	123 480	170 747
Recognized/Charged to profit	(16 240)	(46 525)
Change arising from acquisition of subsidiaries	-	(484)
Recognized/Charged on other elements of comprehensive income	5 126	(258)
<b>Closing balance</b>	<b>112 366</b>	<b>123 480</b>

**Changes in the deferred tax asset and liability in the financial year (prior to their setoff):**

Deferred tax asset

	Revaluation write-downs on receivables	Liabilities due to employee benefits	Settlement of revenue from connection fees	Provision for certificates of origin cancellation costs	Subsidies	Provision for disposal, reclamation and purchase of CO2 emission rights	Tax-deductible costs after reporting period end	Other	Total
<b>As at 1.01.2008 rate 19%</b>	<b>3 732</b>	<b>83 957</b>	<b>80 152</b>	<b>17 153</b>	<b>45 116</b>	<b>2 153</b>	<b>30 044</b>	<b>37 110</b>	<b>299 417</b>
Change arising from acquisition of subsidiaries								484	484
Recognized/charged to financial profit/loss due to change in temporary differences	(487)	34 770	13 519	13 531	(1 737)	4 511	16 348	(7 546)	72 909
Change recognized in other comprehensive income elements	-	-	-	-	-	-	-	903	903
<b>As at 31.12.2008 at 19%</b>	<b>3 245</b>	<b>118 727</b>	<b>93 671</b>	<b>30 684</b>	<b>43 379</b>	<b>6 664</b>	<b>46 392</b>	<b>30 951</b>	<b>373 713</b>
Recognized/charged to financial profit/loss due to change in temporary differences	627	(17 021)	9 327	(12 997)	(2 202)	(2 269)	13 841	4 042	(6 652)
Change recognized in other comprehensive income elements	-	-	-	-	-	-	-	-	-
<b>As at 31.12.2009 rate 19 %</b>	<b>3 872</b>	<b>101 706</b>	<b>102 998</b>	<b>17 687</b>	<b>41 177</b>	<b>4 395</b>	<b>60 233</b>	<b>34 993</b>	<b>367 061</b>

Deferred tax provision

	Taxable income after reporting period end	Sales accrued but not invoiced	Fixed assets measured at fair value	Other	Total
<b>As at 1.01.2008 rate 19%</b>	<b>34 346</b>	<b>30 932</b>	<b>384 144</b>	<b>20 742</b>	<b>470 164</b>
Recognized/charged to financial profit/loss due to change in temporary differences	15 824	11 185	(6 277)	5 652	26 384
Change recognized in other comprehensive income elements	-	-	-	645	645
<b>As at 31.12.2008 rate 19%</b>	<b>50 170</b>	<b>42 117</b>	<b>377 867</b>	<b>27 039</b>	<b>497 193</b>
Recognized/charged to financial profit/loss due to change in temporary differences	9 125	4 098	(20 568)	(15 547)	(22 892)
Change recognized in other comprehensive income elements	-	-	-	5 126	5 126
<b>As at 31.12.2009 rate 19 %</b>	<b>59 295</b>	<b>46 215</b>	<b>357 299</b>	<b>16 618</b>	<b>479 427</b>

**26. Liabilities due to employee benefits**

	31.12.2009	31.12.2008
Defined benefit plans:		
Retirement benefits		
- long-term portion	63 051	76 341
- short-term portion	12 418	11 659
	<b>75 469</b>	<b>88 000</b>
Right to energy allowance after retirement		
- long-term portion	150 265	131 704
- short-term portion	7 043	6 269
	<b>157 308</b>	<b>137 973</b>
Jubilee benefits		
- long-term portion	158 302	196 169
- short-term portion	18 580	19 132
	<b>176 882</b>	<b>215 301</b>
Appropriation to the Company's Social Benefits Fund for pensioners		
- long-term portion	20 617	19 696
- short-term portion	1 005	953
	<b>21 622</b>	<b>20 649</b>
<b>Total: Defined benefit plans</b>		
- long-term portion	<b>392 235</b>	<b>423 910</b>
- short-term portion	<b>39 046</b>	<b>38 013</b>
	<b>431 281</b>	<b>461 923</b>
Payroll and other liabilities		
- long-term portion	14 858	14 886
- short-term portion	86 496	91 867
	<b>101 354</b>	<b>106 753</b>
<b>Total liabilities due to employee benefits</b>		
- long-term portion	<b>407 093</b>	<b>438 796</b>
- short-term portion	<b>125 542</b>	<b>129 880</b>
	<b>532 635</b>	<b>568 676</b>

Based on an arrangement entered into by the representatives of staff and the Group, its employees are entitled to specific benefits other than remuneration, i.e.:

- jubilee benefits;
- retirement and disability benefits;
- electricity allowance;
- social security – an appropriation to the Company's Social Benefits Fund.

The present value of the related future liabilities has been measured using actuarial methods. Calculations were made using basic individual data for the Capital Group employees as at 31 December 2009 (taking into account their sex) regarding:

- age;
- length of service with the Group;
- total length of service;
- remuneration constituting the assessment basis for jubilee benefits as well as retirement and disability benefits.

Additionally, the following assumptions were made for the purpose of the analysis:

- employee turnover was taken into account based on statistical data of the Group and the information on employee turnover in the power industry estimated by AVCS Sp. z o.o.;
- mortality rate and the probability of receiving benefits were adopted in line with the Life Expectancy Tables published by the Central Statistical Office;
- the value of the provision for disability benefits was not determined separately but the individuals receiving disability allowance were not taken into consideration in calculating the employee turnover ratio;
- the pensionable age: 65 for men and 60 for women (as in previous years);
- the pay rise rate was adopted at the level of 3.5% (6% as at 31 December 2008);
- the interest rate for discounting future benefits was adopted at the level of 6.15% (5.70% as at 31 December 2008);
- the base value of the annual equivalent of the electricity allowance for pensioners, disability pensioners and other beneficiaries was adopted at the level of PLN 1,282.82 (PLN 1,147.46 as at 31 December 2008);
- the electricity price growth rate was adopted for 2010 at the level of 5.50%, for 2011 +21.30%, for 2012 +2.40%, for 2013 +15.00%, for 2014 +21.00%, for 2015 +3.2% (as at 31 December 2008 +21.00% for 2009, for 2010 +25.40%, for 2011 +4.20%, for 2012 +9.00%, for the following years starting from 2013 +3.00% );
- distribution charge growth rate for 2010 was adopted at the level of 7.86%, for 2011 +4.64% and for 2012 +4.25% (as at 31 December 2008 for 2009 +1.36%, for 2010 +5.78% and for 2011 - 0.36%);
- the average rise in the cash equivalent of the electricity allowance was adopted for 2010 at the level of 7.90%, for 2011 +14.30%, for 2012 +3.60%, for 2013 +11.70%, for 2014 +16.10%; in the years 2015 - 2016 at the level of 4.70%, in the years 2017 - 2021 + 4.80%, in 2022 +4.90%, and on the level of 2.50% for the remaining projection period (as at 31 December 2008 r. +18.50% in 2009, in 2010 +23.40%, in 2011 +3.80%, in 2012 +8.50%, in 2013 +3.00%, and +3.00% for the remaining projection period).



## 27. Provision for certificates of origin

	<b>31.12.2009</b>	<b>31.12.2008</b>
Certificates of origin	(45 437)	(57 364)
Advance payments for certificates of origin	(1 259)	(2 985)
Provision for the costs of redemption of certificates of origin	93 235	161 752
<b>Provision for certificates of origin</b>	<b>46 539</b>	<b>101 403</b>

## 28. Provisions for liabilities and other obligations

### Provision for projected losses due to compensation proceedings

	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Opening balance</b>	<b>81 028</b>	<b>62 902</b>
Increase in provisions	21 979	54 681
Applied provisions	(11 407)	-
Decrease in provisions	(3 862)	(36 555)
<b>Closing balance</b>	<b>87 738</b>	<b>81 028</b>

Provisions for liabilities are determined in justified, reliably estimated amounts. Individual provisions are created for projected losses related to a court action brought against the Group. The provisions are created in the amount of the claim considering the probability of losing the case based on a legal opinion. The cost of provisions is recognized under other operating expenses. The description of material claims and relevant contingent liabilities has been presented in notes 45.1, 45.4 and 45.5.

Provisions for liabilities and other charges include mainly the amount for claims of individuals owning real property arising from non-contractual use of land. The majority of such claims are requests for compensation for non-contractual use of land, determination of a rental fee or requests for relocation of facilities (restoring land to its previous condition). As at 31 December 2009, a substantial number of claims filed had not been brought to court. The Group recognizes a related provision for both disputed claims brought to court and claims which have not been submitted to court yet.

As at 31 December 2008 provisions for court claims amounted to PLN 19,658 thousand.

### Other provisions

	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Opening balance</b>	<b>36 909</b>	<b>18 761</b>
Increase in provisions	67 789	24 441
Decrease in provisions	-	(6 293)
Release of unused provision	(11 895)	-
<b>Closing balance</b>	<b>23 979</b>	<b>36 909</b>

**Provision for land reclamation**

After closing or filling a slag and ash dump, the Group is obliged to carry out appropriate land reclamation. As the Group has large unfilled dumps, land reclamation is planned for 2060. Future estimated costs of land reclamation were discounted to their current value as at 6.15% (as at 31 December 2008, using a 55.70% discount rate).

As at 31 December 2009 the provision amounted to PLN 7,629 thousand (as at 31 December 2008 it was PLN 8,716 thousand).

**Provision for the cost of disposal and storing ash and slag mixture**

The Group generates two types of wastes in the process of burning coal: ash and ash and slag mixture. As the Group incurs costs related to mixture disposal, it creates an appropriate provision. Future estimated costs of disposing or dumping ash and slag mixture were discounted to their current value at 6.15% (as at 31 December 2008, at 5.70%).

As at 31 December 2009 the provision amounted to PLN 4,107 thousand (as at 31 December 2008 it was PLN 2,721 thousand).

**Provision for purchasing CO<sub>2</sub> emission rights**

In 2009, the actual emission level in the Group exceeded the annual limit determined in line with the National Right Distribution Plan for 2008-2012 of 12 February 2008, approved by the Council of Ministers. Therefore, the Group recognized a provision for the purchase of missing emission rights as at 31 December 2009 at the market value of the emission rights.

As at 31 December 2009 the provision determined based on the market price of CO<sub>2</sub> emission rights amounted to PLN 11,109 thousand (as at 31 December 2008 it was PLN 23,635 thousand).

**Provision for liabilities and other charges total divided into short and long-term portion**

	<b>31.12.2009</b>	<b>31.12.2008</b>
Long-term	30 217	33 211
Short-term	81 500	84 726
<b>Closing balance</b>	<b>111 717</b>	<b>117 937</b>

## 29. Net sales revenue

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Revenue from sales of electricity	4 620 236	3 475 324
Revenue from sales of distribution services	2 297 371	2 279 868
Revenue from sales of goods and materials	156 298	172 908
Revenue from sales of other services	123 025	140 611
Compensation to cover orphaned costs	(77 381)	80 976
Revenue from sales of heat	47 788	8 075
<b>Net sales revenue total</b>	<b>7 167 337</b>	<b>6 157 762</b>

## 30. Expenses by type

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Amortization	(661 345)	(631 364)
Consumption: materials, raw materials, value of goods and mat.sold	<b>(1 585 889)</b>	<b>(1 223 245)</b>
- <i>consumption of materials and energy</i>	(1 391 998)	(999 668)
- <i>bonus from suppliers</i>	14 889	(1 425)
- <i>value of goods and materials sold</i>	(208 780)	(222 152)
External services	<b>(1 027 960)</b>	<b>(1 019 366)</b>
- <i>transmission services</i>	(694 791)	(670 930)
- <i>other external services</i>	(333 169)	(348 436)
Costs of employee benefits	<b>(823 964)</b>	<b>(940 080)</b>
- <i>payroll</i>	(578 173)	(667 928)
- <i>social security and other benefits</i>	(245 791)	(272 152)
Taxes and charges	(171 261)	(159 507)
Value of energy purchased for resale	(2 350 461)	(1 893 710)
<b>Total costs of products, goods and materials sold, costs of sales and marketing and general and administrative costs</b>	<b>(6 620 880)</b>	<b>(5 867 272)</b>

## 31. Costs of employee benefits

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Payroll expenses, including:	<b>(578 173)</b>	<b>(667 928)</b>
- <i>current remuneration</i>	(606 292)	(597 243)
- <i>jubilee benefits</i>	22 916	(43 611)
- <i>retirement benefits</i>	9 716	(20 697)
Other	(4 513)	(6 377)
Costs of social security and other benefits	<b>(245 791)</b>	<b>(272 152)</b>
- <i>SOCIAL INSURANCE INSTITUTION (ZUS)</i>	(119 084)	(112 016)
- <i>appropriation to the Company's Social Benefits Fund</i>	(34 694)	(43 147)
- <i>other social benefits</i>	(64 605)	(91 115)
- <i>other post-employment benefits</i>	(9 768)	(7 898)
Other	(17 640)	(17 976)
<b>Total</b>	<b>(823 964)</b>	<b>(940 080)</b>

### ***Employment guarantees***

Based on an arrangement entered into by the Group and labor unions, specific employment guarantees have been given to people employed by the Company before 29 June 2007 (except from Elektrownia "Kozienice" S.A.), which expire on 31 December 2018.

Furthermore, the provisions of the aforementioned arrangement will remain in force longer for employees who, at the expiry of the guarantees, have maximum four years to satisfy the conditions to acquire pension rights. This denotes that in the event the employer fails to comply with the guarantees, employment contracts may not be terminated without payment of additional benefits to employees who, at the expiry of the guarantees, have maximum four years to satisfy the conditions to acquire pension rights.

Under the employment guarantees, the Group is obliged to pay an employee an amount being the product of their monthly salary and the remaining period of the guarantee validity if the employment contract is terminated by the employer.

Pursuant to a social contract concluded on 10 August 2007 between Elektrownia "Kozienice" S.A. and labor unions, employees of that entity obtained an employment guarantee extended by 11 years as at the contract effective date, i.e. by 30 January 2019.

### ***Arrangements entered into with employees of the Group***

As a result of collective arrangements entered into by the Group and the labor unions in February 2005 and July 2007 the parties undertook to apply measures aimed at payment of compensations to the employees of the Group who are not entitled to receive shares in ENEA S.A. from the 15% block of shares to be acquired by Eligible Employees. The parties agreed to enter into a separate arrangement regarding the potential compensations.

Considering the aforementioned arrangements, on 28 May 2008 the Management Board of the Parent entered into an arrangement with the Group labor unions providing for a payment of cash compensation of PLN 14.5 million on a one-off basis. The compensation was to become payable after 24 months from the date of disposal of at least 1 share in ENEA S.A. by the State Treasury in line with the provisions of the Act on Commercialization and Privatization. The arrangement replaced former ones regarding employee shares and payment of compensation included in the above arrangements concluded in 2005 and 2007. According to its contents, it did not anyhow override employee rights resulting from other agreements and arrangements. In case of any discrepancies between the provisions of the arrangement and other agreements or arrangements, the provisions which were more favorable to the employees were to prevail.

As at 31 December 2008, liability arising from these compensations as recognized by the Company amounted to PLN 14,858 thousand and consisted of the compensation of PLN 14,500 thousand increased by costs of social security charges incurred by the employer and adjusted by discount.

As at 31 December 2009 the above compensations amounted to PLN 14,858 thousand.

### 32. Other operating revenue and expense

#### Other operating revenue

	<b>01.01.2009 - 31.12.2009</b>	<b>01.01.2008 - 31.12.2008</b>
Release of provisions due to commenced court proceedings with respect to claims.	4 968	36 555
Reimbursement of expenses by an insurance company	9 196	12 944
Settlement of income due to subsidies and connection fees	6 317	5 855
Received damages and fines	11 733	1 759
Released unapplied revaluation write-downs	18 379	1 880
Bonus from suppliers	643	580
Fixed assets received free of charge	6 808	6 751
Payment of receivables previously redeemed	3	2
Housing activity	556	1 806
Disclosed property, plant and equipment	36	468
Other operating revenue	19 960	12 314
<b>Total</b>	<b>78 599</b>	<b>80 914</b>

#### Other operating expenses

	<b>01.01.2009 - 31.12.2009</b>	<b>01.01.2008 - 31.12.2008</b>
Costs of provisions created for potential claims	(1 346)	(26 105)
Other expenses by type	(10 393)	(10 197)
Cost of provision created for instituted court proceedings □ for compensation	(12 478)	(28 576)
Revaluation write-downs on receivables	(16 906)	(6 842)
Write-off of irrecoverable receivables	(19 460)	(2 039)
Court fees	(3 330)	(2 058)
Labor union related expenses	(1 305)	(856)
Revaluation write-downs on shares	-	(289)
Loss on sale of fixed assets	(1)	(95)
Granted donations	(759)	(2 133)
Premiums to associations of employers and other institutions	(646)	(594)
Write-off on goodwill	(16 832)	-
Other operating expenses	(28 506)	(30 921)
<b>Total</b>	<b>(111 962)</b>	<b>(110 705)</b>

### 33. Financial revenue

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Interest on deposits	44 982	68 990
Default interest	18 603	12 808
Released write-down on interest due	962	558
Dividend income	2 335	479
Other interest	2 473	7 986
Forex differences	1 874	-
Change in the value of financial assets measured at fair value through profit or loss	93 294	-
Revaluation of liabilities due to purchase options on other shares in subsidiaries	1 691	-
Other financial revenue	6 491	2 050
<b>Total</b>	<b>172 705</b>	<b>92 871</b>

### 34. Financial expenses

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Interest expense	(11 068)	(17 106)
- on bank loans	(7 684)	(13 727)
- default interest	(1 152)	(1 846)
- interest on leases	(193)	(100)
- write-down on interest	(1 864)	(1 433)
- other interest	(175)	-
Costs of discounted liabilities due to employee benefits	(21 737)	(19 225)
Foreign exchange losses on loan valuation	-	(13 974)
Other financial expenses	(215)	(873)
<b>Total</b>	<b>(33 020)</b>	<b>(51 178)</b>

### 35. Income tax

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Current tax	(155 686)	(124 624)
Deferred tax	16 240	46 525
<b>Total</b>	<b>(139 446)</b>	<b>(78 099)</b>

The income tax on gross profit before tax differs from the theoretical amount resulting from application of the nominal tax rate applicable to the Group's consolidated profit in the following manner:

	<b>01.01.2009 - 31.12.2009</b>	<b>01.01.2008 - 31.12.2008</b>
Profit/loss before tax	653 056	293 466
Tax at 19% rate	<b>(124 081)</b>	<b>(55 759)</b>
Non-deductible costs reduced by non-taxable revenue □(permanent differences) *19%	(26 640)	(22 179)
Non-taxable revenue (permanent differences * 19%)	11 838	41
Other *19%	(563)	(202)
<b>Amount charged to profit or loss due to income tax</b>	<b>(139 446)</b>	<b>(78 099)</b>

### **36. Dividend**

On 30 June 2009 the Ordinary Shareholders' Meeting of ENEA S.A. adopted Resolution No. 4 on distribution of the net profit for the reporting period from 1 January 2008 to 31 December 2008, under which the amount of PLN 203,064 thousand was allocated to dividend payment to shareholders (dividend per share was PLN 0.46). The dividend had been paid by the balance sheet date.

On 9 June 2008 the Ordinary Shareholders' Meeting of ENEA S.A. adopted Resolution No. 2 on distribution of the net profit for the reporting period from 1 January 2007 to 31 December 2007, under which the amount of PLN 88,630 thousand was allocated to dividend payment to the State Treasury (dividend per share was PLN 0.25) The dividend had been paid by 31 December 2008.

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

The value of the obligatory profit-sharing payments made for the period from 1 January to 31 January 2009 was PLN 216 thousand.

The profit-sharing payments for the period from 1 January to 31 December 2008 amounted to PLN 29,151 thousand. The value of profit-sharing payments accrued but not made as at 31 December 2008 of PLN 8,464 thousand is presented in the consolidated financial statements as trade and other liabilities.

### 37. Earnings per share

	<b>01.01.2009 - 31.12.2009</b>	<b>01.01.2008 - 31.12.2008</b>
Net profit attributable to shareholders of the Parent	513 589	215 361
Number of ordinary shares	441 442 578	359 016 443
<b>Net earnings per share (in PLN)</b>	<b>1,16</b>	<b>0,60</b>
<b>Diluted earnings per share (in PLN)</b>	<b>1,16</b>	<b>0,60</b>

### 38. Related party transactions

The companies of the Capital Group conclude the following related party transactions:

- The Capital Group's constituent entities – transactions are eliminated at the consolidation stage;
- Transactions concluded between the Group and Members of the Group's Management are divided into three categories:
  - resulting from employment contracts with Members of the Management Board of the Parent Company related to appointment of the Members of the Supervisory Board;
  - resulting from borrowings from the Company's Social Benefit Fund granted to Members of the Management Board of the Parent Company and Supervisory Board employed in ENEA S.A.;
  - resulting from civil law agreements.
- Transactions with entities, whose shares are held by the State Treasury

Transactions with members of the Group's Management and Supervisory Bodies

Item	Management Board		Supervisory Board	
	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Remuneration under employment contracts	1 226	936	-	-
Remuneration relating to appointment of members of management and supervisory bodies	-	-	350	336
Remuneration due to the position held in supervisory boards of subsidiaries	216	140	-	-
Remuneration due to other employee benefits (electricity allowance)	318	164	-	-
<b>TOTAL</b>	<b>1 760</b>	<b>1 240</b>	<b>350</b>	<b>336</b>

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



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

<b>Company body</b>	<b>Balance as at 01.01.2009</b>	<b>Granted on 01.01.2009</b>	<b>Maturing on 31.12.2009</b>	<b>Balance as at 31.12.2009</b>
Management Board	42	-	(21)	<b>21</b>
Supervisory Board	7	47	(25)	<b>29</b>
<b>TOTAL</b>	<b>49</b>	<b>47</b>	<b>(46)</b>	<b>50</b>

<b>Company body</b>	<b>Balance as at 01.01.2008</b>	<b>Granted on 01.01.2008</b>	<b>Maturing on 31.12.2008</b>	<b>Balance as at 31.12.2008</b>
Management Board	27	25	(10)	<b>42</b>
Supervisory Board	13	-	(6)	<b>7</b>
<b>TOTAL</b>	<b>40</b>	<b>25</b>	<b>(16)</b>	<b>49</b>

Other transactions resulting from civil-law agreements concluded between the Parent Company and Members of the Parent's Bodies relate only to private use of company's cars by Members of the Management Board of ENEA S.A.

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

The transactions concern mainly:

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

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

### **39. Concession agreements on provision of public services**

The key business activities carried out by the Capital Group include generation, distribution and trade of electricity.

In line with the provisions of the Energy Law, on 26 November 1998 the Parent obtained the following two concessions to carry out its business activities:

- concession for trading in electricity, granted for a 10-year period, i.e. until 30 November 2008;
- concession for electricity transmission and distribution, granted also for a 10-year period, i.e. until 30 November 2008;

ENEA Operator Sp. z o.o. holds a concession for distribution of electricity effective until 1 July 2017.

On 23 April 2007 ENEA S.A. filed a request to the President of the Energy Regulatory Office to extend the validity of the concession for trading in electricity. On 5 October 2007 ENEA S.A. received a decision on extension of the validity of the concession for trading in electricity until 31 December 2025.

Pursuant to the provisions of the Energy Law, the President of the Energy Regulatory Office is responsible for granting concessions, exercising supervision over energy companies as well as approval of tariffs. Energy prices, fee rates and the principles for their application laid down in the Tariff are approved by the President of the Energy Regulatory Office based on administrative decisions.

While approving the Tariff, the President of the Energy Regulatory Office verifies its compliance with the following legal acts:

- the Energy Law of 10 April 1997 (Dz. U. of 2003 No. 153, item 1504 and No. 203, item 1966, of 2004 No. 29, item 257, No. 34, item 293, No. 91, item 875, No. 96, item 959 and No. 173, item 1808 and of 2005 No. 62, item 552);
- the Ordinance of the Minister of Economy, Labor and Social Policy of 23 April 2004 on detailed principles for tariff establishment and calculation as well as the principles for settlements in electricity trading (Dz. U. of 2004, No. 105, item 1114);
- the Ordinance of the Minister of Economy and Labor of 20 December 2004 on detailed conditions for connections to the power grid, movement and use of power grids (Dz. U. of 2004, No. 2, item 6).

ENEA S.A. and ENEA Operator Sp. z o.o. calculate their tariff based on costs regarded as legitimate by the President of the Energy Regulatory Office as well as margins (for electricity trading) as well as transferred, operating costs, balance sheet difference costs and return on equity (for distribution) planned to be earned in the subsequent tariff period.

Pursuant to a decision issued by the President of the Energy Regulatory Office ENEA S.A. was released from the obligation to submit a Tariff for the A, B and C group customers. On 13 December 2007 a resolution was adopted by the Management Board of ENEA S.A. on introduction of a new tariff for the A, B and C group customers as of 1 January 2008. On 2 January 2009 the President of the Energy Regulatory Office approved the household electricity tariff for ENEA S.A. (household and prepaid G tariff groups).

On 12 January 2010 the electricity tariff of ENEA for 2010 was approved by the President of the Energy Regulatory Office.

The core business of Elektrownia “Kozienice” S.A. involves generation of electricity and heat based on concessions granted by the President of ERO.

Concession for electricity generation:

- No. WEE/11-ZTO/1271/W/OWA/2007/RW of 31 August 2007 for generation of electricity in devices of total installed capacity amounting to 2820 MW.

(The Concession became effective as at 31 August 2007 for the period until 31 December 2025).

- No. WEE/11-ZTO-B/1271/W/3/2008/ARS of 24 January 2008 for generation of electricity in a source named Elektrownia „Kozienice” S.A. with total installed capacity of 2 820 MW and total generating capacity of 2 880 MW.

The concession exceeds the business activity of Elektrownia “Kozienice” S.A. The change regards cogeneration of electricity in blocks of generating capacity amounting to 535 MW and 560 MW during combustion of conventional fuel (hard and stove coal), and cogeneration of electricity in eight blocks with generating capacity of 1-215 MW, 1-220 MW, 6-225 MW in process of conventional fuel combustion (hard coal and heating oil) and biomass.

(The concession is valid for the period from 24 January 2008 to 31 December 2025.)

Concession for trading in electricity:

- No. OEE/334/1271/W/1/2002/MW of 21 December 2002 involving trading of electricity for the needs of consumers located on the territory of the Republic of Poland.

(The concession is valid for the period from 1 January 2003 to 1 January 2013.)

Concession for heat production:

- No. WCC/256-ZTO/1271/W/OWA/2007/RW of 31 August 2007 regarding cogeneration of heat in a power plant located in Świerże Górne, with the total heat generating capacity of 266 MW (from 31 August 2007).

(The Concession became effective as at 31 August 2007 for the period until 31 December 2025).

- No. WCC/256-ZTO-B/1271/W/3/2008/ARS of 24 January 2008 for cogeneration of heat in the source named Elektrownia „Kozienice” S.A. with the total heat generating capacity of 266 MWt. The heat comes from combustion of conventional fuel (hard coal and heating oil) in two steam boilers providing steam to two sets of turbines generating heat and from combustion of conventional fuel (hard coal, heating oil) or from combustion of the fuel and biomass in eight steam boilers providing heat to eight turbines cogenerating heat.

The concession results from extension of business activities of Elektrownia “Kozienice” S.A. with production of heat from biomass combustion.

(The concession for the period from 24 January 2008 to 31 December 2025.)

Concession for heat transmission:

- No. PCC/ 269-ZTO/1271/W/OWA/2007/RW of 31 August 2007 for transmission and distribution of internally produced heat through two heating networks in Świerże Górne.

(The concession for the period from 31 August 2007 to 31 December 2025.)

#### **40. Long-term contracts on the sale of electricity (LTC)**

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

In 2008, Elektrownia "Kozienice" S.A. obtained from Zarządca Rozliczeń S.A. advances for orphaned costs in the amount of PLN 93,132 thousand, out of which the amount of PLN 80,976 thousand was recognized in 2008 financial statements as revenue from compensation. On 5 August 2009, Elektrownia "Kozienice" S.A. obtained a Decision of the President of ERO of 31 July 2009 determining the amount of annual adjustment for orphaned costs (i.e. advances obtained from Zarządca Rozliczeń S.A.) for the year 2008. According to the above decision, the annual adjustment for orphaned costs (i.e. the amount of advances to be refunded to Zarządca Rozliczeń S.A.) was determined as PLN 89,537 thousand, meaning a reduction of compensation revenue for 2008 compared to the amount recognized in 2008 financial statements by Elektrownia "Kozienice" S.A. (and the resulting reduction in the consolidated financial statements of the ENEA Capital Group) by PLN 77,381 thousand.

The amount of the annual adjustment of orphaned costs for 2009 will depend on a number of factors, in particular on the operating profit/loss of Elektrownia "Kozienice" S.A. for 2009, electricity sales volume and average market prices of electricity, as well as interpretation of the LTC Termination Act.

According to the Management Board of Elektrownia "Kozienice" S.A. and ENEA S.A., assumptions made by the President of ERO at making the decision as well as interpretation of the Act of 29 June 2007 regarding coverage of costs incurred by generators in relation to the discussed termination of LTC are often incorrect or misapplied. Therefore, on 19 August 2009, Elektrownia "Kozienice" S.A. filed an appeal to the District Court in Warsaw – the Court of Competition and Consumer Protection. The appeal included a motion to suspend the execution of the decision until the final judgment. In its judgment of 23 September 2009, the District Court in Warsaw, the Court of Competition and Consumer Protection decided to suspend the decision in excess of PLN 44,768 thousand and denied the other part of the motion. Therefore, on 30 September 2009, the Management Board of the Company decided to refund the advance in the amount not suspended by the Court and resulting from the decision of the President of ERO.

On 2 October 2009, Elektrownia "Kozienice" S.A. appealed against the above judgment to the Appellative Court in Warsaw, VI Civil Law Division.

As at the date of the consolidated financial statements, the result of the appeal cannot be precisely determined. The Management Board of Elektrownia "Kozienice" S.A. decided not to recognize compensation revenue in 2009 and to recognize the adjustment of compensation revenue recorded in 2008 in the amount of PLN 77,380 thousand. The above adjustment is recognized in the statement of comprehensive income for the period from 1 January to 31 December 2009 under sales revenues (as the amount reducing sales revenues). If in future the Court decides on the appeal against the President of ERO obliging Elektrownia "Kozienice" S.A. to refund the reduced amount of adjustment determined by the President of ERO, it will improve the financial standing of the Group.

**41. Future payments due to the right of perpetual usufruct acquired for a consideration and free of charge as well as lease, rental and operating lease agreements**

The future minimum liabilities arising from the right of perpetual usufruct apply to the remaining term of agreements for the use of land (40-99 years). They are recognized in accordance with EU IFRS as operating leases, where the Group acts as a lessee:

	<b>31.12.2009</b>	<b>31.12.2008</b>
Up to 1 year	3 503	2 949
1 – 5 years	14 779	12 772
Over 5 years	265 479	221 345
	<b>283 761</b>	<b>237 066</b>

**42. Future liabilities under contracts concluded as at the balance sheet date**

Contractual obligations incurred as at the balance sheet date, not recognized in the balance sheet:

	<b>31.12.2009</b>	<b>31.12.2008</b>
Acquisition of property, plant and equipment	415 833	370 857
Acquisition of intangible assets	12 547	8 055
	<b>428 380</b>	<b>378 912</b>

**43. Employment**

	<b>12 months ended</b>	<b>12 months ended</b>
	<b>31.12.2009</b>	<b>31.12.2008</b>
Blue-collar positions	5 536	5 552
White-collar positions	4 822	4 582
<b>TOTAL</b>	<b>10 358</b>	<b>10 134</b>

The data in the table are presented in FTE. Managerial positions are qualified as white collar ones.

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

Sales of electricity during the year are subject to seasonal fluctuations. They increase during the winter months and decrease in summer. This depends on the temperature and the length of the day. The extent of fluctuations depends on low temperature and shorter days in winter and higher temperature and longer days in summer. Seasonal sales of electricity apply largely to small clients (45.31% of the sales value), not to the industrial sector.

## **45. Contingent liabilities and proceedings before court, body competent to conduct arbitration or public administration body**

### **45.1. Pending proceedings before common courts of law**

#### Actions brought by the Group

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

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

As at 31 December 2009, the total of 6,063 cases brought by the Group were pending before common courts of law for the total amount of PLN 38,946 thousand (8,277 cases for the total amount of PLN 28,088 thousand as at 31 December 2008).

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

#### Actions brought against the Group

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

Actions brought against Elektrownia "Kozienice" S.A. are related to claims resulting from the flying ash sales agreement (demanding from Elektrownia "Kozienice" S.A. payment of fees for loading delay calculated by the buyer).

As at 31 December 2009 there were 351 cases pending before common courts of law which have been brought against the Group for the total amount of PLN 25,102 thousand (as at 31 December 2008 there were 251 cases for the total amount of PLN 18,043 thousand). Provisions related to the court cases have been presented in note **Błąd! Nie można odnaleźć źródła odwołania.**

### **45.2. Arbitration proceedings**

As at 31 December 2009 there were no pending proceedings before competent arbitration bodies.

**45.3. Proceedings before public administration bodies**

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

Pursuant to the decision of the President of the Office of Competition and Consumer Protection of 30 September 2008 which closed the proceedings for abuse of its market position by way of not keeping deadlines related to connection decisions and determining the impact of the designed wind power station on the electricity system, ENEA Operator Sp. z o.o. was obliged to pay a fine amounting to PLN 11.626 thousand. ENEA Operator Sp. z o.o. lodged an appeal against the decision. As at the date of preparation of these condensed interim consolidated financial statements the appeal had not been examined. As of 31 December 2009, the Group established a provision in the total amount of the aforementioned fine.

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

On 28 December 2009 the President of ERO issued a decision on ENEA's failure to comply with the obligation to purchase electricity produced in the CHP system in the first half of 2007, imposing a fine of PLN 2,150 thousand on the Company. On 19 January 2010 ENEA appealed against the decision issued by the President of ERO to the Court of Competition and Consumer Protection.

On 11 February 2009 Elektrownia „Kozienice” S. A. filed a motion to the Head of the Radom Tax Office for a refund of overpaid excise tax in the amount of PLN 694,6 million for the period from January 2006 to December 2008. Having examined the motion, on 26 August 2009 the Head of the Customs Office denied the refund of the overpaid excise tax for the period from January 2006 to June 2006 and on 10 November 2009 further denials were issued with regard to the period from July 2006 to December 2006 inclusive and on 12 November 2009, denials regarding refund for the period from January 2007 to December 2007 inclusive. At the same time, on 26 August 2009 the Head of the Customs Office issued a decision determining the excise tax liability for the period from January 2006 to June 2006 and on 10 November 2009 decisions were issued with regard to the liability for the period from July 2006 to December 2006 inclusive



and on 12 November 2009, decisions regarding the liability for the period from January 2007 to December 2007 inclusive, assuming the amounts recognized by the Company in its initial tax returns before adjustment and the refund motion as the tax liability. The Company appealed against the decision to the Head of the Tax Chamber in Warsaw. On 24 February 2009 the Company filed a motion to the Head of the Radom Tax Office for a refund of overpaid excise tax on electricity in the amount of PLN 34.6 million for January and February 2009. Until the date of these consolidated financial statements, the motions have not been examined.

Due to the nature of the Group's business, there were many other proceedings before the public administration bodies as at 31 December 2009.

Vast majority of the proceedings was instigated upon request of the Group which has applied to relevant administration bodies for:

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

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

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

On 16 March 2009, as a result of an inspection of the Supreme Chamber of Control (NIK) related to *Restructuring of the energy sector since 2005 and energy network security*, the Company received a post-audit statement. On 23 March 2009 the Management Board of ENEA S.A. presented formal objections as regards non-fulfillment due to occurrence of the requirements specified in the Act of 23 December 1994 on the Supreme Chamber of Commerce and incompatibilities of findings with the facts and findings specified in the post-audit statement and reservations concerning assessment included therein. On 20 April 2009 the Commission of Appeal adopted a Resolution to close the appeal proceedings. It was approved by the Chairman of the Supreme Chamber of Control on 22 May 2009. The Management Board of ENEA S.A. drew up a letter dated 10 June 2009 in which it informed the Supreme Chamber of Control of the ways the findings and comments had been applied in practice.

When implementing recommendations of the Supreme Chamber of Control (SCC), the Management Board of ENEA S.A. issued a resolution no. 600/2009 regarding implementation of the Post-audit Statement of SCC of March 2009 by individual departments of ENEA S.A.

Due to the character of operations of ENEA Operator Sp. z o.o. (operations in the regulated market of the monopolistic nature) there have been numerous court actions brought against the company by

the President of the Energy Regulatory Office and the President of the Office for Competition and Consumer Protection upon request of the electricity buyers supplied by the Group.

The President of the Energy Regulatory Office, as a key central administration body established to regulate operations of companies in the energy sector settles disputes related to a refusal to conclude agreements on connecting to the network or providing transmission services or to the content of thereof.

As at 31 June 2009 the President of the Energy Regulatory Office carried out a series of explanatory and administrative proceedings against the Group.

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

#### **45.4. Risk related to the legal status of properties used by the Group**

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

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

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

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

The Group established a provision for all claims lodged by owners of properties located near transmission networks and devices based on most appropriate estimates of expenditures necessary to settle the claims assumed by the Management Board. As at 31 December 2008, the Management Board of ENEA S.A. examined the submitted claims which had not been brought to court. As a result of the examination, the estimates were changed and the provision for claims of persons holding real property due to non-contractual use of land was partially released (Note 28).

The Group does not establish provision for possible unlogged claims of owners of land which is used on a non-contractual basis. Possible claims amounts may be significant for the Group, considering the area of non-contractually used land, where the Group's transmission networks or related devices are located. The Group does not keep any record or has no knowledge concerning the legal status of land, therefore is it unable to reliably estimate the maximum amount of possible claims arising from non-contractual use of land.

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

As at 31 June 2009 no official legal regulations in this respect existed and therefore the Group did not create provisions for possible claims due to the use of woodland managed by National Forests for the needs of the Group's electricity lines. On 29 November 2006 was held a meeting initiated by the Minister of Environment and attended by representatives of National Forests, the Ministry of State Treasury, PSE-Operator Sp. z o.o. and Polskie Towarzystwa Przesyłu i Rozdziału Energii Elektrycznej representing distribution companies. The National Forests' proposition to conclude agreements on the lease of land where the lines are located was not accepted. Consequently, a more general solution based on legislative changes is required. Currently, it is not possible to estimate a provision for participating in the costs of the National Forests related to property tax for the land of the State Treasury. Possible claims may be significant, considering the area of land.

Regardless of the aforementioned actions aimed at general regulation of the legal status of land owned by National Forests, individual forest district offices lodged claims against the Group due to non-contractual use of land by the Group. The claims have been accounted for in the provision presented in Note 28.

#### 46. CO<sub>2</sub> emission rights

As at 31.12.2009 the CO<sub>2</sub> emission rights balance was as follows:

	<i>Number thousand tons</i>
CO <sub>2</sub> emission rights for 2009	
granted	9 712
applied	(10 760)
purchased	1 200
As at 31.12.2009	<b>152</b>

As at 31.12.2008 the CO<sub>2</sub> emission rights balance was as follows:

	<i>Number thousand tons</i>
CO <sub>2</sub> emission rights for 2008	
brought forward	-
granted	9 637
applied	(10 005)
As at 31.12.2008	<b>(368)</b>

Information regarding the amount of provisions for the purchase of carbon dioxide emission rights as at 31 December 2009 is presented in Note 28.

An increase regarding reduction of the emission in 2010 and the years to follow, if any, may significantly impact the Group's profitability.

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

In 2008 the Parent Company started negotiations with the receiver in bankruptcy of Elektrim S.A. concerning the acquisition of 45.95% of shares in Zespół Elektrowni Pątnów-Adamów-Konin S.A. (ZE PAK). The Group will place the offer after a number of conditions have been met. They include satisfactory results of the legal, financial, tax, technical, environmental and operational review of ZE PAK and its capital group, negotiating all conditions of the sales agreement and positive settlement of the claims with respect to shares in ZE PAK filed by debtors of Elektrim S.A. As at the date of preparation of these consolidated financial statements no binding decisions were taken.

**48. Actions aimed at acquiring a coal mine**

The Company has taken steps aimed at acquiring an organized part of a coal mine - Kopalnia Węgla Kamiennego "Brzeszcze – Silesia" Ruch II Silesia and has made an informal acquisition offer. As at the date of preparing these consolidated financial statements, the Management Board of ENEA S.A. decided to withdraw from the purchasing of the organized part of Kompania Węglowa S.A. named Ruch II Silesia KWK „Brzeszcze-Silesia”. Further negotiations and establishing new cooperation framework with Kompania Węglowa, the owner of KWK Silesia, is not excluded. The decision making process regarding KWK Silesia is being continued, and ENEA S.A. considers other potential investment forms.

**49. Changes in excise tax**

On 1 March 2009, the amendment of the Excise Tax Act of 23 January 2004 came into force. Polish excise tax regulations had to be amended in order to comply with the EU laws. Based on the amendment, the excise tax obligation arises when electricity is supplied to the final buyers (not in time of producing electricity). Consequently, since 1 March 2009 ENEA S.A. has been obliged to pay excise tax, while before it was paid by Elektrownia "Kozienice" S.A.

On 12 February 2009 the European Court of Justice passed a verdict stating that the Polish regulations determining the moment of occurring the excise tax obligation in the sale of energy did not comply with the regulations of the EU Energy Directive.

On 11 February 2009 Elektrownia „Kozienice” S. A. filed a motion to the Head of the Radom Tax Office for a refund of overpaid excise tax in the amount of PLN 694.6 million for the period from January 2006 to December 2008. Having examined the motion, on 26 August 2009 the Head of the Customs Office denied the refund of the overpaid excise tax for the period from January 2006 to June 2006 and on 10 November 2009 further denials were issued with regard to the period from July 2006 to December 2006 inclusive and on 12 November 2009, denials regarding refund for the period from January 2007 to December 2007 inclusive. At the same time, on 26 August 2009 the Head of the Customs Office issued a decision determining the excise tax liability for the period from January 2006 to June 2006 and on 10 November 2009 decisions were issued with regard to the liability for the period from July 2006 to December 2006 inclusive and on 12 November 2009, decisions regarding the liability for the period from January 2007 to December 2007 inclusive, assuming the amounts recognized by the Company in its initial tax returns before adjustment and the refund motion as the tax liability. The Company appealed against the decision to the Head of the Tax Chamber in Warsaw. On 24 February 2009 the Company filed a motion to the Head of the Radom Tax Office for a refund of overpaid excise tax on electricity in the amount of PLN 34.6 million for January and February 2009. Until the date of these consolidated financial statements, the motions have not been examined.

As the refund is not certain, the requested excise tax refund was not included in these consolidated financial statements.

**50. Negotiations concerning acquisition of shares**

On 13 July 2009 the Minister of Treasury in Warsaw, acting on behalf of the State Treasury based on the Act on commercialization and privatization (Dz. U. of 2002 No. 171, item 1397, as amended) on detailed procedure of selling shares of the State Treasury (Dz. U. of 2009 No. 34, item 264), invited all interested parties to negotiations concerning the acquisition of 295,987,473 shares with the face value of PLN 1 each, owned by the State Treasury and constituting 67.05% of the share capital of ENEA S.A. in Poznań. 987.473

Written answers to the public invitation to negotiations concerning the acquisition of shares of the Company by Potential Investors who received the Memorandum were submitted by 14 August 2009.

The only Company which replied was RWE AG.

On 14 October 2009 the Ministry of State Treasury informed that RWE AG would not file a binding offer to acquire shares of ENEA S. A. Consequently, the process of the sale of 67.5 % shares in ENEA S.A. held by the State Treasury was closed on 15 October 2009..

## **51. Post balance sheet events**

### **51.1. Capital contribution to subsidiaries**

On 28 January 2010, the Extraordinary Shareholders' Meeting passed Resolution No. 1 regarding increase of the share capital of ENTUR Sp. z o.o. up to PLN 4,134.5 thousand, i.e. by PLN 100 thousand by issuing 200 new shares with nominal value of PLN 500 each. All new shares in the company's share capital will be assumed and cash covered by ENEA S.A.

On 4 February 2010, the Extraordinary Shareholders' Meeting passed Resolution No. 1 regarding increase of the share capital of Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o. up to PLN 17,448 thousand, i.e. by PLN 1,710 thousand by issuing 3,420 new shares with nominal value of PLN 500 each. All new shares in the company's share capital will be assumed and cash covered by ENEA S.A.

On 22 December 2009, the Extraordinary Shareholders' Meeting passed Resolution No. 1 regarding increase of the share capital of ENERGOBUD Leszno Sp. o.o. with the registered office in Gronówko up to PLN 5,676 thousand, i.e. by PLN 2,151.5 thousand by issuing 4,303 new shares with nominal value of PLN 500 each. All new shares in the company's share capital will be assumed and covered with in-kind contribution by ENEA S.A.

On 22 December 2009, the Extraordinary Shareholders' Meeting passed Resolution No. 1 regarding increase of the share capital of BHU S.A. with the registered office in Poznań up to PLN 14,302.5 thousand, i.e. by PLN 4,164.1 thousand by issuing 41,641 new shares with nominal value of PLN 100 each. All new shares in the company's share capital will be assumed and covered with cash and in-kind contribution by ENEA S.A.

### **51.2. Disposal of shares in PWE Gubin Sp. z o.o.**

In a Resolution of 15 December 2009, the Management Board of ENEA S.A. agreed to the sale of shares in PWE Gubin Sp. z o.o. with the registered office in Sękowice. The shares were sold according to a contract of 9 February 2010.

### **51.3. Purchase of the bio-gas power station in Liszkowo**

The purchase transaction was concluded in line with the contract on 15 January 2010. The power station generates electricity to be used for internal purposes of ENEA S.A. and the surplus shall be traded beginning from the contract date. Following the power generation, green certificates are produced confirming that the power comes from renewable sources. Heat production is included into the plan.

### **51.4. Sales of shares in ENEA S.A. held by State Treasury**

Pursuant to the privatization program, on 27 January 2010 the Ministry of State Treasury appointed Credit Suisse and Rothschild Polska financial advisors at the sale of shares in ENEA S.A. Based on their recommendation, the State Treasury disposed of 16.05% of shares in the first program stage on public markets. In the second stage, the plan involves the sale of over 50% of shares to an industry investor.

On 10 February 2010, the Ministry of State Treasury announced the sale of 70,851,533 ordinary shares in ENEA S.A. with the nominal value of PLN 1 each (i.e. 16.5% of the share capital) on Warsaw Stock Exchange.

The State Treasury plans to invite strategic investors to negotiations regarding the sale of majority interest in ENEA S.A. The completion of the process is planned for mid-2010.

As at the financial statements date, the shareholder structure of ENEA S.A. changed and at present is as follows: the State Treasury of the Republic of Poland – 60.43% of shares, Vattenfall AB – 18,67%, other shareholders – 20.90%.

**REPORT SUPPLEMENTING THE AUDITOR'S OPINION ON THE AUDIT  
OF THE CONSOLIDATED FINANCIAL STATEMENTS  
OF ENEA CAPITAL GROUP FOR THE 2009 FINANCIAL YEAR**

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## **I. GENERAL INFORMATION**

### **1. Details of the Parent**

The Parent of the Capital Group operates under the name of ENEA S.A. The Company's registered office is located in Poznań, ul. Nowowiejskiego 11.

The Parent was established on 12 July 1993 based on the deed of transformation of state enterprise Zakład Energetyczny Poznań into a company Energetyka Poznańska S.A. wholly owned by the State Treasury (notarized deed registered under Repertory A No. 2432/93).

The Parent operating under the business name Energetyka Poznańska S.A. was entered in the National Court Register in the District Court in Poznań, XIV Business Division, under number KRS 0000012483 on 21 May 2001.

On 2 January 2003 the court registered a business combination of Energetyka Poznańska S.A., Energetyka Szczecińska S.A., Zielonogórskie Zakłady Energetyczne S.A., Zakład Energetyczny Gorzów S.A. and Zakład Energetyczny Bydgoszcz S.A. The business combination was carried out in the form of acquisition, where Energetyka Poznańska S.A. acted as an acquirer.

On 2 January 2003 the Parent's name changed from Energetyka Poznańska S.A. to Grupa Energetyczna ENEA S.A. On 13 October 2004 the Parent's name was changed to ENEA S.A.

The Parent has a tax identification number NIP: 777-00-20-640.

The REGON number assigned to the Parent by the Statistical Office is: 630139960.

The Parent operates based on provisions of the Code of Commercial Companies.

As at 31 December 2009, the Parent's share capital amounted to PLN 441,443 thousand and was divided into 441,442,578 ordinary shares with a face value of PLN 1 each – as registered in the National Court Register.

The Extraordinary Shareholders' Meeting of 3 November 2008 passed a Resolution on an increase in the share capital of the Parent in relation to the planned public offering of 103,816,150 series C bearer shares with the face value of PLN 1 each. The share capital was increased from PLN 337,626 thousand to PLN 441,443 thousand. The increase was registered in the National Court Register on 13 January 2009.

The Parent's share capital as at the date of the first time adoption of International Financial Reporting Standards, as adopted by the European Union (1 January 2004) was revalued in line with IAS 29 "Financial Reporting in Hyperinflationary Economies" by PLN 107,765 thousand and adjusted by PLN 38,810 thousand due to other adjustments.

As at 31 December 2008, (after the capital increase resulting from the share issue under public offering, which was registered in the National Court Register on 13 January 2009) the Parent's share capital structure was the following:

<b>Shareholder's name</b>	<b>Number of shares</b>	<b>Number of votes</b>	<b>Face value of shares (in PLN '000)</b>	<b>% share in the share capital</b>
State Treasury	337,626,428	76.48%	337,626	76.48%
Vattenfall AB	82,395,573	18.67%	82,396	18.67%
EBRD	11,038,962	2.50%	11,039	2.50%
ENEA S.A.	1,129,608	0.26%	1,130	0.26%
Other	9,252,007	2.09%	9,252	2.09%
	<b>441,442,578</b>	<b>100.00%</b>	<b>441,443</b>	<b>100.00%</b>
Share capital adjusted by hyperinflation effect			107,765	
Other adjustments			38,810	
<b>Share capital</b>			<b>588,018</b>	

However, as at 31 December 2009, the Parent's shareholding structure was as follows:

<b>Shareholder's name</b>	<b>Number of shares</b>	<b>Number of votes</b>	<b>Face value of shares (in PLN '000)</b>	<b>% share in the share capital</b>
State Treasury	337,626,428	76.48%	337,626	76.48%
Vattenfall AB	82,395,573	18.67%	82,396	18.67%
EBRD	11,038,962	2.50%	11,039	2.50%
Other	10,381,615	2.35%	10,382	2.35%
	<b>441,442,578</b>	<b>100.00%</b>	<b>441,443</b>	<b>100.00%</b>
Share capital adjusted by hyperinflation effect			107,765	
Other adjustments			38,810	
<b>Share capital</b>			<b>588,018</b>	

After the balance sheet date and until the opinion date the Parent introduced no changes to the amount of its share capital, but its structure had changed – on 10 February 2010 the State Treasury sold 70,851,533 shares on the Warsaw Stock Exchange, which constitutes 16.05% of the Parent's share capital.

As at 31 December 2009 the Group's equity amounted to PLN 9,372,628 thousand.

In the audited financial year the Capital Group conducted activities related most of all to production, distribution and trade of electricity.

The Capital Group's financial year is the calendar year.

As at the date of issuing the opinion, the composition of the Parent's Management Board was as follows:

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

The following changes in the Parent's Management Board took place during the financial year:

- The Supervisory Board passed a resolution of 26 March 2009 dismissing Paweł Mortas from the position of the President of the Managing Board and Marek Hermach from the position of a Member of the Management Board for Commercial Affairs; pursuant to a resolution of the same date Piotr Koczorowski was appointed Acting President of the Management Board;
- The Supervisory Board passed a resolution of 22 May 2009 appointing Maciej Owczarek the President of the Management Board. The decision was effective as of 1 June 2009.
- The Supervisory Board passed a resolution of 27 June 2009 appointing Tomasz Treider a Member of the Management Board for Commercial Affairs. The decision was effective as of 1 August 2009.
- The Supervisory Board passed a resolution of 1 September 2009 dismissing Czesław Koltermann from the position of a Member of the Management Board.

As of 31 December 2009 all entities belonging to the ENEA Capital Group were included in the consolidated financial statements as at that date:

- a) Parent – ENEA S.A.

We have audited the financial statements of ENEA S.A. for the financial year from 1 January to 31 December 2009. As a result of our audit on 16 March 2010 we issued an unqualified opinion.

- b) Entities subject to full consolidation (subsidiaries):

No.	Name and address of the Company	Share in the capital (%)	Name of the entity that audited the financial statements and type of opinion issued	Opinion date
1	ENERGOMIAR Sp. z o.o.	100	Audit Standard Sp. z o.o., Opinion with a comment	16 February 2010
2	BHU S.A	87.97	Deloitte Audyt Sp. z o.o. – unqualified opinion	29 January 2010
3	Energetyka Poznańska Biuro Usług Technicznych S.A.	100	Audyt i rachunkowość UZR-CBR Sp. z o.o. Opinion with a comment	26 February 2010
4	Hotel „EDISON” Sp. z o.o.	100	Not audited	n/a
5	Energetyka Wysokich i Najwyższych Napięć “EWiNN” Sp. z o.o.	100	Kancelaria Biegłych Rewidentów K.B.R. Sp. z o.o. - unqualified opinion	9 February 2010
6	Energetyka Poznańska Zakład Transportu Sp. z o.o.	100	Kancelaria Biegłych Rewidentów K.B.R. Sp. z o.o. - unqualified opinion	8 February 2010
7	COGEN Sp. z o.o.	100	Not audited	n/a
8	EnergoPartner Sp. z o.o.	100	Not audited	n/a
9	Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych Energobud Leszno Sp. z o.o.	100	Deloitte Audyt Sp. z o.o. – unqualified opinion	22 February 2010

10	ENERGO–TOUR Sp. z o.o.	99,92	Kancelaria Biegłych Rewidentów K.B.R. Sp. z o.o. - unqualified opinion	3 March 2010
11	Eneos Sp. z o.o.	100	Deloitte Audyt Sp. z o.o. – unqualified opinion	17 February 2010
12	ENTUR Sp. z o.o.	100	Not audited	n/a
13	Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o.	99,94	Brygida Gładkowska Biuro Badań i Analiz Biegły Rewident – unqualified opinion	28 February 2010
14	Elektrownie Wodne Sp. z o.o.	100	Deloitte Audyt Sp. z o.o. – unqualified opinion	23 February 2010
15	Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o.	100	Biuro Audytorskie Biegły Rewident Łucja Frelich – unqualified opinion	19 February 2010
16	ITSERWIS Sp. z o.o.	100	Debet Biuro Usług Finansowo-Księgowych Sp. z o.o. – unqualified opinion	17 February 2010
17	Auto–Styl Sp. z o.o.	100	Not audited	n/a
18	FINEA Sp. z o.o.	100	Not audited	n/a
19	Przedsiębiorstwo Energetyki Ciepłej– Gozdnica Sp. z o.o.	100	Not audited	n/a
20	ENEA Operator Sp. z o.o.	100	Deloitte Audyt Sp. z o.o. – opinion with qualifications	9 March 2010
21	Elektrownia “Kozienice” S.A.	100	Deloitte Audyt Sp. z o.o. – opinion with a comment	25 February 2010
22	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Oborniki	87,99	Audyt i rachunkowość „UZR-CBR” Sp. z o.o. – unqualified opinion	15 February 2010
23	Miejska Energetyka Ciepła Piła Sp. z o.o.	63,396	Audit-Bilans Sp. z o.o. – unqualified opinion	15 February 2010
24	Kozienice II Sp. z o.o.	100	Not audited	n/a

c) Companies subject to consolidation using the equity method (associated entities and co-controlled entities):

No.	Name and address of the Company	Share in the capital (%)	Name of the entity that audited the financial statements and type of opinion issued	Opinion date
1	PWE Gubin Sp. z o.o.	50	Morison Finansista Audit Sp. z o.o. Opinion with a comment	4 February 2010
2	Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET S.A.	49	DGA Audyt Sp. z o.o. – unqualified opinion	11 February 2010
3	Przedsiębiorstwo Energetyki Ciepłej w Śremie S.A.	41,65	Not audited	n/a
4	Elektrociepłownia Białystok S.A.	30,36	Not audited	n/a

As of 31 December 2009 all of the 50% of shares in the co-controlled company PWE Gubin Sp. z o.o. were classified and measured as "Assets held for trading" as the conditions enforced by IFRS 5 was met.

Except for ENEA Operator Sp. z o.o. and Elektrownia Koźienice S.A., subsidiaries prepared individual financial statements in line with the Accounting Act. For the purposes of the consolidated financial statements, information included in the financial statements of subsidiaries was adjusted to the accounting principles adopted by the Parent.

### **2. Information on the consolidated financial statements for the previous financial year**

The activities of the Capital Group in 2008 resulted in a net profit of PLN 215,367 thousand. The consolidated financial statements of the Capital Group for the 2008 financial year were audited by a certified auditor. The audit was performed by authorised entity KPMG Audyt Sp. z o.o. On 17 April 2009, the certified auditor issued an opinion with the qualification as follows:

"Pursuant to the information disclosed in note 22 to the attached consolidated financial statements and in compliance with the Act on Commercialization and Privatization dated 30 August 1996 (Act on Commercialization and Privatization) Eligible Employees of the ENEA S.A. Capital Group are entitled to acquire 15% of the shares in ENEA S.A. free of charge. The Group recognizes the costs of services (performance of work) rendered under the share-based payment in the form of shares in ENEA S.A. and the corresponding increase in equity upon their receipt. As it is impossible to determine the fair value of employee performances, they are measured based on the fair value of granted capital instruments (shares of ENEA S.A.) at the Grant Date, i.e. as at the date when all significant conditions of granting shares to employees were determined. The Grant Date is determined based on the date of State Treasury's disposal of first shares on general terms. No such sale was had been carried out by 31 December 2008. Consequently, the Group should determine the fair value of shares due to Eligible Employees as at each balance sheet date before the Grant Date in order to review the costs of rendered services. The Management Board of ENEA S.A. decided not to revalue the employee shares program as at 31 December 2008 and determined that the share quotation at PLN 14 valid as at the day ending the financial year did not reflect the actual fair value of the Company's shares. Consequently as at 31 December 2008, the accumulated cost of services rendered by Eligible Employees was recognized based on the measurement of the shares in ENEA S.A. assumed for preparation of the consolidated financial statements as at 30 June 2008, i.e. PLN 27.48 per share. In our opinion the Management Board of ENEA S.A. should remeasure the shares of ENEA S.A., due to Eligible Employees as at 31 December 2008 in order to revalue the costs of services provided. Possible adjustments related to the costs of employee benefits, the net profit and the capital linked with share-based payments were not determined."

The General Shareholders' Meeting, which approved the consolidated financial statements for the 2008 financial year, was held on 30 June 2009.

The consolidated financial statements for the 2008 financial year were submitted in accordance with the law to the National Court Register on 15 July 2009 and submitted for publication in Monitor Polski B on 2 July 2009. The financial statements were published in Monitor Polski B no. 2421 on 1 December 2009.

**3. Data identifying the entity authorized to audit financial statements and the certified auditor acting on its behalf**

The audit of the consolidated financial statements was performed based on the agreement of 17 April 2009 concluded between ENEA S.A. and Deloitte Audyt Sp. z o.o. with the registered office in Warsaw, Al. Jana Pawła II 19, registered under number 73 on the list of entities authorised to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of financial statements was conducted under the supervision of a certified auditor Marcin Samolik (No. 10060) in the registered office of the Parent from 8 to 11 March 2010 and outside the premises of the Parent on 16 March 2010.

The authorized entity was appointed by the Supervisory Board by resolution of 26 March 2009 based on authorization included in Article 20 of the Parent's By-Laws.

Deloitte Audyt Sp. z o.o. and the certified auditor Marcin Samolik confirm that they are authorized to carry out audits of financial statements and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Dz.U. of 2009, No. 77, item 649) to express an unbiased and independent opinion on the consolidated financial statements of the ENEA Capital Group.

**4. Availability of data and management representations**

The scope of our audit was not limited. During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorised entity and the certified auditor, as confirmed in a written representation of the Management Board of the Parent of 16 March 2010.

**5. Economic and financial position of the Capital Group**

Presented below are the main items from the statement of comprehensive income as well as financial ratios describing the financial result of the Capital Group and its economic and financial position compared with previous years.

<b><u>Main items from the statement of comprehensive income (in PLN '000)</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Sales revenue	7,167,337	6,157,762	5,445,804
Operating expenses	(6,619,427)	(5,867,272)	(5,351,047)
Other operating revenue	78,599	80,914	69,020
Other operating expenses	(120,904)	(120,045)	(80,429)
Financial revenue	180,471	93,285	45,129
Financial expenses	(33,020)	(51,178)	(19,394)
Income tax	(139,446)	(78,099)	(412,593)
Net profit (loss)	513,610	215,367	521,676
Total comprehensive income	535,465	212,716	523,228

<b><u>Profitability ratios</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
– gross profit margin	7.0%	4.0%	1.5%
– net profit margin	7.1%	3.5%	9.5%
– net return on equity	5.8%	2.4%	8.4%

<b><u>Effectiveness ratios</u></b>			
– assets turnover ratio	0.59	0.52	0.56
– receivables turnover in days	45	45	46
– liabilities turnover in days	34	36	35
– inventories turnover in days	15	13	6

<b><u>Liquidity/Net working capital</u></b>			
– debt ratio	23.4%	24.7%	31.1%
– net working capital (PLN '000)	2,443,288	2,338,231	202,492
– current ratio	2.7	2.6	1.1
– quick ratio	2.5	2.4	1.0

The analysis of the above figures and ratios identified the following significant changes occurring in 2009:

- an increase in sales revenues and profit margins.

## **II. DETAILED INFORMATION**

### **1. Information on the audited consolidated financial statements**

The audited consolidated financial statements were prepared as at 31 December 2009 and include:

- consolidated balance sheet prepared as at 31 December 2009, with total assets and liabilities plus equity of PLN 12,229,688 thousand;
- consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2009 disclosing a net profit of PLN 513,610 thousand and total comprehensive income of PLN 535,465 thousand;
- statement of changes in consolidated equity for the period from 1 January to 31 December 2009, disclosing an increase in equity by PLN 348,375 thousand;
- consolidated cash flow statement for the financial year from 1 January to 31 December 2009, showing a cash outflow of PLN 1,718,116 thousand;
- notes, comprising adopted summary of significant accounting policies and other explanatory information.

The structure of assets and liabilities plus equity as well as items affecting the financial result has been presented in the consolidated financial statements.

The audit covered the financial year from 1 January to 31 December 2009 and included mainly:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent;
- auditing the consolidation documentation;
- evaluating the correctness of consolidation methods and procedures applied during consolidation;
- review of opinions and reports on the audits of financial statements of subsidiaries and associates included in consolidation that were prepared by other certified auditors.

The audit of the consolidated financial statements was conducted in line with the relevant legal regulations as well as auditing standards issued by the National Council of Statutory Auditors.

### **2. Consolidation documentation**

The Parent presented the consolidation documentation including:

- 1) financial statements of entities covered with the consolidated financial statements;
- 2) financial statements of controlled entities adjusted to the accounting principles (policy) applied in consolidation;
- 3) all adjustments and eliminations made during the consolidation, necessary for the preparation of the consolidated financial statements.
- 4) calculations of the fair value of net assets of controlled entities,
- 5) calculations of goodwill and permanent impairment write-downs;
- 6) calculation of minority capitals.



### Basis for preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2009 financial year were prepared in accordance with the International Financial Reporting Standards in the form approved by the European Union.

### Determination of the entities within the Capital Group

The criteria specified in the International Financial Reporting Standards were applied when determining relationships as well as the consolidation scope and methods.

### Financial period

The consolidated financial statements were prepared as of the same balance sheet date and the same financial year as the financial statement of the Parent – ENEA S.A. Subsidiaries and associates included in consolidation prepared financial statements as of the same balance sheet date as the Parent. The financial year of all subsidiaries and associated entities included in consolidation ended 31 December 2009.

### Consolidation method

The consolidation of the financial statements of the Capital Group, as regards subsidiaries, was carried out in line with the full method by summing up all individual respective items of financial statements of the Parent and subsidiaries included in consolidation.

After adding up the values, consolidation adjustments and exclusions were applied to:

- the acquisition value of shares held by the parent company in subsidiaries and a part of net assets of subsidiaries corresponding to the interest held by the Parent in these entities;
- mutual receivables and liabilities of entities included in consolidation;
- material revenue and expenses related to transactions between entities included in consolidation;
- profits or losses arising from business transactions between entities included in consolidation, contained in asset value subject to consolidation.

In the case of associated entities and the co-controlled entity the equity method was applied. The value of the share of the Parent in associated entities and one co-controlled entity was adjusted by increases or decreases in equity payable for the benefit of the Parent, which were done during the financial year covered with consolidation and decreased by due dividends from these entities.

### **3. Completeness and correctness of drawing up additional information and explanations and the report on the activities of the Capital Group**

The Parent confirmed the validity of the going concern principle followed in preparing the consolidated financial statements. The additional information and explanations to the consolidated financial statements give a correct and complete description of valuation principles regarding assets and liabilities plus equity, principles of measurement of the financial profit/loss as well as method of preparation of the consolidated financial statements.

The Parent prepared the additional information and explanations consisting of tabular notes to individual items in the consolidated balance sheet and consolidated statement of comprehensive income as well as narrative descriptions in line with IFRS.

Limited disposability was indicated for individual assets presented in the consolidated balance sheet, as some of them constituted collateral of creditors.

Individual assets and liabilities as well as revenue and expenses were correctly presented by the Parent in the consolidated financial statements. The consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement with additional notes, information and explanations, which constitute their integral part, contain all the items, whose disclosure in the consolidated financial statements is required by the provisions of IFRS.

The financial statements are supplemented with the Parent Management Board's Report on the activities of the Capital Group in the 2009 financial year. The Report on the activities includes information required by Article 49 clause 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities, as well as conditions on the basis of which information required by regulations of a non-member state are considered equivalent. We have audited the Report with regard to the disclosed information derived directly from the audited consolidated financial statements.

#### **4. Final information and findings**

##### Management Board's Representations

Deloitte Audyt Sp. z o.o. and the certified auditor received a representation letter from the Management Board of the Parent in which the Board stated that the Capital Group complied with the laws in force.

.....  
Marcin Samolik  
Certified auditor  
No. 10066

.....  
Represented by

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

Warsaw, 16 March 2010

# **Management Report on the Operations of the ENEA Capital Group**

**Poznan, 16 March 2010**

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## 1. Organisation of the ENEA Capital Group

### 1. The ENEA Capital Group

As at 31 December 2009, the Capital Group consisted of the dominant entity ENEA S.A. (the "Company", or "Dominant Entity"), 24 subsidiaries, three associated companies as well as one company which is jointly controlled. Within the ENEA Capital Group (the "Group"), there are three leading companies: ENEA S.A. (electricity trading), ENEA Operator Sp. z o.o. (electricity distribution) and Elektrownia "Kozienice" S.A. (electricity generation). 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:	Joint-stock company
Country of registration:	Republic of Poland
Registered office:	Poznan
Address:	ul. Nowowiejskiego 11, 60-967 Poznań
National Court Register - District Court in Poznan	KRS 0000012483
Telephone number:	(+48 61) 856 10 00
Fax number:	(+48 61) 856 11 17
Email:	enea@enea.pl
Website:	www.enea.pl
Statistical classification number (REGON):	630139960
Tax identification number (NIP):	777-00-20-640

In addition to the core business (electricity trading, distribution and generation), the ENEA Capital Group carries on the following operations:

1. **ENEA Operator Sp. z o.o.** with its registered office in Poznań. The core business is the distribution of electricity, conducted since 1 July 2007 on the basis of a concession issued by the president of the Energy Regulatory Office (ERO) on 28 June 2007 for the period from 1 July 2007 to 30 June 2017. The president of the ERO designated ENEA Operator Sp. z o.o. as the operator of an electrical energy distribution system for the life of the concession.
2. **Elektrownia "Kozienice" S.A.** with its registered office in Świerża Górne. The core business of Elektrownia Kozienice S.A. is the generation of electricity and heat co-generated with electricity.
3. **ENERGOMIAR Sp. z o.o.** with its registered office in Poznan, engaged in the production of astronomical clocks, the maintenance, assembly, legalisation and standardisation of electricity meters, readings of electricity consumption and remote-control power services.
4. **Energetyka Poznańska Biuro Usług Technicznych S.A.** with its registered office in Poznań engaged in providing services related to consulting, design, construction, operation, servicing, measurement and trading in the field of telecommunications and IT.
5. **BHU Spółka Akcyjna** with its registered office in Poznań, trading in electrical power equipment, tools and materials.
6. **Energetyka Poznańska 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 Wysokich i Najwyższych Napięć EWiNN Sp. z o.o.** with its registered office in Poznań providing comprehensive operation, repair, modernisation and investment services related to high- and very high-voltage electric power grids and equipment.

Management Report on the operations of ENEA Capital Group prepared in accordance with Clause 92 paragraphs 3 and 4 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information [...]

9. **COGEN Sp. z o.o.** with its registered office in Poznań, engaged in generating electricity and heat in cogeneration units.
10. **EnergPartner Sp. z o.o.** with its registered office in Poznan, engaged in the development of operations involving power generation from renewable energy sources by implementing wind farm projects.
11. **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.
12. **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.
13. **Niepubliczny Zakład Opieki Zdrowotnej Centrum Rehabilitacyjno-Wczasowe ENERGETYK Sp. z o.o.** with its registered office in Inowrocław, operating in the field of healthcare and physiotherapy.
14. **Elektrownie Wodne Sp. z o.o.** with its registered office in Samociążek, engaged in the generation of electricity and the operation of hydroelectric plants.
15. **Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o.** with its registered office in Gorzów Wielkopolski, providing transport and technical services, vehicle maintenance and repair .
16. **ENEOS Sp. z o.o.** with its registered office in Szczecin, engaged in the operation and maintenance of street lighting.
17. **ENTUR Sp. z o.o.** with its registered office in Szczecin, engaged in recreation, hotel, tourism and restaurant services, as well as healthcare.
18. **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
19. **Auto-Styl Sp. z o.o.** with its registered office in Zielona Góra, engaged in wholeselling mechanical vehicles, accessories and fuels, servicing and repairing mechanical vehicles, and leasing means of transport.
20. **FINEA Sp. z o.o.** with its registered office in Poznań, providing debt collection services on behalf of the ENEA Capital Group.
21. **Miejska Energetyka Ciepła Sp. z o.o.** with its registered office in Piła, engaged in the generation, transmission and distribution of heat.
22. **Przedsiębiorstwo Energetyka Ciepła Sp. z o.o.** with its registered office in Oborniki, engaged in the generation, transmission and distribution of heat.
23. **Przedsiębiorstwo Energetyki Ciepłej „Gozdnica” Sp. z o.o.** with its registered office in Gozdnica, engaged in the generation of heat and its transmission and distribution.
24. **Kozienice II Sp. z o.o.** with its registered office in Świerze 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.

Associates operate within the following area:

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 ferroconcrete, elements, 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.

**PWE GUBIN Sp. z o.o.** with its registered office in Sękowice was established to search for lignite deposits in Gubin and Brody districts located near the Polish-German border, and then to build a strip mine and power plant. The company is a joint venture of ENEA S.A. and Kopalnia Węgla Brunatnego “Konin” w Kleczewie S.A.

On 23 October 2008, an tri-party Understanding was signed by PWE Gubin Sp. z o.o., ENEA S.A., and KWB Konin S.A., pursuant to which KWB Konin consented to the transfer, under the procedure provided by Article 26a of the Geological and Mining Law of 4 February 1994 (Journal of Laws of 2005 No. 228 item 1947 as amended), of concession No. 39/2008/p granted by the Minister of the Environment. The subject of that concession is the right to explore for deposits of brown coal in the vicinity of Gubin and Gubin-Zasieki-Brody. Annex No. 1 to the above Understanding specifies the final date for delivering the concession and makes it dependent on the date on which KWB Konin obtains a decision from the Minister of the Environment (which happened on 4 April

2009). Despite having concluded the Understanding, KWB Konin decided not to take any actions aimed at transferring the right from concession No. 39/2008/p to PWE Gubin. Given the lack of agreement between KWB Konin and ENEA as to the implementation of the Understanding, ENEA's further engagement of capital in the company PWE Gubin is without economic basis. In view of the existing situation, on 9 February 2010, ENEA S.A. disposed of all of its shares in favour of Kopalnia Węgla Brunatnego "Konin" w Kleczewie S.A.

### Subsidiaries

The ENEA Capital Group includes 24 subsidiaries, in which ENEA S.A. holds shares with a total nominal value of PLN 5,550,917,600 and which, as at 31 December 2009, constituted 99.47 per cent of their total share capital of PLN 5,580,333,600.

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	<b>BHU Spółka Akcyjna</b> ul. Strzeszyńska 58, 60-479 Poznań	10 138.40	8 918.40	87.97
2	<b>Energetyka Poznańska Biuro Usług Technicznych S.A.</b> ul. Strzeszyńska 58, 60-479 Poznań	1 973.70	1 973.70	100
3	<b>Hotel EDISON Sp. z o.o.</b> Baranowo k/Poznań, 62-081 Przeźmierowo	21 236.50	21 236.50	100
4	<b>Energetyka Poznańska Zakład Transportu Sp. z o.o.</b> ul. Strzeszyńska 58, 60-479 Poznań	4 975.50	4 975.50	100
5	<b>Energetyka Wysokich i Najwyższych Napięć EWINN Sp. z o.o.</b> ul. Strzeszyńska 58, 60-479 Poznań	2 447.00	2 447.00	100
6	<b>ENERGOMIAR Sp. z o.o.</b> ul. Strzeszyńska 58, 60-479 Poznań	2 749.00	2 749.00	100
7	<b>COGEN Sp. z o.o.</b> ul. Nowowiejskiego 11, 60-967 Poznań	2 372.50	2 372.50	100
8	<b>Energetyka Poznańska Przedsiębiorstwo Usług Energetycznych ENERGOBUD Leszno Sp. z o.o.</b> Gronówko 30, 64-111 Lipno k/Leszna	3 524.50	3 491.00	100
9	<b>EnergPartner Sp. z o.o.</b> ul. Warszawska 43, 61-028 Poznań	11 100.00	11 100.00	100
10	<b>ENERGO-TOUR Sp. z o.o.</b> ul. Marcinkowskiego 27, 61-745 Poznań	9 543.00	9 535.00	99.92
11	<b>ENEA Operator Sp. z o.o.</b> ul. Strzeszyńska 58, 60-479 Poznań	4 678 050.00 *	4 678 050.00	100
12	<b>Elektrownia "Kozienice" S.A.</b> Świerże Górne, gmina Kozienice, 26-900 Kozienice 1	450 000.00**	450 000.00	100
13	<b>ITSERWIS Sp. z o.o.</b> ul. Zacisze 28, 65-775 Zielona Góra	6 364.00	6 364.00	100
14	<b>Auto-Styl Sp. z o.o.</b> ul. Zacisze 15, 65-775 Zielona Góra	2 200.00	2 200.00	100
15	<b>FINEA Sp. z o.o.</b> ul. Warszawska 43, 60-028 Poznań	5 323.00	5 323.00	100
16	<b>Przedsiębiorstwo Energetyki Ciepłej „Gozdnica” Sp. z o.o.</b> ul. Świerczewskiego 30, 68-130 Gozdnica	340.00	340.00	100
17	<b>Eneos Sp. z o.o.</b> ul. Ku Słońcu 34, 71-080 Szczecin	19 559.00	19 559.00	100
18	<b>ENTUR Sp. z o.o.</b> ul. Malczewskiego 5/7 71-616 Szczecin	4 034.50	4 034.50	100



19	<b>Elektrownie Wodne Sp. z o.o.</b> Samociążek 92, 86-010 Koronowo	204 690.50	204 690.50	100
20	<b>Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrowskie ENERGETYK Sp. z o.o.</b> ul. Wilkońskiego 2, 88-100 Inowrocław	15 738.00	15 738.00	99.94
21	<b>Zakład Usług Przewozowych ENERGOTRANS Sp. z o.o.</b> ul. Energetyków 4, 66-400 Gorzów Wielkopolski	1 385.00	1 385.00	100
22	<b>Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.</b> ul. Wybudowanie 56, 64-600 Oborniki	5 182.50	4 560.00	87.99
23	<b>Miejska Energetyka Ciepła Sp. z o.o.</b> ul. Kaczorska 20, 64-920 Piła	27 407.00	17 375.00	63.396
24	<b>Kozienice II Sp. z o.o.</b>	90 000.00	72 500.00	80.56
	<b>TOTAL</b>	<b>5 580 333.60</b>	<b>5 550 917.60</b>	<b>99.47</b>

\* - 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.

**Affiliate companies (as at 31 December 2009)**

1	PWE Gubin Sp. z o.o. 66-620 Sękowice 100 gm. Gubin Gubin	12 000.00	6 000.00	50.0
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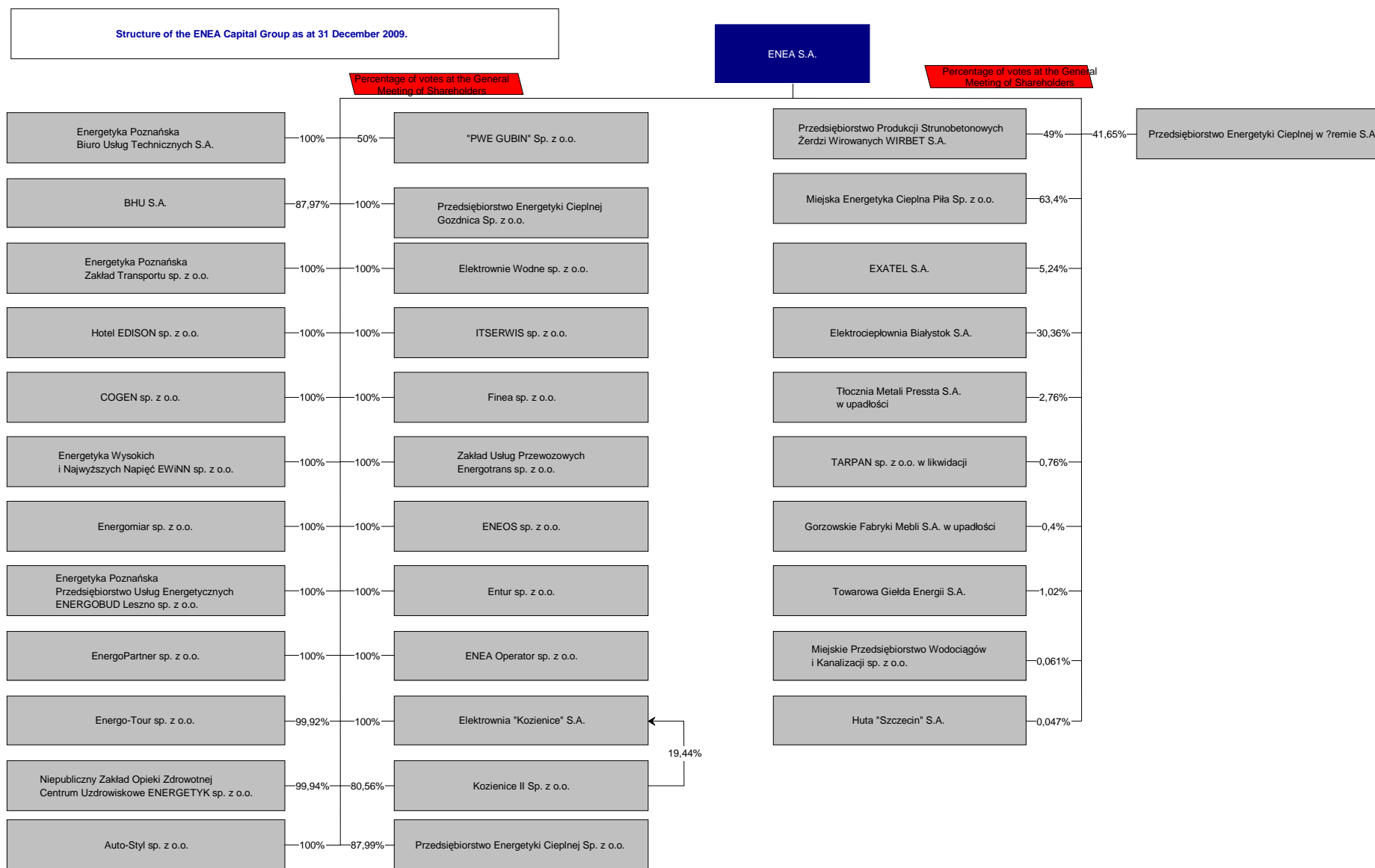
On 9 February 2010, ENEA S.A. disposed of all of its shares in favour of Kopalnia Węgla Brunatnego Konin w Kleczewie S.A.

**Affiliated companies**

	Company name and address	Ordinary shares [PLN '000]	Shareholding of ENE A S.A - wartość nominalna [w tys. zł]	Percentage of capital and voting rights held by ENE A S.A
1	Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET S.A. ul. Chłapowskiego 51, 63-400 Ostrów Wlkp.	5 490.00	2 690.00	49.0
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 2009.

Report of the Management Board on the activities of ENEA Capital Group to the consolidated annual report of ENEA S.A. for 2009



Management Report on the operations of the ENEA Capital Group prepared in accordance with Clause 92 paragraphs 3 and 4 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information

## 2. Asset restructuring

After carrying out major organisational changes within the Group in previous years, in financial year 2009 further asset restructuring took place:

On 5 March 2009, an agreement was signed regarding the sale of shares in Spółka Wodno – Ściekowa „GWDA” Sp. z o.o., pursuant to which ENEA S.A. sold to the District of Piła 45 shares (constituting 0.11 per cent of the share capital of the Company) with a nominal value of PLN 500 each for PLN 514 per share. Title to the shares passed to the District of Piła on 17 March 2009, after payment for the entire share packet was made.

On 25 May 2009, ENEA S.A. sold a packet of 4,774 shares held in the company **Zakłady Przemysłu Ziemniaczanego w Pile „ZETPEZET” Sp. z o.o.** (constituting 1.37 per cent of the share capital of the Company) to Wielkopolskie Przedsiębiorstwo Przemysłu Ziemniaczanego S.A. with its registered office in Luboń for PLN 3.00 per share or a total of PLN 14,322.00 for the share packet.

On 16 June 2009, Extraordinary General Meetings of Shareholders of the following companies were held: **Energomiar Sp. z o.o.** with its registered office in Poznan, and **STEREN Sp. z o.o.** with its registered office in Bydgoszcz, at which resolutions were adopted on their merger through the takeover by Energomiar Sp. z o.o. (the Acquiring Company) of the company STEREN Sp. z o.o. (the Target Company). As a result of the merger, a single entity arose under the business name Energomiar Spółka z ograniczoną odpowiedzialnością with its registered office in Poznan. An entry in the National Court Register was made on 1 July 2009. As a result of the merger, the share capital of Energomiar Sp. z o.o. – the Acquiring Company – was increased by PLN 405,000, from PLN 2,344,000 to PLN 2,749,000, through the creation of 810 shares of a nominal value of PLN 500 each, designated for ENEA S.A. – the sole shareholder in the Target Company STEREN Sp. z o.o. with its registered office in Bydgoszcz.

On 22 June 2009, the District Court in Zielona Góra, VIII Commercial Division, deleted **Fabryka Nici „Odra” S.A. w likwidacji** from the National Court Register. ENEA S.A. had held shares in that company of a nominal value of PLN 18,200, comprising 0.91 per cent of its share capital.

On 9 November 2009, **Oczyszczalnia Ścieków „Łącza” Spółka Wodna w likwidacji z siedziba w Łężycy** was deleted from the Water Cadastre maintained by the Regional Water Management Authority in Wrocław, in which company ENEA S.A. had held a stake worth PLN 160,792.49 comprising 0.28 per cent of that company's share capital. In April 2007, the entire amount of ENEA S.A.'s capital involvement was returned to the account of ENEA S.A.

On 9 February 2010, ENEA S.A. sold a packet of 6,000 shares held in the company **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 share packet.

## 3. 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 the Koźienice Power Plant, Poland's highest-capacity bituminous coal-fired power plant, to the ENEA Capital Group in October 2007. We are currently analysing the possibility of acquiring other entities that are active in the field of generating electricity on the

basis of conventional fuels. Furthermore, we are taking steps to ensure the security of supplies of bituminous coal from optimal sources.

Irrespective of the opportunities there may be to acquire additional generation capacity by acquiring existing entities, we are planning to increase our own generation capacity, including at the Koźienice Power Plant, where by 2015 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 Koźienice Power Plant.

In connection with anticipated increases in the requirements for renewable and co-generated energy sources, we are taking action aimed at increasing our control over the costs of meeting the legal requirements. Towards this end, we plan to continue concluding long-term agreements for the purchase of energy certificates for energy production from renewable sources and cogeneration from external entities, as well as to carry out direct investments in such sources. Our intention is to invest in wind farm projects, agricultural biogas plants and biogas generators already begun and at varying stages of advancement, by acquiring existing entities or investing in cooperation with external entities. There are four possible acquisition scenarios, depending on 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, biogas plants or biogas generators.

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

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

Within the strategic area of building a 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 building responsible business principles into the operations of the ENEA Capital Group.

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

#### 4. Structure of main equity investments

In implementing the Company strategy as regards the development of the ENEA Capital Group, the following capital investments were made in 2009.

- on **23 February 2009**, the share capital of the company **Koźienice II Sp. z o.o.** was increased by PLN 34,000,000, of which ENEA S.A. contributed PLN 17,200,000 to the capital of Koźienice II Sp. z o.o., taking up 17,200 shares (on 3 March 2009). In connection with the share capital increase, a new division of the share capital of Koźienice II Sp. z o.o. held by ENEA S.A. and Elektrownia Koźienice S.A. was determined. ENEA S.A.'s share stake grew from 30 per cent to 50 per cent. Registration of the share capital increase took place on 07 April 2009;
- on **31 March 2009**, an Extraordinary General Meeting of Shareholders of the company **ZUP ENERGOTRANS Sp. z o.o.** with its registered office in Gorzów Wielkopolskie adopted Resolution No. 1 on increasing the share capital of the company by PLN 500,000, from the amount of PLN 885,000 to PLN 1,385,000. All of the

1,000 new shares were taken up by ENEA S.A. and paid for in cash. Entry in the National Court Register was made on 28 May 2009;

- on **31 March 2009**, an Extraordinary General Meeting of Shareholders of the company **ITSERWIS Sp. z o.o.** adopted Resolution No. 1 on increasing the share capital of the company in the amount of PLN 6,264,000 by creating 12,528 new shares of a nominal value of PLN 500 each. ENEA S.A. took up all the new shares and paid for them in full with an in-kind contribution of a perpetual usufruct right to real property in the form of land, as well as ownership title to real property in the form of buildings and structures not permanently attached to the land situated on that land. Entry in the National Court Register was made on 15 May 2009;
- on **31 March 2009**, an Extraordinary General Meeting of Shareholders of the company **ENTUR Sp. z o.o.** with its registered office in Szczecin adopted Resolution No. 1 on increasing the share capital of the company by the amount of PLN 3,934,500 by creating 7,869 new shares of a nominal value of PLN 500 each. ENEA S.A. took up all the new shares and paid for them in full with an in-kind contribution of a perpetual usufruct right to real property in the form of land, as well as ownership title to real property in the form of buildings situated on that land. Entry in the National Court Register was made on 9 June 2009;
- on **4 May 2009**, an Extraordinary General Meeting of Shareholders of the company **COGEN Sp. z o.o.** with its registered office in Poznan adopted Resolution No. 1 on increasing the share capital of the company by PLN 622,500, from the amount of PLN 1,000,000 to PLN 1,622,500. All 1,245 new shares were taken up by ENEA S.A. and paid for in cash (98 shares of a total value of PLN 49,000) and by an in-kind contribution in the form of a combined power-and-heat unit (1,147 shares of a total value of PLN 573,500). Entry in the National Court Register was made on 2 June 2009;
- on **25 May 2009**, an Extraordinary General Meeting of Shareholders of the company **PWE Gubin Sp. z o.o.** with its registered office in Sękowice adopted Resolution No. 1 on increasing the share capital of the company by PLN 11,000,000. ENEA S.A. and Kopalnia Węgla Brunatnego "Konin" w Kleczewie S.A. each took up 50 per cent of the newly-created shares, covering them in cash for PLN 5,500,000. Entry in the National Court Register was made on 12 August 2009;
- on **27 July 2009**, an Extraordinary General Meeting of Shareholders of the company **EnergoPartner Sp. z o.o.** increased the share capital of the company from the amount of PLN 8,000,000 by PLN 200,000, that is, to the amount of PLN 8,200,000, by creating 200 new shares of a nominal value of PLN 1,000 each. ENEA S.A. took up all the newly-created shares and covered them with a pecuniary contribution. Entry in the National Court Register was made on 16 September 2009;
- on **31 August 2009**, an Extraordinary General Meeting of Shareholders of the company **EnergoPartner Sp. z o.o.** with its registered office in Poznan adopted Resolution No. 1 on increasing the share capital of the company from the amount of PLN 8,200,000 to PLN 11,100,000, that is, by the amount of PLN 2,900,000, by creating 2,900 new shares of a nominal value of PLN 1,000 each. ENEA S.A. took up all the newly-created shares and covered them with a pecuniary contribution. Entry in the National Court Register was made on 6 October 2009;
- on **4 September 2009**, an Extraordinary General Meeting of Shareholders of **Miejska Energetyka Ciepła Piła Sp. z o.o.** with its registered office in Piła adopted Resolution No. 1 on increasing the share capital of the company from the amount of PLN 26,732,000 to PLN 27,407,000, that is, by PLN 675,000. The shares in the increased share capital were all taken up by the District of Piła. Entry in the National Court Register was made on 27 October 2009;
- on **23 October 2009**, an Extraordinary General Meeting of Shareholders of the company **NZOZ Centrum Uzdrowiskowe ENERGETYK Sp. z o.o.** in Inowrocław adopted Resolution No. 1 on increasing the share capital of the company from the amount of PLN 12,488,000 to PLN 15,738,000, that is, by the amount of PLN 3,250,000, by creating 6,500 new shares of a nominal value of PLN 500 each. All of the new shares were taken up by ENEA S.A. and paid for in cash. Entry in the National Court Register was made on 22.12.09;

- on **26 October 2009**, an Extraordinary General Meeting of Shareholders of the company **COGEN Sp. z o.o.** with its registered office in Poznan adopted Resolution No. 2 on increasing the share capital of the company from the amount of PLN 1,622,500 to PLN 2,372,500, that is, by the amount of PLN 750,000. All of the 1,500 new shares were taken up by ENEA S.A. and paid for in cash. Entry in the National Court Register was made on 3 December 2009;
- on **4 December 2009**, an Extraordinary General Meeting of Shareholders of the company **Kozienice II Sp. z o.o.** with its registered office in Świerze Górne, District of Kozienice, adopted Resolution No. 1/NZW on increasing the share capital of the company from the amount of PLN 35,000,000 to PLN 90,000,000, that is, by the amount of **PLN 55,000,000**. All 55,000 newly-created shares were taken up by ENEA S.A., whose previous share stake changed, from 50 per cent to 80.56 per cent. Entry in the National Court Register was made on 31 December 2009;
- on **18 December 2009**, an Extraordinary General Meeting of Shareholders of the company **Elektrownie Wodne Sp. z o.o.** with its registered office in Samociążek adopted Resolution No. 1 on increasing the share capital of the company from the amount of PLN 204,690,500 to PLN 205,020,000, that is, by the amount of PLN 329,500, by creating 659 new shares of a nominal value of PLN 500 each. ENEA S.A. took up all the newly-created shares and paid for them in full with a non-pecuniary contribution in the form of a right of perpetual usufruct to real property and ownership title to real property located in Podgaje, Samociążek, Reczyce and Bożenkowo. The entry in the National Court Register was made on 1 February 2010.
- on **22 December 2009**, an Extraordinary General Meeting of Shareholders of the company **EP PUE ENERGOBUD Leszno Sp. z o.o.** with its registered office in Gronówek adopted Resolution No. 1 on increasing the share capital of the company from the amount of PLN 3,524,500 to PLN 5,676,000, that is, by the amount of PLN 2,151,500. ENEA S.A. took up all of the new shares and covered them with an in-kind contribution in the form of real property situated in Piła and Gniezno. As at 18 February 2010, no entry has been made in the National Court Register;
- on **22 December 2009**, an Extraordinary General Meeting of Shareholders was held, during which the share capital of the company **BHU S.A.** with its registered office in Poznan was increased from the amount of PLN 10,138,400 to PLN 14,302,500 (by an issue of series E shares with existing shareholders enjoying a pre-emptive right). The shares were taken up in exchange for an in-kind contribution of a value of PLN 1,364,100 in the form of real properties located in Gniezno, Wolsztyn, Świebodzin, Chodzież, and Gorzów Wielkopolskie, which will be offered within a private placement– ENEA S.A.). As at 31 December 2009, no entry had been made in the National Court Register;

## 5. Changes in organisation and management rules of the Capital Group

In 2009, no significant changes took place in the organisation or management rules of the ENEA Capital Group.

## 6. Information on branches

ENEA S.A. had no branches in 2009. Outside of Poznan, however, there are Key Customer Sales Offices located in Bydgoszcz, Gorzów Wlkp, Zielona Góra and Szczecin.

By Resolution No. 6/VII/2010 of 19 February 2010, the Supervisory Board of ENEA S.A. consented to the creation within the structural organisation of ENEA S.A. of a Branch under the name *Elektrownia Biogazowa Liszkowo*, and at the same time approved the new *Organisational Rules for the Business of the Company*, adopted by Resolution of the Management Board of ENEA S.A. No. 49/2010 of 19 January 2010. As at the date of publication of this Report, no entry of the Branch has yet been made in the National Court Register.

In 2009, EP PUE ENERGOBUD Leszno Sp. z o.o. opened two new branches:

- a branch in Szczecin at ul. Krasińskiego 53, registered in the National Court Register by a decision of the District Court in Poznań-Nowe Miasto i Wilda in Poznan, IX Commercial Division of the National Court Register on 27 February 2009;

- a branch in Zielona Góra at ul. Prosta 13, registered in the National Court Register by a decision of the District Court in Poznań-Nowe Miasto i Wilda in Poznan, IX Commercial Division of the National Court Register on 19 October 2009.

The above branches were created in 2009 as part of implementing the Plans of the Management Board of the Company for 2009, approved by the General Meeting of Shareholders.

This was done in order to allow the Company to operate across the whole operational territory of GK ENEA, and to secure additional revenues from areas in which, up till now, the company had been practically inactive. Presently, the organisational structure of the Company (possessing Branches) is the same as that of ENEA Operator Sp. z o.o., which greatly facilitates cooperation and the ability of the Company to secure higher revenues.

## 2. The operations of the ENEA capital group

### 1. Information on basic products, goods and services

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

#### **Generation**

Within our Group, the generation of electricity is mainly carried out by the Elektrownia Koźienice S.A. (hereinafter the "Power Plant", "Koźienice Power Plant"), which became part of the Group in October 2007. The Koźienice Power Plant has a gross annual power capacity of 2,880 MW and is thus the largest bituminous coal-fired power plant in Poland. In 2008, the Koźienice Power Plant generated 11,790,882,425 MWh gross of electricity, and in 2009, 12,122,187,400 MWh gross.

In January 2008, the Koźienice Power Plant also began producing electricity from renewable sources (through the co-combustion of biomass). In 2008, the amount of energy from renewable sources, confirmed by energy certificates obtained from the President of the ERO, was 129,645,145 MWh. In 2009, the amount of energy generated from co-burning biomass, as confirmed by energy certificates issued by the President of the ERO, was almost two times greater, and reached a level of 210,476,181 MWh.

Generation of electricity from renewable sources is mainly the concern of our subsidiary, Elektrownie Wodne Sp. z o.o. In 2009, it obtained 126,009,938 energy certificates of energy from renewable sources. The annual power capacity of the 20 hydroelectric plants belonging to our Group amounts to about 57 MW. The power generated in hydroelectric plants and transferred to the grid in 2009 amounted to 124,371.020 MWh.

#### **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 north-western part of Poland. ENEA Operator owns power lines with a total length of more than 126,000 km (including connections) and about 34,400 transmission stations (as at 31 December 2009).

#### **Trade**

In our Group, the wholesale trading of electricity and sales of electricity to end users are largely handled by ENEA. In 2009, ENEA's total sales from trading in energy amounted to approximately 20.6 TWh, including sales to end users of approximately 16.8 TWh, including to customers connected to networks of distribution system operators other than ENEA Operator of about 1.1 TWh. The number of end users as at 31 December 2009 was approximately 2.3 million.

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

#### **Other operations**

Management Report on the operations of ENEA Capital Group prepared in accordance with Clause 92 paragraphs 3 and 4 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information [...]



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. Sales markets

The portfolio of customers to whom we sell electricity is stable and highly diversified. Currently we sell electricity to approximately 2.3 million recipients, including some 2 million clients and 0.3 million business clients. In 2009, the value of electricity sales to our largest client was 5.2 per cent of the total value of sales of electricity and distribution services, and the share of the 10 largest clients was 16.2 per cent.

### *Sales to end users*

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

<b>Set of tariff groups</b>	<b>Description</b>
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. 2.2 million agreements), and less often for two, three or six months (approx. 100,000 agreements).

### *Other sales*

In participating in the domestic electricity market we also sell on the wholesale market through the Polish Power Exchange and 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 and, which optimises exposure on the balancing market.

### *Sales by value and amount*



In 2009, revenues from the sale of electricity to end users grew 34.1 per cent compared with 2008. Growth was evident in every quarter as compared with the same quarter from the previous year. The sales growth rate for particular quarters breaks down as follows:

Item	Revenues from energy sales to end users [PLN '000]		
	2008	2009	Growth [%]
Q1	785 348.6	1 136 661.5	144.7
Q2	796 169.7	1 048 539.7	131.7
Q3	803 681.7	1 061 253.3	132.0
Q4	886 909.9	1 140 623.2	128.6
<b>TOTAL</b>	<b>3 272 109.9</b>	<b>4 387 077.7</b>	<b>134.1</b>

Sales growth within particular tariff groups was as follows:

Item	Sales of energy [MWh]		
	2008	2009	Growth [%]
Tariff group set A	2 262 937	2 072 337	91.6
Tariff group set B	7 188 358	6 712 619	93.4
Tariff group set C	3 706 147	3 639 787	98.2
Tariff group set G	4 295 743	4 372 016	101.8
<b>TOTAL</b>	<b>17 453 185</b>	<b>16 796 759</b>	<b>96.2</b>

In 2009, there was a decline in the volume of energy sales in almost all tariff group sets, though the drop was only slight. There was a growth in sales volume of 1.8 per cent in tariff group set G. The largest decreases in

energy sales in comparison with 2008 were noted in tariff group sets A and B. In 2009, total sales of energy were down by 656,426 MWh, that is, by 3.8 per cent in comparison with 2008.

### **3. Supply markets**

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

In 2009 a significant part of the energy sold by ENEA S.A. constituted electricity generated by Elektrownia Koźienice S.A. This allowed us to reduce the volume risk associated with purchasing electricity. ENEA S.A. purchased the remainder on the basis of bilateral agreements (with producers, trading companies, and on trading platforms), by concluding purchase transactions on the Polish Power Exchange, and on the balancing market.

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

#### ***Purchase and sale of energy on the wholesale market by Elektrownia Koźienice***

In 2009, sales of electricity by Elektrownia Koźienice S.A. to entities belonging to the ENEA Capital Group amounted to 95.4 per cent of the total electricity it generated. The remainder is sold on the balancing market (3.9 per cent), outside the ENEA Capital Group (0.7 per cent), or designated for covering power reserves under regulatory systems services, with insignificant amounts sold to local end users.

The total electricity generation capacity within the Group is 2,936 MW, of which 2,880 MW is generated by Koźienice Power Plant, and 56 MW by the 20 hydroelectric power stations within the Group. The technical generation potential of the Elektrownia "Koźienice" S.A. is 14.1 TWh net (15.0 TWh gross) annually.

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

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

On the wholesale market in 2009, Elektrownia Koźienice S.A. purchased electricity under bi-party agreements and on trading platforms in the amount of 155.0 GWh, including 85.1 GWh within the ENEA Capital Group, and 69.9 GWh from entities which do not belong to the Group.

#### ***Purchase of transmission services from PSE Operator***

In 2009, ENEA Operator Sp. z o.o. bought transmission services from PSE Operator accounting for 8.71% of the net revenues from sales of the ENEA Capital Group. PSE Operator is not affiliated with ENEA S.A.

#### ***Coal supply***

Bituminous coal is the basic fuel used to generate electricity by the Issuer's main generation assets, i.e. the Koźienice Power Plant (the other leading power companies in Poland face the same situation). In 2009, the cost of coal comprised about 54 per cent of operating costs.

Entities belonging to the Issuer's Capital Group depend for their coal supplies 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 main supplier of bituminous coal to the Koźienice Power Plant is Lubelski Węgiel Bogdanka, which provided roughly 2.8 million tonnes in 2007 and again in 2008, and roughly 2.6 million tonnes in 2009, those figures corresponding respectively to more than 57, 54 and 52 per cent of supplies of that raw material by volume. The main reason for choosing Lubelski Węgiel "Bogdanka" S.A. as the main supplier is its proximity to the power plant – about 100 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 Koźienice Power Plant, use of Bogdanka coal as the sole fuel for the Power Plant would mean exceeding permitted sulphur emission levels. For this reason, as well as to diversify supplies, the Power Plant

has concluded coal supply agreements with suppliers from Upper Silesia, i.e. with Katowicki Holding Węglowy S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. With all of the above suppliers, with the exception of Kompania Węglowa S.A., the Power Plant has concluded framework agreements under which prices and quantities of coal supplies are set annually. Moreover, in order to diversify supplies and initiate imports, in 2008 a coal supply agreement was signed with SUEK Polska Sp. z o.o., to be implemented in Q1 2009.

#### **Coal transport**

The basic means of transport used to deliver bituminous coal to Koziencice Power Plant is rail transport. More than 90 per cent of deliveries of that raw material to Koziencice Power Plant are carried out by the state carrier PKP Cargo, the largest rail carrier in Poland.

### **4. Information about agreements concluded**

#### **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 Koziencice Power Plant. We depend on four suppliers for our coal supplies: Lubelski Węgiel "Bogdanka" S.A., which by volume provided more than 57 per cent of our coal in 2007, 54 per cent in 2008 and 52 per cent in 2009; Katowicki Holding Węglowy S.A.; Jastrzębska Spółka Węglowa S.A., and Kompania Węglowa S.A. All agreements described in this point were concluded in the normal course of operations.

#### **Bituminous coal supply agreements**

##### ***Kompania Węglowa S.A. – Agreement for the sale of power coal No. 56/KW/2009 of 8 January 2009***

Term of the agreement: 01.01.2009-31.12.2009.

The subject of the above Agreement is the provision of power coal of specified quality parameters during the life of the Agreement from mines belonging to KW S.A. The Agreement specifies: prices, basic supply amounts, supply tolerance, coal quality parameter limits beyond which the Power Plant can impose contractual penalties in its monthly settlement, method of delivery, method of settlements, and specific conditions for settlements in terms of coal quantity and quality. Coal prices are not indexed, but negotiated annually. Negotiations take place before new contracts are signed, and the results of such negotiations depend on the situation on the coal and power markets. In the case of significant changes in the process of performing the Agreements, prices may be subject to change upon renegotiation. The Agreement 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.

##### ***Agreement for the sale of power coal No. 27/DM/MK/2008 of 29 February 2008 concluded between Elektrownia Koziencice 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 Koziencice S.A. Prices, specific conditions and supply amounts are negotiated in concluding yearly agreements. Each of the parties may terminate the agreement with six months' notice. The agreement was concluded for the period until 31 December 2010. The yearly agreement for the sale and supply of power coal for 2008 was concluded on 29 February 2008. The yearly agreement for 2009, in the form of Annex No. 1 to Agreement No. 27/DM/MK/2008, was concluded on 14 January 2009 (and corrected by Annex No. 2 of 10 April 2009).

##### ***Yearly Agreement of 5 December 2007 for the supply of power coal for 2008 (UR2008) constituting Attachment No. 3 to Long-term Agreement No. UW/LW/01/04, the Yearly Agreement of 26 June 2008 constituting Attachment No. 4 to Long-standing Agreement No. UW/LW/01/04 (together with Annexes: No.***

**1 of 26 March 2009, No. 2 of 3 August 2009) for the supply of power coal for 2009 (UR2009) and the Yearly Agreement of 3 August 2009 for the supply of power coal for 2010 (UR2010) constituting Attachment No. 5 to Long-term Agreement No. UW/LW/01/04, concluded between Elektrownia Koźienice S.A. and Lubelska Węgl S.A.**

The subject of the above Yearly Agreements is the provision of power coal of specified quality parameters during the life of the agreements, respectively: 1 January 2008-31 December 2008 (UR2008), 1 January 2009 – 31 March 2010 (UR2009), and 1 January 2010 – 31 March 2011 (UR2010), implemented from mines belonging to LW S.A. – KWK Bogdanka.

The yearly agreements set 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.

**Katowicki Holding Węglowy S.A. – Long-term Agreement UW/KHW/01/09 for the supply of power coal of 8 January 2009 (together with Annex No. 1 of 7 August 2009).**

Term of the agreement: 01.01.2009-31.12.2013.

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

The long-term 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 yearly 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.

**Yearly Agreement of 17 December 2007 for the provision of power coal for 2008 (UR2008) constituting Attachment No. 6 to Long-standing Agreement No. UW/KHW/02/04. Yearly Agreement of 8 January 2009 for the provision of power coal for 2009 (UR2009) constituting Attachment No. 1 to Long-term Agreement No. UW/KHW/01/09 (together with Annexes: No. 1 of 19 May 2009, No. 2 of 8 July 2009, No. 3 of 21 September 2009, No. 4 of 30 October 2009, No. 5 of 31 December 2009) and Yearly Agreement of 7 August 2009 for the provision of power coal for 2010 and 2011 (UR 2010 and 2011) constituting Attachment No. 2 to Long-term Agreement No. UW/KHW/01/09, concluded between Elektrownia Koźienice S.A. and Katowicki Holding Węglowy S.A.**

The subjects of the above Yearly Agreements are supplies of power coal made by the Seller to Elektrownia Koźienice S.A. during the life of the agreements, respectively: 1 January 2008 – 31 December 2008 (UR2008), 1 January 2009 – 31 December 2009 (UR2009), and 1 January 2010 – 31 March 2012 (UR2010 and 2011).

The yearly 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 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 agreements 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.

***Fuel coal transport services provision agreement of 12 March 2008 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 5 March 2008 and 4 March 2010. 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 10 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 2009, in chapter 2 pt. 4 under 'Information about agreements concluded'.

**2. Significant transactions with affiliated entities**

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

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

All agreements with affiliated entities are concluded 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 2009, note No. 38.

**3. Credit and loan agreements concluded and terminated**

In 2009, ENEA S.A. had five open working capital facilities: two lines of credit from BZ WBK S.A., two from Pekao S.A. and a credit limit in PKO BP S.A.

ENEA S.A.'s total limit on working capital facilities as at 31 December 2009 was PLN 100,000, and as at 31 December 2009 the Company had no debts pertaining to them.

The status of the credit lines as at 31 December 2009 is presented in the table below.

No.	Creditor	Credit facility value [PLN '000]	Costs of credit [PLN '000]	Debt on credit facilities as at 31 December 2009 [PLN '000]	Date date	Date date	Repayment period
<b>Working capital facilities drawn down by ENEA S.A. in 2006 and 2007.</b>							
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	1.8	0.00	2007.04.12	2011.11.17	2011.11.17
3	Bank Zachodni WBK S.A.	40 000.00	22.1	0.00	2007.04.12	2011.11.17	2011.11.17
<b>TOTAL</b>			23.9	0.00			

During the financial year, ENEA S.A. did not make use of working capital credit facilities to finance current operations. During that period, only the lines of credit lines from BZ WBK SA and Pekao S.A. were drawn on, for the purpose of making term deposits.

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.

The bank loan security which ENEA S.A. possesses consists of: powers of attorney to current accounts in banks in which ENEA S.A. has current accounts, and a declaration on voluntary submission to enforcement procedures.

Information on credit in the ENEA Capital Group can be found in the consolidated financial statements in Note 14 and Note 20.

Information on the average weighted interest on credit can be found in Note 23.6.

#### 4. Loans granted

During financial year 2009, the ENEA Capital Group did not grant any loans.

#### 5. Granted and received suretyships and guarantees

In 2009, ENEA S.A. obtained a bank guarantee from PKO Bank Polski S.A. as security on electricity sales agreements in favour of PGE Elektra S.A., and also renewed a bank guarantee from BZ WBK S.A. in favour of Rondo Property Investment Sp. z o.o.

The state of guarantees received in 2009 as at 31 December 2009 is given in the table below.

item	Date security granted	Date of security validity	Entity to which security is granted	Agreement type	Form of security	Secured amount
1	13-12-2009	13-12-2010	RONDO PROPERTY INVESTMENT Sp. z o.o. in Warsaw	premises lease agreement	bank guarantee	EUR 29,000*
2.	24-11-2009	from 01 January 2010 to 15 February 2011	PGE ELEKTRA S.A. ul. Mysia 2, 00-496 Warszawa	electricity sale agreements	bank guarantee	PLN 132,000,000

In 2009, the ENEA Capital Group did not grant any suretyships or guarantees.

The state of the suretyships and guarantees granted as at 31 December 2009 is given in the table below.

Management Report on the operations of ENEA Capital Group prepared in accordance with Clause 92 paragraphs 3 and 4 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information [...]

No.	Date surety/ guarantee granted	Date of validity of suretyship/ guarantee	Entity for which surety/ guarantee was granted	Entity to which surety/ guarantee granted	Agreement number	Value of surety/ guarantee	Actual debt as at 31 December 2009 [PLN '000]
1	For the purpose of meeting the statutory conditions for obtaining a license to carry out profit-making transport activities						
	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 201,000 EUR 49,000*	-
<b>Total:</b>						<b>PLN 201,000</b>	-

\*The mid EUR exchange rate as at 31 December 2009 was 4.1082 - NBP table No. 255/A/NBP/2009 of 31 December 2009

The total value of off-balance sheet items from suretyships and guarantees granted by ENEA S.A. as at 31 December 2009 is PLN 201,000.

There are no 'endangered guarantees or suretyships' among the suretyships and guarantees granted. The sureties and guarantees granted by ENEA S.A. fall within the limits specified in Article 33 par. 1 of the Act on sureties and guarantees granted by the State Treasury and other legal persons of 8 May 1997 (Journal of Laws of 2003 No. 174, item 1689 as amended) .

Other conditional liabilities granted by ENEA S.A. as at 31 December 2009				
	Obligation type	Entity to which security is granted	Value of security	Period of security's validity
1.	Blank promissory note	Security of PSE Operator S.A.'s receivables for settlement of energy payments	PLN 15,000	Open-ended

Other conditional obligations assumed by the ENEA Capital Group are described in the consolidated financial statements under Note 45.

### 3. Presentation of the financial position of the ENEA Capital Group

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

##### 1. Financial results

Consolidated income statement

Income statement in PLN '000	2008	2009	Growth 2009/2008	Change 2009-2008
<b>Sales revenues</b>	<b>6 157 762</b>	<b>7 167 337</b>	<b>116.4%</b>	<b>1 009 575</b>
<b>Cost of sales</b>	<b>-5 867 272</b>	<b>-6 620 880</b>	<b>112.8%</b>	<b>-753 608</b>
Other operating revenue	80 914	78 599	97.1%	-2 315
Loss on sales and liquidation of tangible fixed assets	-9 340	1 453	x	10 793
Lasting loss of value of tangible fixed assets	0	-8 942	x	-8 942
Other operating expenses	-110 705	-111 962	101.1%	-1 257
<b>Operating profit (loss)</b>	<b>251 359</b>	<b>505 605</b>	<b>201.1%</b>	<b>254 246</b>
Financial expenses	-51 178	-33 020	64.5%	18 158
Financial income	92 871	172 705	186.0%	79 834
Share in (losses)/profits of affiliated entities accounted for using the equity method	414	7 766	1 875.8%	7 352
<b>Profit (loss) before tax</b>	<b>293 466</b>	<b>653 056</b>	<b>222.5%</b>	<b>359 590</b>
Income tax	-78 099	-139 446	178.6%	-61 347
<b>Net profit (loss) for the reporting period</b>	<b>215 367</b>	<b>513 610</b>	<b>238.5%</b>	<b>298 243</b>

In the reporting period, the Group posted revenues of PLN 7,167,337,000, which represented an increase relative to 2008 of PLN 1,009,575,000 or 16.4 per cent.

The table below shows the value and structure of revenues generated in 2009.

Item	2008		2009		Growth 2009/2008	Change 2009-2008
	[PLN '000]	%	[PLN '000]	%		
Revenues from the sale of electricity	3 475 324	56.5	4 620 236	64.5	132.9%	1 144 912
Revenues from the sale of distribution services	2 279 868	37.0	2 297 371	32.1	100.8%	17 503
Revenues from the sale of foods and materials	172 908	2.8	156 298	2.2	90.4%	-16 610
Revenues from the sale of Rother services	140 611	2.3	123 025	1.6	87.5%	-17 586
Recovery of stranded costs	80 976	1.3	-77 381	-1.1	x	-158 357
Revenues from the sale of thermal energy	8 075	0.1	47 788	0.7	591.8%	39 713



<b>Total net revenues</b>	<b>6 157 762</b>	<b>100.0</b>	<b>7 167 337</b>	<b>100.0</b>	<b>116.4%</b>	<b>1 009 575</b>
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The Group's revenues mainly consist of revenues from sales of electricity and from sales of distribution services, which amount to 64.5 per cent and 32.1 per cent of total revenues, respectively. Revenue from sales of electricity in 2009 amounted to PLN 4,620,236,000, an increase of 32.9 per cent relative to the previous year. This mainly results from an increase in the average sale price of electricity to end users of 39.3 per cent in ENEA S.A. Revenues from sales of distribution services in 2009 reached a value of PLN 2,297,371,000, and were very close to those attained in the previous year (growth rate of 100.8 per cent). The level of those revenues was caused by a reduction in the amount of electricity supplied to end users of 1.8 per cent, with a simultaneous rise in the average sale price of distribution services of 1.2 per cent.

A drop of 9.6 per cent in revenues from sales of goods and materials was mainly due to a drop in external sales within the company BHU, which was caused by a fall in the growth rate of investments in the domestic economy. The fall of 15.4 per cent in revenues from sales of other services results from a reduction in revenues of that type in the companies: IT Serwis, Energobud Leszno, and from greater internal trading among Group companies. Given, however, the scale of operations in the above entities, this decline in their sales did not have much impact on the financial result of the Capital Group.

The level of revenues from sales in 2009 was also affected by amendments made to revenues identified from compensation for stranded costs from 2008. The above situation arose as a result of a decision by the President of the ERO, on the basis of which the level of the yearly correction for stranded costs from 2008 which Elektrownia Kozienice is obliged to return to Zarządcy Rozliczeń S.A. was determined. Elektrownia submitted an appeal, but what the final ruling by the Court will be is uncertain.

Revenues from the sale of heat energy in 2009 amounted to PLN 47,788,000, i.e. 0.7 per cent of revenues from sales. The increase in those revenues (growth rate of 591.8 per cent) is mainly caused by the purchase of two companies from the heat sector (Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Oborniki and Miejska Energetyka Ciepła Piła Sp. z o.o. in Piła).

In 2009, the total yearly cost of obtaining revenues from sales was PLN 6,620,880, an increase of 12.8 per cent over the previous year.

The table below shows the value and structure of the costs of obtaining revenues from sales attained in 2009.

Item	2008		2009		Growth 2009/2008	Change 2009-2008
	[PLN '000]	%	[PLN '000]	%		
Amortization/depreciation	631 364	10.8	661 345	10.0	104.7%	29 981
Employee benefit costs	940 080	16.0	823 964	12.4	87.6%	-116 116
Consumption of materials and raw materials and costs of goods sold	1 223 245	20.9	1 585 889	24.0	129.6%	362 644
Energy purchases for sales needs	1 893 710	32.3	2 350 461	35.5	124.1%	456 751
Transmission services	670 930	11.4	694 791	10.5	103.6%	23 861
Other external services	348 436	5.9	333 169	5.0	95.6%	-15 267
Taxes and charges	159 507	2.7	171 261	2.6	107.4%	11 754
<b>Total cost of sales</b>	<b>5 867 272</b>	<b>100.0</b>	<b>6 620 880</b>	<b>100</b>	<b>112.8%</b>	<b>753 608</b>

The largest items in the Capital Group's costs are the costs of purchasing electricity and consumption of materials, as well as the value of goods sold, which constitute respectively 35.5 per cent and 24.0 per cent of the costs of sales.

The purchase of energy for sales needs rose in 2009 by PLN 2,350,461,000, an increase of 24.1 per cent over the previous year, and this was mainly caused by a 33.7 per cent increase in the average purchase price of electricity.

The 29.6 per cent increase in the consumption of materials, raw materials and the value of goods sold in 2009 results mainly from increased costs of coal consumption due to a 29.6 per cent rise in the average purchase price of coal.

The sharp drop in the costs of employee benefits in 2009 (growth rate 87.6 per cent) is due to a decrease in reserves for employee benefits of PLN 138,356,000. At the same time, the drop in benefits costs was affected by costs of benefits incurred in 2008 from payments due in the form of shares, in the amount of PLN 19,433,000.

The costs of other external services went down by 4.4 per cent relative to the previous year, and this was due to higher internal trading among Group companies in 2009.

The costs of taxes and charges went up by 7.4 per cent relative to the previous year, mainly because of an increase in tax on real property which concerned distribution assets.

In 2009, the ENEA Capital Group attained an operating profit of PLN 505,605,000, which was higher than the result attained in the previous year, by 101.1 per cent, that is, by PLN 254,246,000. This was due to increased revenues from operations in the amount of PLN 1,007,260,000 with a simultaneous increase in operational costs of PLN 753,014,000.

Consolidated profits before tax in 2009, i.e. after financial activities had been taken into account, amounted to PLN 653,056,000, an increase of PLN 359,590,000 (122.5 per cent) relative to the previous year.

The net profit attained by the Group in 2009 was PLN 513,610,000, which was PLN 298,243,000 more than in the previous year. This significant growth in net profit was caused by an increase in the operations result and financial revenues, caused by growth in the fair value of financial instruments assigned for trading in the amount of PLN 93,7505,000. The Company invested funds obtained from the initial public offering conducted in November 2008 in, among other things, financial instruments designated for trading.

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

Consolidated balance sheet

Total assets in PLN '000	As at:		Growth 2009/2008	Change 2009-2008
	31 Dec. 2008	31 Dec. 2009		
<b>Non-current assets</b>	<b>8 204 031</b>	<b>8 374 673</b>	<b>102.1%</b>	<b>170 642</b>
Property, plant and equipment	7 944 815	8 060 674	101.5%	115 859
Perpetual usufruct right	15 321	28 090	183.3%	12 769
Intangible assets	36 606	47 985	131.1%	11 379
Investment properties	5 034	6 091	121.0%	1 057
Investments in associated entities, accounted for using the equity method	189 941	189 938	100.0%	-3
Deferred income tax assets	0	0	x	0
Available-for-sale financial assets	8 965	39 346	438.9%	30 381
Held-to-maturity investments	0	0	x	0
Financial assets valued at fair value by the profit and loss account	1 033	1 219	118.0%	186

Trade and other receivables	2 316	1 330	57.4%	-986
<b>Current assets</b>	<b>3 781 886</b>	<b>3 849 971</b>	<b>101.8%</b>	<b>68 085</b>
Inventories	270 044	300 830	111.4%	30 786
Trade and other receivables	780 098	925 513	118.6%	145 415
Current income tax assets	5 538	12 828	231.6%	7 290
Available-for-sale financial assets	4 806	0	0.0%	-4 806
Held-to-maturity investments	100 741	55 734	55.3%	-45 007
Financial assets valued at fair value by the profit and loss account	0	1 652 523	x	1 652 523
Cash and cash equivalents	2 620 659	902 543	34.4%	-1 718 116
<b>Non-current assets designated for sale</b>	<b>0</b>	<b>5 044</b>	<b>x</b>	<b>5 044</b>
<b>Total assets</b>	<b>11 985 917</b>	<b>12 229 688</b>	<b>102.0%</b>	<b>243 771</b>

Total liabilities in PLN '000	As at:		Growth 2009/20 08	Change 2009-2008
	31 Dec. 2008	31 Dec. 2009		
<b>Total equity</b>	<b>9 024 253</b>	<b>9 372 628</b>	<b>103.9%</b>	<b>348 375</b>
Ordinary shares	588 018	588 018	100.0%	0
Own shares	-17 396	0	x	17 396
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	-1 099	20 756	x	21 855
Other reserves	-28 226	-22 110	78.3%	6 116
Retained earnings	3 675 078	3 985 386	108.4%	310 308
Minority interest in equity	31 078	23 778	76.5%	-7 300
<b>Total liabilities</b>	<b>2 961 664</b>	<b>2 857 060</b>	<b>96.5%</b>	<b>-104 604</b>
Non-current liabilities	1 518 009	1 450 377	95.5%	-67 632
Current liabilities	1 443 655	1 406 683	97.4%	-36 972
<b>Total equity and liabilities</b>	<b>11 985 917</b>	<b>12 229 688</b>	<b>102.0%</b>	<b>243 771</b>

As at 31 December 2009, the balance sheet total of the ENEA Capital Group amounted to PLN 12,229,688,000, an increase of PLN 243,771,000 or 2.0 per cent relative to that as at 31 December 2008.

Non-current assets at the end of 2009 amounted to PLN 8,374,673,000, an increase of PLN 170,642,000 (2.1 per cent) compared to the previous year. The increase in non-current assets results mainly from an increase in property, plant and equipment caused by the implementation of investments in relation to generation and

Management Report on the operations of ENEA Capital Group prepared in accordance with Clause 92 paragraphs 3 and 4 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information [...]

distribution assets. Financial assets available for sale also increased as a result of a fair value valuation of shares held by Elektrownia Kozienice in the mine Bogdanka S.A.

In 2009, current assets amounted to PLN 3,849,971,000, an increase relative to 2008 of PLN 68,085,000 (1.8 per cent). This was mainly due to higher trade and other receivables with a simultaneous drop in the level of cash and equivalents in connection with the payment of a dividend to shareholders.

At the same time, in 2009 the Company transferred shares in PWE Gubin Sp. z o.o. in the amount of PLN 5,044,000 to non-current assets designated for sale.

The dominant source of financing the assets of the Group is equity, which at the end of 2009 amounted to PLN 9,372,628,000, PLN 348,375,000 or 3.9 per cent more than at the end of 2008. The growth in equity resulted from an increase in retained profits due to the higher net financial result in 2009.

As at 31 December 2009, the value of the Group's non-current liabilities was PLN 1,450,377,000 and had fallen by PLN 67,632,000, or 4.5 per cent in relation to the situation at the end of 2008. This was mainly the result of a decline in the amount of credit facilities and loans drawn down, and a decline in reserves for employee benefits in connection with an actuarial valuation conducted.

Current liabilities were at a level of PLN 1,406,683,000, having dropped by PLN 36,972,000 (2.6 per cent) relative to the previous year, mainly in connection with a decrease in liabilities from equivalent rights to the acquisition of shares at no cost and a decrease in provisions for electricity energy certificates, together with an increase in liabilities from trade and other liabilities.

### 3. Cash

#### Consolidated cash flow statement

Cash flow statement in PLN '000	As at			
	31 Dec. 2008	31 Dec. 2009	Growth 2009/2008	Change 2009-2008
Net cash flows from operating activities	825 491	850 134	103.0%	24 643
Net cash flows from investing activities	-899 524	-2 332 519	259.3%	-1 432 995
Net cash flows from financing activities	1 753 900	-235 731	x	-1 989 631
Net increase in cash and cash equivalents	1 679 867	-1 718 116	x	-3 397 983
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>2 620 659</b>	<b>902 543</b>	<b>34.4%</b>	<b>-1 718 116</b>

The balance of cash and equivalents of the ENEA S.A. Capital Group at the end of 2009 amounted to PLN 902,543,000, a decrease of PLN 1,718,116,000 relative to the amount achieved in 2009 (PLN 2,620,659,000). This reduction in cash and equivalents in 2009 was in connection with the purchase of financial assets.

Cash flows from operations amounted to PLN 850,134,000 in 2009, PLN 24,643,000 higher than in 2008 (PLN 825,491,000). This increase was caused mainly by higher profit attained on operations.

Cash flows from investment activities amounted to PLN -2,332,519,000 for 2009, PLN 1,432,995,000 less than in 2008, when they were PLN -899,524,000. This was due to increased investment outlays in 2009 and ENEA S.A.'s acquisition of financial assets (investment of funds obtained from the Company's public offer in November 2008).

Cash flows from financial activities amounted to PLN -235,731,000 for 2009, which was PLN 1,0989,631,000 less than in 2008 (PLN 1,753,900,000). That change was caused mainly by reporting the inflow from the share issue under financial activities in 2008, which funds were used in 2009 to acquire financial assets accounted for under investment activities.

### 4. Ratio analysis

#### Financial indicators

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Item	Perf.	Perf.
	2008	2009
<b>PROFITABILITY RATIOS</b>		
<b>ROE - return on equity</b>		
<i>Gross profit (loss)</i> <i>equity</i>	3.3%	7.0%
<b>ROA - return on assets</b>		
<i>Operating profit (loss)</i> <i>total assets</i>	2.1%	4.1%
<b>Net profitability</b>		
<i>Net profit (loss)</i> <i>revenues</i>	3.5%	7.2%
<b>Operating profitability</b>		
<i>Operating profit (loss)</i> <i>revenues</i>	4.1%	7.1%
<b>EBITDA profitability</b>		
<i>Operating profit (loss) + amortisation and depreciation</i> <i>revenues</i>	14.3%	16.3%
<b>LIQUIDITY AND FINANCIAL STRUCTURE RATIOS</b>		
<b>Current liquidity ratio</b>		
<i>current assets</i> <i>Current liabilities</i>	2.6	2.7
<b>Equity-to-fixed assets ratio</b>		
<i>equity</i> <i>non-current assets</i>	110.0%	111.9%
<b>Total debt ratio</b>		
<i>total liabilities</i> <i>total assets</i>	24.7%	23.4%
<b>ECONOMIC ACTIVITY RATIOS</b>		
<b>Current receivables turnover in days</b>		
<i>avg. net trade and other receivables x number of days</i> <i>revenues</i>	44	43
<b>Turnover of trade and other payables in days</b>		
<i>average trade and other liabilities x number of days</i> <i>Cost of products, goods and materials sold</i>	66	62

In 2009, the ENEA Capital Group achieved a positive financial result and positive profitability ratios. EBITDA profitability amounted to 16.3 per cent, an increase relative to the figure for 2008 (14.3 per cent), which is a result of a higher operating profit being generated.

The net profitability achieved by the Group in 2009 amounted to 7.2 per cent, an increase relative to that achieved in 2008 of 3.7 percentage points (from 3.5 per cent), and was 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 2008 was 3.3 per cent, and increased in 2009 to 7.0 per cent as a result of a higher pre-

tax profit earned relative to the previous year. ROA increased from 2.1 per cent in 2008 to 4.1 per cent in 2009, the result of a higher operating profit.

The ENEA Capital Group is fully able to settle its current liabilities on time, as shown by the level of its current liquidity ratio, which was 2.7 in 2009. This level is the result of high current assets obtained in connection with the inflow from the issue of new shares in 2008.

As at 31 December 2009, the receivables turnover rate was at a rate very close to that at the end of the previous year, and amounted to 43 days. The liabilities turnover rate, however, was 62 days in 2009, 4 days less than in the previous year. Please note that a correct relationship was maintained between the receivables and payables turnover rates (liabilities are settled after receivables are obtained), which in turn has a beneficial effect on the Group's financial liquidity.

At the end of 2009, the total debt ratio was 23.4 per cent, having gone down relative to 2008 by 1.3 per cent (24.7 per cent in 2008). As at 31 December 2009, the equity-to-fixed assets ratio amounted to 111.9 per cent (compared to 110.0 per cent in 2008).

## 2. Financial results forecasts

The Management Board of ENEA S.A did not publish any financial results forecasts for 2009.

## 3. Financial resources management

ENEA S.A. has financial resources at its disposal which guarantee that all current and planned expenses associated with the Company's operations will be serviced. The balance of available funds enables it to flexibly settle its ongoing liabilities and carry out planned investments. The Company's liquidity management is concentrated on a detailed analysis of the flow of receivables, ongoing monitoring of bank accounts as well as the ongoing concentration of cash resources in consolidated accounts. The Company takes action to reduce the period of obtaining receivables and extend the period of settling liabilities and deposits any financial surpluses that arise in current assets in the form of term deposits. Issue cash proceeds are managed by a specialist external firm. They are invested in minimum risk instruments, i.e. debt instruments issued, secured or guaranteed by the State Treasury, and bank deposits.

In 2009, ENEA S.A. had five open working capital facilities: two from BZ WBK S.A., two from Pekao S.A. and a credit limit in PKO BP S.A.

The total non-utilised limit of the working capital facilities available to the ENEA Capital Group as at 31 December 2009 was PLN 156,938,000.

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

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

Subsidiaries hold the following open lines of credit:

Company	Bank	Limit	Amount drawn down as at 31 December 2009
BHU S.A.	BZ WBK S.A.	3,500,000	0
Hotel Edison Sp. z o.o.	BZ WBK S.A.	300,000	92,594
"COGEN" Sp. z o.o.	Nordea Bank Polska S.A.	20,000	0

IT Serwis Sp. z o.o.	BGŻ S.A.	1,500,000	541,000
Eneos Sp. z o.o.	PKO BP	1,500,000	0
ENEA Operator Sp. z o.o.	Pekao S.A.	50,000,000	0
Auto Styl Sp. z o.o.	Volkswagen Bank S.A.	1,000,000	248,054

#### 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* – credit risk relates to the failure by a client or contractor being party to a financial instrument to carry out its contractual obligations. The main factors influencing the appearance of a credit risk in the case of the 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 entities financed through the state budget, and 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-downs.

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

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

- 3) *exchange rate risk* - The Group is vulnerable to exchange rate risk, mainly in relation to foreign currency credits held by Elektrownia Koźienice. Information on the influence of exchange risk has been presented in the consolidated financial statements for 2009 in Note 23.5.
- 4) *interest rate risk* – this exists mainly in relation to interest on credit facilities drawn and on interest from bank deposits. The interest rate is variable as it is calculated on the basis of the WIBOR rate. Information on the influence of the risk of changes in interest rates has been presented in the consolidated financial statements for 2009 in Note 23.6.

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

#### 5. Unusual factors and events affecting the result

Unusual factors and events affecting the financial result in 2009 are presented in pt. 1 above, under “Discussion of key economic and financial figures disclosed in the annual consolidated financial statements”.

## 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 include the circumstances and factors that determine the Company's development prospects as described below in Section 4 of this report, under "Development prospects and description of risks and threats"

## 7. Description of key off-balance sheet items

A description of key off-balance sheet items is given in section 2 point 4.5 of this report, under "Granted and received suretyships and guarantees".

## 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.

### 1. Key legal and macroeconomic factors

#### 1. The general condition of the economy

The position of the Group in 2009 was to a certain extent shaped by the general trends in the national economy. The Polish economy experienced a slowdown in economic growth in 2009, especially in the first half of the year. According to figures from the Central Statistical Office, Gross Domestic Product grew by 1.7 per cent in 2009, while domestic demand decreased by 0.9 per cent. In terms of the macroeconomic situation, 2009 was not one of the best for the Polish economy – the rate of economic growth was lower than in 2008. Along with the economic slowdown, the growth of consumer prices decreased to a 3.5 per cent annual average (compared with 4.2 per cent in 2008). The deteriorating business outlook in 2009 was also accompanied by a slowdown in investment processes. Furthermore, 2009 also saw a 2.4 per cent increase in the unemployment rate, to 11.9 per cent.

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

Item	unit of measure	2008	2009*
GDP	growth in %	5.0	1.7
Value added in industry	growth in %	6.6	1.1
Domestic demand	growth in %	5.5	-0.9
Gross outlays on fixed assets	growth in %	8.2	-0.3
Industrial production sold	growth in %	3.6	-3.5
Average gross salary	growth in %	10.3	4.4
Rate of unemployment	%	9.5	11.9
Inflation	%	4.2	3.5

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

The presented figures show that in 2009 the growth of gross domestic demand fell significantly relative to the preceding year and reached a negative value, that is -0.9 per cent. The growth rate of investment outlays on



fixed assets also slowed considerably, from 8.2 per cent in 2008 to a negative value in 2009, that is -0.3 per cent. Long-term wage growth also fell in 2009, to 4.4 per cent (as against 10.3 per cent in 2008), and this was reflected in a low level of individual consumption.

Another symptom of the downturn in 2009 was a deterioration of the situation on the labour market, where the unemployment rate rose by 2.4 per cent compared with 2008 and amounted to 11.9 per cent at the end of the year. This worsening of labour market conditions was mainly due to the poor investment situation.

It is generally assumed that the global economic trends that began in 2009 will continue in 2010. The largest developed countries are emerging from recession, and economic growth can be expected in 2010, though the growth rate, especially in Europe, will not be very high. Much faster growth will be observed in developing countries – and especially in China.

Poland is among countries that managed well during the financial crisis due to relatively strong economic fundamentals. According to World Bank forecasts, the Polish economy will grow 2.2 per cent in 2010 and 3.4 per cent in 2011.

An important impetus to this growth will be EU funds, the use of which is being managed very efficiently. No dramatic deterioration of the labour market situation is foreseen, and this should help stabilise consumption.

On the basis of information published by the Central Statistical Office, the general state of the domestic economy, the economic decline and the consequent decrease in industrial production were not reflected in a drop in production in generating and supplying electricity. Electricity sales during that period grew by 2.2 per cent in relation to 2008.

## **2. Legal regulation and tariffs**

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

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

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

The tariffs approved by the President of the ERA, 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 ERA.

We are obliged to submit to the president of the ERO for approval tariffs relating to the sale of electricity to households and distributing power to customers connected to our distribution network. By law, the manner in which tariffs are calculated should ensure that the power company: (i) has sufficient funds to cover the costs planned for the tariff period in question, provided that the president of the ERO deems them to be justified; and (ii) obtains a particular margin (in trading) or return on capital (in distribution) while ensuring that customers are protected from unreasonably high prices and rates for charges. Some elements of the tariff

calculations are calculated on the basis of financial models and other assumptions adopted by the president of the ERO, which do not take into account the actual costs of our operations and the value of our assets disclosed in our financial statements. As a result, elements of the tariff calculations are the subject of often lengthy negotiations with the president of the ERO, which may not lead to us generating the revenues we have planned. This can have an adverse effect on the amounts of the margins we obtain and return on capital.

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

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

On 4 November 2009, ENEA Operator Sp. z o.o. applied to the President of the ERO for approval of the "Tariff for Electricity Distribution Services" for 2010, thereby initiating an administrative proceeding in the matter. Those proceedings concluded with the issuance of Decision No. DTA-4211-114(5)/2009/13854/III/BH of 17 December 2009, approving the tariff in that part pertaining to initial charge rates for the period from 1 January 2010 to 31 December 2010, and Decision No. DTA-4211-114(10)/2009/13854/III/BH of 23 December 2009, approving the tariff in its remaining part. The "Tariff for Electricity Distribution Services" for 2010 was introduced by a resolution of the Management Board of ENEA Operator Sp. z o.o. of 30 December 2009, and came into force as of 1 January 2010 in the scope approved by Decision No. DTA-4211-114(5)/2009/13854/III/BH of 17 December 2009, and as of 7 January 2010 in the scope approved by Decision No. DTA-4211-114(10)/2009/13854/III/BH of 23 December 2009. Until 31 December 2007, ENEA S.A.'s activities relating to sales of electricity to end customers were subject to an obligation to present tariffs to the president of the ERO for approval. As at the date when this report is disclosed, due to a decision of the president of the ERO of 14 May 2008 we are exempt from the obligation to submit electricity tariffs to the president of the ERO for approval, except for the tariff for customers from the G tariff groups (households) connected to the grid of ENEA Operator. As at the date of disclosing this report, the legal status has not changed in this respect.

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

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

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

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

#### **4. Supplies and prices of bituminous coal and other fuels**

The basic fuel used to produce electricity by our basic production assets, i.e. Koziernice Power Plant, is bituminous coal. In 2009, 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 provided us with more than 57 per cent of that raw material in 2007, 54 per cent in 2008 and 52 per cent in 2009 (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 Koziernice Power Plant or supplies of coal are suspended or interrupted for a different reason (e.g. as a result of a mine employees' strike), Koziernice Power Plant could be forced to import coal from further afield at higher prices, suspend or reduce its electricity production until the supply of coal is resumed, or adapt its production assets to utilise alternative fuels, which could cause an increase in its costs. An increase in the costs of Koziernice Power Plant would be reflected in the prices of the electricity we sell, which could make our prices uncompetitive in relation to the prices of electricity sold by competitors on the market. Furthermore, if we are unable to maintain our inventories of bituminous coal at the legally required level, we could receive administrative fines of up to 15 per cent of our revenues from licensed activities in the previous tax year.

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, sawdust and sunflower pellets are primarily used as biomass. The Power Station currently has agreements with some 19 biomass suppliers. In 2008, biomass consumption amounted to 98,657.2 tonnes, whilst in 2009 it was 116 736.1 tonnes (according to belt-way scales). The co-combustion of approximately 120,000 tonnes of biomass is planned for 2010.

#### **5. Obligations with respect to obtaining energy certificates of origin**

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

us in relation to the acquisition of certificates of origin on to end users, this may have a negative effect on our cash flow and the margin we achieve.

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

## **6. Limits of CO<sub>2</sub> emission rights and their market prices**

Our electricity production operations depend on the quantity of rights allocated to us to emit CO<sub>2</sub> and other gases and substances for a particular settlement period. CO<sub>2</sub> emission rights are allocated on the basis of the Community system of trading in emission rights. For the second settlement period of trading in CO<sub>2</sub> emission rights (2008-2012), Koźienice Power Plant was granted rights to emit 9.6 million tonnes of CO<sub>2</sub> per year, a decrease of 8.6 per cent relative to the average annual allocation in the period 2005-2007. In view of the current scale and efficiency of the production capacity of the Koźienice Power Plant, that quantity of CO<sub>2</sub> emission rights corresponds to the production of approximately 10.9 TWh gross of electricity per year, i.e. 9.3 per cent less than the quantity of electricity that the Power Station generated in 2009. Starting from 2013, it is expected that gratuitous allocations of CO<sub>2</sub> 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.

## **7. Long-term contracts**

In the 1990s, a system of long-term contracts ("LTCs") was introduced in Poland, which was intended to enable electricity producers to obtain the financing necessary to carry out investments in production assets that were necessary in the energy sector. Due to the progressive liberalisation of the energy sector and reservations submitted by the European Commission, in 2007 Poland implemented a programme of early termination of long-term contracts by adopting the Act on Terminating LTCs. Koźienice Power Plant was party to a long-term contract under which it sold approximately 40 per cent of the electricity it produced. As a result of the Act on Terminating LTCs coming into force, that contract was terminated early, on 1 April 2008. As a result, the electricity that was previously sold on the basis of a long-term contract is sold on the free market, where the price can differ from the price previously set in the long-term contract. Under the Act on Terminating LTCs, the Koźienice Power Plant will be able to obtain compensation to cover "stranded costs" - expenses that are not covered by revenues obtained from the sale of electricity produced, power reserves, and system services - on the competitive market after the early termination of a long-term contract, which result from outlays incurred up to 1 May 2004 on assets associated with electricity production. Compensation payments are made over a period of one year in the form of advance payments, the amount of which may be subject to adjustment by a decision of the President of the ERO under conditions as set out in the Act on Terminating LTCs. In the case where the difference between the amount of advance payments obtained and the amount of stranded costs due for a given year is more than 35 per cent, the President of the ERO may apply interest. A final adjustment of stranded costs will be made in the year after the last yearly period in which an LTC would have been in effect had it not been terminated (i.e., in 2015).

The total amount of that compensation, discounted as at 1 January 2007, cannot exceed the maximum amount of those costs as specified in the Act on Terminating LTCs. For the Koźienice Power Plant, the maximum amount of stranded costs was determined as PLN 623.6 million (that amount was determined for the period 2007-2014 and covers the amount of stranded costs applicable to 2007 and Q1 2008, that is, for the period in which the contract was still in effect). There is no certainty as to what the price of electricity will be in the future or that the compensation payments that we receive in the future will fully cover our stranded costs. This could have an adverse effect on our business activities, financial standing and financial results.

The Act on Terminating LTCs also grants the president of the ERO the right to inspect the amount of electricity sales in a particular year relative to the previous year, the costs associated with producing electricity in a particular year relative to the previous year, and the average price of electricity sold in a particular year relative to the market price. If those amounts deviate from the limits set out in the act, the president of the ERO may increase the amount of the adjustment (if it is negative) or reduce the amount of the adjustment (if it is positive) by up to 25 per cent of the amount of stranded costs as specified in the Act on Terminating LTCs.

In accordance with Attachment No. 4 to the Act on Terminating LCTs, for 2008, the Koźienice Power Plant obtained advance payments towards stranded costs from the company Zarządca Rozliczeń S.A. in the amount of PLN 93.1 million, of which it reported PLN 81.0 million under compensation in its financial statements for 2008. On 5 August 2009, Elektrownia Koźienice S.A. obtained a decision by the President of the ERO of 31 July 2009 setting the amount of the adjustment to the yearly stranded costs (i.e. advance payments received from Zarządca Rozliczeń S.A.) for the Koźienice Power Plant 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 a level of PLN 89.5 million, which is at a level PLN 77.4 million less than the revenues reported by Elektrownia Koźienice S.A. in its financial statements for 2008 (as well as in the consolidated financial statements of the Group).

On 19 August 2009, Elektrownia Koźienice S.A. filed an appeal to the Regional Court in Warsaw, Court of Competition and Consumer Protection. In that appeal, it also moved for abstention from enforcement of that decision pending a ruling in the matter. The Regional Court in Warsaw, Court of Competition and Consumer Protection, in a decision of 23 September 2009, ruled to refrain from enforcing the contested decision above the amount of PLN 44.8 million, rejecting the motion in its remainder. In this connection, on 30 September 2009, the Management Board of Elektrownia Koźienice 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 Koźienice 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 Koźienice 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. The Court of Appeals is considering the grievance dismissed earlier by the Court of Competition and Consumer Protection against the decision on partially refraining from enforcement of the decision by the President of the ERO.

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

The Management Board of Elektrownia Koźienice S.A. took a decision to adjust revenues from compensation reported for 2009, in the amount of PLN 27.0 million, to report the costs of advance payments returned under other operating costs, in the amount of PLN 44.8 million, and to write off the remaining receivables, in the amount of PLN 32.6 million. All of the above transactions concerning settlements for compensation for stranded costs are presented in the statement of results under revenues from net sales. If in the future the Court issues a ruling on the appeal against the decision of the President of the ERO under which Elektrownia Koźienice S.A. is obligated to return a lower amount than that resulting from the decision of the President of the ERO, this will improve the financial result.

The provisions of the Act on Terminating LTCs are intended to ensure tax neutrality for electricity producers in connection with their receiving funds to cover stranded costs. Under Article 42 par. 1 of the Act on Terminating LTCs, for the purposes of corporate income tax a producer receiving funds to cover stranded costs is deemed to be tax-exempt refunding of outlays associated with acquiring or independently producing tangible fixed and intangible assets associated with producing electricity, for which depreciation/amortisation charges are recognised. The tax exemption is applicable up to a specific limit, and the surplus over and above that amount

constitutes taxable income of the producer. However, please note that the provisions of the Act on Terminating LTCs relating to tax issues are imprecise and create the potential for inconsistent interpretations. For that reason, until the practice of the tax authorities has been established or the unclear provisions of law have been clarified by the Minister of Finance, the application of those provisions could involve a certain interpretational risk for energy producers.

## 8. The regulatory value of assets

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

where:

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

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

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

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

where:

- $RR(BO)_t$  - regulatory revenue for year  $t-1$  corrected by return and amortisation from investments implemented after 31 December 2008,
- $I_j$  - amount of investment outlays considered by the President of the ERA in calculating the tariff for tariff year  $j$ ,
- $CC_j$  - revenue from network connection charges considered by the President of the ERA in calculating the tariff for year  $j$ ,
- $AI_j$  - level of amortisation of investments implemented after 31 December 2008,
- $\Delta I_j$  - 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  $j+1$  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 ERA 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:

$$R_t = RAB_t \cdot WACC_t$$

## 9. Customer service

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

## 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, plant or equipment, pollution or damage to the environment, and interruptions in our operations, which could lead to us bearing significant liability or being fined.

## 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, involving such issues as the rules for settling costs and determining the level of connection charges. ENEA Operator holds that the costs of expanding the network should be taken into account in the costs of network connections, and provide a basis for calculating grid connection charges incurred by entities applying for connection to the network. However, in connection with administrative proceedings concerning other power companies, as well as ENEA Operator, the President of the ERO has held that counting such network connection costs is not in compliance with the provisions of the Energy Law, and that therefore it is the power company that should bear all costs in relation to expansion of its network. For this reason, we may be forced to incur substantial costs in connection with expansion of our network resulting from the obligation imposed on us to connect entities which apply for such connection. The cause of our concern is, in particular, the large number of producers of energy from renewable sources which are seeking to be connected to our network. We may be forced to incur substantial outlays within a short period of time, if all or most of the matters pending before the President of the ERO are ruled on to the detriment of ENEA Operator.



## **12. Market liberalisation**

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

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

## **13. Purchasing electricity from external entities**

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

## **14. Dominant position on the local market**

We have a dominant position with regard to providing distribution services on the local market covering north-west Poland. The actions we take are therefore subject to inspection by Polish and European anti-monopoly institutions (including the president of the OCCP and the European Commission). If those authorities find that we are applying monopolistic practices, they will issue a decision ordering us to refrain from applying them and possibly fine us. Furthermore, any legal acts that are a manifestation of an abuse of a dominating position will be invalid, either entirely or partially, as appropriate. As at 31 December 2009, one proceeding against ENEA Operator is under way, brought by the President of the Office of Competition and Consumer Protection, concerning an accusation that ENEA Operator abused its dominant position on the regional energy distribution market by imposing onerous conditions in network connection agreements, thereby bringing unjustified benefits to the Company. Decisions eventually handed down by the President of the Office of Competition and Consumer Protection or the European Commission may have a negative impact on our operations, financial situation, financial results or prospects for development.

## **15. 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 Koźienice 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 30 March 2011.

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

ERO also has the right to withdraw a concession or change its terms in the event of a blatant breach of the terms specified in a concession, or other terms of performing a licensed activity, and also if a licensed company does not, in the appointed time, bring about a state compliant with the terms specified in the license or with the provisions regulating the licensed activity. The president of the ERO also has the right to withdraw a concession or change its scope on account of a danger to the country's defences and security or to the safety of its citizens, and also in the event of the bankruptcy of the company, its division, or merger with another company.

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

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

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

## **17. Strategy implementation**

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

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

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

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

We conduct our activities in an environment which is subject to a special legal framework. The situation of our Group is particularly affected by the Energy Law and EU regulations, particularly those concerning environmental protection. These legal regulations are subject to frequent changes (which ENEA is not in a position to forecast) and there is a tendency to gradually increase the requirements relating to use of the environment, in particular in relation to entities in the power sector. These growing requirements may in the future create a need for us to incur additional investment outlays. Also, the legal provisions impose an obligation on us to obtain and present certificates of origin to the President of the ERA 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.

## **18. Synergy**

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

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

## **19. 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.

## 20. 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 importance to our business operations. 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. We encountered such a situation in July 2009 when, as a result of *force majeure* (sudden high winds), there was widespread damage to power grids in the southern part of Wielkopolski Province. In the area served by ENEA Operator, winds knocked down about 390 poles, snapped overhead power lines in about 1000 places, and caused numerous cases of damage to insulators, support structures and transformer stations.

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.

## 21. Insuring our operations

Insurance policies concluded for our benefit may not cover losses borne as a result of our activities.

Our operations involve 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. Our key assets, particularly production assets, power lines and transformer units, could be destroyed due to an event of *force majeure* or other events, including fires, other natural disasters or a terrorist attack. Our Group's activities could also result in claims being asserted relating to damage caused to third parties. The scope of the insurance policies we hold corresponds to the scope of the insurance policies held by other power companies in Poland, though it may differ from the scope of insurance policies held by foreign entities. There is no guarantee that the insurance policies concluded on our behalf will be sufficient to cover all the losses incurred by us or by third parties in connection with our operations. The occurrence of any of the above circumstances or similar circumstances could therefore lead to us being unable to resume the full scope of our activities within a reasonable time or at all, which could have an adverse effect on our operations, financial standing, financial results or development prospects.

## 22. Management personnel

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

The future success of our Group depends on its ability to employ and retain management personnel with wide experience of managing power companies and identifying, purchasing, financing and implementing energy projects, as well as technical personnel with an appropriate educational profile in the field of energy. Key factors in this respect are the increasing competition in the electricity sector and the fact that the companies in our Group is subject to the provisions of the Public Sector Salary Cap Act, which limits the remuneration of people

holding certain managerial positions. On 13 June 2008, the *Sejm* (the lower chamber of parliament) adopted the Act Amending the Act on Commercialisation and Privatisation and Certain Other Acts, which was subsequently (on 26 June 2008) adopted without amendments by the Senate. Under the proposed amendments, the provisions of the Public Sector Salary Cap Act will not be applicable to members of management bodies and supervisory bodies of companies wholly owned by the State Treasury (among others) or to companies in which the State Treasury's share exceeds 50 per cent. On 24 July 2008, the aforementioned act was vetoed by the President of the Republic of Poland. There is no guarantee that the act will be re-adopted by the *Sejm* and come into force.

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

### **23. Collective disputes and agreements**

Collective disputes with employees may cause disruptions to our business.

About 70% of our employees belong to trade unions. The position of trades unions in the power sector is particularly strong because of the volume of employment in the sector and its strategic influence on the functioning of the economy. Furthermore the expectations of the trades unions are based on the conditions won by the employees of other power companies or power generators in agreements concluded in relation to the earlier privatisation of these companies. Although we are endeavouring to maintain good relations with our employees and to resolve on an ongoing basis all problems that arise, we cannot exclude the possibility of collective disputes' taking place in the future. Collective disputes with employees may lead to disruption of our ongoing activities, and in particular to stoppages, and may also cause an increase in labour costs, which may have a negative effect on our business, financial situation, financial results or development prospects.

In the period from May to June 2008 the Company conducted discussions with trade unions functioning in the Company on resolving the issue of Employee Shares. These discussions covered, among other matters, the subject of payment of monetary benefits as compensation for loss of rights to some Employee Shares as a result of restructuring processes in the Group and the payment of monetary benefits to employees of the Company who are not entitled to acquire Employee Shares. As an effect of the discussions, on 28 May 2008 an agreement was signed between the Company and the employee side which ended the collective dispute about Employee Shares. Because the Minister of the State Treasury did not sign the appendix to 28 May 2008's agreement, the position of some of the trades unions that signed the agreement on concluding the dispute differs from the Company's position in this matter. The risk therefore exists of renewal of the collective dispute about Employee Shares and this may lead to disruptions in our ongoing activities, and in particular to stoppages, which may have a negative effect on our business, financial situation, financial results or development prospects.

Our ability to improve productivity and reduce costs by restructuring employment is limited by collective agreements.

If we consider that improvement of our profitability and ability to compete effectively thanks to more efficient operation depends on reducing employment, our efforts to do so will be subject to limitations that arise from collective agreements concluded with trades unions operating in the Group. In particular, in accordance with the agreement concluded with trade unions on 18 December 2002, our employees are covered by specific guarantees that conditions of work and payment will be maintained and also by a guarantee of long-term employment. On the basis of this agreement, we undertook to pay an employee, in the event of termination of his or her contract of employment, severance pay amounting to the product of the individual's monthly remuneration and the period remaining to the end of the period guaranteed by the agreement. 80% of this amount is payable if payment is made in a lump sum and 100% if payment is made monthly. Furthermore, some present or past employees among senior management will benefit from employee guarantees until 31 December 2018.

#### *Elektrownia "Kozienice S.A.*

Approximately 62 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.

On 5 January 2009, the Trade Unions operating within the Company entered into a collective dispute with the Management Board of Elektrownia Koźienice S.A. The subject of the dispute was the Social Agreement, which as at 5 January 2009 had not been transposed to the currently binding Collective Labour Agreement for Employees of Elektrownia Koźienice S.A. The dispute was registered in the Regional Labour Inspectorate in Warsaw on 15 January 2009. On 27 February 2009, the parties to the above dispute signed an Supplementary Report No. 2, implementing the Social Agreement in its entirety as Attachment No. 15 to the Collecting Labour Agreement for Employees of Elektrownia Koźienice S.A. The collective dispute thereby ended, since the subject of the dispute ceased to exist. Supplementary Report No. 2 was entered in the register of plant collective labour agreements on 17 March 2009.

On 10 August 2007, a social agreement was concluded between Elektrownia Koźienice S.A. and the trade unions operating in the Power Plant, covering all persons employed by Elektrownia Koźienice S.A. on the day the agreement entered into force. Power Plant employees are protected by a guarantee to maintain working conditions and remuneration, as well as a guarantee on the security of their employment relationships irrespective of restructuring. In the case of an infringement of the employment guarantee by Elektrownia Koźienice S.A., those employees whose employment guarantee has been infringed are entitled, irrespective of other benefits to which they are entitled by provision of law, to lump-sum compensation in an amount equal to the product of the number of months remaining until the end of their employment guarantee period, counted from the day of termination of the employment agreement or from the day on which the period of notice of changing or infringing the employment guarantee lapses, and their average monthly remuneration in Elektrownia Koźienice S.A., but not less than the equivalent of the product of 48 months and their average monthly remuneration in Elektrownia Koźienice S.A. The above guarantees are in effect for a period of 11 years counting from 30 January 2008. Entitled persons may pursue claims arising during the life of the agreement not later than three years after its expiration.

#### **24. Court and administrative proceedings**

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

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

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 about 0.03 per cent of the maximum fine (the amount of the fine results from the fact that the President of the Office of Competition and Consumer Protection recognised that there was no need for repressive measures against ENEA, and that the fine was a disciplinary measure). On 30 September 2008, ENEA lodged an appeal against the above decision with the Competition and Consumer Protection Court. On 31 August 2009, the Competition and Consumer Protection Court changed the decision of the President of the Office of Competition and Consumer Protection, reducing the fine to PLN 10,000. On 25 September 2009, ENEA filed an appeal against the Competition and Consumer Protection Court with the Court of Appeals in Warsaw, moving that the decision be revoked in its entirety.

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

On 28 December 2009, the President of the ERO ruled in the matter of ENEA's failure to meet its obligation of

purchasing electricity generated through cogeneration in the first half of 2007, and imposed a fine on the Company, in the amount of PLN 2,150,000.00. On 19 January 2010, ENEA lodged an appeal against the above decision of the President of the ERO with the Competition and Consumer Protection Court.

## *2. Administrative proceedings*

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

Elektrownia Kozienice S.A. is party to one proceeding before the Regional Court, Court of Competition and Consumer Protection. On 5 August 2009, Elektrownia Kozienice S.A. received a decision by the President of the ERO of 31 July 2009 on the amount of the 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 Rozłizeń 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. As at 31 December 2009, the above proceeding had not yet been resolved.

Elektrownia Kozienice S.A. is party to one court proceeding in which the defendant is Lubelski Węgiel Bogdanka S.A. The proceeding is pending before the Supreme Court, and the amount of the claim is PLN 3.2 million. Furthermore, Elektrownia Kozienice S.A. is party to proceedings against CTL LOGISTIC S.A. pending before the Court of Appeals and the Supreme Court involving a total value of PLN 10.8 million.

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 motion by the Company, the Head of the Customs Office issued a series of decisions refusing to grant refunds of excise tax for the months from January 2006 to December 2007 inclusive. At the same time, the Head of the Customs Office in Radom issued a decision specifying the tax liability for excise tax for the months from January 2006 to December 2007, accepting the tax liability indicated by the Company in its initial declarations, before submission of corrections and the motion for the refund of overpayments. On 15 September and 26 November 2009, the Company filed appeals against the above decisions with the Director of the Customs Chamber in Warsaw. Moreover, on 24 November 2009, the Company submitted a motion with the Customs Office in Radom on confirmation and return of excise tax overpayments on electricity for January and February 2009, in the amount of PLN 34.6 million. 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.

## **25. 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. Failure to comply with the provisions of permits, or rescission of those permits, can lead to our incurring liabilities, to penalties being imposed on us, or to suspension of the operation of certain facilities. In turn the activity of ENEA Operator requires measurement of emission of electromagnetic fields.

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

provisions in the area of protection of the environment may lead to significant financial penalties being imposed on us. The appearance of any of the above circumstances may significantly increase our costs and limit our ability to pursue our business.

## **26. Real estate**

ENEA Operator does not hold legal title to part of the real property that it makes use of and, in addition, the properties used by ENEA Operator may be the subject of reprivatisation 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 December 2009, the relevant figures are as follows:

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

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

With regard to real properties used by ENEA Operator without an appropriate legal title, we are exposed to a risk of their being returned to their owners and of third parties asserting claims relating to the non-contractual use of such properties. As at 31 December 2009, ENEA was party to 212 court proceedings relating to the use of real property without an agreement, with the total value at stake being approximately PLN 10.782 million. The Company was also party to a number of disputes that are yet to get to court. The provision for claims (including claims associated with non-contractual use of real properties) being the subject of pending court proceedings and pre-court claims against ENEA Operator amounted to a total of PLN 33.006 million as at 31 December 2009.

Due to the fact that, up to 1 July 2007, ENEA S.A. was not only a trading company but a distribution company, it is currently party to court proceedings concerning the use of real property without an agreement, and to disputes yet to go to court. As at 31 December 2009, 126 court proceedings against ENEA S.A. were pending, involving a total value of PLN 11.84 million. ENEA has created provisions of PLN 12.94 million for these proceedings, as well as a provision of PLN 19.66 million for claims yet to go to court.

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

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

## **27. Modernisation and development**

The development of the ENEA Capital Group will be carried out in three basic strategic areas: i) development of the core operations of the Group; ii) improving the effectiveness of the functioning of the Group; iii) building a



socially responsible business, as described in more detail in section 1 pt. 3 *'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 Koźienice Power Plant and of power lines require significant investment expenditures to be incurred regularly. We expect that our investment outlays during the coming years will be financed primarily from funds generated from operating activity and debt finance. Our ability to secure financing and the cost of capital depend on many factors, many of which are beyond our control, and in particular on: (i) general market conditions and the situation in capital markets; (ii) the availability of bank loans; (iii) investors' confidence; (iv) our financial situation, results and development prospects; and (v) tax regulations and regulations on trading in securities.

The above sources of finance may be wholly unavailable or may not be available in the required amount, making it impossible to undertake all the investment expenditure planned by us. As a result, we cannot provide assurance that we will be able to generate sufficient cash flow or have access to sufficient alternative sources of finance to maintain or develop our present activity. The effect is that we may be obliged to delay or to give up planned investments, which may have a significant effect on our business, financial situation, financial results or development prospects.

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

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

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

## **28. Factors related to business operations**

Risk factors related to the conduct of economic activity in Poland.

The results of our activity, like our financial situation and development prospects, are dependent to a large degree on changes in the economic, political and legal situation in Poland.

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

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

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

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

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

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

## 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 prepared a new 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, (vi) new opportunities for managing brown coal deposits, and (vii) opportunities for developing renewable energy sources.

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

We intend to implement that strategy by:

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

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,
- Conventional Extraction and Generation,
- Renewable Energy Sources and Generation in Cogeneration,
- Wholesale Trading,
- Sales,
- Distribution,
- Shared Services Centre.

Creating, in addition to the core business areas, the additional Corporate Centre and Shared Services Centre divisions should serve to increase the efficiency of the management of the Group and enable cost synergies to

be made resulting from the centralised management of Group operations and a shared customer service system.

In implementing our strategy, we assume a base variant until 2020 of about PLN 22 billion for investments in conventional generation (approximately 32 per cent of all investment outlays), distribution (approximately 29 per cent of total investment outlays) and renewable energy sources and cogeneration (approximately 37 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 2015. We are currently going through the process of selecting a contractor to design and build the new 1000-MW unit. We plan to appoint a contractor in late 2010 or early 2011. At the same time, together with the new power unit, we intend to modernise the remaining 200-MW units operating at the Koziencice Power Plant.

We are also conducting preparatory analyses for the construction of a second 1000-MW unit in Świerze Górne.

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

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

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

In the area concerning renewable sources of electrical and thermal energy, we plan to build our wind power capacity to a level of 350-450 MW installed by 2020. At the same time, we have taken the decision to invest in biogas generation, and plan to attain a level of about 150 MW by 2020.

In 2009, the Company carried out a complete preparatory procedure for the purchase of its first biogas power plant, in Liszkowo (Kujawsko-Pomorski Province), having a capacity of 2.12 MWe (the purchase was finalised in January 2010). From 2010-2011 we plan to obtain 15.3 MWe of installed capacity from 10 biogas power plants.

Depending on the market situation, our financial situation, the results of technical and economic analyses being carried out, and our ability to finance investments, we do not rule out increasing the base investment program by additional investments in conventional generation, by about PLN 10 billion. That amount also covers the construction of a second 1000-MW power unit in Świerze Górne, and making acquisitions on the Polish market. In addition, the Management Board does not rule out starting up the brown coal mine in Gubin after 2012, provided that suitable conditions exist on the market for CO<sub>2</sub> emissions rights, and in subsequent years building two 1000-MW power units fired by brown coal. In such case, additional outlays will amount to about PLN 14 billion.

### **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 cash 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. Description of the Use of Issue Proceeds**

On 9 February 2009, ENEA S.A. transferred the proceeds obtained from the issue of Series C shares of the Company, amounting to PLN 1,900,000,000, to be managed by a specialist external firm. These funds have been invested in minimum risk instruments, i.e. debt instruments issued, secured or guaranteed by the State Treasury, and bank deposits. Revenues from investments made by the external firm amounted to PLN 68,967,000 in 2009.

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.

### **5. The corporate bodies of ENEA S.A.**

#### **1. Personal Composition, Basis of Appointment and Description of Extent of Authority**

The personal composition of the Company's authorities and changes in it that occurred in the course of the most recent financial year, together with a description of the actions of the Company's management and supervisory bodies and their committees, as well as a description of the rules relating to the appointment of people to and their recall from these bodies and their authority, and in particular to their right to make 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".

#### **2. Principles of Remuneration**

The remuneration of Members of the Management Board is set in accordance with the Act on the Remuneration of Persons Managing Certain Legal Entities of 3 March 2000 (the 'Act'). In accordance with Article 8 point 3) of the Act, 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. In addition, Management Board members may be granted an annual bonus upon a justified request by the Supervisory Board, in an amount not to exceed three times the employee's average monthly remuneration in the year preceding the granting of the bonus, as well as other payments pursuant to the Company Collective Labour Agreement (ZUZP). 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.

#### **3. Level of Remuneration**

The remuneration of members of ENEA S.A.'s Management Board in the financial year 2009 is presented in the following table.

Name	Position	Multiple *	Basic consideration**	Additional consideration***	Total
Maciej Owczarek	President of the Management Board	6	138 264.3	0.00	138 264.3
Piotr Koczorowski	Member of the Management Board	5.9	249 946.15	19 586.13	269 532.28
Marek Malinowski	Member of the Management Board	5.9	281 100.54	37 890.85	318 991.39
Sławomir Jankiewicz	Member of the Management Board	5.9	255 688.05	0.00	255 688.05
Tomasz Treider	Member of the Management Board	5.9	97 754.48	16 031.3	113 785.78
Czesław Koltermann	Member of the Management Board	5.9	155 600.52	11 435.19	167 035.71
Paweł Mortas	President of the Management Board	6	140 651.5	119 512.08	260 163.58
Marek Hermach	Member of the Management Board	5.9	137 234.09	120 403.83	257 637.92
<b>Total</b>	-	-	<b>1 456 239.63</b>	<b>324 859.38</b>	<b>1 781 099.01</b>

\* 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 pay, namely:

- monthly remuneration,
- annual bonus,
- severance pay following dismissal from membership of the Management Board
- long-service bonus

\*\*\* Additional consideration – this means

- reimbursement of part of the costs of using housing made available by the Company
- consideration related to the use of electricity sold at a discount
- contributions made to the Employee Pension Plan
- additional financial contribution to holiday leave pursuant to the collective labour agreement
- compensation stemming from non-compete agreements

Value of remuneration for sitting on the corporate authorities of subsidiaries:

No.	Name	Remuneration for sitting on the supervisory board of ENEA subsidiaries
1	Maciej Owczarek	36 606
2	Piotr Koczorowski	28 439
3	Marek Malinowski	39 837
4	Sławomir Jankiewicz	41 564
5	Tomasz Treider	23 128
6	Czesław Koltermann	39 948
7	Paweł Mortas	9 424
8	Marek Hermach	9 959

The remuneration of members of ENEA S.A.'s Supervisory Board in the financial year 2009 is presented in the following table.

No.	SURNAME AND GIVEN NAME	2009
1	ŁAGODA MICHAŁ	39 837
2	DACHOWSKI TADEUSZ	39 837
3	BEGIER PIOTR	39 837
4	JANAS MARIAN	39 837
5	ŁOPUSZKO ANDRZEJ	19 919
6	PAWLIOTTI WIESŁAW	39 837
7	PLUCIŃSKI MIECZYŚLAW	39 837
8	GAJDA MARZENA	6 284
9	BALCEROWSKI PAWEŁ	19 919
10	WOJCIECH CHMIELEWSKI	33 672
11	WOOD GRAHAM	33 672
12	MARCIN BRUSZEWSKI	0
13	KOWALEWSKI MICHAŁ	11 509

#### **4. List of Shares in Entities that are Part of the ENEA Capital Group that are Held by Members of the Management and Supervisory Boards**

On the day that this report was submitted, Mr Tadeusz Dachowski, the Deputy Chairman of the Company's Supervisory Board, held 300 shares in ENEA S.A.

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

## **6. The shareholding and share capital structure of ENEA S.A.**

### **1. Share capital structure**

In connection with a public offer of series C shares, at a closed hearing on 13 January 2009, the District Court for Poznań-Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, registered an increase in the Issuer's share capital from PLN 337,626,428 to PLN 441,442,578, by the issue of 103,816,150 series C ordinary bearer shares.

Upon registration of the increase, the amount of share capital of the Issuer was PLN 441,442,578. The total number of votes resulting from all issued shares of the Issuer is 441,442,578.

Following the registration of the increase in the Issuer's share capital, the capital structure is as follows:

- 295,987,473 series A ordinary bearer shares,
- 41,638,955 series B ordinary registered shares, and
- 103,816,150 series C ordinary bearer shares.

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

## 2. Own shares

From 17 November 2008 to 16 December 2008, Credit Suisse Securities (Europe) Limited, acting as stabilisation manager, took action to stabilise the price of rights to series C shares, in accordance with the principles set out in the issue prospectus published on 23 October 2008. Credit Suisse Securities (Europe) Limited, as stabilisation manager, exercised a stabilising option on the basis of an Underwriting Agreement concluded on 22 October 2008 between the Company, the stabilisation manager, Bank Zachodni WBK S.A. and Dom Maklerski BZ WBK S.A. Within the exercise of the above stabilisation option, the stabilisation manager sold to the Company a total of 1,129,608 rights to series C shares with a nominal value of PLN 1,129,608, out of a total maximum number of 1,557,242 rights to series C shares covered by the option. The unit price of purchasing a right to series C shares was PLN 15.40.

The acquisition of rights to series C shares as part of the stabilisation transactions was carried out on the basis of Article 2 of Resolution No. 4 of an Extraordinary General Meeting of Shareholders of 10 October 2008 on applying for the admission and introduction of shares and rights to shares to trading on a regulated market, the dematerialisation of shares and rights to shares, and authorisation to conclude an agreement with Krajowy Depozyt Papierów Wartościowych S.A., amended by Resolution No. 2 of the Company's Extraordinary General Meeting of Shareholders of 3 November 2008, in accordance with Commission Regulation (EC) No. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and Council as regards exemptions for buy-back programmes and stabilisation of financial instruments.

The remaining information on the terms and conditions of exercising the stabilisation option is set out in the issue prospectus for series C shares.

As a result of the measures described above and the registration of the share capital increase by the court, ENEA S.A. held 0.26 per cent of its own shares acquired under the stabilisation option.

On 11 August 2009, settlement was made for the sale of all of the own shares held. As at 31 December 2009, as well as at the date of publication of this report, the Company does not hold any own shares.

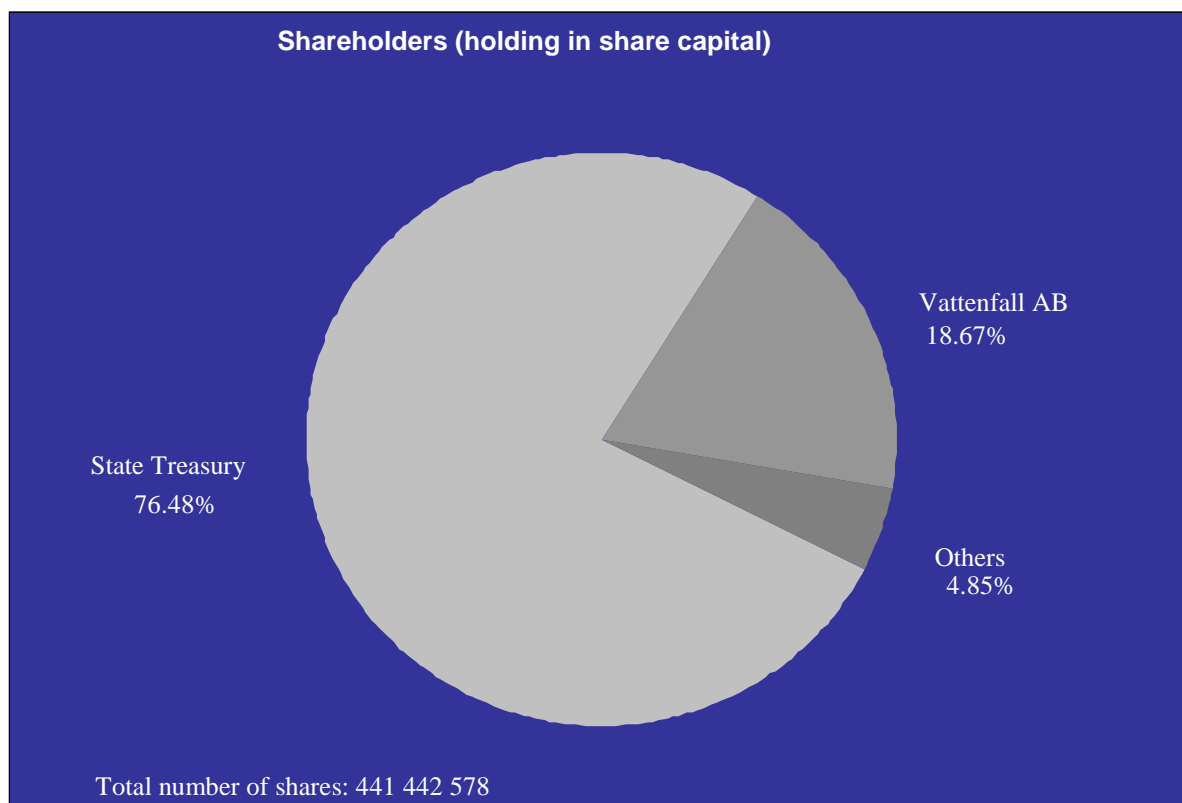
## 3. Shareholding structure

As at 31 December 2009, after including the share capital increase resulting from the share issue registered on 13 January 2009, the structure of shareholders holding above 5% shares of the Issuer, either directly or indirectly, is as follows:

Name of shareholder	Number of shares held	Number of votes held	Share in the share capital	Share in the total number of votes
State Treasury	337 626 428	337 626 428	76.48	76.48
Vattenfall AB	82 395 573	82 395 573	18.67	18.67
Others	21 420 577	21 420 577	4.85	4.85

Since the end of the financial year, changes have occurred in the structure of ownership of substantial blocks of shares of ENEA S.A. On 31 December 2008, in accordance with the commercial register, the shareholder holding 100 per cent of the votes at the General Meeting of Shareholders of ENEA S.A. was the State Treasury. The State Treasury was the owner of 337,626,428 shares, carrying an entitlement to 337,626,428 votes at the General Meeting of Shareholders of ENEA S.A., constituting 100 per cent of the existing share capital and carrying an entitlement to exercise 100 per cent of the votes at the General Meeting of Shareholders. As a result of the public offer of series C shares being carried out and the registration of a share capital increase on 13 January 2009 by the District Court for Poznań-Nowe Miasto and Wilda in Poznań, ENEA S.A.'s share capital is now divided into 441,442,578 shares, carrying an entitlement to 441,442,578 votes at the General Meeting of Shareholders of ENEA S.A. The shareholding structure as at 31 December 2009 is shown above.

The shareholding structure as at 31 December 2009 is presented in the following table:



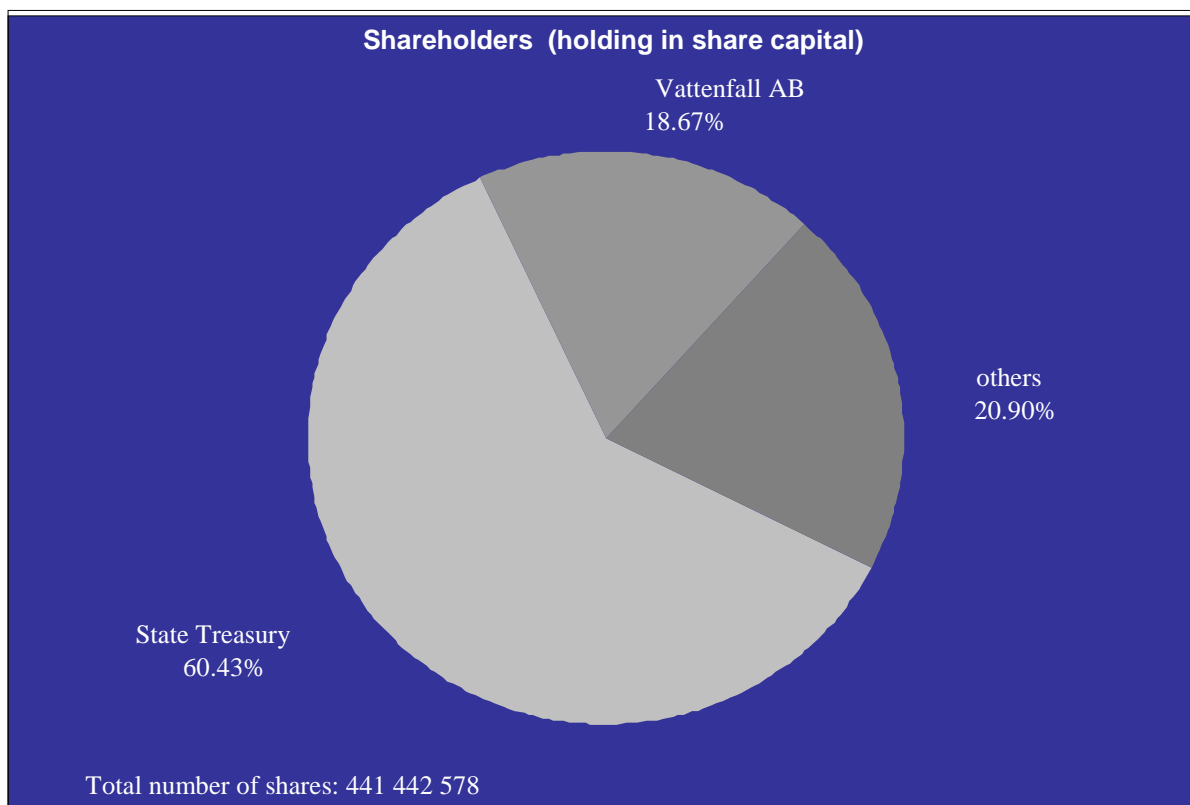
As at the date of preparing this report, the shareholding structure of ENEA S.A. changed in connection with the sale by the State Treasury on 10 February 2010 of 70,851,533 shares in ENEA S.A. representing 16.05 per cent of the share capital of ENEA S.A.

The shareholding structure as at the date of preparing this report is as follows:

Name of shareholder	Number of shares held	Number of votes held	Share in the share capital	Share in the total number of votes
State Treasury	266 774 895	266 774 895	60.43	60.43
Vattenfall AB	82 395 573	82 395 573	18.67	18.67
Others	92 272 110	92 272 110	20.90	20.90



The shareholding structure as at the date of preparing this report is presented in the table below:



#### 4. Potential changes in the shareholding 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 accordance with an announcement by the Ministry of the State Treasury of 27 October 2009, the intention of the Ministry in the first stage of the share sale was for ENEA S.A., which is among the ten largest companies listed on the Warsaw stock exchange, to become a component of the WIG and other key stock exchange indices. This aim is to be served by enriching the shareholding structure of ENEA with institutional investors and increasing the Company's free float. The next step in the government's strategic plan for the domestic power sector will be the Ministry of the State Treasury's implementation of the second stage of ENEA shares, that is, the sale of 51 per cent of the shares to a strategic investor.

## 7. Declaration of the application of corporate governance principles

### 1. The set of principles applied

The management board of ENEA S.A. declares that it applies principles of corporate governance which are described in the set of principles adopted by Resolution of the Supervisory Board of the Warsaw Stock Exchange (the "WSE") No. 12/1170/2007 of 4 July 2007, entitled: "Good Practices of Companies Listed on the WSE" (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.

## 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 on which this report was drawn up, the following principle of Good Practices of Companies Listed on the WSE has not been 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.

## 3. Shareholders holding substantial blocks of shares

The shareholding structure as at the date of preparing this report is as follows:

Name of shareholder	Number of shares held	Number of votes held	Share in the share capital	Share in the total number of votes
State Treasury	266 774 895	266 774 895	60.43	60.43
Vattenfall AB	82 395 573	82 395 573	18.67	18.67
Others	92 272 110	92 272 110	20.90	20.90

#### **4. 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.

#### **5. 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.

#### **6. Restrictions on assigning the ownership title to securities**

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

As a result of the ongoing privatisation of the Company which, pursuant to the Act on Commercialisation and Privatisation of 30 August 1996, will lead to the gratuitous acquisition of shares by entitled employees, there may be restrictions in the future on the assignment of the ownership title to the Issuer's shares. 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.

#### **7. Principles relating to appointing and recalling management personnel**

Under Clause 12 par. 1 of the Statute, the Company's Management Board consists of from three to eight 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.

1. Candidates can be persons nominated according to the procedure set out in Items 2 and 3 below.
2. Each trade union organisation operating within the Company and groups of at least 300 employees have the right to nominate candidates. Each employee can only support one candidate.
3. Candidates must be nominated in writing to the Main Election Committee, not later than seven days before the scheduled date of voting.
4. 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.
5. 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.
6. 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.
7. 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 results of the voting will be binding for the Supervisory Board under the condition that at least 50 per cent of all employees take part in it and that the necessary majority is obtained as in the election. 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. The competencies of the Shareholders

Meeting include, aside from matters specified in mandatory provisions of law and other provisions of the Statute, taking decisions on convertible or exchangeable bond issues and other instruments providing an entitlement to acquire or assume control over the Company's shares.

## 8. 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. accepting real estate under a leasing, tenancy, lease, usage arrangement or any other method of use, based upon one or more legal actions within a period of 12 consecutive months, with rent equal to or exceeding the equivalent of EUR 50,000 in a period of 12 consecutive months
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 for the consideration of which the Management Board turns to the Supervisory Board or the General Meeting of Shareholders;
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 pt. 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.

## 9. 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:

"In a situation where the State Treasury ceases to hold more than 50 per cent of the share capital, resolutions regarding the following matters may be adopted by a majority of four-fifths of the votes if at least half of the Company's share capital is represented at the General Meeting of Shareholders:

- 1) the dissolution of the Company;

Management Report on the operations of ENEA Capital Group prepared in accordance with Clause 92 paragraphs 3 and 4 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information [...]

- 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.

## **10. 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 par. 1 is submitted after the announcement of the convening of a General Meeting of Shareholders, then it will be treated as a motion for the convening of another General Meeting of Shareholders.

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](http://www.enea.pl)

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

### **Management Board**

The Issuer's current Management Board was appointed for a joint three-year term, which ends on 28 June 2010. The mandates of the members of the Management Board will expire not later than the date of the General Meeting of Shareholders that approves the financial statements for 2009.

Since the beginning of 2009, the Management Board for the 6th term was composed of:

- Paweł Mortas – President of the Management Board;
- Marek Hermach – Member of the Management Board for Commercial Affairs;
- Czesław Koltermann – Member of the Management Board elected by employees
- 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 Matters.

On 26 March 2009, the Issuer's Supervisory Board adopted resolutions recalling Mr Paweł Mortas from the position of President of the Management Board and Mr Marek Hermach from the position of Member of the Management Board for Commercial Affairs and adopted a resolution temporarily entrusting the duties of President of the Management Board of ENEA S.A. to Mr Piotr Koczorowski, previously the Member of the Management Board for Corporate Affairs. The Supervisory Board also initiated qualification proceedings for the positions of President of the Management Board and Member of the Management Board for Commercial Affairs.

On 9 March 2009, The Supervisory appointed Mr Maciej Owczarek to the Company's Management Board for its 6th term of office. The Supervisory Board entrusted Mr Owczarek to act as President of the Management Board as of 1 June 2009.

By a resolution of the Supervisory Board of 27 June 2009, the Supervisory Board appointed Mr Tomasz Treider to the Management Board for its sixth term of office. The Supervisory Board entrusted Mr Treider to act as Member of the Management Board for Trade as of 1 August 2009.

On 1 September 2009, the Supervisory Board recalled Mr Czesław Koltermann, Member of the Management Board elected by employees of the Company, from the Management Board.

As at 31 December 2009, the composition of the Management Board was as follows:

- 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 Matters.
- Tomasz Treider – Member of the Management Board for Commercial Affairs

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

<b>Name</b>	<b>Position</b>
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 Affairs
Marek Malinowski	Member of the Management Board for Strategy and Development
Tomasz Treider	Member of the Management Board for Commercial Affairs

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.

According to the Management Board Regulations, meetings of the Management Board are generally held once a week at the Company's registered office. Participation in meetings of the Management Board is compulsory. 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.

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 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 in the Company and the ENEA Capital Group.



- Member of the Management Board for Corporate Affairs supervises and coordinates the overall tasks in connection with ownership supervision of the ENEA Capital Group.
- Member of the Management Board for Strategy and Development supervises and coordinates the overall tasks in connection with the preparation and implementation of a development strategy.

### **Supervisory Board**

The members of the Supervisory Board for the 6th term were appointed by a resolution of an Extraordinary General Meeting of Shareholders of 30 June 2006 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 General Meeting of Shareholders that approves the financial statements for 2011.

From 1 January 2009 to 25 February 2009, the composition of the Supervisory Board was as follows: Mr Michał Łagoda, Mr Tadeusz Dachowski, Mr Piotr Begier, Ms Marzena Gajda, Mr M. Janas, Mr Andrzej Łopuszko, Mr Wiesław Pawliotti, Mr Mieczysław Pluciński,.

On 24 February 2009, Ms M. Gajda submitted her resignation from the Supervisory Board as of 25 February 2009.

On 25 February 2009, an Extraordinary General Meeting of Shareholders appointed Mr Wojciech Chmielewski, Mr Marcin Bruszewski and Mr Graham Wood (as an independent member of the Board) to the Supervisory Board.

On 30 June 2009, the Ordinary General Meeting of Shareholders appointed the following Members of the Supervisory Board for its seventh term of office:

- Mr Michał Łagoda,
- Mr. Tadeusz Dachowski,
- Mr Piotr Begier,
- Mr Marian Janas,
- Mr Wiesław Pawliotti,
- Mr. Mieczysław Pluciński,
- Mr. Paweł Balcerowski,
- Mr Wojciech Chmielewski,
- Mr Marcin Bruszewski,
- Mr Graham Wood.

On 17 September 2009, an Extraordinary General Meeting of Shareholders recalled Mr Marcin Bruszewski from the Supervisory Board and appointed Mr Michał Kowalewski.

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

<b>Name</b>	<b>Position</b>
Michał Łagoda	Chairman of the Supervisory Board
Tadeusz Dachowski	Deputy-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

The Supervisory Board exercises ongoing supervision over all areas of the Company's activities. 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, an 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 its 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 determinations 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.

On 9 March 2009, the sixth term of office of the Supervisory Board appointed the Audit Committee of the Supervisory Board and the Nominations and Remuneration Committee, composed of all the current Members of the Board.

Thereafter, on 31 July 2009, the seventh office of the Supervisory Board appointed the Committee having the following composition:

1. Audit Committee:
  - Graham Wood - Chairman
  - Piotr Begier – Deputy-Chairman
  - Paweł Balcerowski - Member
  - Marcin Bruszewski - Member
  - Wojciech Chmielewski – Member
2. Nominations and Remuneration Committee:
  - Wiesław Pawliotti - Chairman
  - Tadeusz Dachowski – Deputy-Chairman
  - Marian Janas - Member
  - Michał Łagoda - Member
  - Mieczysław Pluciński - Member

In connection with the recall from the Supervisory Board of Mr Marcin Bruszewski on 17 September 2009, on 19 November 2009 the Supervisory Board completed the composition of the Audit Committee by appointing Mr Michał Kowalewski to it.

## 8. Other information

### 1. Description of the main features of the internal control and risk management systems applied in the ENEA Capital Group

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 Management Report on the operations of ENEA Capital Group prepared in accordance with Clause 92 paragraphs 3 and 4 of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information [...]

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 non-consolidated 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 are subjected to detailed analysis with reference to budget assumptions and the forecasts carried out in the month preceding the reporting period being analysed, 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 year 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 2009 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. 12 of the section on the Supervisory Board.

ENEA S.A., being aware of the risk connected with conducting operations in 2009, took steps aimed at creating a formalized, integrated risk management system within the Company. To that end:

1. a process for identifying and evaluating risks was set up.
2. a framework structure for the risk management system was designed.

The process of identifying and evaluating risks makes it possible to create risk registers and risk maps for various areas of the Company's operations. On the basis of the register of risks faced by ENEA S.A., the Company drew up a yearly plan of internal audits which was submitted for approval and acceptance by the Audit Committee and the Supervisory Board. The plan assumes an audit of key areas of operations of ENEA S.A. and selected areas of operations of its subsidiaries.

The risk management system framework structure makes it possible to:

- define participants in the risk management process, their range of competence and responsibilities,
- draw up formal documents supporting the practical implementation of risk management within the Company, and therefore: to establish an Integrated Risk Management Policy within ENEA S.A., and a Book of Integrated Risk Management within ENEA S.A.

Currently, the above documents are undergoing an implementation process in accordance with the Company's internal regulations. The risk management system is planned to function within the Company until such time as a risk management system has been designed and implemented in the ENEA Capital Group as a whole, which is expected to take place in 2010.

At ENEA Operator Sp. z o.o. too, the management board of the company is responsible for the internal control system and its effectiveness in the process of drawing up financial statements and periodic reports.

This system is designed to ensure the adequacy and correctness of the financial information contained in the financial statements. An important part of it is a proper information and identification system containing data, assessments, and a grouping together of events and processes into databases enabling credible, useful and reliable information about the company's situation to be obtained. Its role results from the legal obligations to document all entries occurring in a given period which are specified in the instructions for the circulation of accounting documents, and it requires the observance of specific accounting rules and principles (accounting policy).

The quality of the statements prepared depends on the correct application of accounting policy principles, crowning the process of providing data, documentation, assessments and the registration of accounting events, and presents a faithful, reliable picture of the company's asset, financial and revenue situation.

After the books are closed at the end of each month of a given reporting period, detailed financial and operational management reports are prepared. Those reports are drawn up by the Controlling 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 intentions and financial and investment 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 material and financial plan, covering the business and financial plan, the investment plan and the plan of intentions, is accepted by the Management Board of the Company and the Supervisory Board gives its opinion on it, and it is then approved by the General Meeting of Shareholders. During the course of the year, ENEA Operator Sp. z o.o.'s Management Board analyses current financial results and investment realisation, and compares them to the adopted financial plan, periodically presenting the execution of the plan and any deviations to the Supervisory Board. To do so, it uses the management reporting used in the Company, which is constructed on the basis of the Company's adopted accounting policy (International Financial Reporting Standards).

An important element of this system is effective financial management, which must take into account both the risk and the financial results. Financial risk is bound up with unexpected changes in cash flow, which stem from activity on financial markets or operating activities. Risk management at ENEA Operator Sp. z o.o. is carried out as a continuous process, in a non-formalised manner. ENEA Operator subjects risks to constant analysis from the point of view of the influence of the external environment and changes in its structures and operations. On this basis, it acts to limit the risk or transfer it outside the company.

## **2. 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 or of the length of time worked in the commercialised enterprise. ENEA has a list of employees entitled to obtain employee shares, which list was prepared on the basis of the Regulation of the Minister of the State Treasury of 3 April 1997 on the specific rules for dividing entitled employees into groups, determining the number of shares due to each group and the procedure for entitled employees to acquire shares. The final number of employees who will take advantage of their right to acquire shares at no cost will be determined at the end of the share acquisition process, in accordance with Article 36 and the following of the Act on Commercialisation and Privatisation and the

provisions of the Regulation of the Minister of the State Treasury of 29 January 2003 on the specific rules of dividing entitled employees into groups, determining the number of shares due to each group, and the procedure for entitled employees to acquire shares. The right to acquire shares at no cost arises after the lapse of three months from the date on which the State Treasury disposes of its first shares under general rules, and expires upon the lapse of twenty-four months from the date on which the right arose. Those shares designated for acquisition by employees at no cost are series B Shares.

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 Kozienice involving transfer of 100 per cent of the shares of Elektrownia Kozienice to the share capital of ENEA, current and former employees of Elektrownia Kozienice 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.

ENEA S.A. maintains a register of persons entitled to the free of charge acquisition of employee shares in the Company.

Simultaneously we have a register of persons who, as compensation for lost rights to shares or having no rights to share, would receive an equivalent.

Under a resolution of the ENEA S.A. management, a team was formed with responsibility for all matters related to employee shares.

In 2009, an IT system was developed for calculating employee shares.

### 3. The entity authorised to audit the financial statements

Pursuant to 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):

	<b>01.01.2009 - 31.12.2009</b>
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 other services	86
<b>Total</b>	<b>476</b>

Pursuant to a resolution of the Supervisory Board of 6 September 2008, KPMG 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 2008. The financial statements audit agreement was signed on 9 October 2008.

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

	<u>01.01.2008 - 31.12.2008</u>
KPMG Audyt Sp. z o.o.'s remuneration for auditing and reviewing the non-consolidated and consolidated financial statements of ENEA S.A.	374
KPMG Audyt Sp. z o.o.'s remuneration for other certification services provided to ENEA S.A. – including review of the financial statements	2 006
KPMG Audyt Sp. z o.o.'s remuneration for other services	1 083
<b>Total</b>	<b>3 463</b>

#### **4. Achievements in the area of research and development**

The Capital Group has no significant research and development achievements.

#### **5. Environmental issues**

Issues related to the natural environment of key importance to the Company have been listed in pt. 4.1.24 of this report. The issues described below should also be considered.

ENEA S.A., as a business entity that uses the environment, must fulfil a number of legal requirements. 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 Law on Waste of 27 April 2001, as amended (Journal of Laws No. 39, item 251 of 2005),
- The Water Law of 18 July 2001, as amended (uniform text Announcement by the Speaker of the *Sejm* of the Republic of Poland of 18 November 2005, Journal of Laws No. 239, item 2019),
- 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 Law on Used Electrical and Electronic Equipment of 29 July 2005 (Journal of Laws of 2005, No. 180, item 1495),
- 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 2009 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 2009 are:

- SO<sub>2</sub> 32,241 Mg
- NO<sub>x</sub> 21 214 Mg
- ash 1,042 Mg
- CO 1,517 Mg
- CO<sub>2</sub> 10,686,735 Mg
- waste (mixture of ash and cinders) – 479,291 Mg.

### Reduction of emission of pollutants

The power plant has fume anti-dust installations with high-efficiency electrostatic precipitators mounted on each of its energy units. Taken into account in the modernisation, renovation and investment cycle of the units is the need for the power plant to keep to the permissible level of concentration of dust in the fumes from each unit, which must not be higher than 50 mg/Nm<sup>3</sup>. In recent years, electrofilters have been replaced in unit 2 (in 2006), unit 1 (in 2007) and unit 6 (in 2008).

In the Company, installations for initial reduction of nitric oxides are in operation. These limit the concentration of nitric oxides to a guaranteed limit of 500 mg/Nm<sup>3</sup>, utilising such devices as ROBTAS low-emissions burners and a system of air nozzles installed on the front and rear walls of the furnaces above the burner zone (so-called OFA, SOFA nozzles). In connection with the tightening of emission standards for nitric oxides to a level of 200 mg/Nm<sup>3</sup> after 2015, it will be necessary to build catalytic denitrogenation installations on the individual energy units. In 2009 preparatory work was begun in connection with these future investments.

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

### Waste management

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

In 2009, activities were undertaken aimed at making the greatest possible use of burner waste, with a waste use ratio of 48.45 per cent. In 2009, 141,458.2 tonnes of gypsum resulting from the work of the IOS was used (the amount produced was 143,564.66 tonnes).

Sales are also important: of fly-ash - 448 768.50 tonnes, microspheres - 2 117.76 tonnes, MPŻ **15 678.32** 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 **96 096.90** tonnes (cost).

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

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



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

Fuel management in terms of the requirements of the trade in entitlements to CO<sub>2</sub> emissions, generation of electricity in high-efficiency cogeneration, and production from renewable energy sources (RES)

As a result of the application of the requirements of Directive of the European Parliament and the Council of Europe in Polish jurisdiction, at Elektrownia "Kozienice" S.A. certain activities are conducted in relation to the introduction of:

- the system for trading in emission CO<sub>2</sub> rights
- production from renewable sources of energy
- generation of electricity

To meet the needs of emissions trading, emissions of CO<sub>2</sub> are monitored using, since 2008, our own, certified chemical laboratory. All annual reports, including that for 2009 (the first year off settlement period II), have been approved.

A biomass co-burner installation built in 2007 makes possible the continuous production of electricity from RES - 210,476.211 MWh in 2009. Its expansion in 2009, together with the planned startup in the near future of a liquid biomass co-burner installation, will make it possible for us to increase our production of energy from RES.

In 2009, 116,736.1 Mg of biomass was burnt as fuel. That amount of biomass consumed means a reduction in carbon dioxide emissions of 151,138 Mg.

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 CO<sub>2</sub> emitted.

## 6. Information on employment

Issues related to employment of key importance to the Company have been listed in pt. 4.1.22 of this report.

The table below shows ENEA S.A.'s employment level and average employment for the year 2009, divided into trade and other activities.

	State as at 31 December 2009	Annual average
TRADE	107.88	109.31
OTHER ACTIVITIES	198.21	193.85
<b>TOTAL</b>	<b>306.01</b>	<b>303.16</b>

The table below shows employment at subsidiaries in 2009.

Item	Employment at the end of the month in positions	Average employment. cumulative
Elektrownie Wodne Sp. z o.o.	161.25	162.03
NZOZ Centrum Uzdrowiskowe ENERGETYK Sp. z o.o.	82.00	82.42
"COGEN" Sp. z o.o.	1.00	1.00
ZUP ENERGOTRANS Sp. z o.o.	38.00	39.32

Eneos Sp. z o.o.	119.55	117.21
Entur Sp. z o.o.	5.00	5.00
ZUT ZZE ITSERWIS Sp. z o.o.	102.11	108.80
Auto-Styl Sp. z o.o.	50.00	49.84
FINEA Sp. z o.o.	11.00	8.81
ENERGOMIAR Sp. z o.o.	209.50	204.13
B H U S.A.	187.50	191.25
EP Biuro Usług Technicznych S.A.	10.00	7.41
Hotel EDISON Sp. zo.o.	22.00	21.60
Energetyka Poznańska Zakład Transportu Sp. z o.o.	62.25	61.92
EnergPartner Sp. z o.o.	12.00	11.10
ENERGO-TOUR Sp. z o.o.	20.50	21.50
Sp. z o.o.	70.00	69.65
EP PUE ENERGOBUD Leszno Sp. z o.o.	488.63	493.35
ENEA Operator Sp. z o.o.	5 774.84	5 790.09
Elektrownia "Kozienice" S.A.	2 381.50	2 384.00
Kozienice II Sp. z o.o.	10.00	9.36
PEC Gozdnica Sp. z o.o.	1.00	1.00
PEC Oborniki Sp. z o.o.	41.00	40.75
Miejska Energetyka Ciepła Sp. z o.o.	174.38	173.73
<b>TOTAL</b>	<b>10 035.01</b>	<b>10 055.27</b>

### **Signatures of the Management Board Members**

**President of the Management Board                      Maciej Owczarek**

**Member of the Management Board                      Piotr Koczorowski**

**Member of the Management Board                      Sławomir Jankiewicz**

**Member of the Management Board                      Marek Malinowski**

**Member of the Management Board                      Tomasz Treider**

Poznan, 16 March 2010

**DECLARATION OF THE MANAGEMENT BOARD ON THE RELIABILITY OF THE  
CONSOLIDATED FINANCIAL STATEMENTS AND ON THE ENTITY AUTHORISED TO AUDIT  
THE FINANCIAL STATEMENTS**

**Declaration of the Management Board on the reliability of the consolidated financial statements:**

**The Management Board of ENEA S.A. declares that, to the best of its knowledge:**

- the annual consolidated financial statements, together with comparative data, were prepared in accordance with binding accountancy principles and reflect the assets and financial condition of the ENEA Capital Group and the financial result of the ENEA Capital Group for the period presented in a manner that is true, reliable and clear,
- the report of the Management Board on the operations of the ENEA Capital Group for 2009 contains a true depiction of the development, achievements and the condition of the ENEA Capital Group, and this extends also to the description of core risks and threats.

**Declaration of the Management Board on the entity authorised to audit the financial statements:**

The Management Board of ENEA S.A. declares that Deloitte Audyt Sp. z o.o., the entity authorised to audit the financial statements which is conducting a review of the annual consolidated financial statements of the ENEA Capital Group, was selected in accordance with the applicable provisions of law. The entity and the auditors conducting the review of those financial statements meet the criteria for issuing an impartial and independent report on the review of the annual consolidated financial statements, in accordance with the binding provisions of law and professional standards.

**President of the Management Board      Maciej Owczarek**

**Member of the Management Board      Piotr Koczorowski**

**Member of the Management Board      Sławomir Jankiewicz**

**Member of the Management Board      Marek Malinowski**

**Member of the Management Board      Tomasz Treider**