

**Justification of the Board of Management of ENEA S.A.
to the proposed distribution of net profit for the financial year
covering the period from 01.01.2011 to 31.12.2011**

While justifying the recommended allocation of the net profit of ENEA S.A. for the period from 01.01.2011 to 31.12.2011, we wish to inform you that the net financial result of 355,169,000 PLN achieved in the financial year 2011 was due to, among others, the generated profit on the core business activity of the Company, i.e. trade in electricity. The operating result amounted to 39,074,000 PLN. Besides, there were revenues obtained from dividends amounting to 236,339,000 PLN as well as other financial revenues amounting to 122,110,000 PLN (mainly interest on long-term deposits and State Treasury bills and bonds).

Presented below is the justification for the recommended profit allocation:

1. Taking into consideration the plans presented in clause 2 of this motion, concerning implementation of the long-term strategy of the ENEA Capital Group for the generation area (including renewable energy sources) and the distribution area, it is recommended that the dividend payable to the shareholders shall amount to 30% of the net profits, i.e. to 106,551,000 PLN, while the remaining part of the profit of 248,618,000 PLN should be allocated for investment financing.
2. One of the major factors of significance from the point of view of the prospects of development of the ENEA Capital Group (the Group) is the implementation of a strategy based on performance of objectives in three major strategic areas:
 - development of the core business of the Group;
 - improvement of the efficiency of operations of the Group;
 - building a socially responsible company.

As far as the strategic area concerning the development of the Group's core business is concerned, one of the long-term strategic directions of the Group is getting access to generation sources with a potential which at least enables satisfying the electricity requirements of all the Group's customers.

The first step to implement that strategy was the acquisition – in October 2007 – of Elektrownia "Kozienice" S.A. (Elektrownia Kozienice), Poland's largest hard coal-fired power plant, by the ENEA Capital Group.

In addition to the possibilities of obtaining additional generation capacity through acquisitions of already existing companies, it is planned to increase the Group's generation capacity, including the capacity increase on the premises of Elektrownia Kozienice, where the construction and commissioning of a new 1,000 MWe power unit is to be completed by 2016. Also, studies are carried out regarding the possibility of construction of another 1,000 MW power unit, which will involve the need to incur investment expenditures as of 2012.

Taking into account the anticipated increased obligation to sell electricity from renewable energy sources and from cogeneration, the Group is going to undertake actions aimed to increase control of costs connected with the performance of the obligations ensuing from the respective legal regulations in force. To this end, it is planned to continue concluding long-term contracts for purchase from external entities of certificates confirming production of electricity in renewable energy sources and in cogeneration as well as making direct investments in such renewable energy sources. The Group intends to invest in wind farm projects and biogas plant projects with a different degree of advancement (which has already been commenced) by acquiring the existing projects and or investing in new projects in co-operation with external entities. Four acquisition

scenarios are possible depending on the degree of advancement of the project: (i) searching for projects partly carried out by a third party, in the capacity of a developer, (ii) purchase of a project from a third party prior to obtaining thereby of a building permit and subsequent, further development of the project on its own, (iii) purchase of projects/ SPVs (incorporated by a developer for the purpose of project implementation) following obtaining a valid and binding building permit for the project / SPV or (iv) purchase of "turn-key" wind farms and biogas plants.

Heating plants acquired by the Group thus far will be upgraded and converted into heat and power plants, (including biomass-fired ones), which will generate electrical energy and thermal energy in cogeneration, thus generating additional certificates of origin.

As regards improvement of the effectiveness of the Group's operations, strategic objectives will be implemented aimed at an increase of revenues, reduction of costs and operational integration, which as a result will contribute to an increase of the margin on operations of the ENEA Capital Group. The optimisation activities will concern all business areas of the Group and they will be performed, among others, by transferring the strategic basic functions - connected with the company's development and synergies resulting from the activity of the individual business areas within the entire Capital Group - to the corporate centre of the ENEA Capital Group.

Within the strategic area of building a socially responsible company, objectives will be implemented which in a long-term perspective will contribute to an increase of the company's value by incorporating the principles of responsible business into the activity of the ENEA Capital Group.

Effective implementation of the policy concerning development directions of the ENEA Capital Group is contingent upon implementation of a new business model of the Group. The main task of the new model is ensuring flexible long-term operation of the ENEA Capital Group, enabling to fully use the opportunities and to meet the challenges faced by the Polish power sector.

The implementation of the Group's strategy and its development requires funds, the provision of which is the key element of the implementation of the aforementioned investment plans and increasing the Group's value for shareholders, while at the same time taking proper care of the natural environment. It was assumed that when implementing the Group's strategy, until 2020 (inclusive) an amount of approximately 18.7 billion PLN will be allocated for investments (in the basic variant) into conventional generation, distribution and renewable energy sources and cogeneration. It is estimated that in the years 2012-2014, our expenditures will reach the following levels:

- a) conventional generation – approximately 4 billion PLN;
- b) distribution – approximately 2.4 billion PLN;
- c) renewable energy sources – approximately 2.6 billion PLN.

In the area of conventional energy generation, the main objective is the development of a new 1,000 MWe coal-fired power unit with supercritical parameters in Świerże Górne (the assumed average cost of construction of 1 MW amounts to approximately 1.4 mEUR). Its start-up is planned to take place in Q4 2016. Currently, tender procedure is in progress aimed to select the contractor of the new 1,000 MWe power unit. The contract resulting from the tender procedure concerning "Construction of a hard coal-fired power unit with supercritical parameters, with the minimum net capacity of 900 MWe, and the maximum capacity of 1,000 MWe at Elektrownia "Kozienice" S.A.", conducted in compliance with the provisions of the Public Procurement Act of 29 January 2004 will be awarded at the end of Q2 / beginning of Q3 2012. At the same time, upgrading of the other 200 MW and 500 MW power units operating at Elektrownia Kozienice is continued. Furthermore, analyses are being made as to the possibility of construction of another power unit with the capacity of up to 1,000 MWe, which will involve the need to incur investment outlay starting as of 2012.

In the distribution area, in the period covered by the strategy, investment and upgrading works concerning grid infrastructure and the necessary equipment are planned in connection with the increased demand for electricity and the necessity to connect renewable energy sources. The investment and upgrading activities should translate into an increased effectiveness of the grid and reduction of grid losses. As part of those activities, some of the oldest distribution lines will be

replaced. The said activities should significantly contribute to an increased reliability of the electricity supplies to customers.

Investment outlays on the distribution area are a growing trend. In 2011, ENEA Operator spent more than 813 mPLN on investments, implementing its plans in more than 100%. This means an over 39% increase of outlay against 2010, 65% increase against 2009 and 101% increase against 2008.

In 2011, ENEA Operator allocated a majority of its investment outlays to upgrading and replacement of assets, aimed at the improvement of service quality and /or responding to the increased demand for power. This trend is going to continue in 2012.

As far as the renewable energy sources are concerned, development of the generation capacity is envisaged. It is planned to install the capacity of 250-350 MW generated from wind until 2020. At the same time, a decision was made on investing in biogas power plants, with a plan to achieve the capacity in that area of approximately 40-60 MW in 2020. In 2011, investment outlay on renewable energy sources exceeded 345 mPLN, which means an approximately 7-fold increase in comparison with 2010.

The motion to allocate a portion of the profits to other reserve capitals results from the significant development needs of the Group. According to the „Corporate Strategy of the ENEA Capital Group for the years 2010-2015 with prospects until 2020”, outlays of approximately 18.7 bPLN have been planned until 2020 (basic variant). As regards the key investments implemented by the Group’s companies in the years 2012-2014, the total funds of approximately 9 bPLN are going to be spent. Therefore, it is of significance for the ENEA Capital Group to build the equity portfolio on a long-term basis in order to be able to finance the investment projects in the future. With no doubt, cash from retained earnings will only be a supplementary source of financing investment outlays, particularly as regards projects regarding the Group’s development (mainly concerning investments in new generation capacity).

The funds planned to be spent on key investment projects in the years 2012-2014, aimed to optimise the operations of ENEA S.A. and the development of the Group, will certainly not cover all the investment needs. However, they indicate the amount of the necessary cash which is planned to be spent in the years 2012-2014, as well as after 2014.

It must be emphasised that ENEA S.A. will not be able to implement the assumed development plan (even the minimum variant) provided for in the "Corporate Strategy of the ENEA Capital Group for the years 2010-2015 with prospects until 2020" using own funds only. Financing of the said investment projects with equity only is not an optimum solution and therefore it is necessary to find external sources of project co-financing.

3. The Company's Management Board wishes to emphasise that there are no premises justifying an increase of the deduction to the Company Social Benefits Fund ("ZFŚS") from the profit generated in 2011. The latest additional deduction towards the ZFŚS was made in 2010 from profits for 2009 and it amounted to 1 thousand PLN per employee (according to the employment level as at the end of the financial year).