

Report of the Management Board on the operations of **ENEA S.A.** in 2010

Poznan, 12 April 2011

CONTENTS:

1. ENEA S.A. ORGANISATIONAL AND CAPITAL TIES	4
1.1. ENEA S.A. as the dominant entity in the ENEA Capital Group	4
1.2. Policy on directions of development of ENEA S.A.....	4
1.3. Description of key equity investments.....	6
1.4. Other equity investments and disinvestments as a part of assets restructuring processes.....	8
1.5. Description of changes in organisation and management rules.....	9
1.6. Information on branches.....	13
2. THE OPERATIONS OF ENEA S.A.	13
2.1. Information on basic products, goods and services.....	13
2.2. Sales markets	13
2.3. Supply markets.....	15
2.4. Information about agreements concluded	16
2.4.1. Agreements of significance to the operations of ENEA S.A.	16
2.4.2. Significant transactions with affiliated entities	16
2.4.3. Agreements between companies belonging to the Group.....	16
2.4.4. Credit and loan agreements concluded and terminated.....	16
2.4.5. Loans granted	17
2.4.6. Granted and received sureties and guarantees.....	17
2.4.7. Agreements between shareholders	18
2.4.8. Insurance agreements	18
2.4.9. Collaboration or cooperation agreements	18
3. PRESENTATION OF THE FINANCIAL POSITION OF ENEA S.A.	19
3.1. Discussion of key economic and financial figures disclosed in the financial statements.....	19
3.1.1. Financial performance – profit and loss account.....	19
3.1.2. Structure of cost of sales	21
3.1.3. Assets - structure of assets and liabilities.....	22
3.1.4. Financial and non-financial ratios.....	23
3.2. Financial results forecasts	24
3.3. Financial resources management	24
3.4. Information on financial instruments	25
3.5. Unusual factors and events affecting the result	25
3.6. Major events that have, or could have in the future, a material effect on the Company's operations and financial results	26
3.7. Description of key off-balance sheet items.....	26
4. DEVELOPMENT PROSPECTS AND DESCRIPTION OF RISKS AND THREATS	26
4.1. Essential operating development and risk factors	26
4.1.1. The general condition of the economy.....	26
4.1.2. Factors related to economic activity	27
4.1.3. Legal regulation and tariffs.....	28
4.1.4. Wholesale electricity prices.....	29
4.1.5. Obligations with respect to obtaining energy certificates of origin	29
4.1.6. Customer service	29
4.1.7. Market liberalisation.....	29
4.1.8. Purchasing electricity from external entities.....	30
4.1.9. Concessions	30
4.1.10. Strategy implementation.....	30
4.1.11. Synergies.....	31
4.1.12. Insuring our operations	32
4.1.13. Management personnel	32
4.1.14. Collective disputes and agreements.....	32
4.1.15. Court and Administrative Proceedings.....	33
4.1.16. Environmental protection.....	34
4.1.17. Real estate	34

4.1.18. Modernisation and development	34
4.1.19. Factors related to the operations of ENEA S.A.'s subsidiaries	35
4.2. Development Strategy of ENEA S.A.	35
4.3. Assessment of the Feasibility of Implementing Investment Plans	36
4.4. Description of the Use of Issue Proceeds	37
5. THE CORPORATE BODIES OF ENEA S.A.	37
5.1. Personal Composition, Basis of Appointment and Description of Extent of Authority	37
5.2. Principles of Remuneration	37
5.3. Level of Remuneration	38
5.4. List of shares and holdings in entities belonging to the ENEA Capital Group that are held by members of its management and supervisory authorities	40
6. THE SHAREHOLDING AND SHARE CAPITAL STRUCTURE OF ENEA S.A.	40
6.1. Share capital structure	40
6.2. Shareholding structure	41
6.3. Potential changes in the shareholder structure	42
6.4. Treasury shares	43
6.5. Information on the system of inspecting employee share programmes	43
7. DECLARATION OF THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES	44
7.1. The set of principles applied	44
7.2. Principles which have not been applied	44
7.3. Description of the main features of the internal control and risk management systems applied in the issuer's company	46
7.4. Shareholders holding substantial blocks of shares	47
7.5. Holders of securities carrying special inspection rights	47
7.6. Restrictions on exercising voting rights	47
7.7. Restrictions on assigning the ownership title to securities	47
7.8. Principles relating to appointing and recalling management personnel	47
7.9. Powers of the Management Board members	48
7.10. Description of the principles governing the amendment of ENEA S.A.'s Statute	49
7.11. The procedure and basic powers of the General Meeting of Shareholders and a description of shareholders' rights and the procedure for exercising them	49
7.12. The composition of the management and supervisory boards of ENEA S.A., changes to it, and a description of their operations	50
8. ADDITIONAL INFORMATION	56
8.1. The entity authorised to audit the financial statements	56
8.2. Proceedings	57
8.3. Achievements in the area of research and development	57
8.4. Environmental issues	57
8.5. Information on employment	58
8.6. Review of ENEA S.A.'s social engagement	58
8.7. Glossary of industry terms	59
8.8. Signatures of the Management Board Members	60

1. ENEA S.A. ORGANISATIONAL AND CAPITAL TIES

1.1. ENEA S.A. as the dominant entity in the ENEA Capital Group

ENEA S.A. was established on 2 January 2003 as the result of the merger of five companies: Energetyka Poznańska S.A., Energetyka Szczecińska S.A., Zakład Energetyczny Gorzów S.A., Zielonogórskie Zakłady Energetyczne S.A. and Zakład Energetyczny Bydgoszcz S.A. The merger of the companies was made under the procedure of Article 492 par. 1 pt. 1 of the CCC, i.e. by transferring all the assets of the four companies: Energetyka Szczecińska S.A., Zakład Energetyczny Gorzów S.A., Zielonogórskie Zakłady Energetyczne S.A. and Zakład Energetyczny Bydgoszcz S.A. to Energetyka Poznańska S.A. in exchange for shares in the share capital of Energetyka Poznańska S.A.

General information regarding ENEA S.A.:

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

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

1.2. Policy on directions of development of ENEA S.A.

One of the fundamental factors for ENEA S.A.'s development and prospects is the implementation of the Company's strategy, which is reflected in actions undertaken by the entire ENEA Capital Group.

A policy for meeting targets in three basic strategic areas:

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

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

The first step towards carrying out that strategy was joining Elektrownia Koźienice, Poland's highest-capacity bituminous coal-fired power plant, to the ENEA Capital Group in October 2007. In 2010 we were analysing the possibility of acquiring other entities active in the field of generating electricity from conventional fuels.

Irrespective of the opportunities there may be to acquire additional generation capacity by acquiring existing entities, we are planning to increase our own generation capacity, including at the Koźienice Power Plant, where by 2016 we plan to construct a new power unit with a total capacity of approximately 1000 MW. In addition, we are carrying out a preparatory analysis for the construction of a second ca. 1000-MW power unit at the Koźienice Power Plant.

In connection with anticipated increases in the requirements for sales of electrical energy from renewable energy sources and co-generation, we are taking action aimed at increasing our control over the costs of meeting the legal requirements. Towards this end, the Company plans to continue concluding long-term agreements for the purchase of energy certificates of origin for energy production from renewable sources and cogeneration from outside entities, as well as to carry out direct investments in such sources. Our intention is to invest in wind farm projects and biogas power plants 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 or biogas generators.

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

Actions are being consistently taken aimed at contributing to a higher energy efficiency carried out in accordance with the „Energy Efficiency Policy”, as adopted by a resolution of the Management Board in October 2008. All tasks in that respect are supervised and monitored by the Efficiency Office operating within the structure of the Services Department. The program is also pursued by subsidiaries belonging to the ENEA Capital Group whose technical and personnel resources enable measurable efforts in favor of energy efficiency to be taken now or in the near future. Planned actions include commencing to issue energy certificates for buildings, conducting energy audits, and carrying out modernization works improving the energy efficiency of facilities. For a few years now, consistently and in cooperation with municipalities, road and public lighting installations have been modernised, thereby reducing the capacity of such devices by as much as 60 per cent.

In 2010, training sessions were held for selected employees of the ENEA Capital Group to provide them with specialist knowledge in the area of energy consultancy and the energy certification of buildings. In the future, after the Energy Efficiency Act and the package of secondary regulations come into force, further training sessions may be organised for becoming an authorised energy auditor, a competence indispensable for assessing projects involving obtaining property rights in the form of 'white certificates', resulting from documented and effective investment actions for reducing energy consumption.

Soon it will become necessary to further intensify efforts aimed at energy efficiency, as additional legal obligations will be imposed on ENEA S.A. under the provisions of the planned **Energy Efficiency Act**. In the light of the current provisions of the draft act, we will have to plan and implement measures for increasing the energy savings achieved by end users and for our own use, and for reducing electricity losses in transit or distribution.

In order to achieve the goals set, it is essential to create such a range of services within the competence of both the Group and its potential external partners. Acquiring property rights through the Polish Power Exchange or paying substitute charges imposed by the President of the ERO will be a significantly worse solution for the Company in business terms.

In view of future requirements to be imposed on ENEA S.A., contacts and information about business entities interested in collaboration are systematically being gathered. As a result of specialist training sessions for employees, and of examining the current and desired potential of Group companies and planning cooperation with external entities, we intend to initiate mechanisms for obtaining white certificates, and to coordinate operations.

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

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

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

1.3. Description of key equity investments

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

- On 15.01.2010, ENEA S.A. acquired from Agrogaz Sp. z o.o. an organized part of the business under the name "Elektrownia Biogazowa Liszkowo" following which in the organizational structure of ENEA S.A. the Company's Branch under the name ENEA S.A. Oddział Elektrownia Biogazowa Liszkowo.
- On 28.01.2010 by virtue of the Resolution of the Extraordinary General Meeting of Shareholders General Meeting of Shareholders the share capital of the company ENTUR Sp. z o.o. with its registered office in Szczecin was increased by PLN 100 000, i.e. up to PLN 4 134 500. All newly created shares were taken up by ENEA S.A. and paid for in cash. The share capital increase was registered on 03.03.2010. The recapitalisation of ENTUR Sp. z o.o. was aimed at enabling the Company to carry out necessary investments and developments within the property which the Company received on 31.03.2009 in the form of a contribution in-kind. Registration of the share capital increase took place on 03.03.2010.
- On 01.02.2010 the share capital increase in Elektrownie Wodne Sp. z o.o. from PLN 204 690 500 by PLN 329 500, i.e. up to PLN 205 020 000, was recorded in the National Court Register. The Extraordinary General Meeting of Shareholders approving the Company's share capital increase in exchange for a contribution in kind in the form of the property was held on 18.12.2009. The purpose of such contribution in-kind was to properly structure asset holdings within the group by improving the Company's capacities in terms of its use of hydro technical infrastructure.
- On 04.02.2010 by virtue of the Resolution of the Extraordinary General Meeting of Shareholders the share capital of the company Niepubliczny Zakład Opieki Zdrowotnej Centrum Uzdrawiskowe ENERGETYK Sp. z o.o. with its registered office in Inowrocław was increased by PLN 1 710 000, i.e. up to PLN 17 448 000. All newly created shares were taken up by ENEA S.A. and paid for in cash. Such capital increase in NZOZ CU ENERGETYK Sp. z o.o. enabled the Company to carry out necessary investments in overhaul and modernization works in one of the Company's buildings, adapting it to current requirements applicable to healthcare and sanatorium treatment facilities, as well as extending the Company's hotel room base which directly contributes to the improvement of competitiveness of health resort activities conducted by the Company. Registration of the share capital increase took place on 08.04.2010.
- On 02.04.2010, an increase in the share capital of EP ENERGOBUD Leszno Sp. z o.o. by PLN 2 151 500, i.e. up to PLN 5 676 000, was recorded in the National Court Register. The Extraordinary General Meeting of Shareholders General Meeting of Shareholders approving the Company's share capital increase in exchange for a contribution in kind in the form of the properties located in Piła and Gniezno was held on 22.12.2009. The purpose of such contribution in-kind was to properly structure asset holdings within the group.
- On 12.04.2010 the Extraordinary General Meeting of Shareholders General Meeting of Shareholders of ENEOS Sp z. o.o. took place, at which the share capital was increased by PLN 630 500, i.e. to PLN 20 189 500 by creating 1 261 new shares, which were covered by an in-kind contribution of the perpetual

- usufruct right to a property in Szczecin for which the District Court in Szczecin, the 12th Land and Mortgage Register Department keeps the land and mortgage register number SZ1S/00126250/8 and the ownership right to a gatehouse building located thereon. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 15.09.2010.
- On 08.06.2010 an increase in the share capital of BHU S.A. by PLN 3 923 800, i.e. up to PLN 14 062 200, was recorded in the National Court Register. The Extraordinary General Meeting of Shareholders General Meeting of Shareholders approving the Company's share capital increase by PLN 2 800 000 in exchange for cash and a PLN 1 123 800 contribution in kind in the form of the properties located in Gniezno, Wolsztyn, Świebodzin, Chodzież was held on 22.12.2009. The purpose of such contribution in-kind was to properly structure asset holdings within the group, whereas the cash injection was required in associated with the construction of a warehouse and commercial facilities in Gorzów Wlkp.
 - On 29.06.10 the Extraordinary General Meeting of Shareholders of EP ENERGOBUD Leszno Sp. z o.o. took place, at which the share capital was increased by PLN 540 000, i.e. to PLN 6 216 000 by creating 1 080 new shares, which were covered by an in-kind contribution of the perpetual usufruct right to a property in Bydgoszcz for which the District Court in Bydgoszcz, Division 10 Land and Mortgage Register, keeps the land and mortgage register number BY1B/00084705/1 and the ownership right to an office and workshop building located thereon and constituting a title separate from the land. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 20.08.2010.
 - On 29.10.2010 the Extraordinary General Meeting of Shareholders General Meeting of Shareholders of BHU S.A. adopted a resolution on increasing the Company's share capital by PLN 240 900, i.e. up to PLN 14 303 100 by issuing 2 409 series J shares, by way of a private placement, in exchange for an in-kind contribution in the form of the right of perpetual usufruct to a real property located in Gorzów Wielkopolski and the ownership title to the building located thereon for which the District Court in Gorzów Wielkopolski keeps the land and mortgage register number GW1G/00107179/9 with no right of pre-emption for the existing shareholders. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 28.12.2010.
 - On 08.11.2010 the Extraordinary General Meeting of Shareholders General Meeting of Shareholders of Elektrownie Wodne Sp. z o.o. was held, at which the Company's share capital was increased by PLN 26 000 000, i.e. up to PLN 239 841 000, by issuing 52 000 new shares with a nominal value of PLN 500 each. On 01.12.2010 all the new shares in the share capital of Elektrownie Wodne Sp. z o.o. were taken up by the existing sole shareholder – ENEA S.A. and fully covered by an in-kind contribution in the form of an organised part of the business undertaking of ENEA S.A. operating under the business name: ENEA S.A. Oddział Elektrownia Biogazowa Liszkowo. Registration of the share capital increase took place on 07.02.2011.
 - On 27.12.2010 the Extraordinary General Meeting of Shareholders of BHU S.A. adopted a resolution on increasing the Company's share capital by PLN 2 072 000, i.e. up to PLN 16 375 100, by issuing 20 720 series K shares, by way of a private placement, in exchange for an in-kind contribution in the form of the right of perpetual usufruct to a real property located in Zielona Góra and the ownership title to the building located thereon, for which property the District Court in Zielona Góra keeps Land and Mortgage Register No. ZG1E/00043008/5 with no right of pre-emption for the existing shareholders. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 21.01.2011.
 - On 30.12.2010 the Extraordinary General Meeting of Shareholders was held at which the share capital of MEC Piła Sp. z o.o. was increased (involving transferring the heat energy infrastructure in Gozdnicza as an in-kind contribution) by PLN 773 000, i.e. up to PLN 28 689 000. The shares in the increased share capital were taken up in their entirety by ENEA S.A. The purpose of such contribution in-kind was to properly structure asset holdings within the group. Registration of the share capital increase took place on 24.02.2011.

In 2009 ENEA S.A. started procedures to acquire an organized part of the undertaking of „Elektrownia Biogazowa Liszkowo” as a result of which on 15 January 2010 it purchased a newly built biogas generator located in Liszkowo in Rojewo commune, Kujawsko-Pomorskie Province with the power of 2.12 MWe. The facility employs advanced technology innovative in Poland, and allows power to be obtained from low-energy biomass waste (mainly distillery spent wash). Liszkowo biogas generator was then transformed into ENEA S.A. branch and then as a part of asset restructurings within the Group in the 4th quarter 2010 assets of „Biogazownia Liszkowo” were contributed as a contribution in kind to Elektrownie Wodne sp. z o.o. The foregoing actions were pursued in compliance with the ENEA Capital Group Corporate Strategy aimed at establishing in the Group's structure (on the basis of Elektrownie Wodne sp. z o.o.) an entity responsible for development of renewable power based on three pillars: (i) water, (ii) wind and (iii) biomass (biogas).

1.4. Other equity investments and disinvestments as a part of assets restructuring processes

- On 09.02.2010, ENEA S.A. sold a block of 6 000 shares held in PWE Gubin Sp. z o.o. (constituting 50 per cent of the share capital of the Company) to KWB Konin S.A. with its registered office in Kleczewo for PLN 931.55 per share or a total of PLN 5 589 300.00 for the block of shares. The shares were sold as there was no longer any reason to keep the equity investment in the Company.
- On 12 May 2010, ENEA S.A. sold all of the shares it held in Miejskie Przedsiębiorstwo Kanalizacji Sp z. o.o. with its registered office in Leszno, i.e. a block of 46 shares constituting 0.0661 per cent of the company's share capital, to Miejskie Przedsiębiorstwo Kanalizacji Sp z. o.o. with its registered office in Leszno for a price of PLN 992 per share or PLN 45 632 for the block of shares. The purpose of such sale was to properly structure asset holdings within the group.
- On 14 May 2010, ENEA S.A. sold all shares held in Huta Szczecin S.A., i.e. a block of 960 shares constituting 0.05 per cent of the company's share capital, to Kronospan Investment Sp z. o.o. with its registered office in Mielec for PLN 0.45 per share or a total of PLN 432 for the block of shares. The purpose of such sale was to properly structure asset holdings within the group.
- On 28.05.10, Extraordinary General Meetings of Shareholders of Elektrownie Wodne Sp. z o.o. with its registered office in Samociążek, and EnergoPartner Sp. z o.o. with its registered office in Poznań were held, during which a merger of the two companies was approved. The merger was carried out by incorporating EnergoPartner Sp. z o.o. in Elektrownie Wodne Sp. z o.o. as stipulated in Art. Article 492 par. 1 pt. 1 of the Commercial Companies Code, i.e. through the transfer of all of the assets of EnergoPartner Sp z. o.o. to Elektrownie Wodne Sp z. o.o. in exchange for shares in Elektrownie Wodne Sp z. o.o., which will be transferred to ENEA S.A. as the acquired company's sole shareholder. On 01.07.2010, in a decision of the District Court in Bydgoszcz, 13th Commercial Division of the National Court Register, the two companies merged. As a result of the merger, the share capital of Elektrownie Wodne Sp. z o.o. was increased by PLN 8 821 000, from PLN 205 020 000, i.e. up to PLN 213 841 000, by establishing 17 642 new shares with a nominal value of PLN 500 each. The purpose of such consolidation was to create a single, large and strong entity engaged in the production of renewable energy within the ENEA Capital Group.
- On 11.06.2010 the Extraordinary General Meeting of Shareholders of Finea Sp. z o.o. decided to put the Company under liquidation.
- On 28.10.2010 the Extraordinary General Meeting of Shareholders was held and made a resolution to merge Miejska Energetyka Ciepła Piła Sp. z o.o. with its registered office in Piła (MEC Piła, Acquiring Company) with Przedsiębiorstwo Energetyki Ciepłej - Gozdnica Sp. z o.o. with its registered office in Gozdnica and with Cogen Sp. z o.o. with its registered office in Piła (Acquired Companies). The merger was carried out by transferring all assets of the Acquired Companies to MEC Piła. On 30.11.2010 the merger of the a/m companies was registered. In connection with the above the increase of the share capital of the Acquiring Company by PLN 509 000, i.e. up to PLN 27 916 000 was entered in the National Court Register. The shares in the increased share capital were taken up in their entirety by ENEA S.A. COGEN Sp. z o.o. was deleted from the National Court Register on 15.01.2011, whereas PEC Gozdnica Sp. z o.o. was deleted from the National Court Register on 12.01.2011.

The shareholder structure of MEC Piła Sp. z o.o. after consolidation as at 31.12.2010 is as follows:

1. ENEA S.A.: 17 884 shares – 64.06 per cent
2. District of Piła: 10 032 shares – 35.94 per cent

The purpose of the merger was to create a heat generation area within the ENEA S.A. Capital Group and to strengthen the competitive position of the Group's entities operating in that area.

- On 29.10.2010 the Extraordinary General Meeting of Shareholders was held in order to approve the merger of EP PUE ENERGOBUD Leszno Sp. z o.o. (Acquiring Company) with ZUP ENERGOTRANS Sp. z o.o. and EWINN Sp. z o.o. (Acquired Companies) by transferring all assets of the Acquired Companies to the Acquiring Company. Following the merger of the Companies the share capital of EP PUE ENERGOBUD Leszno Sp. z o.o. was increased by PLN 1 418 000, i.e. up to PLN 7 634 000 by issuing 2 836 (219 - ZUP ENERGOTRANS Sp. z o.o.; 2 617 – EWINN Sp. z o.o.) equal and indivisible shares with a nominal value of PLN 500 each. The share capital increase was registered on 01.12.2010. Following the merger, as at 31.12.2010 the share capital of EP PUE ENERGOBUD Leszno Sp. z o.o. amounted to PLN 7 634 000, divided into 15 201 shares of PLN 500 each. 67 shares were redeemed from net profits. On 27.12.2010, EWINN Sp. z o.o. was deleted from the National Court Register, whereas ZUP ENERGOTRANS Sp. z o.o. was deleted from the National Court Register on 07.01.2011.

The restructuring processes thus completed make it possible, among other things, to create a product proposal covering the full voltage range and to further develop a competitive and strong grid execution company.

- On 28.06.2010 the Extraordinary General Meeting of Shareholders of Elektrownia Koźienice S.A. (ELKO) and the Extraordinary General Meeting of Shareholders of Koźienice II Sp. z o.o. consented to actions aimed at merging Koźienice II and ELKO by incorporating Koźienice II into ELKO. Since then the Management Boards of both companies carried out any legally required actions in order to prepare the entire procedure required for the Extraordinary General Meetings of ELKO and Koźienice II to adopt merger resolutions.

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

1.5. Description of changes in organisation and management rules

The basic purpose of the organisational changes in ENEA S.A. in 2010 was to improve the effectiveness of the operational management in the Company and of the strategic management in the ENEA Capital Group.

All changes implemented in the Company were focused on carrying out projects to improve the operating effectiveness of selected areas of the operations of the Company and of the entire ENEA Capital Group.

The first stage of changes in 2010 was to establish a new Branch in the organisational structure of the Company, Elektrownia Biogazowa Liszkowo in Liszkowo, and to make precise determinations concerning the central unit of Management Board Office – the Company Services Office in Warsaw.

In the Trade Department, the field unit Key Client Sales Office in Warsaw was discontinued, and the scope of duties of the Energy and Comprehensive Services Sales Division was extended to include individual customer services, following which its name was changed to Client Sales and Services Division, in which:

- the name Individual Client Sales Organization Office was changed to Sales Organization and Individual Client Services Office,
- the name Key Client Sales Organization Office was changed to Sales Organization and Corporate Client Services Office,

- the name Key Client Sales Office in Bydgoszcz, Poznań, Gorzów Wlkp., Szczecin and Zielona Góra, was changed to Sales Office in Bydgoszcz, Poznań, Gorzów Wlkp., Szczecin and Zielona Góra, and at the same time in each of those offices, three subordinated sub-units were established: Key Client Sales, Business Client Sales, Individual Client Sales,
- the unit „Advisors” was formed,
- in the Sales and Client Services Division, the Public Tender Office was established.

A subsequent stage of changes was to create the Risk Management Department and to reorganize the Corporate Communication Department, by:

- founding an organizational unit - the Information Office (Newsroom),
- closing the Commercial Marketing Office and Corporate Marketing Office and changing the name of the Marketing Office to Marketing Communication Office,
- closing the PR and Stock Exchange Information Office and transforming the Stock Exchange Information Office into the Investor Relations Office,
- establishing the Brand Communication Office.

A very important organisational change was the adoption of the Organisational Rules for the Company's Business by the Management Board and the approval of the Rules for ENEA S.A. Organizational Units (Resolution of the Management Board No. 710/2010 of 15.10.2010), and then, the approval of the Organizational Rules for the Company's Business by the Supervisory Board (Resolution of the Supervisory Board No. 94/VII/2010 of 16.11.2010)

Those documents implemented the following changes:

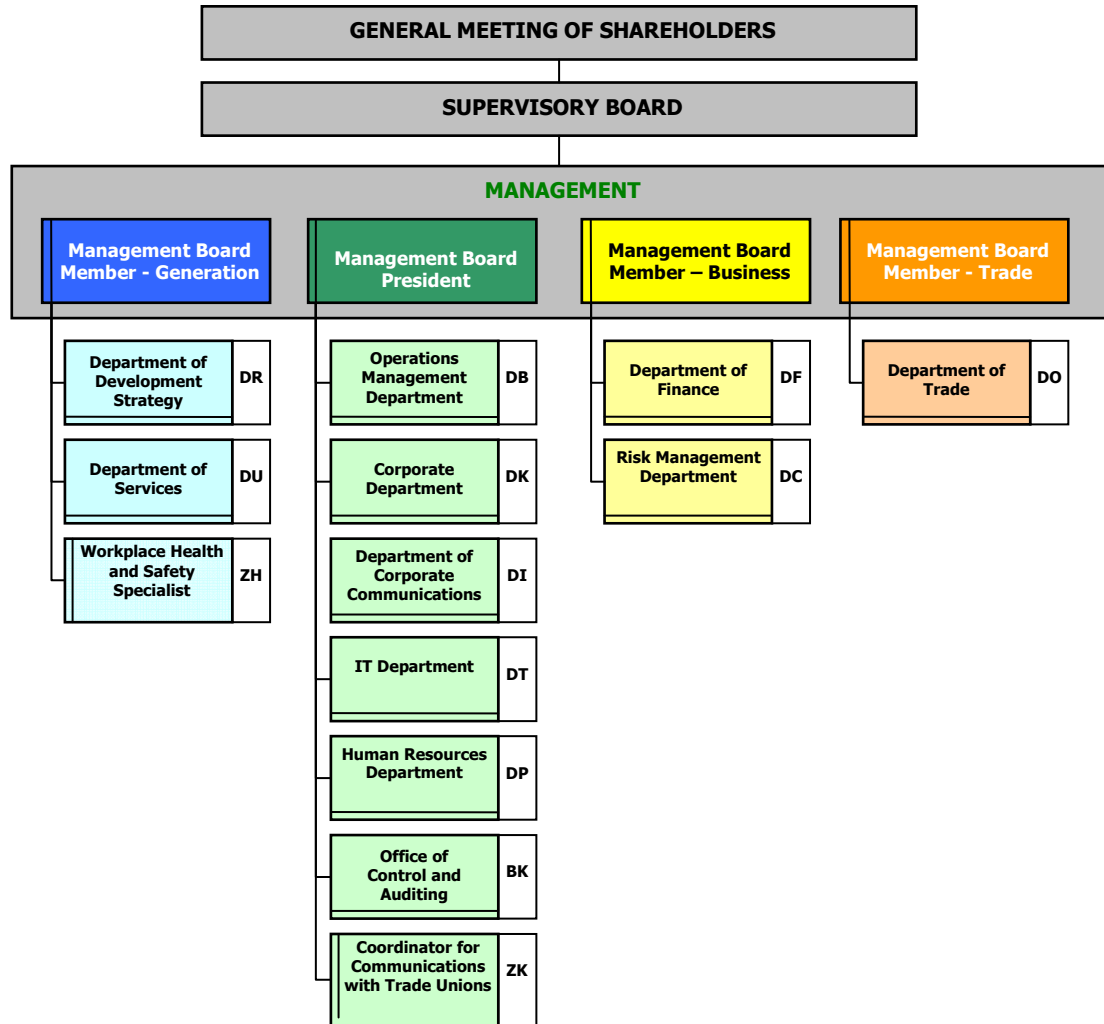
- implementing the rule of a single person management, official subordination, division of official duties and individual responsibility for carrying out entrusted tasks; entities and organizational units as well as independent positions were made directly accountable to Members of the Company's Management Board,
- establishing a new Operating Management Department and including within its structure: an Administration Office, Management Board Office, Legal Services Office, Information Protection Team, Management Organization and Systems Office, and the newly-created Contracts and Orders Office and Advisors unit,
- transforming the Personnel and Administration Department into the Human Resources Management Department (after separating the Administration Office from its structure),
- restructuring the detailed scope of duties for entities as well as the responsibilities and authorizations of management staff,
- creating an independent position – Trade Union Communication Coordinator,
- making clear determinations as to substitution rules for when managers of entities/organizational units are absent,
- making clear definitions as to the scope of tasks for the Control and Audit Office, including eliminating double coverage with the Risk Management Department,
- assigning to the Operating Management Department any tasks associated with ensuring compliance with personal data protection,
- limiting the scope of tasks for the Industrial Health and Safety and Environment Officer to industrial health and safety issues only,
- assigning to the Information Protection Team any tasks associated with enforcing compliance with personal data protection, and at the same time removing such tasks from the scope of duties of the Telecommunication and IT Department,
- implementing changes in the structure or tasks of the Risk Management Department, Telecommunications and IT Department, Control and Audit Office and Management Board Office in line with suggestions from the managers of those units,
- removing the Branch Elektrownia Biogazowa Liszkowo in Liszkowo from the organisational structure,
- assigning to the Services Department any tasks associated with ensuring compliance with environment protection regulations,

The core licensed activity of the Company relating to trade in electricity is carried out by the Trade Department, within which there are the Wholesale Trade Division, Portfolio Management Division and Sales and Client Services Division, with Sales Offices located in Bydgoszcz, Gorzów Wielkopolski, Poznan, Szczecin, Warsaw and Zielona Góra.

Company management and operating support activities are carried out in the Strategy Development Department, Services Department, Operating Management Department, Corporate Department, Corporate Communication Department, Telecommunication and IT Department, Human Resources Management Department, Finance Department, Risk Management Department and the Control and Audit Office.

The interdependencies established within the Company (including a diagram of its organisational structure) and the division of tasks, responsibilities and authorisations, is formally reflected in the organisational rules: Organisational Rules for the Business of the Company and Rules for Organisational Units of ENEA S.A.

The current organizational structure is presented in Figure 1 below (effective as from 16.11.2010).



1.6. Information on branches

In 2010, by virtue of a resolution of 19.02.2010, the Supervisory Board of ENEA S.A. gave its consent for supplementing the organizational structure of ENEA S.A. with a Branch under the name Elektrownia Biogazowa Liszkowo, and at the same time approved new Organizational Rules for the Business of the Company, adopted under a resolution of the ENEA S.A. Management Board of 19.01.2010.

In the current Organizational Rules for the Business of the Company adopted on 15.10.2010 by a resolution of the Management Board and approved by a Resolution of the Supervisory Board of 16.11.2010, the Branch Elektrownia Biogazowa Liszkowo was deleted (following the contribution of an organized part of the ENEA S.A. business operating under the business name ENEA S.A. Oddział Elektrownia Biogazowa Liszkowo as a contribution in-kind to the subsidiary Elektrownie Wodne Sp. z o.o. with its registered office in Samociążek).

Moreover, outside of the Poznan field units – Sales Offices operate in Bydgoszcz, Gorzów Wlkp, Zielona Góra and Szczecin.

2. THE OPERATIONS OF ENEA S.A.

2.1. Information on basic products, goods and services

The main corporate purpose of ENEA S.A. is trade in electricity. In 2010, total sales from trading in energy (without taking into account non-invoiced statistical sales where the readout date falls after the financial year end) amounted to approximately 18.5 TWh, including sales to end users of approximately 15.5 TWh, including to customers connected to networks of distribution system operators other than ENEA Operator Sp. z o.o. of approximately 1.2 TWh. The number of end users as at 31.12.2010 was approximately 2.4 million.

2.2. Sales markets

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

Sales to end users

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

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

This offer is directed to customers on the domestic market.

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

group set G, settlements are made with end users using electricity to power households and related commercial premises.

Typically, ENEA S.A. concludes comprehensive agreements for an unspecified term, but agreements for the sale of energy (without energy distribution services), including agreements with customers connected to networks of distribution system operators other than ENEA Operator Sp. z o.o., are most often concluded for a specified term, usually 12 months.

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

Other sales

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

Sales by value and amount

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

Item	Revenues from energy sales to end users [PLN '000]		
	2009	2010	Growth [%]
Tariff group set A	490 091.2	352 703.6	72.0
Tariff group set B	1 801 471.6	1 574 055.3	87.4
Tariff group set C	1 087 636.5	1 021 673.6	93.9
Tariff group set G	1 007 878.4	1 110 758.5	110.2
TOTAL	4 387 077.7	4 059 191.0	92.5

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

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

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

Item	Sales of energy [MWh]		
	2009	2010	Growth [%]
Tariff group set A	2 072 337	1 532 206	73.9
Tariff group set B	6 712 619	6 007 113	89.5
Tariff group set C	3 639 787	3 486 353	95.8
Tariff group set G	4 372 016	4 505 792	103.1
TOTAL	16 796 759	15 531 464	92.5

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

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

2.3. Supply markets

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

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

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

Purchase of distribution services

In order to provide comprehensive services (both the sale of electricity and the provision of electrical distribution services) to end users connected to the grid of ENEA Operator Sp. z o.o., the Company buys electricity distribution services from ENEA Operator Sp. z o.o. on the basis of agreements for the provision of electricity distribution services.

2.4. Information about agreements concluded

2.4.1. Agreements of significance to the operations of ENEA S.A.

In carrying out its electricity trading activities, the following agreements are material to ENEA S.A.:

- agreements on the provision of electricity distribution services (including framework distribution agreements and agreements making trade balancing possible) concluded with distribution system operators (including ENEA Operator Sp. z o.o.) and with power companies not holding Distribution System Operator status.
- Agreements concerning the purchase and sale of electricity
- agreements for the sale or purchase of ownership rights stemming from energy certificates of origin,
- an agreement for the provision of electricity transmission services with the transmission system operator.

2.4.2. Significant transactions with affiliated entities

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

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

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

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

Information on transactions with affiliated entities is to be found in the Financial Report of ENEA S.A. for financial year 2010, note No. 33.

2.4.3. Agreements between companies belonging to the Group

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

Information on transactions with affiliated entities is to be found in the Financial Report of ENEA S.A. for financial year 2010, note No. 33.

2.4.4. Credit and loan agreements concluded and terminated

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

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

The status of the credit as at 31.12.2010 is presented in the table below:

No.	Creditor	Credit facility granted [PLN '000]	Costs of credit [PLN '000]	Debt on credit facilities as at 31.12.2010 [PLN '000]	Due date	Due date	Repayment period
Credit and loan facilities granted to ENEA S.A. in 2006 and 2007							
1	PKO BP S.A.	50 000.00	0.00	0.00	2006.04.25	x	5 years from the first use of the credit facility
2	Bank Pekao S.A.	10 000.00	0.00	0.00	2007.04.12	2011.11.17	2011.11.17
3	Bank Zachodni WBK S.A.	40 000.00	2.20	0.00	2007.04.12	2011.11.17	2011.11.17
TOTAL			2.20	0.00			

During the financial year, ENEA S.A. only sporadically used credit facilities to finance current operations.

The Company did not take out any credit for a pledge, mortgage, ownership right transfer of fixed assets or ownership right transfer of an organised part of an enterprise.

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

2.4.5. Loans granted

During financial year 2010, ENEA S.A. did not grant any loans. Receivables consisting of the principal of loans granted (in 2008) to the subsidiary Cogen Sp. z o.o. as at 31 December 2010 amounted to PLN 133 300. Interest on the loan is calculated at the WIBOR 1 M rate plus a margin of 1 per cent.

In 2010 Cogen Sp. z o.o. merged with MEC Piła Sp. z o.o. Therefore principal and interest under the loan are now being repaid by MEC Piła Sp. z o.o.

2.4.6. Granted and received sureties and guarantees

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

The status of guarantees issued to the order of ENEA S.A. as at 31.12.2010 is shown in the table below:

Item	Date when security granted	Date of security validity	Entity to which security is granted	Agreement type	Form of security	Secured amount
1	14-12-2010	13-12-2011	RONDO PROPERTY INVESTMENT Sp. z o.o. in Warsaw	premises lease agreement	bank guarantee	25 400 EUR + 20 400 PLN
2.	24-11-2009	from 1 January 2010 to 15 February	PGE ELECTRA S.A. ul. Mysia 2,	electricity sales agreements	bank guarantee	132 007 000

		2011	00-496 Warszawa			
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In 2010, ENEA S.A. did not grant any sureties or guarantees.

The status of the sureties and guarantees as at 31.12.2010 is presented in the table below.

Date suretyship/ guarantee granted	Date of validity of suretyship/ guarantee	Entity for which suretyship/ guarantee was granted	Entity to which suretyship/ guarantee granted	Agreement number	Value of suretyship/ guarantee	Actual debt as at 31.12.2010 [PLN '000]
For the purpose of meeting the statutory conditions for obtaining a licence to carry on for-profit transport operations						
26-08-2003	31-08-2017	EP Zakład Transportu Sp. z o.o.	Poznań Department of Communal Services and Housing	Surety's statement of 2 September 2003	194 000	
					49 000 EUR*	-
Total:					194 000	-

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

The total off-balance sheet value of sureties and guarantees granted as at 31 December 2010 was PLN 194 000.

There are no 'threatened guarantees or sureties' among the sureties and guarantees granted. The sureties and guarantees granted by ENEA S.A. fall within the limits specified in Article 33 par. 1 of the Act on Sureties and Guarantees granted by the State Treasury and other legal persons of 8 May 1997 (Journal of Laws of 2003 No. 174, item 1689 as amended).

Other contingent liabilities granted by ENEA S.A. as at 31 December 2010			
Type of obligation	Entity to which security is granted	Security Value	Period of security's validity
Blank promissory note	Security of PSE Operator S.A.'s receivables for settlement of energy payments	15 000 000	Open-ended

2.4.7. Agreements between shareholders

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

2.4.8. Insurance agreements

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

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

2.4.9. Collaboration or cooperation agreements

In December 2010 ENEA S.A. concluded a framework cooperation agreement under which it obtained temporary exclusivity for negotiations and priority with regard to the purchase of shares in special purpose vehicles which own wind farm projects with target installed capacity of 214 MWe Additional information about the Company's strategy of investments in renewable energy sources may be found in section 4.3 below.

3. PRESENTATION OF THE FINANCIAL POSITION OF ENEA S.A.

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

3.1.1. Financial performance – profit and loss account

Profit and loss statement of ENEA S.A.

<i>data in PLN '000</i>	performance		Change	Difference
	2009	2010		
Sales revenues	7 278 800	6 558 983	90.1%	-719 817
Excise duty	230 175	254 651	110.6%	24 476
Net sales revenue	7 048 625	6 304 332	89.4%	-744 293
Other operating income	24 569	28 667	116.7%	4 098
Operating costs from sales	6 856 828	6 170 505	90.0%	-686 323
Other operating expenses	54 837	45 085	82.2%	-9 752
Profit (loss) on sales of non-current assets	2 748	-1 179	-42.9%	-3 927
Write-down for impairment of property, plant and equipment	8 214	0	0.0%	-8 214
Operating profit	156 063	116 230	74.5%	-39 833
Financial revenue	135 400	109 740	81.0%	-25 660
Dividend income	78 897	193 888	245.7%	114 991
Financial expenses	7 733	5 986	77.4%	-1 747
Gross profit	362 627	413 872	114.1%	51 245
Net profit	305 414	364 386	119.3%	58 972
EBITDA	169 349	133 675	78.9%	-35 674

Revenue:

ENEA S.A. gross revenues from sales in the reporting period amounted to PLN 6 558 983 000, which in relation to 2009 constituted a decrease of PLN 719 817 000, or 9.9 per cent.

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

<i>data in PLN '000</i>	performance		Change	Difference
	2009	2010		
Sales revenues	7 278 800	6 558 983	90.1%	-719 817
<i>including:</i>				
Revenues from sales of electricity and distribution services to end users	6 472 024	5 949 372	91.9%	-522 652
including:				
<i>Sales of electricity to end users</i>	<i>4 387 078</i>	<i>4 059 190</i>	<i>92.5%</i>	<i>-327 888</i>
<i>Sales of distribution services to users holding comprehensive agreements</i>	<i>2 084 946</i>	<i>1 890 182</i>	<i>90.7%</i>	<i>-194 764</i>
sales of electricity to cover balancing differences and own needs	371 036	326 134	87.9%	-44 902
Sales of electricity to other entities	358 930	233 692	65.1%	-125 238

Sales of generated electricity and certificates of origin	0	1 838	x	1 838
Sales of services	55 374	58 466	105.6%	3 092
Other revenue	21 437	-10 519	x	-31 956

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

- Revenues from the sale of electricity to end recipients.

That revenue constitutes 61.9 per cent of total sales revenue and amounted in 2010 to PLN 4 059 190 000, a decrease of PLN 327 888 000 or 7.5 per cent on the preceding year, which in turn stemmed from a decline in the volume of electricity sold (by 1 265 GWh) and an unchanged average sale price. The most significant decreases in volume of electricity sold (by 1 246 GWh) and average sales prices (by 2.0 per cent) were noted for customers in tariff group sets A and B.

- Revenue from sales of distribution services to users holding comprehensive agreements.

In 2010, that revenue constituted 28.8 per cent of total sales revenue and amounted to PLN 1 890 182 000, which was lower than in the preceding year by PLN 194 764 000 or 9.3 per cent. The drop in that revenue resulted chiefly from the recategorisation of comprehensive agreements into energy sales and distribution services agreements. The process is the result of growing competition on the market, which increases the importance of commercial services for the clients. When providing comprehensive services, these are often considered secondary because of the much more serious problems involved in delivering distribution services (power excesses, breached quality standards, etc.). In addition, such a decrease in sales revenue also reflects the fact that some recipients connected to the ENEA Operator Sp. z o.o. network changed their seller, while on the other hand ENEA S.A. acquired new clients from the territories of other OSDs. The diminishing volume of the distribution services provided under comprehensive packages is a natural process and will intensify in the future.

- Revenue from electricity sales to other entities

In 2010, such revenue amounted to PLN 233 692 000, a reduction of PLN 125 238 000 or 34.9 per cent in comparison with 2009, which stemmed mainly from a drop in the amount of electricity sold (by 756 GWh).

- Revenue from electricity sales to cover balancing differences

In 2010, that revenue was PLN 326 134 000, a decline of PLN 44 902 000 or 12.1 per cent, mainly due to decreasing volume (by 82 GWh) and a drop in the average sales price of 7.8 per cent.

Profit:

In 2010, the ENEA Capital Group attained an operating profit of PLN 116 230 000, which was lower than the result attained in the previous year by 25.5 per cent, i.e. by PLN 39 833 000. This was due to decreased revenues from operations in the amount of PLN 740 195 000 with a simultaneous reduction in operational costs of PLN 700 362 000.

Before-tax profit in 2010, i.e. after financial activities had been taken into account, amounted to PLN 413 872 000, an increase of PLN 51 245 000, i.e. 14.1 per cent relative to the previous year. That was mainly the result of higher financial revenues from dividends from subsidiaries (by PLN 114 991 000).

The net profit generated by ENEA S.A. in 2010 amounted to PLN 364 386 000 and was higher than that attained in the preceding year by PLN 58 972 000, or 19.3 per cent.

data in PLN '000	performance		Change	Difference
	2009	2010		
Operating profit	156 063	116 230	74.5%	-39 833
Gross profit	362 627	413 872	114.1%	51 245
Net profit	305 414	364 386	119.3%	58 972

3.1.2. Structure of cost of sales

In 2010, ENEA S.A.'s total cost of sales amounted to PLN 6 170 505 000 and decreased by PLN 686 323 000 or 10.0 per cent relative to the same period in the previous year.

The table below shows the value of costs of sales revenue generated in 2010.

Item	performance 2009		performance 2010		Growth 4/2	Difference 4-2
	[PLN '000]	%	[PLN '000]	%		
1	2	3	4	5	6	7
Costs of electricity for resale	4 594 357	67.0	4 052 513	65.7	88.2%	-541 844
<i>including: purchase of certificates of origin</i>	<i>449 906</i>	<i>6.6</i>	<i>534 441</i>	<i>8.7</i>	<i>118.8%</i>	<i>84 535</i>
Cost of providing distribution services for the performance of comprehensive agreements for the provision of electricity and distribution services	2 084 493	30.4	1 886 344	30.6	90.5%	-198 149
Depreciation and amortization of fixed assets and intangible assets	13 286	0.2	17 445	0.2	131.3%	4 159
Consumption of materials and energy and cost of sold materials	3 230	0.1	4 049	0.1	125.3%	819
Other external services	114 919	1.7	140 763	2.3	122.5%	25 844
Employee benefit costs	38 355	0.5	59 842	1.0	156.0%	21 487
Taxes and charges	8 188	0.1	9 549	0.1	116.6%	1 361
Cost of sales	6 856 828	100.0	6 170 505	100.0	90.0%	-686 323

The main items are the costs of purchasing electricity for resale (65.7 per cent) and the costs of purchasing distribution services for delivering comprehensive agreements (30.6 per cent). The remaining cost item account for 3.7% of the costs borne by the Company in 2010.

The structure of costs incurred by ENEA S.A. in 2010 was affected mainly by:

- costs of purchases of electricity for resale

In 2010, those costs amounted to PLN 4 052 513 000, a reduction of PLN 541 844 000 or 11.8 per cent in comparison with 2009, mainly as a result of a decrease in the volume of purchased electricity by 2 063 GWh and 2.0 per cent lower average electricity purchase prices.

- costs of distribution services for the delivery of comprehensive agreements

In 2010, such costs amounted to PLN 1 866 344 000, a reduction of PLN 198 149 000 or 9.5 per cent in comparison with 2009, which stemmed mainly from a drop in sales of distribution services to recipients holding comprehensive agreements,

- costs of employee benefits

In 2010 those costs reached PLN 59 842 000 and rose by PLN 21 487 000, i.e. by 56.0 per cent mainly due to growth in payroll with surcharges by PLN 18 781 000 following the increase of the average employment from 303.16 FTEs in 2009 to 441.37 FTEs in 2010. As a result of amendments to the Energy Law, in March 2010 ENEA S.A. took over customer service activities from ENEA Operator together with the employees engaged in these tasks. This caused an increase in employment at the end of 2010 to 531 persons, as compared to 306 persons at the end of 2009. In addition, provisions for employee benefits rose by PLN 1 239 000, especially the provision for contributions to the Company's Social Benefits Fund (ZFŚS) (by PLN 1 512 000), the provision for unused holidays (by PLN 1 202 000), the provision for long-service awards (by PLN 598 000) and the provision for retirement bonuses (by PLN 527 000). Whereas the provision for energy equivalents decreased (by PLN 2 754 000).

- costs of other external services

Those costs amounted to PLN 140 763 000, an increase over the previous year of PLN 25 844 000 or 22.5 per cent, which was caused by higher costs of representation and advertising in connection with the production of a television commercial and conducting a public relations, social and internet campaign. Furthermore, there was an increase in the costs of legal services in connection with conducting the privatisation process.

3.1.3. Assets - structure of assets and liabilities

Total assets in PLN '000	As at:		Growth	Difference
	31 Dec. 2009	31 Dec. 2010		
Non-current assets	8 093 170	8 150 948	100.7%	57 778
Tangible assets	211 217	209 566	99.2%	-1 651
Perpetual usufruct right	3 213	1 488	46.3%	-1 725
Intangible assets	1 405	3 353	238.6%	1 948
Investments in associated entities, accounted for using the equity method	7 844 884	7 874 545	100.4%	29 661
Deferred income tax assets	27 366	40 137	146.7%	12 771
Financial assets held for sale	3 866	20 448	528.9%	16 582
Financial assets valued at fair value by the profit and loss account	1 219	1 411	115.8%	192
Current assets	2 815 282	2 924 404	103.9%	109 122
Trade and other receivables	850 247	775 466	91.2%	-74 781
Current income tax assets	11 090	880	7.9%	-10 210
Financial assets valued at fair value by the profit and loss account	1 652 523	1 781 939	107.8%	129 416
Cash and cash equivalents	301 422	366 119	121.5%	64 697
Non-current assets designated for sale	5 589	0	x	-5 589
Total assets	10 914 041	11 075 352	101.5%	161 311

Total equity and liabilities in PLN '000	As at:		Growth	Difference
	31 Dec. 2009	31 Dec. 2010		
Total equity	9 832 448	10 043 874	102.2%	211 426
Share capital	588 018	588 018	100.0%	0
Share premium	4 627 673	4 627 673	100.0%	0
Share based payments reserve	1 144 336	1 144 336	100.0%	0
Financial instruments revaluation reserve	-3 847	10 941	-284.4%	14 788
Reserves	754 841	892 198	118.2%	137 357
Retained earnings	2 721 427	2 780 708	102.2%	59 281

Total liabilities	1 081 593	1 031 478	95.4%	-50 115
Non-current liabilities	122 662	120 115	97.9%	-2 547
Current liabilities	958 931	911 363	95.0%	-47 568
Total equity and liabilities	10 914 041	11 075 352	101.5%	161 311

As at 31 December 2010, ENEA S.A.'s balance sheet total amounted to PLN 11 075 352, an increase of PLN 161 311 000 or 1.5 per cent relative to the total as at 31 December 2009.

Non-current assets at the end of 2010 amounted to PLN 8 150 948 000 an increase of PLN 57 778 000 (0.7 per cent) compared to the previous year. Fixed assets increased mainly due to investments in affiliates, in connection with share capital increases in subsidiaries. In addition, financial assets available for sale also rose because in 2009 long-term investments reducing the balance of such assets were restated. Moreover, deferred income tax assets increased, mainly due to provisions for certificates of origin.

In 2010, current assets amounted to PLN 2 924 404 000, or PLN 109 122 000 (3.9 per cent) more than in 2009. The growth of current assets was affected mainly by an increase in cash, and in the financial assets in which proceeds from the sale of shares under the first public offering on the WSE are invested. At the same time, trade receivables decreased.

The predominant source of financing for the assets of the Company is equity capital. At the end of 2010, equity amounted to PLN 10 043 874 000 an increase relative to the balance at the end of 2009 (PLN 9 832 448 000) of PLN 211 426 000, i.e. 2.2 per cent. The growth of equity reflects an increase in supplementary capital following the designation of part of profit from 2009 for funding investments, and an increase in retained earnings thanks to an improved financial net result in 2010.

As at 31 December 2010, the value of non-current liabilities was PLN 120 115 000, PLN 2 547 000 or 2.1 per cent less than at the end of 2009.

Current liabilities were at a level of PLN 911 363 000, having decreased by PLN 47 568 000 (5.0 per cent) relative to the previous year, mainly in connection with a decrease in trade liabilities. At the same time, the provision for certificates of origin diminished.

3.1.4. Financial and non-financial ratios

Item	performance	
	2009	2010
PROFITABILITY RATIOS		
ROE - return on equity		
<i>gross profit (loss)</i>	3.7%	4.1%
<i>equity</i>		
ROA - return on assets		
<i>operating profit (loss)</i>	1.4%	1.0%
<i>total assets</i>		
Net profitability		
<i>net profit (loss)</i>	4.3%	5.8%
<i>sales revenues</i>		
Operating profitability		
<i>operating profit (loss)</i>	2.2%	1.8%
<i>net sales revenue</i>		
EBITDA		
<i>operating profit (loss) + amortisation and depreciation</i>	2.4%	2.1%
<i>net sales revenue</i>		

LIQUIDITY AND FINANCIAL STRUCTURE RATIOS		
Current ratio		
<i>current assets</i>	2.9	3.2
<i>current liabilities</i>		
Equity-to-fixed assets ratio		
<i>equity</i>	121.5%	123.2%
<i>tangible assets</i>		
Total debt ratio		
<i>total liabilities</i>	9.9%	9.3%
<i>total assets</i>		
ECONOMIC ACTIVITY RATIOS		
Current receivables turnover in days		
<i>average balance of net trade and other receivables x number of days</i>	40	46
<i>net sales revenue</i>		
Turnover of trade and other liabilities in days		
<i>average trade and other liabilities x number of days</i>	44	44
<i>cost of products, goods and materials sold</i>		

In 2010, ENEA S.A. achieved a positive financial result and positive profitability ratios. EBITDA profitability amounted to 2.1 per cent, which was less than that achieved in 2009 (2.4 per cent), as a result of lower operating profit being generated.

The net profitability achieved by ENEA S.A. in 2010 amounted to 5.8 per cent, an increase of 1.5 per cent relative to that achieved in 2009 (4.3 per cent), as a result of higher net profit being generated in the reporting period.

There was also an increase in the effectiveness of the Group's operations as measured by the ROE business activity ratio. ROE in 2010 was 4.1 per cent, an increase of 3.7 per cent over 2009, as a result of higher pre-tax profit earned. ROA, however, decreased from 1.4 per cent in 2009 to 1.0 per cent in 2010, the result of lower operating profit.

ENEA S.A. is able to settle its current liabilities on time, which is confirmed by the level of the current liquidity ratio, which was 3.2 in 2010. That figure is the result of a high level of current assets due to the funds obtained from the 2008 issue of shares on the Warsaw Stock Exchange being invested in financial assets.

As at 31 December 2010, the receivables turnover rate was at a rate higher than at the end of the previous year, and amounted to 46 days. Whereas the liabilities turnover rate as at 31 December 2010 was 44 days, the same as in the previous year.

At the end of December 2010, the total debt ratio was 9.3 per cent, having gone down by 0.6 per cent relative to 31 December 2009 (when it was 9.9 per cent). As at 31 December 2010, the equity-to-fixed assets ratio amounted to 123.2 per cent (compared to 121.5 per cent as at 31 December 2009).

3.2. Financial results forecasts

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

3.3. Financial resources management

ENEA S.A. has financial resources at its disposal that guarantee that all current and planned expenses associated with the Company's operations will be serviced. The balance of available cash makes it possible to flexibly settle its ongoing liabilities. The Company's liquidity management is concentrated on a detailed analysis of the flow of receivables, ongoing monitoring of bank accounts, and the ongoing concentration of cash resources in consolidated accounts, whereas any resulting financial surpluses are invested in current assets in the form of term deposits. Issue cash proceeds are managed by a specialist external firm. As agreed, proceeds from the issue have been invested in minimum risk instruments, i.e. debt instruments issued, secured or guaranteed by the State Treasury, and bank deposits.

In 2010 ENEA S.A. had access to working capital loans from BZ WBK S.A., Pekao S.A. and PKO BP S.A. The total limit on the foregoing working capital facilities as at 31 December 2010 was PLN 100 000 000.

During the financial year, ENEA S.A. only sporadically used credit facilities to finance current operations.

The Company did not take out any credit for a pledge, mortgage, ownership right transfer of fixed assets or ownership right transfer of an organised part of an enterprise.

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

3.4. Information on financial instruments

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

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

- 1) credit risk – understood as the risk of loss resulting from the client's or the counterparty's failure to pay or untimely payment of receivables. The main factors influencing the appearance of a credit risk in the case of the Company are:
 - the large number of minor customers having an influence on an increase in the costs of controlling the flow of receivables,
 - the need to supply electrical energy to budget units which are in a difficult financial situation,
 - the legal requirements regulating the principles of suspending supplies of electrical energy as a result of a failure to pay.

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

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

- 2) *risk of loss of financial liquidity* – understood as the risk of loss or limitation of the ability to settle current liabilities in the normal course of business of the Company, assuming the profile of cash flows typical for its operations (structural liquidity risk), as well as the emergence of unanticipated expenses in terms of due dates and amounts following extraordinary or non-standard events. The Company manages its liquidity risk matching the profile of availability of liquidity reserves, i.e. amounts and dates of available cash, with the profile of cash needs resulting from the nature of cash flows, assuring at the same time an availability of cash in the event of unforeseen expenses. 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, whereas the Company invests any resulting financial surpluses in current assets in the form of term deposits. In order to reduce its liquidity risk and ensure the stability of financing sources, the Company diversifies external funding sources.
- 3) *exchange rate risk* – ENEA S.A. is not exposed to exchange rate risk because there are no transactions in foreign currencies in its portfolio.
- 4) *interest rate risk* – understood as the risk of volatility and interest revenues on financial assets held and the risk of volatility of financial assets following changes of certain interest rates. The Company manages interest rate risk, monitoring current and anticipated interest rates and their effect on financial assets held. Some risks cannot be avoided, due to the influence of legislative changes and changes in macroeconomic tendencies.

3.5. Unusual factors and events affecting the result

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

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

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

3.7. Description of key off-balance sheet items

A description of key off-balance sheet items is presented in Section 2.4.6 of this report under "Granted and received sureties and guarantees"

4. DEVELOPMENT PROSPECTS AND DESCRIPTION OF RISKS AND THREATS

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

4.1. Essential operating development and risk factors

4.1.1. The general condition of the economy

To a certain degree, the Company's condition in 2010 was determined by general trends in the national economy. 2010 was the year of economic growth for the Polish economy. According to figures from the Central Statistical Office, the Gross Domestic Product (GDP) in constant prices of the previous year grew by 3.8 per cent in 2010 yoy, compared to 1.7 per cent a year before.

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

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

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

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

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

Inflation	%	3.5	3.1
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* some figures are only estimates published by the Central Statistical Office

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

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

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

4.1.2. Factors related to economic activity

Risk factors related to the conduct of economic activity 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 Company.

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.

ENEA S.A. together with its Capital Group is exposed to the risk of changes in the legal and regulatory environment. In Poland, that environment, and especially the law as it concerns the power sector, is subject to change.

As a consequence legal regulations are not interpreted in a uniform manner by courts or institutions of public administration.

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

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

4.1.3. Legal regulation and tariffs

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

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

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

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

ENEA S.A. is obliged to submit tariffs for electricity sales to households connected to the ENEA Operator grid to the President of the ERO for approval. By law, the manner in which tariffs are calculated should ensure that the power company: (i) will have sufficient funds to cover the costs planned for the tariff period in question, provided that the President of the ERO deems them to be justified; and (ii) can obtain a particular margin while ensuring that customers are protected from unreasonably high prices and rates for charges. Some tariff items are calculated on the basis of economic models and other assumptions approved by the President of the ERO that do not take into account the actual costs of our operations. As a result, elements of the tariff calculations are the subject of often lengthy negotiations with the president of the ERO, which may not lead to us generating the revenues we have planned. This can have an adverse effect on the amounts of the margins we obtain.

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

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

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

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

On 17 December 2010, in Decision No. DTA-4211-51(17)/2010/2688/IV/BH, the President of the ERO approved ENEA's "Electricity Tariff" for customers using power for household purposes. It came into force pursuant to ENEA S.A. Management Board Resolution No. 877/2010 of 21 December 2010 as of 1 January 2011.

4.1.4. Wholesale electricity prices

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

Moreover, amendments introduced by the Law on Amending the Energy Law and on Amending Certain Other Laws of 8 January 2010 (Journal of Laws No. 21 item 104 of 8 February 2010) stipulate an obligation to sell electricity on the commodities exchange or in a way that guarantees public and equal access to electricity on the power exchanges or internet platforms for trading electricity on the regulated market. The amendment to the Energy Law in that respect entered into force on 9 August 2010, which might have affected prices on the wholesale electrical energy market in transactions made after that period and for subsequent years.

4.1.5. 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 from renewable sources (green certificates); and (ii) that electrical energy is being generated in association with heat generation (cogeneration – red, yellow and violet certificates) or, if certificates of origin are not obtained or presented for cancellation in the required quantity, substitute charges must be paid. The number of certificates of origin that we must obtain and redeem is provided for by law and is calculated as a percentage share of electricity sold to end customers. That share will increase in subsequent years. The quantity of electricity that we sell to end customers could also increase. The sources of renewable energy or energy produced in cogeneration that we have only enable us to fulfil our obligations related to redeeming certificates of origin to a limited extent. The Company therefore obtains certificates of origin from third parties or pays substitution charges, which significantly increase every year.

Moreover, the Act on Amending the Energy Law and on Amending Certain Other Laws of 8 January 2010 (Journal of Laws No. 21 item 104 of 8 February 2010) introduced new units generating energy in cogeneration, which are covered by the system of certificates (violet certificates). These are specified types of generation units fired with methane released and collected in underground mining works in active or closed bituminous coal mines, as well as available in the form of flammable gas produced in biomass processing. The system of certificates for methane-fired power units is in effect until 31 March 2019. Currently there is a substitution charge defined for that obligation, but still there is no regulation which would indicate a percentage obligation.

4.1.6. Customer service

Until 10 March 2010, direct client services in the ENEA Group were handled by ENEA Operator Sp. z o.o. for individual clients, and by ENEA S.A. and for key and business clients. Since 11 March 2011, following the entry into force of the Act on an Amendment of the Energy Law and Amendment of Certain Other Acts of 8 January 2010 (Journal of Laws No. 21 of 8 February 2010 item 104), the entirety of client services has been handled by employees of ENEA S.A. Most employees engaged by ENEA S.A. following the takeover of such direct individual client services are former employees of ENEA Operator Sp. z o.o. who had been carrying out such duties and were favourably evaluated under internal recruitment procedures.

4.1.7. Market liberalisation

In connection with electricity market liberalisation and increasing competition in this area, ENEA is exposed to the risk of losing customers in the sale of electricity. As of 1 July 2007, all electricity customers are entitled to choose their electricity seller. The risk exists, therefore, that other energy companies will offer our customers

more favourable terms and will in effect take them over, which could lead to a decline in our revenue. However, even if our present customers choose another electricity seller, our Group will continue to obtain revenue from energy distribution to customers connected to our distribution network.

At the same time, ENEA S.A. is an active participant in the competitive market, taking measures to sell energy to customers connected to the grids of operators other than ENEA Operator Sp. z o.o. In 2010, we sold approximately 1.2 TWh to such customers.

4.1.8. Purchasing electricity from external entities

The wholesale electric energy portfolio is largely diversified. Electric energy is purchased by ENEA S.A. under bilateral agreements (by direct purchases from producers and trading companies or through broker's trading platforms). An essential part of the energy sold by ENEA S.A. has been the electrical energy purchased by ENEA S.A. from Elektrownia "Kozienice" S.A. However, that was the case only before the entry into force of amendments to the regulations imposing on power companies the obligation stipulated in Art. 49a of the Energy Law. Other purchase contracts are entered into through Towarowa Giełda Energii S.A. and performed under the process of balancing 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 revenue.

4.1.9. Concessions

The expiry or withdrawal of ENEA S.A.'s concessions could restrict our core activities or make it impossible for us to carry them out.

ENEA S.A.'s 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. ENEA S.A. holds a concession to trade in electricity, valid until the end of 2025, and since 20 January 2010 has held a concession to generate electricity from a renewable energy source at the Liszkowo biogas plant, valid until 20 January 2020.

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 the 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, or of 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 standing, financial results or prospects for growth.

4.1.10. Strategy implementation

The Company will exercise its best efforts to implement its development directions policy described in section 4.3 below; however, we may not be able to carry out our development strategy and planned investment outlays because of factors which remain beyond our control.

Our development strategy foresees the implementation of specific targets, and covers in particular developing 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, and in particular by decisions of our majority Shareholder, i.e. the State Treasury, measures taken by our competitors, and changes in 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 advantageous terms for ENEA. The ability of the Company 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 standing; and (v) tax regulations and regulations on trading in securities.

The Company's activities are conducted in an environment that is particularly subject to legal regulation. ENEA S.A.'s situation is affected in particular by the provisions of the Energy Law and by European Union regulations, including those on protection of the environment. These legal regulations are subject to frequent changes (which ENEA is not in a position to forecast) and there is a tendency to increase gradually 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 the Company to incur additional investment expenditures. In addition, legal provisions impose an obligation on the Company to obtain and present certificates of origin to the president of the ERO for cancellation, confirming: (i) that electricity is being generated in renewable sources; or (ii) that electrical energy is being generated in association with heat generation (cogeneration), or, if certificates of origin are not obtained or presented for cancellation in the required quantity, the payment of substitute charges. Actions undertaken by the Company in its development strategy are dependent also 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 ENEA invests 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 purchases or investments made, the Company will also have to take steps to reorganise the structure of the entities concerned, integrate particular areas of business, centralise the management of assets and liabilities, and 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 making new investments in generating capacity is dependent on weather conditions, the pace of construction, repair and modernisation works, growth 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 any growth or decline in the gross national product, in industrial production, inflation, unemployment, in average wages and salaries, the size and demographic nature of the population, and the development of the services sector and industry.

4.1.11. Synergies

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

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

investments that we have carried out. Furthermore, the results achieved by companies in which we invest may transpire to be worse than our initial estimates, which could result in the rate of return from those transactions being less than initially anticipated. Furthermore, as a result of acquisitions and investments that we carry out, we will be forced to take steps to reorganise the organisational structures of those entities, integrate individual business areas, centralise the management of assets and liabilities and integrate IT systems. Those processes may turn out to be time-consuming and costly, and there is no guarantee that they will be implemented in accordance with the planned timetable or in the planned manner, or that they will be implemented at all. Integration processes within individual companies could also lead to permanent differences in the procedures applied in the Group or to the loss of existing customers or business partners. If it is not possible to effectively carry out the integration of the entities that we take over due to the events described above, or for any other reason, it could have an adverse effect on our operations, financial standing, financial results or development prospects.

4.1.12. Insuring our operations

Insurance policies concluded for our benefit may not cover all losses incurred as a result of our activities.

The insurance agreements in place for the benefit of ENEA S.A. fully comply with current standards of the Polish power industry. They cover both the scope of operations and the value of assets held. However, it should be noted that the structure of that insurance may differ from insurance policies usually held by foreign businesses. Due to the specific nature of our Company's operations, we cannot exclude the existence of circumstances which might threaten the Company's financial position. This is because our wide scope of operations is inherently associated with a large number of risks. Such key threats include, but are not limited to, force majeure or other events, such as fire, natural disasters or terrorist attacks. If such risks actually materialize, the Company's assets may be reduced or destroyed. In addition, our Company's activities could also result in claims being raised relating to property as well as personal damage caused to third parties. Despite the high standards applied in our insurance agreements, there is no guarantee that such agreements will be sufficient to cover all losses incurred by us or third parties. As a result, 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. Such a situation could have an adverse effect on our operations, financial standing, financial results or prospects for development.

4.1.13. Management personnel

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

The Company's future success depends on its ability to recruit and retain management personnel with wide-ranging experience of managing energy businesses, and in identifying, acquiring, financing and implementing energy projects, and also in respect of the recruitment and retention of technical personnel with appropriate energy-related education. Key factors in this respect are the increasing competition in the electricity sector and the fact that the companies in our Group are subject to the provisions of the Public Sector Salary Cap Act, which limits the remuneration of people holding certain managerial positions.

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

4.1.14. Collective disputes and agreements

Collective disputes with employees may cause disruptions to our business.

Approximately 50 % of our employees belong to trade unions. The position of trades unions in the power sector is particularly strong because of the volume of employment in the sector and its strategic influence on the functioning of the economy. Furthermore, the expectations of the trade unions are based on conditions won by the employees of other power companies or power generators in agreements concluded in relation to the earlier privatisation of these companies. Although we are endeavouring to maintain good relations with our employees and to resolve on an ongoing basis all problems that arise, we cannot exclude the possibility of collective disputes taking place in the future. Collective disputes with employees may lead to the disruption of our ongoing activities, and in particular to work stoppages, and may also cause an increase in labour costs, which may have a negative effect on our business, financial standing, financial results or development prospects.

In 2010, ENEA was a party to one collective dispute. It was initiated on 7 September 2009, and concerned the planned privatisation of the Company and the effects of a potential change to the shareholding structure on the Company's employees. In 2010, no new collective dispute was initiated.

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 that 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.

4.1.15. 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 contrary to the law, a penalty may be imposed on us amounting to up to 15 per cent 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. In addition, it imposed a cash 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 Regional Court in Warsaw – the Competition and Consumer Protection Court. On 31 August 2009, the Competition and Consumer Protection Court changed the decision of the President of the Office of Competition and Consumer Protection, reducing the fine to PLN 10,000. On 25 September 2009, ENEA filed an appeal against the Competition and Consumer Protection Court with the Court of Appeals in Warsaw, moving that the decision be revoked in its entirety. On 27 April 2010, the Court of Appeals overturned the verdict by the Court of Competition and Consumer Protection and returned the case for reconsideration. In its judgment of 27 January 2011, the Court of Competition and Consumer Protection upheld the cash fine imposed on the Company in the amount of PLN 10,000. Currently, the Company is awaiting a written justification of the judgment. A decision to appeal, if any, will be made after analyzing that justification.

On 27 November 2008, the President of the ERO ruled in the matter of ENEA's failure to meet its obligation of purchasing electricity generated through cogeneration in 2006, and imposed a fine on the Company, in the amount of PLN 7,594,613.28. On 17 December 2008, ENEA appealed against that decision by the President of the ERO to the Competition and Consumer Protection Court. On 15 December 2009, the Competition and Consumer Protection Court ruled in favour of ENEA, changing the decision of the President of the ERO of 27 November 2008 and dismissing the administrative proceedings. The President of the ERO filed an appeal to the Appeals Court in Warsaw against this ruling by the Competition and Consumer Protection Court. In its judgment of 24 November 2010 (VI ACa 327/10), the Appeals Court revoked the judgment of the Regional Court in Warsaw – the Competition and Consumer Protection Court of 15 December 2009 and returned the case to the Competition and Consumer Protection Court for reconsideration and for awarding costs of appeal proceedings.

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

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.

4.1.16. Environmental protection

The Company's operations do not have a significant impact on the environment. The operations of the subsidiaries Elektrownia Koźienice and ENEA Operator do, however, have a significant environmental impact. Those matters are described in the Report of the Management Board on the operations of the ENEA Capital Group in 2010.

4.1.17. Real estate

As at 31 December 2010, ENEA was party to 126 court proceedings relating to use of real property without an agreement, with the total value at stake being approximately PLN 12.8 million, and was party to a number of disputes that are yet to get to court.

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

4.1.18. Modernisation and development

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

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 effectiveness of our activity.

We expect that our investment outlays during the coming years will be financed primarily from funds generated from operating activity and from debt. Our ability to secure financing and the cost of capital depend on many factors, many of which are beyond our control, and in particular on: (i) general market conditions and the situation in capital markets; (ii) the availability of bank loans; (iii) investors' confidence; (iv) our financial standing, results and development prospects; and (v) tax regulations and regulations on trading in securities.

The above sources of financing may be wholly unavailable or may not be available in the required amount, making it impossible to undertake all the investment expenditures 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 standing, financial results or development prospects.

In the future, we may incur significant new indebtedness, which may significantly and negatively affect our financial position, our ability to secure additional financing, 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 financing 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 standing, operating results or development prospects.

Our indebtedness may also increase our susceptibility to unfavourable macroeconomic or economic trends and may also affect negatively our competitiveness relative to other companies. This may also limit our operational

flexibility and in particular our ability to secure additional financing, which may be required for our development or to let us react to changes in our business or in the sector.

4.1.19. Factors related to the operations of ENEA S.A.'s subsidiaries

Irrespective of the direct risks and threats facing the operations of ENEA S.A., indirect risks and threats also exist, which may arise due to the appearance of specific factors relating to ENEA S.A.'s subsidiaries. These are described in the Report of the Management Board on the operations of the ENEA Capital Group.

4.2. Development Strategy of ENEA S.A.

One of the fundamental factors for ENEA S.A.'s development and its prospects is implementation of the Company's strategy, which is reflected in actions undertaken by the ENEA Capital Group.

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

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

We intend to implement that strategy by:

Developing the core operations of the Group

In this area we intend to focus on:

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

Improving the effectiveness of how the Group functions

In this area we intend to focus on:

- optimising fundamental processes,
- optimising support functions,
- ensuring the operational integration of the Group,
- reorganising the operations of the Group's subsidiaries,

Building a socially responsible business

In this area we intend to focus on:

- ensuring the balanced management of human capital,
- ensuring a dialogue with the local community and taking their voice into account in business operations,
- promoting environmentally beneficial solutions and behaviours.

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

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

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

In implementing our strategy, we assume until 2020 a base variant of about PLN 18.7 billion for investments in conventional generation (about 39.4 per cent of all investment outlays), distribution (about 34.4 per cent of total investment outlays) and renewable energy sources and cogeneration (about 26.2 per cent of total investment outlays).

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

In the area of distribution, during the period covered by the strategy we are planning investment works, modernisation of the grid infrastructure, and essential refurbishment in connection with increasing demand for electricity and the need to connect renewable sources of energy. Such investment and modernisation activities should result in increasing the functionality of our grid and in restricting grid losses. They will also involve replacing those sections of distribution lines that have been in service the longest. The amount of investment outlays in the distribution area is steadily increasing. Investment expenditures in 2009 increased by 22 per cent in relation to 2008, and in 2010 it increased by 18 per cent in relation to 2009. Crucially, we are observing a clear increase in spending on the modernisation and regeneration of existing assets. In 2009, it increased by 31.6 per cent in relation to 2008, and in 2010 it increased by 65 per cent in relation to 2009. In 2010, investment outlays in the distribution area reached about PLN 583 million as compared to a budgeted PLN 575 million .

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

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

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

Depending on the market situation, our financial situation, the results of technical and economic analysis being carried out, and our ability to finance investments, we do not rule out increasing the base investment program by additional investments in conventional generation, by approximately EUR 1.3 billion. That amount also covers the construction of a second 1000 MW unit in Świerze Górne. Moreover, the Management Board does not rule out the implementation of an investment project involving the construction of a nuclear power plant with a capacity of about 1,600 MW. In such a case, additional outlays will amount to approximately PLN 14.4 billion (PLN 9.4 billion by 2020).

4.3. Assessment of the Feasibility of Implementing Investment Plans

The financial position of the Company provides a solid foundation making it possible to implement our investment plans both through organic development and the acquisition of other entities. Our balance sheet, equity and balance of pecuniary funds provide a solid financial base for investment outlays, both from our own resources and external sources. In order to use its resources efficiently, in its further investment activities (particularly in the area of acquisitions) the Company intends to make use of debt financing so as to attain leverage.

4.4. Description of the Use of Issue Proceeds

Funds obtained by ENEA S.A. from the issue of shares are invested in instruments exhibiting minimal risk, i.e. issued debt instruments, secured by suretyship or guaranteed by the State Treasury or bank deposits. Revenue from the aforementioned investments and from investments of the Company's other funds in 2010 amounted to PLN 97,452,200.

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

5. THE CORPORATE BODIES OF ENEA S.A.

5.1. Personal Composition, Basis of Appointment and Description of Extent of Authority

The composition of the Company's authorities and changes thereto in the last financial year, a description of the activities of the Company's management and supervisory boards and their committees, as well as a description of the rules for appointing and recalling members of those bodies and their authority, and in particular to their right to make decisions on issuing or purchasing shares, can be found in section 7 under: "Declaration on the Application of the Principles of Corporate Governance".

5.2. Principles of Remuneration

The remuneration of Members of the Management Board is set in accordance with the Act of 3 March 2000 on the Remuneration of Persons Managing Certain Legal Entities. Pursuant to Art. 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 that agreement, the Employer undertakes, for a period of six months, to pay an employee monthly compensation amounting to the value of monthly remuneration received during the last full month for which his or her contract of employment was in force so long as he or she refrains from undertaking activity that competes with the Company.

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

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

5.3. Level of Remuneration

The remuneration of members of ENEA S.A.'s Management Board in the financial year 2010 is presented in the following table:

Name	Position	Multiple *	Basic consideration **	Additional consideration ***	Energy tariff (pursuant to the Collective Labor Agreement)	Total
Owczarek Maciej	President of the Management Board	6	247 060.12	51 176.13		298 236.25
Rozpędek Hubert	Member of the Management Board	5.9	163 056.16	19 095.43		182 151.59
Górniak Maksymilian	Member of the Management Board	5.9	173 732.46	22 219.40		195 951.86
Zborowski Krzysztof	Member of the Management Board	3.9	114 840.09	9 108.00		123 948.09
Malinowski Marek	Member of the Management Board	5.9	71 822.36	16 995.95	439.53	89 257.84
Jankiewicz Sławomir ¹	Member of the Management Board	5.9	164 657.85		953.26	165 611.11
Koczorowski Piotr	Member of the Management Board	5.9	70 970.46	5 564.28	254.88	76 789.62
Treider Tomasz ²	Member of the Management Board	5.9	143 644.69	11 328.78		154 973.47
Total	-	-	1 149 784.19	135 487.97	1 647.67	1 286 919.83

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

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

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

** Basic consideration, i.e.:

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

*** Additional consideration – this means:

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

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

No	Name	Remuneration for sitting on the supervisory board of ENEA subsidiaries
1	Owczarek Maciej	82 909.92
2	Rozpędek Hubert	53 155.96
3	Górniak Maksymilian	51 198.36
4	Zborowski Krzysztof	14 618.32
5	Malinowski Marek	15 775.92
6	Jankiewicz Sławomir	33 208.54
7	Koczorowski Piotr	22 399.05
8	Treider Tomasz	32 632.78

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

Name	Position	Multiple *	Basic consideration **	Additional consideration ***	Energy tariff (pursuant to the Collective Labor Agreement)	Total
Zborowski Krzysztof	President of the Management Board	4	205 653.00	17 126.88	1 477.89	224 257.77

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

** Basic consideration, i.e.:

- monthly remuneration,
- annual bonus.

*** Additional consideration – this means:

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

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

No.	NAME	2010
1	Dachowski Tadeusz	41 454.96
2	Pluciński Mieczysław	41 454.96
3	Łagoda Michał	9 806.6

4	Begier Piotr	9 806.6
5	Pawliotti Wiesław	9 806.6
6	Janas Marian	9 806.6
7	Chmielewski Wojciech	41 454.96
8	Wood Graham	41 454.96
9	Balcerowski Paweł	41 454.96
10	Kowalewski Michał	41 454.96
11	Aniołek Małgorzata	31 871.30
12	Nowicki Bartosz	31 871.30
13	Mordasewicz Jeremi	31 871.30
14	Lisiewicz Paweł	31 871.30

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

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

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

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

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

6. THE SHAREHOLDING AND SHARE CAPITAL STRUCTURE OF ENEA S.A.

6.1. Share capital structure

In connection with a public offer of series C shares, at a closed hearing on 13 January 2009, the District Court for Poznań-Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, registered an increase in the Issuer's share capital from PLN 337,626,428 to PLN 441,442,578, by the issue of 103,816,150 series C ordinary bearer shares.

After registration of the share capital increase, the amount of share capital of the Issuer is PLN 441,442,578. The total number of votes resulting from all issued shares of the Issuer is 441,442,578.

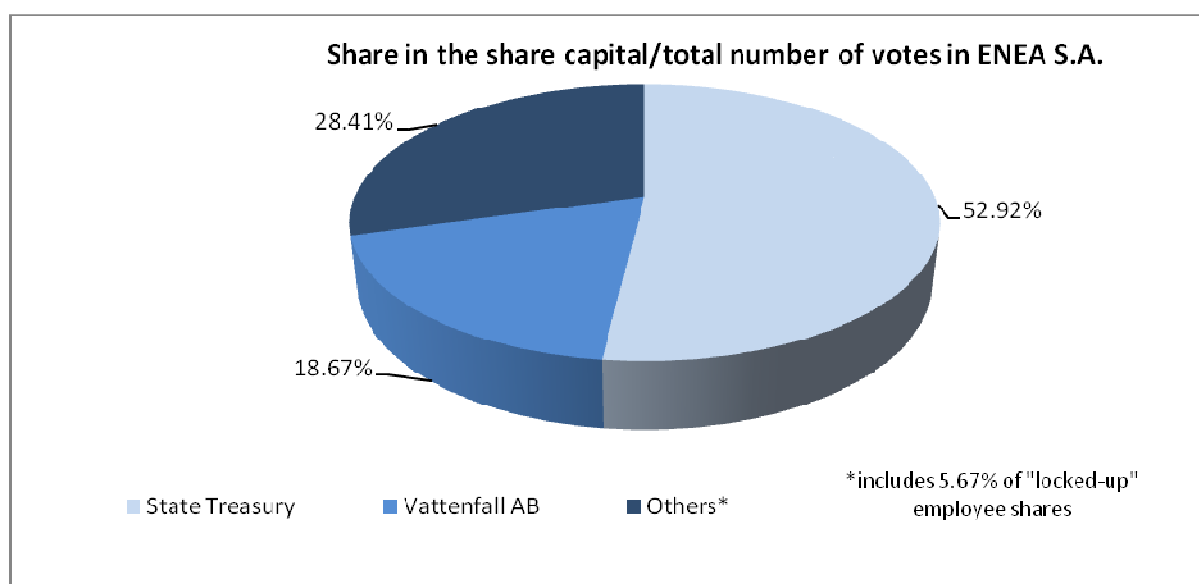
As at the date of this report and following the registration of the increase in the Issuer's share capital, the capital structure is as follows:

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

6.2. Shareholding structure

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

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



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

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

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

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

6.3. Potential changes in the shareholder structure

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

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

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

As announced in November 2009, in February 2010, the Ministry of the State Treasury (MST) carried out the next stage of the privatisation process of ENEA S.A., initiated in 2008. The privatisation of the MST entity was to involve selling shares in ENEA S.A. in a two-stage process – as part of transactions carried out via public markets (Stage I / February 2010), followed by the disposal of more than 50 per cent of the Company's shares to an industry investor (Stage II / mid-2010). The main purpose of Stage I was to increase the number of the Company's shares in free float (i.e. the number of shares held by shareholders whose holdings do not exceed five per cent in the Company's capital).

On 10 February 2010, the MST disposed of 70,851,533 shares in ENEA S.A. (constituting 16.05 per cent of the Company's share capital). The sale was conducted on the Warsaw Stock Exchange. This was the second-largest transaction in the "fully-marketed offer" formula in the history of the WSE, and the largest in the preceding three years. The Company's shares were offered exclusively to domestic and foreign institutional investors. The price of the offered shares was set at PLN 16 per share. The total value of the offer amounted to PLN 1,134 billion.

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

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

On 16 November 2010, the the Ministry of the State Treasury announced in a bulletin that in view of the lapse of the negotiation exclusivity period granted to Kulczyk Holding S.A. and Elektron Sp. z o.o. in the ongoing process of selling 225,135,940 shares (51.00 per cent of the share capital) in **ENEA** S.A., it had decided to

resume parallel negotiations with entities approved for negotiations. On 15 December 2010, in connection with the ongoing process of selling 225,135,940 shares (51.00 per cent of the share capital) in ENEA S.A., the Ministry of the State Treasury decided to set a deadline for Electricité de France S.A. for exclusive negotiations. The MST intends to complete the privatisation process of ENEA S.A. by the end of the first quarter of 2011.

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

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

6.4. Treasury shares

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

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

6.5. Information on the system of inspecting employee share programmes

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

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

Eligible employees whose period of service in the company was incorrectly defined were authorized to submit a complaint in writing within 14 days of the date of publication of the list of eligible employees including their periods of service. Complaints were examined by the committee appointed by the Management Board of ENEA. Such examination of complaints exhausted any possible complaint procedures. In the subsequent stage,

the Management Board of ENEA adjusted the list of eligible employees and then prepared the final list of eligible employees supplemented with data on the number of ENEA shares vested in each of those eligible employees. The list was forwarded to the Minister of the State Treasury. Then ENEA on behalf of the Minister of the State Treasury announced the commencement of the procedure for transferring shares to eligible employees. In October last year the procedure for transferring shares to eligible employees started.

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

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

7. DECLARATION OF THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

7.1. The set of principles applied

The management board of ENEA S.A. declares that it is applying the principles of corporate governance which are described in the set of principles adopted by Resolution of the Board of the Warsaw Stock Exchange No. 17/1249/2010 of 19 May 2010, entitled: "Good Practices of Companies Listed on the WSE" (Good Practices, Corporate Governance Principles), and which 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 good practice principles that the Issuer can decide to apply at its own discretion.

7.2. Principles which have not been applied

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

Principle No. 6 Part III of Good Practices:

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

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

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

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

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

Referring to recommendations referred to in point 1 of the above-mentioned recommendations, under which the Company is supposed to keep a clear and effective information policy using traditional methods as well as modern technologies and state-of-the-art communication tools assuring swift, secure and efficient access to information, the Company hereby announces that in 2010 it failed to broadcast its general meetings through the Internet and failed to record the course of general meetings and failed to publish them on its website. The Issuer's failure to comply with the above-mentioned part of the recommendations resulted from technical problems and imperfections of the IT infrastructure necessary to carry out online live broadcasts of its general meetings.

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

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

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

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

At the same time the Issuer announces that the selection and appointment of members to management and supervisory authorities in the Company is made on the basis of applications obtained from candidates.

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

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

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

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

The financial data being the basis for financial statements and periodic reports and the monthly management and operational reporting carried out by ENEA S.A. is taken from the Company's financial and accounting system. After all the predetermined processes of closing the books of account at the end of each month have been carried out, detailed management reports on financial and operational matters are drawn up. Those reports are drawn up by the Control Office, with the participation of middle and senior managers from individual organisational units. With regard to completed reporting periods, the Company's financial results as compared with budget assumptions are subject to a detailed analysis, and any deviations are identified and appropriately clarified.

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

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

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

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

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

7.4. Shareholders holding substantial blocks of shares

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

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

7.5. Holders of securities carrying special inspection rights

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

7.6. Restrictions on exercising voting rights

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

7.7. Restrictions on assigning the ownership title to securities

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

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

7.8. Principles relating to appointing and recalling management personnel

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

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

employees for the term of the Management Board. The Company's Statute lays down the following principles and procedure for electing the Management Board member elected by the employees.

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

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

7.9. Powers of the Management Board members

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

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

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

11. Giving over fixed assets, except for real property, under a leasing, tenancy, lease, lending or utilisation agreement or for any other use;
12. Taking over a fixed asset, except for real property, under a leasing, tenancy, lease or utilisation agreement or for any other use, on the basis of one or more legal acts in a period of 12 months, where the value of the rent for 12 consecutive months is greater than or equal to the equivalent of EUR 50,000;
13. Matters that the Management Board requests that the Supervisory Board or General Meeting of Shareholders consider;
14. Determining the manner in which the Company exercises its voting rights at the General Meeting of Shareholders or at shareholders meetings of Significant Subsidiaries, subject to Clause 20 par. 6 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.

7.10. Description of the rules governing amendments of ENEA S.A.'s Statute

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

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

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

- the dissolution of the Company;
- transferring the Company's registered office abroad;
- 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;
- 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;
- merging the Company by transferring all of its assets to a different company;
- dividing the Company;
- establishing preferential terms for shares;
- incorporating a European company, transforming the Company into such a company, or acceding to such a company",

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

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

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

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

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

Meeting of Shareholders has been announced, it will be deemed to be a motion for another Extraordinary General Meeting of Shareholders to be convened.

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

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

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

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

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

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

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

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

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

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

The Management Board

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

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

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

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

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

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

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

Name	Position
Maciej Owczarek	President of the Management Board
Maksymilian Górniak	Member of the Management Board for Commercial Affairs
Hubert Rozpędek	Member of the Management Board for Business Affairs
Krzysztof Zborowski	Member of the Management Board for Power Generation

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

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

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

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

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

Resolutions adopted in writing or remotely using a means of direct communication are presented at the next meeting of the Management Board with the outcome of the vote.

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

President of the Management Board coordinates tasks in connection with the overall operations of the Company and the ENEA Capital Group.

Member of the Management Board for Commercial Affairs supervises and coordinates the overall tasks in connection with the trade of electricity and customers services.

Member of the Management Board for Economic Affairs supervises and coordinates the overall tasks in connection with economic, financial and accounting matters and risk-related issues in the Company and the ENEA Capital Group.

Member of the Management Board for Power Generation supervises and coordinates the entirety of issues associated with the creation of development strategies and their implementation, and exercises supervision over companies belonging to the ENEA Capital Group carrying out electrical and heat energy generation activities.

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

The Supervisory Board

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

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

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

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

Michał Łagoda,
Piotr Begier,
Marian Janas,
Wiesław Pawliotti

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

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

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

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

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

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

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

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

Board member must provide reasons for not attending in writing. A resolution of the Board is required to excuse a member of the Board for being absent.

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

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

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

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

- (a) monitoring the accuracy of the financial information presented by the Company, particularly by reviewing the appropriateness and consistency of the application of the accounting methods adopted by the Company and its group (including the criteria for consolidating the financial statements of the companies in the group);
- (b) monitoring the process of financial reporting;
- (c) Monitoring the effectiveness of internal control systems, internal audits and risk management;
- (d) monitoring the financial audit and presenting recommendations to the Board regarding the selection, appointment, re-appointment and dismissal of the external auditor by the authorised body and regarding the terms and conditions of its engagement;
- (e) monitoring the independence of the auditor and the entity authorised to audit the financial statements, including in the case of the provision of services as specified in Article 48 par. 2. of the Act on Auditors;
- (f) evaluating and submitting an annual internal audit plan to the Supervisory Board for approval;
- (g) evaluating and submitting an annual internal audit unit budget to the Supervisory Board for approval;
- (h) evaluating and submitting changes in the scope of activities of the internal audit unit to the Supervisory Board for approval;

- (i) discussing any problems or reservations that might result from auditing financial statements;
- (j) discussing the nature and scope of the audit with the Company's certified auditors before the commencement of each audit of the annual financial statements and monitoring the coordination of work between the Company's certified auditors;
- (k) reviewing internal control and risk management systems at least once a year, in order to ensure that key risks (including those associated with compliance with applicable provisions of law and regulations) are correctly identified, managed and disclosed;
- (l) ensuring the effectiveness of the internal audit by expressing an opinion on the election, appointment or recall of the head of the internal audit department, as well as monitoring the reaction of the Management Board of the Company to its findings and recommendations;
- (m) issuing an opinion on withdrawing from the payment conditions (reducing the remuneration) of the Director of the Inspection and Audit Office;
- (n) analysing reports of the Company's internal auditors and the key conclusions of other internal analysts and the Management Board's response to those conclusions, including examining the degree of independence of internal auditors;
- (o) inspecting the nature and scope of non-auditing services, in particular on the basis of the external auditor disclosing the sum total of all fees paid by the Company and its group to the auditing firm and its chain, in order to prevent a material conflict of interests in that context;
- (p) reviewing the effectiveness of the external auditing process and monitoring the response of the Management Board to written recommendations presented to it by external auditors;
- (q) examining issues being the reason for dismissing an external auditor and issuing recommendations on required action;
- (r) cooperating with the Company's organisational units responsible for auditing and control and periodically assessing their work;
- (s) reviewing the Company's system of management accounting.

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

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

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

1. The Audit Committee :

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

2. Nominations and Remuneration Committee:

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

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

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

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

In addition, the Audit Committee :

- reviewed the financial statements for the first half of 2010,
- accepted the Report on internal audit activities for the first half of 2010,
- reviewed completed internal audits and accepted final reports ,
- accepted the information on the current status of the implementation of the Project "Development and implementation of risk management system in the ENEA Capital Group",

8. ADDITIONAL INFORMATION

8.1. The entity authorised to audit the financial statements

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

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

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

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

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

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

8.2. Proceedings

Neither ENEA S.A. nor any of its subsidiaries is a party in any proceedings being conducted before a court, an authority competent to conduct arbitration proceedings or a public administration authority relating to liabilities or claims of ENEA S.A. or its subsidiary whose value amounts to at least 10 per cent of ENEA S.A.'s equity capital.

Furthermore, neither ENEA S.A. nor any of its subsidiaries is a party in two or more proceedings being conducted before a court, an authority competent to conduct arbitration proceedings or a public administration authority relating to liabilities or claims whose total value amounts to at least 10 per cent of ENEA S.A.'s equity capital.

A description of other pending proceedings to which ENEA S.A. or entities belonging to its capital group are party is included in the financial statements for the financial year 2010, in Note 37, and in the consolidated financial statements for the financial year 2010, in Note 47.

8.3. Achievements in the area of research and development

Generally, the Company has no significant achievements in the area of research and development. In 2010, jointly with external experts, we carried out analyses concerning developments on the market of electrical vehicles, in particular in the area of possible standardization and implementation of battery charging or replacement systems in such vehicles. Currently the Company is evaluating whether it is reasonable to become involved in the project.

8.4. Environmental issues

Since it is a business entity which uses the environment, ENEA S.A. had to fulfil legal requirements provided for in the relevant provisions of law. With regard to environmental protection, the Company was subject to the following basic legislation:

- The Environmental Protection Law Act of 27 April 2001, as amended;
- The Waste Materials Act of 27 April 2001, as amended;
- the Act on implementing the Environmental Protection Law, the Waste Materials Act and on the Amendment of Certain other Acts of 7 June 2001, as amended,
- the Water Law Act of 18 July 2001, as amended,
- the Act on Used Electrical and Electronic Equipment of 29 July 2005,
- the Act on Preventing and Remedying Environmental Damage of 13 April 2007,

- the Act on Making Information on the Environment Available, on Environmental Protection, on Community Participation in Environmental Protection, and on Environmental Impact Assessments of 3 October 2008,
- the Act on the System for Managing Emissions of Greenhouse Gases and Other Substances of 17 July 2009, as amended.

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.

Two wells: at the Energetyk Holiday Centre in Krzeczów, Tyczno, and at ul. Wojska Polskiego 142 in Zielona Góra, are leased out to other entities. In half-year environmental use reports submitted to the Marshall’s Office for Lubuski Province and to the Provincial Environmental Protection Inspectorate, collection of water from those wells is reported.

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 on types of installation whose operation requires notification of 2 July 2010 (Journal of Laws of 2010 No. 130, item 880).

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

Additional information on environment protection related issues has been listed in sec. 4.2.16 of this report.

8.5. Information on employment

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

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

8.6. Review of ENEA S.A.’s social engagement

In June 2010, ENEA S.A. released a publication entitled “*Close to the community. Review of ENEA S.A. social engagement 2007-2009*” – the first review of its social engagement activities in the history of the Company. The *Review* was accompanied by an analysis of the initiatives undertaken by ENEA S.A. to date for the benefit of the community. The publication was also meant to serve as a reminder that every company not only operates in a business environment, but exists in an extremely important social environment as well. To protect the natural environment, the *Review* was published ecologically, on certified paper manufactured to the highest standards.

The concept of compiling the *Review* grew out of the need to arrange and structure existing activities, and from the desire to progress to ENEA S.A.’s next stage of development in the area of social responsibility – the creation of a comprehensive CSR strategy, which was approved by the Supervisory Board of ENEA S.A. in November 2010.

The goal of the publication was to present the social activities undertaken by ENEA S.A. from 1 January 2007 to 31 December 2009 to a wider public. The activities described in the *Review* include selected proprietary projects of ENEA S.A., sponsoring focused on areas of social life which are essential from the Company’s perspective, and donations supporting initiatives consistent with ENEA S.A.’s social engagement policy.

ENEA S.A. has been an adherent of the social responsibility of business since the Company's inception. This important aspect of our operations has matured, and taken on various forms which have borne fruit in different areas of life. We are proud that we have been able to implement many excellent ideas and interesting projects, including ambitious cultural, educational, sports and health projects, as well as a number of smaller undertakings which were never really visible in the media but had worthy social goals and tremendous importance for everyone who contributed their time and energy.

The review "*Close to the community*" is also the first step towards communications and reporting covering the Company's social responsibility in the form of a comprehensive CSR report.

More information about the "Corporate Strategy for the ENEA Capital Group for the years 2010 – 2015 looking forward to 2020" can be found in section 4.4 of the Report of the Management Board on the operations of the ENEA Capital Group in 2010.

8.7. Glossary of industry terms

Please find below the glossary of the most frequent industry terms, as selected by ENEA S.A., used in this Report of the Management Board on the operations of ENEA S.A. in 2010:

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

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

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

1) fuelled by gas or with a total installed electrical power of less than

1 MW – yellow certificates;

2) fuelled by methane released and captured at lower mining levels in bituminous coal mines that are active, being closed down or already closed down, or by gas obtained from biomass processing within the meaning of Article 2 par. 1 pt. 2 of the Act on Biocomponents and Liquid Biofuels – violet certificates;

3) other than those mentioned in pt. 1 and 1a – red certificates

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

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

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

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

8.8. Signatures of the Management Board Members

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

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

Signatures:

President of the Management Board **Maciej Owczarek**

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

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

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