

Justification of the Management Board of ENEA S.A. for the proposed distribution of the net profit for the financial year covering the period from 01.01.2012 to 31.12.2012

While justifying the recommended allocation of the net profit of ENEA S.A. for the period from 01.01.2012 to 31.12.2012, we wish to inform you that the net financial result of PLN 522,680,000 achieved in the financial year 2012 was due to, among others, the generated profit on the core business activity of the Company, i.e. trade in electricity. The operating result amounted to PLN 136,978,000. Besides, there were revenues obtained from dividends amounting to PLN 362,091,000 as well as other financial revenues amounting to PLN 99,583,000 (mainly interest on account of long-term deposits and State Treasury bills and bonds).

Presented below is the justification for the recommended profit allocation:

1. Taking into consideration the plans presented in clause 2 of this motion, concerning implementation of the long-term strategy of the ENEA Capital Group for the generation area (including renewable energy sources) and the distribution area, it is recommended that the dividend payable to the shareholders shall amount to 30% of the net profits, i.e. to PLN 156,804,000, while the remaining part of the profit of PLN 365,876,000 should be allocated for investment financing.
2. One of the major factors of significance from the point of the view of the prospects of development of the ENEA Capital Group (the Group) is the implementation of a strategy based on performance of objectives in three major strategic areas:
 - development of the core business of the Group;
 - improvement of the efficiency of operations of the Group;
 - building a socially responsible company.

The implementation of the Group's strategy and its development require funds, whose obtaining is a key element underlying the implementation of investment plans and increasing the value of the Group for its shareholders, at the same time taking care of the natural environment. It has been assumed that while implementing the Group's strategy we will spent in the years 2010-2020 (in the basic variant) the total amount of PLN 18.7 billion on investment projects concerning conventional generation, distribution, renewable energy sources and cogeneration. We estimate that in the years 2013-2015 the expenditures will reach the following amounts:

- a) conventional generation: approximately PLN 5.5 billion
- b) distribution: approximately PLN 2.5 billion
- c) renewable energy sources: approximately PLN 0.6 billion.

In the area of conventional energy generation, the main objective is the development of a new 1,075 MWe coal-fired power unit with supercritical parameters in Świerże Górne. Its commissioning is planned to take place in 2017. On 21 September 2012, a contract was concluded with contractor consortium Hitachi Power Europe GmbH and Polimex-Mostostal S.A. for construction of 1,075 MWe coal-fired power unit with supercritical parameters. In line with the concluded contract, the project will be carried out during 58 months from the date of signing the contract. Outlay planned on the implementation of the project amounts to approximately PLN 5.3 billion net (excluding financial costs). In order to secure financing of the investment project, in September 2012 the Management Board of ENEA S.A. concluded a programme agreement with BRE Bank and ENEA S.A. concerning issue of bonds up to the total amount of PLN 4 billion. Funds obtained from the bonds issue will be particularly used for the financing of construction of the power unit at ENEA Wytwarzanie S.A. Along with the programme agreement concerning the bonds issue up to an amount of PLN 4 billion, ENEA S.A. and ENEA Wytwarzanie S.A. signed an underwriting contract.

Another investment project carried out by ENEA Wytwarzanie S.A. is construction of the flue-gas desulphuring system (FGD IV) for four 200 MWe power units. Construction of FGD IV will enable performance of the production plans of ENEA Wytwarzanie in conformity with the emission standards, in particular after 2015, without the need to reduce the generation volume due to exceeding the limits of sulphur dioxide emission to the air. At the same time, upgrading of the existing 200 MW and 500 MW power units operating at ENEA Wytwarzanie S.A. Elektrownia Kozienice is continued.

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

Investment outlays on the distribution area show a growing trend. In 2012, ENEA Operator spent more than PLN 896 million on investments, implementing its plans in more than 100%. This means an over 10% increase of outlay against 2011, over 54% increase against 2010, 82% against 2009 and 122% increase against 2008.

In 2012, ENEA Operator allocated a significant part of its investment outlays to upgrading and replacement of assets, aimed at the improvement of service quality and /or responding to the increased demand for power. This trend is going to continue in 2013.

As far as the renewable energy sources are concerned, development of the generation capacity is envisaged. It is planned to install the capacity of 250-350 MW generated from wind until 2020. At the same time, investing in biogas power plants is continued. In 2012, investment outlay on renewable energy sources exceeded PLN 355 million, which means that it was similar to the outlay in 2011.

The motion to allocate a portion of the profits to other reserve capitals results from the significant development needs of the Group. According to the „Corporate Strategy of the ENEA Capital Group for the years 2010-2015 with prospects until 2020”, outlays of approximately 18.7 bPLN have been planned until 2020 (basic variant). As regards the key investments implemented by the Group’s companies in the years 2013-2015, the total funds of approximately PLN 8.5 billion are going to be spent. Therefore, it is of significance for the ENEA Capital Group to build the equity portfolio on a long-term basis in order to be able to finance the investment projects in the future. Cash from retained earnings will form a supplementary source of financing investment outlays, particularly as regards projects regarding the Group’s development (mainly concerning investments in new generation capacity).

3. The Company’s Management Board wishes to emphasise that there are no premises justifying an increase of the deduction to the Company Social Benefits Fund (“ZFŚS”) from the profit generated in 2012. The latest additional deduction towards the ZFŚS was made in 2010 from profits for 2009 and it amounted to 1 thousand PLN per employee (according to the employment level as at the end of the financial year).