

ENEL-MED
CENTRUM MEDYCZNE

Directors' Report on activities of
Centrum Medyczne ENEL-MED S.A. in
the first half of 2011

Warsaw, 26 August 2011

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1. GENERAL INFORMATION ABOUT THE COMPANY

1.1. Description of the Company's activities

Centrum Medyczne ENEL-MED S.A. operates on the national market of medical services and is the third largest medical services operator in Poland taking into account revenues,¹ present on the Polish market of health care services since 1993.

The Issuer has 10 multi-profile outpatient clinics, eight diagnostic laboratories and one multi-profile hospital.

Outpatient clinics are situated in attractive and prestigious locations (*inter alia*, at shopping centres), in five large cities: Warsaw (Branches: Zacisze, Atrium, Blue City, Arkadia, Puławska, Domaniewska), Kraków (Galeria Krakowska Branch), Poznań (Kupiec Poznański Branch), Łódź (Manufaktura Branch) and Wrocław (Arkady Wrocławskie Branch). Additionally, in Warsaw the Company runs two company outpatient clinics, i.e. small branches located at the premises of corporate clients, offering basic services only to employees of the particular corporate client, and one company outpatient clinic in Piła. The Company cooperates with more than 600 partnership centres which run outpatient clinics at regions, where the Issuer does not have own medical facilities.

Currently, the Company manages eight diagnostic laboratories located in six voivodships: in Warsaw (Bielany, Zacisze), Wołomin, Konin, Łomża, Lublin, Mielec and Poznań.

Additionally, the Issuer is an operator of one specialised hospital located in Warsaw, having 19 beds (Zacisze Hospital).

Medical services provided by the Company include, *inter alia*:

- primary and specialised outpatient care, including rehabilitation and surgical procedures at outpatient clinics;
- dentistry;
- diagnostic imaging (*inter alia*, computed tomography imaging and magnetic resonance imaging, but also ultrasonography and x-ray imaging);
- hospitalisation, including surgical procedures in selected areas, scheduled at the Zacisze Hospital;
- off-site home medicine, home emergency visits and emergency care.

The Company offers a wide range of medical services (58 specialisation areas) to corporate clients (in form of Enel-Care medical subscription and in form of obligatory occupational medical care), as well as to individual customers (in form of paid medi-care insurance, fee-for-service (FFS) or under the contract with the National Health Fund).

Additionally, Centrum Medyczne ENEL-MED S.A. has signed contracts for medical care with various insurance firms, such as Allianz, Generali, Inter Polska, InterRisk, Signal Iduna and Uniq. Settlements with insurance firms are carried out based on FFS (fee-for-service) principles.

¹ Prospectus of Centrum Medyczne ENEL-MED S.A.

1.2. Management Board and Supervisory Board

Composition of the Management Board of the Company

As at 30 June 2011, the composition of the Management Board was as follows:

Adam Rozwadowski – President of the Management Board;
Jacek Rozwadowski – Vice President of the Management Board.

The composition of the Management Board has not changed until the date of publishing this report.

Composition of the Supervisory Board of the Company

As at 30 June 2011, the composition of the Supervisory Board was as follows:

Anna Rozwadowska – Chairman of the Supervisory Board;
Anna Piszcz – Member of the Supervisory Board;
Janusz Jakubowski – Member of the Supervisory Board;
Zbigniew Okoński – Member of the Supervisory Board;
Adam Ciuhak – Member of the Supervisory Board.

The composition of the Supervisory Board has not changed until the date of publishing this report.

1.3. Ownership structure

As at the date of publishing this Directors' report on activities of the Company, the share capital amounted to PLN 23,566,900.00 and was divided into 23,566,900 shares with a nominal value of PLN 1.00 each, including:

- 12,000,000 series A shares;
- 2,183,500 series B shares;
- 2,283,400 series C shares;
- 7,100,000 series D shares.

1.4. Strategy

The main objective of Centrum Medyczne ENEL-MED S.A. is strengthening the competitive advantage of ENEL-MED and ensuring long-term improvement of profitability of activities of the Company. This objective may be achieved as a result of the following activities:

- building and equipping a new specialised hospital at Al. Solidarności in Warsaw;
- expansion of the multi-profile outpatient clinic network on the territory of the whole country;
- introduction of innovative medical services, such as state-of-the-art diagnostic imaging techniques, and tele-medicine development;
- investments in IT systems and software;
- continuation of the cooperation between the public and private health care sectors;
- maintaining high quality of medical services.

1.5. Expected development of the Company

In the next years, the Company intends to successively develop its potential by opening new multi-profile outpatient clinics, providing also dentistry services, opening new diagnostic laboratories, development of tele-radiology services and by opening the next hospital of the Company, located at Al. Solidarności in Warsaw. Funds obtained as a result of the public offering of the Company as well as bank loans will be used for financing the achievement of the objectives set. First of all, the Company will complete the investment involving construction of the hospital, including the

Diagnostic Centre equipped with state-of-the-art diagnostic equipment: 64-slice computed tomography scanner and 1.5 Tesla magnetic resonance imaging scanner. Diagnostic services at the new hospital are to be introduced in the fourth quarter 2011, while the first patients will be admitted to the hospital in the first half of 2012.

The Issuer puts great emphasis on utilising the existing potential, and on return on investment ratios. Therefore, in the next years, the Issuer is going to develop the network of own multi-profile outpatient clinics, and where the opening of the own clinic has no economic justification, to establish cooperation with partnership centres.

Additionally, the Company is going to implement new comprehensive IT system.

2. KEY EVENTS IN THE FIRST HALF OF 2011

In the first half of 2011, the Company started construction of a hospital located at Al. Solidarności, in Warsaw. The hospital will have 33 beds and two fully equipped operating rooms. Two departments: orthopaedics and neurosurgery are going to be moved to the new hospital from Zacisze Hospital. The hospital will also include a Diagnostic Centre with 64-slice computed tomography scanner and 1.5 Tesla magnetic resonance imaging scanner.

As a part of the implementation of its strategy, in the first half of 2011, Centrum Medyczne ENEL-MED S.A. opened two new diagnostic centres: in Konin and Łomża.

The diagnostic laboratory in Konin is located at the Provincial Polyclinic Hospital. The laboratory has a 1.5 Tesla magnetic resonance imaging scanner, ensuring a full scope of diagnostic services: magnetic resonance imaging of head, neck, backbone, abdominal cavity or urography, as well as imagining of joints, bones and all soft tissues. The equipment allows also for carrying out angio resonance and diffusion and perfusion imagining of the skull. The laboratory also offers mediastinum and heart imagining, as well as mammography. The cooperation with the Anaesthetic Department in Konin Hospital allows carrying out tests under general anaesthesia.

The diagnostic laboratory in Łomża also provides magnetic resonance imagining diagnostic services. Patients may undergo, *inter alia*, diagnostic procedures such as magnetic resonance imagining of the head, backbone, joints, arm, forearm, upper leg or crural bones. Diagnostic procedures are carried out using a 0.2 Tesla magnetic resonance imagining scanner. This is so-called open magnetic resonance imagining scanner, which allows carrying out diagnostic procedures of people who are claustrophobic or people with medical contraindications to using traditional scanners.

Additionally, in the first half of 2011, the agreement for delivery of equipment and adaptation of the multi-profile outpatient clinic in Gdańsk, was signed. The branch in Gdańsk will be the 11th generally available outpatient clinic of the Company, offering comprehensive medical care services, including primary, as well as specialist ambulatory care, together with dentistry and diagnostic procedures using computed tomography imagining and magnetic resonance imaging.

In the first half of 2011, the Company signed 130 contracts with new corporate clients for the provision of medical services under the Enel-Care programme. Companies listed on the Warsaw Stock Exchange, international companies, state institutions, State Treasury companies and other entities have become new clients of the Issuer. As a result, the number of corporations using medical subscription services increased to 1,129. Companies with their head offices in Mazowieckie voivodship are a majority of clients of Centrum Medyczne ENEL-MED S.A.

Additionally, many corporate clients, satisfied with the quality of services provided, extended contracts for medical services for the subsequent period.

3. OTHER INFORMATION

3.1. Principles for drawing up semi-annual condensed financial statements

Principles for drawing up semi-annual condensed financial statements are described in the introduction to the semi-annual financial statements.

3.2. Description of main threats and risks related to remaining months of the financial year

- **Risk related to deterioration of the financial position of the Company's clients**

Sales of medical subscriptions to corporate clients constitute the main distribution channel of the Company. There is a risk that in case of significant deterioration of the financial position of the particular client, this client might give up offering medical care to its employees, which would result in terminating the contract with the Issuer. Potential risk stems also from employment reduction by the client, which would be related to a drop in related revenues.

- **Risk related to dependency on clients and distribution channels**

Corporate clients, individual customers and patients of insurance firms are the main groups of the Company's clients. There is a risk that the share of the particular client or the particular distribution channel in the Company's revenues would be so significant that in case of losing this client or a drop in sales through this channel, financial results of the Issuer could seriously deteriorate. Taking into account the above, in order to minimise the risk of dependency on the particular client or distribution channel, the Company consistently pursues the policy of diversification of the sources of revenues. In order to target new clients, the Company uses various marketing tools.

- **Risk related to excessive spreading of seasonal diseases**

Seasonal factors, including the number of people suffering seasonal diseases, such as flu (especially at the end of the winter and beginning of the spring, as well as at the end of summer and beginning of the fall) impact the number of patients using the services of the Company. There is a risk that in case of especially high number of patients suffering seasonal diseases, using the services of the Company, the Issuer would incur significant costs for services provided to additional patients, which could have a negative impact on the profitability of activities. However, historical experiences of the Company show that the additional inflow of subscription patients, generating costs, is balanced by an increase in FFS (fee-for-service) and insurance patients, which is an additional revenue-generating factor. Additionally, the Company carries out various educational and preventive activities aimed at protecting patients against seasonal diseases, including, *inter alia*, flu vaccinations for subscription patients.

- **Risk of excessive use of subscription products**

Subscription products are one of the main distribution channels of the Company. Profitability of the particular contract with the corporate client depends on subsequent use of subscription services by patients covered by medical care, i.e. the number of visits by these patients. There is a risk that the subscription use could be much higher than the average, which would significantly reduce the contract profitability for the Issuer. In order to minimise the risk, the Issuer monitors profitability of individual contracts on a monthly basis. Additionally, contracts are renegotiated from time to time. Taking into account the wide group of corporate clients of the Company, the Issuer aims at ensuring average satisfactory profitability of the whole client portfolio.

- **Risk related to termination of lease agreements**

Taking into account lease agreements concluded for relatively short periods with public health care centres, there is a risk of non-extension of lease agreements for subsequent periods. Material and valuable equipment is gathered at these locations. There is a risk that in such case, the Company would not find a replacement location, due to which services could be temporarily suspended, which would have a negative impact on the Company's financial result.

- **Risk of change in the service contracting policy by the National Health Fund**

The Company has long-term experience in cooperation with the National Health Fund. Starting the first year (2004), the value and scope of the contract with the National Health Fund has been increasing every year. The Company has very positive experiences in the cooperation with the National Health Fund. However, there is a risk of change in the service contracting policy by the National Health Fund. Additionally, the Issuer provides services exceeding the level contracted with the National Health Fund, which are settled by the National Health Fund on a timely basis. There is a risk that the National Health Fund could not pay for additional services provided by the Company, which would have an impact on the Issuer's financial result.

- **Risk of losing key medical staff**

Medical staff is a key asset in case of all medical operators. There is a risk of terminating the cooperation with the Company by individual physicians, which could result in losing some patients. However, the Company cooperates with various qualified physicians and experts, due to which an individual physician does not have a significant impact on revenues generated. Additionally, as a part of the effective human resources management policy, the Company implemented the incentive and loyalty programmes for medical staff, which involves analysing and remunerating the effectiveness of individual physicians. Additionally, training courses and seminars for medical staff are offered. The Issuer also offers competitive remuneration on at least market level.

- **Risk of lack of qualified medical staff**

Planned development of the medical network is based on the assumption of hiring new medical staff for new planned centres, including specialist physicians and auxiliary staff. There is a risk that the Issuer faces the barrier of lack of the proper medical staff, satisfying requirements of the Company pertaining to skills and professional level. In the past, the Company has not experienced any difficulties with hiring staff for individual locations, taking into account its brand and offered attractive employment conditions.

- **Risk of malpractice**

The volume of medical services, including consultations, advice and surgical procedures provided by the Company is significant. There is a risk of malpractice by the Company's medical staff. As a result, the Company could be charged with costs of damages for the patient and suffer significant image damage. In order to minimise the risk, the Company has implemented the customer management procedures and the code of conduct. A unit responsible for the quality of medical services and compliance of medical processes with standards and procedures developed has been separated in the organisational structure of the Issuer. Additionally, the Company and individual physicians have insurance policies covering malpractice.

3.3. Position of the Management Board with respect to the possibility of delivery of forecast results published for the particular year

The financial results for the first half of 2011 confirmed the dynamic development planned by the Issuer. The growth of sales by more than 20% vs. the similar period in the previous year has confirmed that the development of ENEL-MED is still faster than of the whole market of private medical services (in accordance with forecasts of PMR, the growth dynamics of the whole market would be 6% in 2011). This growth is also consistent with the Company's forecasts for the first half of 2011. When analysing the sales structure, it is possible to conclude that the dynamic growth had been recorded in all business areas, except for the hospital. However, it is necessary to note that the ENEL-MED hospital at Zacisze practically had reached the limit of its potential and is unable to admit more patients. The sales forecasts for 2011 are very likely to be achieved.

Considering the net profit, the Company's result for the first half of 2011 was by about 20% lower than expected. This is due mainly to contracts signed in the last year at relatively low prices, as well as to exceptionally high incidence of diseases in January 2011. Contracts signed in this year are much more profitable. At the same time, it is necessary to note that the Company's forecasts pertaining to a gradual decrease in the unit cost of medical services in line with the growth of the number of patients consulted at outpatient clinics. Taking into account a significant share of fixed costs and the fact that outpatient clinics outside Warsaw utilise only 30%-40% of their potential (in Warsaw – 70%-80%), this means a significant opportunities to reduce the unit cost.

In the second half of 2011, the Company will continue to focus on cost effectiveness, while maintaining still high quality standards. At the same time, the activities aimed at improving the profitability of medical care contracts concluded in 2010 will be undertaken. Considering the above, the Management Board would like to maintain its current forecasts for 2011, on condition that their minor adjustment on the net profit level is possible after the third quarter.

3.4. Information on shareholders holding at least 5% of the number of votes at the general meeting of shareholders, directly or indirectly through subsidiaries

The table below presents shareholders holding at least 5% of total votes at the annual general meeting of shareholders of Centrum Medyczne ENEL-MED S.A. as at the date of submitting the semi-annual report.

Shareholder	Number of shares	% of the capital	Number of votes	% of votes
Koremia Investments Ltd.*	7,124,000	30.23%	7,124,000	30.23%
Versinus Ltd.**	7,123,950	30.23%	7,123,950	30.23%
Generali Powszechnie Towarzystwo Emerytalne SA	1,500,000	6.36%	1,500,000	6.36%
Other shareholders	7,818,950	33.18%	7,818,950	33.18%

*100% of shares in Koremia Investments Ltd. with its registered office in Limassol (Republic of Cyprus) are held by Adam Rozwadowski, President of the Management Board of Centrum Medyczne ENEL-MED S.A.

**100% of shares in Versinus Ltd. with its registered office in Limassol (Republic of Cyprus) are held by Anna Rozwadowska, Chairman of the Supervisory Board of Centrum Medyczne ENEL-MED S.A.

3.5. Information on shares of the Issuer held by members of management and supervisory authorities

The table below presents shares of Centrum Medyczne ENEL-MED S.A. held by members of the Management Board and Supervisory Board of the Company as at the date of submitting the semi-annual report.

Shareholder	Number of shares	% of the capital	Number of votes	% of votes
Adam Rozwadowski*	7,124,000	30.23%	7,124,000	30.23%
Jacek Rozwadowski**	992,800	4.21%	992,800	4.21%
Anna Rozwadowska***	7,123,950	30.23%	7,123,950	30.23%

* Adam Rozwadowski, President of the Management Board holds 100% of shares in Koremia Investments Ltd. with its registered office in Limassol (Republic of Cyprus), which is a shareholder of Centrum Medyczne ENEL-MED S.A.

** Jacek Rozwadowski, Vice President of the Management Board holds 100% of shares in Smerona Holdings Ltd. with its registered office in Limassol (Republic of Cyprus), which is a shareholder of Centrum Medyczne ENEL-MED S.A.

*** Anna Rozwadowska, Chairman of the Supervisory Board holds 100% of shares in Versinus Ltd. with its registered office in Limassol (Republic of Cyprus), which is a shareholder of Centrum Medyczne ENEL-MED S.A.

3.6. Information on proceedings at court, before arbitration tribunal or public administration body with respect to liabilities and receivables

As at 30 June 2011, the Company did not participate in any proceedings at court, before arbitration tribunal or public administration body with respect to liabilities and receivables, the value of which would be equivalent to at least 10% of its equity.

Total value of all claims subject to proceedings pertaining to liabilities, pending as at 30 June 2011, did not exceed 10% of the Issuer's equity.

Total value of all claims subject to proceedings pertaining to receivables, pending as at 30 June 2011, did not exceed 10% of the Issuer's equity.

3.7. Information on granting a surety for loans or borrowings, or granting a guarantee, equalled at least 10% of the Issuer's equity

The Company has not granted any surety for loans or borrowings and has not granted any guarantee to another entity, for the value equalled at least 10% of the Issuer's equity.

3.8. Information on factors that in the opinion of the Company would impact its results in the perspective of at least next quarter

In the opinion of the Management Board of the Company, seasonality of the business might result in generating higher revenues in the third quarter 2011. July and August are the months generating lower costs of services of subscription customers, as the frequency of using the medical care services during that period is lower than in remaining months of the calendar year, while monthly subscription fees remain unchanged.

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CENTRUM MEDYCZNE

ENEL-MED S.A.

President of the Management Board

Adam Rozwadowski]

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[Rectangular seal reading:

CENTRUM MEDYCZNE

ENEL-MED S.A.

Vice President of the Management Board

Jacek Rozwadowski]

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