

**MANAGEMENT BOARD'S REPORT
ON THE ACTIVITIES OF
ZESPÓŁ ELEKTROCIEPŁOWNI WROCŁAWSKICH
KOGENERACJA S.A.**

2008

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I. Profile of the Company

1. Legal Basis

The Management Board’s Report on the Company’s Activities was prepared pursuant to § 91 section 5 and 6 of the Finance Minister’s Ordinance of 19 February 2009, Journal of Laws No. 33, item 259 (“*Ordinance*”) and the Accounting Act of 29 September 1994 – Journal of Laws no. 121 item 591, (“*Act*”).

2. Company characteristics

Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (*KOGENERACJA S.A.*, Company) is an enterprise operating in the power sector – it produces heat and electricity and provides heat transmission and distribution services. Co-generation of heat and electricity ensures that the average yearly production capacity is high and the chemical energy of the primary fuels is the most effective in the sector.

The Company comprises two production plants:

- Wrocław Heat and Power Plant, located in Wrocław at ul. Łowiecka 24
- Czechnica Heat and Power Plant located in Siechnice near Wrocław, providing total electric power of 363 MW and heating power of 1 059 MWt.

Both heat and power plants are the central heat sources for Wrocław, providing the city with heating, domestic hot water and industrial heat as well as with electricity as part of the national energy infrastructure.

KOGENERACJA S.A. complies with the requirements of art. 32 and art. 47 of the Energy Law.

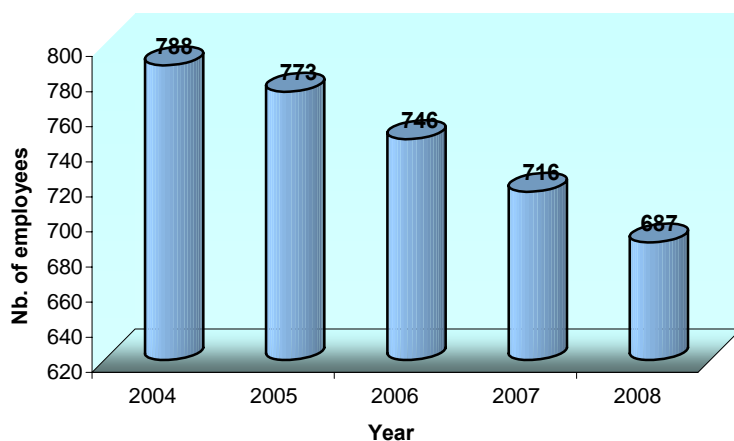
The Company has the required licences issued by the President of the Energy Regulatory Authority for production of electricity and heat as well as for transmission and distribution of heat. On 9 August 2007, the President of the Energy Regulatory Authority extended the Company’s licence for production of electricity and heat and for transmission and distribution of heat to 2025 (decisions no. WEE/38-ZTO/1276/W/OWR/2008/DT, WCC/538-ZTO/1276/W/OWR/2008/DT and PCC/611-ZTO/1276/W/OWR/2008/DT).

In the transactions with energy buyers, KOGENERACJA S.A. applies the prices which are regulated by the relevant tariffs. On 3 July 2008, the President of the Energy Regulatory Office issued decision OWR-4210-21/2008/1276/IX-A/DB “Tariff for heat” for KOGENERACJA S.A.

As regards the electricity tariff, the Company was exempted from the requirement to obtain regulatory approval (decision no. OWR-4211-5(4)/2005/1276/SS of the President of the Energy Regulatory Office of 23 June 2005).

3. Employment

Employment in the Company decreased by 100 FTEs over the last 5 years. As at 31 December 2008, the employment was 687, including 115 women and 572 men.



4. Organisational and capital connections with other entities

(in accordance with § 91 section 6, point 4 of the Ordinance)

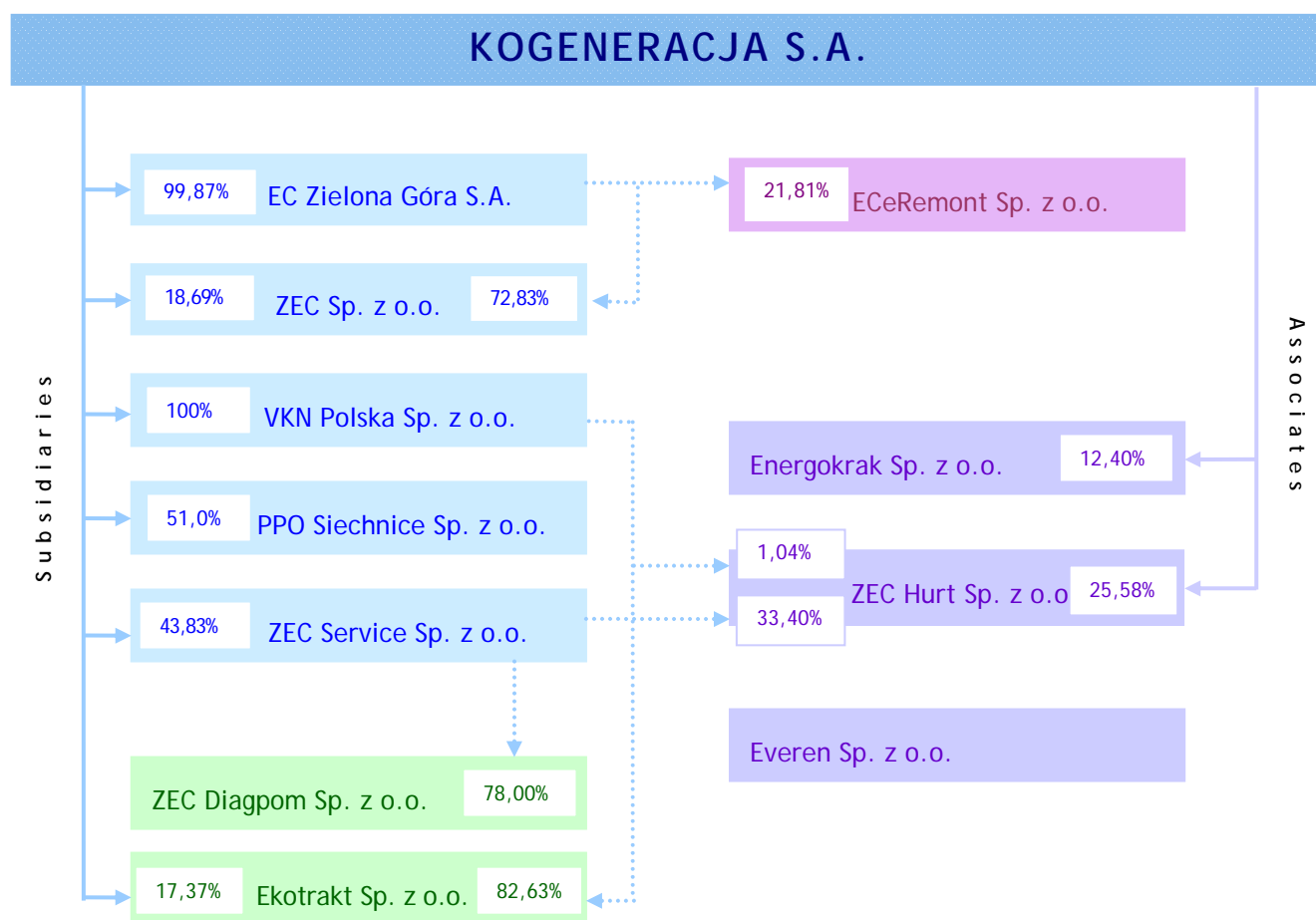
The Company has capital and organisational ties with:

- members of its Group (see the chart below);
- significant shareholders, particularly with EdF Group (see point 3 *Shareholders of the Company*).

a. Group structure

Graphic structure of the Group and KOGENERACJA’s share in the net worth of its individual subsidiaries and associates as well as its other ties through subsidiaries are presented in the chart below.

As at 31 December 2008



LEGEND:

- KOGENERACJA’s shares
- ⋯→ Subsidiaries’ shares

Calculation of the indirect shares in the Group undertakings is presented in the Financial Statements of KOGENERACJA S.A., point 16a Investments in Subsidiaries and Associates.

KOGENERACJA’s voting power (in percentage terms) in the Group companies corresponds to its share in their share capitals, except ECeRemont Sp. z o.o., where KOGENERACJA's indirect voting power in percentage terms is higher than its indirect equity interest and amounts to 35.81%. On 9 February 2009, having disposed of the overhaul division, the company was renamed to ECeAuto Sp. z o.o.

Due to the special rights vested in KOGENERACJA S.A. arising from the Articles of Association of ZEC Service (including the right to appoint the Supervisory Board Chairman and the right of the Chairman to approve Supervisory Board resolutions on key matters relating to the company’s operations) it was decided that ZEC Service Sp. z o.o. is a subsidiary, even though the parent does not have majority voting power in it. The company is consolidated with KOGENERACJA S.A.

Even though KOGENERACJA S.A. does not have any capital ties with Everen Sp. z o.o. the company is reported as an associate because the two entities carry out material transactions with each other.

b. Subsidiaries

The tables below show the percentage share in the share capital of the Group subsidiaries and the nominal value of the shares held by KOGENERACJA S.A. as at 31.12.2007 and 2008.

As at 31 December 2008

	Share capital	Number of shares	Nominal value of a share	No of shares held by KOGENERACJA S.A. (directly)		
				Number of shares	Nominal value of shares	% of capital
EC Zielona Góra S.A.	13 199 900	527 996	25	527 299	13 182 475	99,87
VKN Polska Sp. z o.o.	9 600 000	19 200	500	19 200	9 600 000	100,00
PPO Siechnice Sp. z o.o.	18 680 500	37 361	500	19 054	9 527 000	51,00
ZEC Service Sp. z o.o.	562 500	1 118	500	490	245 000	43,83
ZEC Sp. z o.o.	42 090 000	21 045	2 000	3 934	7 868 000	18,69
Ekotrakt Sp. z o.o.	1 765 000	3 530	500	613	306 500	17,37
Diagpom Sp. z o.o.	125 000	250	500	-	-	-

As at 31 December 2007

	Share capital	Number of shares	Nominal value of a share	No. of shares held by KOGENERACJA S.A. (directly)		
				Number of shares	Nominal value of shares	% of capital
EC Zielona Góra S.A.	13 199 900	527 996	25	527 299	13 182 475	99,87
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ZEC Service Sp. z o.o.	562 500	1 118	500	490	245 000	43,83
ZEC Sp. z o.o.	42 090 000	21 045	2 000	3 934	7 868 000	18,69
Diagpom Sp. z o.o.	125 000	250	500	-	-	-

c. Associates

The tables below show the structure of the share capitals of associates and the nominal value of the shares held by KOGENERACJA S.A. as at 31.12.2007 and 2008.

As at 31 December 2008

	Share capital	Number of shares	Nominal value of a share	No. of shares held by KOGENERACJA S.A. (directly)		
				Number of shares	Nominal value of shares	% of capital
ZEC Hurt Sp. z o.o.	625 500	1 251	500	320	160 000	25,58
Energokrak Sp. z o.o.	415 000	830	500	103	51 500	12,40

As at 31 December 2007

	Share capital	Number of shares	Nominal value of a share	No. of shares held by KOGENERACJA S.A. (directly)		
				Number of shares	Nominal value of shares	% of capital
ZEC Hurt Sp. z o.o.	625 500	1 251	500	320	160 000	25,58
ESV S.A.	6 730 000	134 600	50	33 570	1 678 500	24,94
Ekotrakt Sp. z o.o.	1 765 000	3 530	500	613	306 500	17,37
Energokrak Sp. z o.o.	415 000	830	500	103	51 500	12,40

ECeRemont Sp. z o.o. is also an associate – KOGENERACJA S.A. does not have a direct interest in the company. The indirect share is 21.79% and the voting power is 35.81%. The Company is consolidated using the equity method.

d. Changes in the Group structure

Below is a description of the transactions and events that affected the Group structure in 2008:

Subsidiaries

1) *Purchase of shares in VKN Polska Sp. z o.o.*

- On 29 January 2008 the Management Board of KOGENERACJA S.A. made a statement, in the presence of a Notary, on acquiring 17,000 shares (with a nominal value of PLN 500 each) in the increased share capital of VKN Polska Sp. z o.o.
The company’s share capital was raised by PLN 8,500 k by the resolution of the Extraordinary General Meeting of Shareholders of VKN Polska Sp. z o.o. on 22 January 2008. Under the resolution, KOGENERACJA S.A., as the only shareholder undertook to make a contribution to the increased capital within 8 days of making the share acquisition statement. The payment was transferred on 4 February 2008.
- On 22 December 2008, the Management Board of KOGENERACJA S.A. made a statement, in the presence of a Notary, on acquiring 9,000 shares (with a nominal value of PLN 500 each) in the increased share capital of VKN Polska Sp. z o.o. On 18 December 2008, by the resolution of the Extraordinary General Meeting of Shareholders of VKN Polska Sp. z o.o. the company’s share capital was raised by PLN 4,500 k (from PLN 9,600 k to PLN 14,100 k). KOGENERACJA S.A. paid up the increased share capital on 30 December 2008 and the capital increase was formally registered on 13 January 2009.

2) *Purchase of shares in Ekotrakt Sp. z o.o. by VKN Polska Sp. z o.o.*

- The Parent’s subsidiary, VKN Polska Sp. z o.o., purchased 1,875 shares in Ekotrakt Sp. z o.o. with a nominal value of PLN 500 each, increasing its stake in the company, effective from 9 October 2008, from 29.5% to 82.6%. Thus, as at 31 December 2008 KOGENERACJA S.A held the remaining 17.4 % share in the share capital of Ekotrakt Sp. z o.o., so its indirect stake was 100%. For this reason, the company is reported as a subsidiary.

Associates

1) *Ekotrakt Sp. z o.o. declared as a subsidiary*

- Due to the purchase of the shares in Ekotrakt Sp. z o.o. by VKN Polska Sp. z o.o., Ekotrakt was classified as a subsidiary because the indirect share of KOGENERACJI S.A. in Ekotrakt was 100% as at 31 December 2008.

2) *Sale of shares in ESV S.A.*

- On 31 October 2008, KOGENERACJA S.A. finalised the sale of its shareholdings in ESV S.A., an associated company. The shares sold represented 22.94% of the company’s share capital. In effect, KOGENERACJA does not hold any ESV shares.

3) *Sale of an organised part of EceRemont Sp. z o.o.*

- On 30 December EC Zielona Góra S.A. signed an agreement with Polimex-Energo to selling to it an organised part (overhaul division) of PRE ECeRemont Sp. z o.o.

e. Equity investments within the Group

In 2008, equity investments were made by the Parent company and the subsidiary VKN Polska Sp. z o.o. KOGENERACJA S.A. purchased 26,000 shares of VKN Polska Sp. z o.o., for PLN 13,000 k. VKN Polska Sp. z o.o., purchased 1,875 shares in Ekotrakt Sp. z o.o. for a total amount of PLN 3,394 k.

The effect of these transactions on KOGENERACJA's percentage share in the share capitals of the Group companies was described in point 6d of this report.

f. Other equity investments

As a result of liquidation proceedings, on 30 June KOGENERACJA S.A. received the equivalent of PLN 736 k resulting from distribution of the liquidated assets of PFK S.A.. On 10 September 2008, PFK S.A. was struck off the register of companies.

KOGENERACJA S.A. also has shares in Towarowa Gielda Energii S.A.

The table below shows the share in the shares capitals of these companies as at 31 December 2008 and 31 December 2007.

	<i>Shares held by KOGENERACJA S.A.</i>			
	<i>31 December 2008</i>		<i>31 December 2007</i>	
	<i>% of share capital</i>	<i>% of total voting power</i>	<i>% of share capital</i>	<i>% of total voting power</i>
PFK S.A.	-	-	9,96	9,96
Towarowa Gielda Energii S.A.	4,66	4,66	4,66	4,66
Fortum Wrocław S.A.	-	-	1 share	1 vote

II. Key production and financial figures

1. Key products

(in accordance with § 91 section 6, point 1 of the Ordinance)

The Company’s key products are: heat and electricity as well as energy origin certificates: green and red certificates.

The sales of both products (in production units) in the years 2008 and 2007 are presented in the table below.

	<i>J.m.</i>	<i>from 1 January to 31 December 2008</i>	<i>from 1 January to 31 December 2007</i>	<i>Change (number)</i>	<i>Change (%)</i>
Sales of heat	TJ	8 717	8 687	30	0
Sales of electricity	MWh	1 175 336	1 181 388	(6 052)	(1)
Totale sales of products in units	TJ	12 948	12 940	8	0

Sale of heat in 2008 was 8 717 TJ and was similar to the last year's performance. The slight increase was caused by the lower temperatures noted in the heating period compared with the previous year as well as the Company’s marketing efforts aimed at acquiring new heat buyers.

Sales of electricity in 2008 was at 1 175 336 MWh and was by 6 052 MWh (1%) lower than in 2007. The decrease resulted from the need to reduce the so-called pseudo-condensation (i.e. electricity production without simultaneous generation of heat) due to the increase in the statutory level of the gross efficiency of transformation of the fuel’s chemical energy for co-generated production of energy (to 75%).

Total sale of products in the reporting period was 12 948 TJ (including 8 717 TJ for heat) and was similar to the level recorded in 2007.

The value and structure of product sales in 2008 and 2007 were as presented in the table below.

	<i>Value (in PLN thousand)</i>	<i>Structure (%)</i>	<i>Value (in PLN thousand)</i>	<i>Structure (%)</i>	<i>Change (value)</i>	<i>Change (%)</i>
Sales of heat	214 057	50	202 378	52	11 679	6
Sales of electricity	168 356	39	163 005	42	5 351	3
Certificates	35 074	8	16 950	4	18 124	107
Ancillary services	6 385	1	-	-	6 385	-
Other revenues	5 447	1	4 516	1	931	21
Revenues from the sale of finished goods	429 319	100	386 849	100	42 470	11

2. Key financials

(in accordance with § 91 section 5, point 2 of the Ordinance)

In 2008, the Company generated a net profit of PLN 47 547 k, which was by PLN 12 479 k lower than last year. The key financials of the Company are presented in the tables below.

a. Selected items of the Profit and Loss Account of KOGENERACJA S.A.

<i>in PLN thousand</i>	<i>from 1 January to 31 December 2008</i>	<i>from 1 January to 31 December 2007</i>	<i>Change (value)</i>	<i>Change (%)</i>
Revenues	429 667	387 211	42 456	11
Cost of sales	(386 022)	(358 736)	(27 286)	8
Gross profit on sales	43 645	28 475	15 170	53
Administrative expenses	(7 340)	(6 710)	(630)	9
Selling expenses	(1 009)	(846)	(163)	19
Other operating revenues/costs	(4 538)	16 878	(21 416)	(127)
Operating profit (EBIT)	30 758	37 797	(7 039)	(19)
Net finance revenues	25 055	31 473	(6 418)	(20)
Income tax	(8 266)	(9 244)	978	(11)
Net profit	47 547	60 026	(12 479)	(21)

b. Revenues

<i>in PLN thousand</i>	<i>from 1 January to 31 December 2008</i>	<i>from 1 January to 31 December 2007</i>	<i>Change (value)</i>	<i>Change (%)</i>
Revenues	429 667	387 211	42 456	11
Revenues from the sale of finished goods	429 319	386 849	42 470	11
<i>including certificates</i>	35 073	16 950	18 123	107
<i>including ancillary services</i>	6 385	1 170	5 215	446
Revenues from the sale of merchandise and raw materials	348	362	(14)	(4)

In 2008, the company generated **revenues** of PLN 429 667 k, including the revenues from the sale of products of PLN 429 319 k and the revenues from the sale of merchandise and raw materials of PLN 348 k. In 2007, the revenue was PLN 387 211 k, including the revenues from the sale of products of PLN 398 849 k and the revenues from the sale of goods and materials of PLN 361 k.

The higher **revenues from the sale of products** achieved in 2008 (by PLN 42 470 k) were affected by two factors:

- higher prices of electricity and heat;
- the sale of certificates.

The yearly average increase in the "black" electricity price was 8.5%, which was due to the favourable market conditions. The increase in the price of heat was 5.0% and the price of heat power increased by 9.7%; this is an effect of the favourable prices and heat tariffs for KOGENERACJA, which became effective on 1 August 2008 following approval of the President of the Energy Regulatory Office.

In 2008, KOGENERACJA S.A. acquired and sold rights under certificates for co-generated energy (red certificates) and energy from renewable sources – co-firing of biomass – (green certificates) for an amount of PLN 35 073 k. Sale and valuation of the red certificates began in July 2007, so it covered only a half of the previous period, while in 2008 the certificate sales continued throughout the year, hence the difference of PLN 18 123 k between 2007 and 2008. In addition, production of electricity through co-firing of wooden biomass increased twofold in 2008 vs. 2007. Production of green energy in 2008 amounted to 56 377 MWh compared with 28 012 MWh in 2007.

c. Fixed costs and variable costs

In 2008, *variable costs* relating to the generation of the sold products were 11.7% higher than in 2007 amounting to PLN 205 843 k. In 2007, these costs were at PLN 184 300 k. The increase in variable costs by PLN 21,543 k is a consequence of the higher fuel costs caused by the increase in the prices of the basic production fuel by 27.8%. The coal burned in 2008 was of high calorific value (23 969 kJ/kg compared with 21 679 kJ/kg in 2007) and of low sulphur content.

The increase in other variable costs is an effect of the need to purchase energy in the balancing market to meet the terms of the sale of the energy produced in KOGENERACJA S.A., in the amount higher by PLN 3 455 k. The increase also results from the provision of PLN 2 733 k for the CO₂ emissions limit shortage (effect of the lower limit for CO₂ emissions).

in PLN thousand	Cost of sales		Administrative expenses		Selling expenses		Total	
	from 1.01.2008 to 31.12. 2008	from 1.01.2007 to 31.12. 2007	from 1.01.2008 to 31.12. 2008	from 1.01.2007 to 31.12. 2007	from 1.01.2008 to 31.12. 2008	from 1.01.2007 to 31.12. 2007	from 1.01.2008 to 31.12. 2008	from 1.01.2007 to 31.12. 2007
Variable costs	(205 843)	(184 300)	-	-	-	-	(205 843)	(184 300)
fuel costs	(170 291)	(152 289)	-	-	-	-	(170 291)	(152 289)
excise tax	(22 125)	(23 172)	-	-	-	-	(22 125)	(23 172)
other variable costs	(13 427)	(8 839)	-	-	-	-	(13 427)	(8 839)
Fixed costs	(180 096)	(174 354)	(7 340)	(6 710)	(1 009)	(846)	(188 445)	(181 910)
staff costs	(66 643)	(65 785)	(5 165)	(4 398)	(776)	(675)	(72 584)	(70 858)
overhauls	(23 197)	(19 855)	(6)	-	-	-	(23 203)	(19 855)
depreciation	(43 455)	(42 460)	(22)	(21)	-	-	(43 477)	(42 481)
services	(29 675)	(29 147)	(1 449)	(1 766)	(158)	(157)	(31 282)	(31 070)
other fixed costs	(17 126)	(17 107)	(698)	(525)	(75)	(14)	(17 899)	(17 646)
Value of goods and materials sold	(83)	(82)	-	-	-	-	(83)	(82)
Total costs	(386 022)	(358 736)	(7 340)	(6 710)	(1 009)	(846)	(394 371)	(366 292)

Fixed costs of the products sold in 2008 were PLN 188 445 k, while the staff costs were higher (by PLN 1 768 k) and so were the costs of depreciation and overhauls (by PLN 4 344 k), which results from the continuous upgrade and improvement of the power generating equipment to make it fit for co-firing of biomass and coal.

The increase in staff costs in 2008 was driven by:

- increase in salaries and social security expenses by PLN 522 k;
- year-on-year increase of provisions for staff costs by PLN 1 133 k (provisions for energy allowance and jubilee awards);
- increase in other employee benefits by 113 k.

The cost of external services was maintained at the previous level as a result of tighter control and review of the contracts with suppliers.

d. Other operating profit (loss)

In 2008, the loss on other operations was at (- PLN 4 538) k compared with the profit of PLN 16 878 k achieved in 2007. In 2007, the performance was overwhelmingly affected by the additional income from the sale of CO₂ emission rights, an item that was not recorded in 2008.

In 2008, the other operating revenues included mainly gains from the sale of fixed assets (sale of the High Transmission Line with the transformer station 110 KV “Stanowice” to ESV S.A., company which previously leased the facility) and the accrual treatment of the compensation under the cover for the loss of profit due to weather anomalies (weather derivative) in the amount of PLN 2 332 k.

The main items which affected the other operating costs in 2008 included the impairment charge of (- PLN 3 559 k) for an investment property and the provision for future payment of energy allowances to the former staff members in the amount of PLN 1 825 k.

e. Net finance revenues

The lower profit on financial activity in 2008 (by PLN 6 418 k) was mainly due to the lower financial revenue (by PLN 5 759 k): PLN 27 714 k in 2008 vs. PLN 33 473 k in 2007).

The lower financial revenue results from the lower (by PLN 8 701 k) dividend received from EC Zielona Góra S.A., subsidiary. The lower dividend income was partly offset by the revenue from the sale of shares of ESV S.A. in the amount of PLN 2 714 k and the reversal of impairment for the shares of Towarowa Giełda Energii S.A. in the amount of PLN 3 694 k.

Financial costs were by PLN 659 k higher than last year (net value of the sold ESV S.A.: PLN 1 758 k and liquidation of PFK S.A., company whose shares were held by KOGENERACJI S.A.).

f. Net profit

In 2008, the Company earned a net profit of PLN 47 547 k compared with PLN 60 026 k earned in 2007.

The change of PLN 12 479 k results from:

- higher profit on sales by PLN 15 170 k in 2008 - mainly due to the strong increase in "black" electricity prices from PLN 137.00 / MWh in 2007 to PLN 148.71 /MWh in 2008, i.e. 8.5% per unit and the double increase in the production of green, biomass-derived energy;
- decrease in the other operating revenues by PLN 21 417 k:
 - (-PLN 19 269) k, revenue from the sale of emission rights in 2007 – in 2008, due to the new rights limits, a shortage of CO₂ emissions was noted
 - (- PLN 2 696) k, lower revenues from the valuation of the weather derivative in 2008;
- decrease in net finance revenues by PLN 6 418 k:
 - (- PLN 8 701) k, lower dividend received from EC Zielona Góra in 2008.

g. Key ratios: ROA, ROE, ROCE

(%)	<i>from 1 January to 31 December 2008</i>	<i>from 1 January to 31 December 2007</i>	<i>Change (%)</i>
Return on assets (ROA)	4,52	6,65	(32)
Return on equity (ROE)	6,17	7,98	(23)
Return on capital employed (ROCE)	5,05	7,49	(33)

The Company’s profitability ratios in 2008 were lower year-on-year due to the lower operating profit (down by 19%) and the net profit (down by 21%).

Ratio calculation methodology:

ROA = Net profit / Total assets

ROE = Net profit / Equity

ROCE = EBIT/capital employed defined as equity + (long term and short term borrowings less short term investments less long term investments).

3. Distribution markets and supply sources

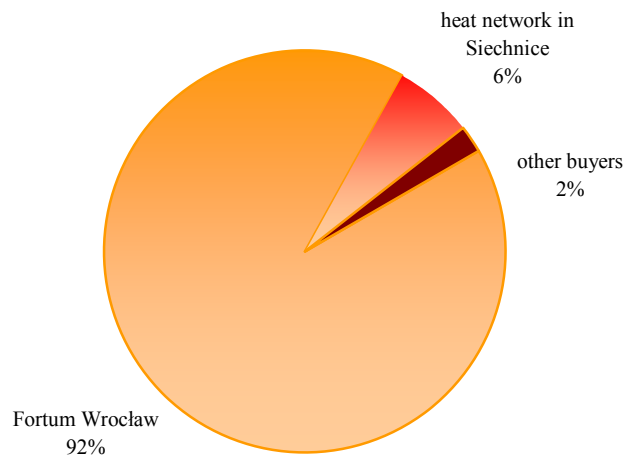
(in accordance with § 91 section 6, point 2 of the Ordinance)

a. Distribution markets

The key distribution markets in 2008 were:

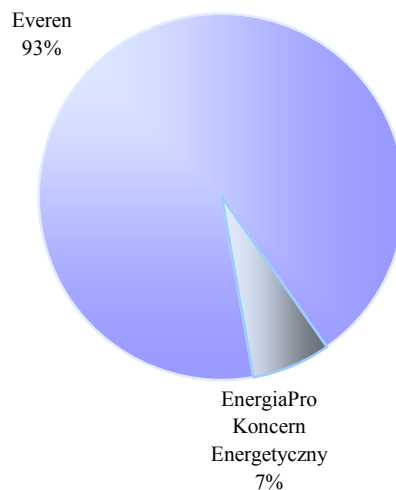
- the buyers using the heating system of Wrocław and Siechnice, to whom heat is supplied through:
 - the local heat distributor, i.e. Fortum Wrocław S.A. – 92 % of the heat sold;
 - heating network in Siechnice (the Gmina of Św. Katarzyna) – 6 % of the heat sold;
 - other buyers – 2 % of the heat sold.

Buyers using the heat system



- buyers of electricity co-generated with heat:
 - Everen Sp. z o.o. – 93 % of energy sold;
 - EnergiaPro Koncern Energetyczny S.A. – 7 % of energy sold;

Buyers of electricity



b. Connections with buyers

For the purpose of heat sale, the Company mainly uses the distribution network of Fortum Wrocław S.A. (from 1 January 2009: Fortum Power and Heat Polska Sp. z o.o).

In the electricity market, energy is sold under annual two-party agreements and SPOT agreements concluded directly with buyers, i.e. distribution companies and the trading companies required to buy certain volumes of electricity co-generated with heat that is then sold on to buyers using the energy for own needs. However, physically, the electric energy is sent through the distribution network of EnergiaPro Grupa Tauron S.A.

c. Connections with suppliers

The Company sources production fuel under the following agreements:

- 1) Long-term agreement no. KW/05/153/UH for the sale of power coal, concluded on 25 May 2005 between the syndicate of KOGENERACJA S.A.– Energokrak Sp. z o.o. and Katowicki Holding Węglowy. Energokrak Sp. z o.o. will be buying the contracted coal to sell it on to KOGENERACJA S.A. Coal deliveries will be taking place from 1 July 2007 to 30 June 2021.
- 2) Agreement no. SW/05/174/UH for the purchase and supply of power coal concluded on 6 July 2005 with Przedsiębiorstwo Handlowo-Uługowe Energokrak Sp. z o.o. The agreement expires on 30 June 2021.
- 3) Agreement no. SW/08/016/UH for the purchase and supply of power coal concluded on 30 January 2008 with Przedsiębiorstwo Handlowo-Uługowe Energokrak Sp. z o.o. The agreement expired on 31 December 2008.
- 4) Master Agreement no. SB/08/332/UH of 27 June 2008 with Przedsiębiorstwo Handlowo-Uługowe Energokrak Sp. z o.o. for the supply of biomass. The agreement expires on 31 December 2008.
- 5) Long-term agreement no. 1/2005 of 4 July 2005 with Odratrans S.A. and Energokrak Sp. z o.o. for transport and shipment of hard coal. The agreement expires on 30 June 2021.
- 6) The 1-year agreement no. 1/2008 of 3 March 2008 to the long-term agreement no. 1/2005 of 4 July 2005 with Odratrans S.A. and Energokrak Sp. z o.o. for transport and shipment of hard coal. The agreement expires on 31 March 2009.

4. Material agreements concluded in 2008

(in accordance with § 91 section 6, point 3 of the Ordinance)

On 17 September 2008,

KOGENERACJA S.A. entered into an electricity sale agreement with Everen Sp. z o.o. The term of the agreement is from 1.01.2009 to 31.12.2009. The estimated value of the agreement was PLN 182 000 k and was changed by an annex on 23 December 2008, whereby the value was increased to PLN 195 000 k.

On 20 October 2008 the Company signed an annex to the agency and deposit agreement with Société Générale S.A. Warsaw Branch, increasing the maximum value of the bonds issue from PLN 50 000 to PLN 180 000 k.

5. Key domestic and foreign investments

(in accordance with § 91 section 6, point 4 of the Ordinance)

In the reporting year of 2008 the KOGENERACJA S.A. did not invest in any securities other than shares or in intangible assets or properties. Under financial instruments, the Company recognised the “Insurance against the loss of profit due to weather anomalies – weather collar derivative”, whose value was estimated at the balance sheet date at PLN 4 431 k (PLN 5 028 k in 2007) by an independent valuer.

6. Related party transactions

(in accordance with § 91 section 6, point 5 of the Ordinance)

The key transactions with the related parties are shown in the table below. Also, Everen Sp. z o.o. was classified as a related party. The company has no direct capital ties with KOGENERACJA S.A., but is a member of the EDF Group, the parent of the Company, and there are significant transactions being made between the companies.

Other transactions with related parties are presented in detail in the Financial Statements of KOGENERACJA S.A. for 2008, point 37 *Related Party Transactions* (III Notes).

<i>in PLN thousand</i>	<i>Revenues earned from related party transactions in the current period</i>	<i>Costs incurred in related party transactions in the current period</i>
EC ZG S.A.	20 505	-
Everen Sp. z o.o.	174 936	5 660
PPO Siechnice Sp. z o.o.	9 979	8
Energokrak Sp. z o.o.	51	187 653
VKN Polska Sp. z o.o.	547	6 928
ZEC Service Sp. z o.o.	2 309	31 464
ZEC Diagpom Sp.z o.o.	117	1 793
ZEC Hurt Sp. z o.o.	1 064	2 332

7. Loan agreements

(in accordance with § 91 section 6, point 6 of the Ordinance)

a. Loan agreements concluded in 2008

As at 31.12.2008

<i>in PLN thousand</i>		<i>Amount</i>	<i>Interest rate</i>	<i>CCY</i>	<i>Date borrowed</i>	<i>Balance</i>	<i>Due date</i>
Credits							
BOŚ	Overdraft	30 000	WIBOR 1M + 0,9%	PLN	12-11-2008	29 981	30-11-2009
Bank Handlowy	Overdraft	23 000	WIBOR 1M+ 0,25%	PLN	19-05-2008	-	31-10-2008
ING	Overdraft	30 000	WIBOR 1M + 0,7%	PLN	18-12-2008	-	30-11-2009
Loans							
EDFI S.A.	Intercompany loan	24 000	7,76%	PLN	27-11-2008	24 171	27-02-2009

1) Bank overdraft – Bank Handlowy S.A.

On 19 May 2008, the Company renewed its Overdraft Agreement with Bank Handlowy S.A. from Warsaw for PLN 100 000 k under the Framework Agreement no. PBK/670/UR/0011/03 for credit transactions under Cash Pooling dated 1 July 2003. The agreement expired on 31 October 2008 and was not extended.

2) Bank overdraft – ING Bank Śląski S.A.

On 18 December 2008, the Company renewed for another year its Overdraft Agreement with ING Śląski S.A., Katowice for PLN 30 000 k. The agreement will terminate on 31 October 2009. The facility is secured by:

- registered pledge on the coal kept on heaps in Wrocław and Siechnice, with a total value not lower than PLN 21,000 k;
- open mortgage up to PLN 48 900 on the perpetual usufruct of land and on the machinery and buildings situated on that land;
- assignment of insurance policy for the coal stock and properties.

3) Bank overdraft – BOŚ S.A.

On 12 November 2008, the Company concluded Overdraft Agreement with BOŚ S.A, Warsaw, for PLN 30 000 k. The agreement will terminate on 30 November 2009. The facility is secured by:

- blank bill of exchange with a B/E declaration;
- receivables from Everen Sp. z o.o.;
- power attorney to the Borrower's account in BOŚ S.A.

b. Loan agreements concluded in the previous years

<i>in PLN thousand</i>		<i>Amount</i>	<i>Interest rate</i>	<i>CCY</i>	<i>Date borrowed</i>	<i>Balance</i>	<i>Due date</i>
WFOŚ i GW	Term loan	21 500	3,55%	PLN	29-12-2006	16 179	16-06-2013

1) Loan from the Provincial Environmental Protection and Water Management Fund

On 29 December 2007, the Company signed a loan agreement with the Voivodship Environment and Water Protection Fund (WFPŚiGW) for PLN 21,500 k to subsidise an investment.

The loan is secured by:

- assignment of receivables of PLN 15,000 k under the heat sale agreement with Fortum Wrocław S.A.;
- blank bill of exchange for PLN 32,250 k;
- bank guarantee of PLN 10,750 k from ING Bank Śląski S.A.

The loan was drawn in tranches in 2006 and 2007. As at 31 December 2008, the balance of the loan is: PLN 16 179 k.

8. Loans granted

(in accordance with § 91 section 6, point 7 of the Ordinance)

a. Loans granted in 2008

In 2008, the Company did not make any loans to its Group companies.

b. Loans granted in the previous years

KOGENERACJA S.A. receives quarterly financial income from the loans given to EC Zielona Góra S.A. The loan agreements were signed on 3 June 2002 for a total amount of PLN 69 700 k. The loans are to be repaid by 2018 and financed construction of the CC Gas Unit in EC ZG, which was commercially commissioned in 2004.

As at 31 December 2008

in PLN thousand

	Amount	Interest rate	CCY	Date granted	Balance	Due date
Loans						
EC Zielona Góra S.A.	69 700	WIBOR + 1,3%	PLN	03-06-2002	56 026	30-06-2016

c. Loans granted to Directors

As part of the Company Social Fund, in 2008 loans were given to the following Directors:

As at 31 December 2008

in PLN thousand

	Amount	Interest rate	CCY	Date granted	Balance	Due date
Andrzej Siennicki	6 000	1%	PLN	07-05-2008	4 968	31-05-2011
Wojciech Burdynowski	6 000	1%	PLN	07-05-2008	4 968	31-05-2011
Henryk Zajas	8 000	1%	PLN	02-10-2008	7 750	31-07-2011
Danuta Żeleźna	30 000	1%	PLN	06-05-2008	30 380	31-05-2014
Danuta Żeleźna	6 000	1%	PLN	02-10-2008	5 812	31-07-2011

9. Guarantees given and received

(in accordance with § 91 section 6, point 8 of the Ordinance)

a. Guarantees given

In 2008, the Company did not give any guarantees (for loans or other), whose total value would amount to at least 10% of its equity.

Detailed list of all guarantees given to companies is presented in the Financial Statements of KOGENERACJA S.A. for 2008, point 36 *Contingent Liabilities* (III Notes).

b. Guarantees received

In 2009, the Company did not receive any loan guarantees.

10. Issue of securities

(in accordance with § 91 section 6, point 8 of the Ordinance)

As at 31.12.2008, the value of the securities issued by the Company was PLN 32 969 k. The proceeds from the bonds issue was used to fund the Company working capital requirements.

11. Reported financials versus projections

(in accordance with § 91 section 6, point 10 of the Ordinance)

The Company did not publish its projections for 2008.

12. Assessment of financial resources management

(in accordance with § 91 section 6, point 11 of the Ordinance and art. 49, section 2, point 4 of the Act)

a. Cash flows

In 2008-2007, the Company’s cash flows were as follows (selected data):

<i>in PLN thousand</i>	<i>for the period from 1 January 2008 to 31 December 2008</i>	<i>for the period from 1 January 2007 to 31 December 2007</i>	<i>Change (value)</i>
Net cash from operating activities	27 587	95 210	(67 623)
Net cash used in investing activities	(72 549)	(36 688)	(35 861)
Net cash from financing activities	50 622	(58 258)	108 880
Total net cash flows	5 660	264	5 396
Cash and cash equivalents at the beginning of the financial year	405	141	264
Cash and cash equivalents at the end of the financial year	6 065	405	5 660

The effective financial management in 2008 allowed the Company (like in 2007) to fund its investment and financial expenses from cash flows.

1) Operating activities

In the reporting year of 2008, the operating cash flows decreased by 71% compared with 2007. In 2008, net cash flows from operating activities were at PLN 27 587 k versus PLN 95 210 k in 2007.

The key drivers of the operating cash flows included:

- Decrease in working capital (change in receivables, inventory and liabilities) by PLN 64 298 k (change in working capital in 2008: - 45 876 k, change in 2007: PLN 18 422 k), caused by the increase trade debtors by - PLN 50 942, the increase in inventory by PLN 33 707 k, offset by the increase in trade creditors by PLN 21 296 k;
- lower EBITDA achieved in 2008 reducing the Company’s cash position by PLN 1 109 k (PLN 75 317 k in 2008 and PLN 76 426 k in 2007);

2) Investing activities

98% increase in the negative cash flows from investing activities vs. 2007 is mainly the result of the higher investment outflows, chiefly due to purchase of tangible assets and financial assets.

In 2008, cash flows from investing activities were (-PLN 72 549) k compared with (-PLN 36 688) k in 2007. This lower level of cash flows from investing activities was caused by:

- spend on purchase of tangible and intangible fixed assets higher by PLN 43 909 k (-PLN 112 425 k in 2008 and - PLN 68 516 in 2007);
- the spend on financial assets higher by PLN 15 735 k; in 2008, this spend was at (-PLN 17 361) k compared with (-PLN 1 626) k in 2007. Also, the Company increased share capital in its subsidiary VKN by PLN 13 000 k and acquired short-term financial assets for (- PLN 4 361) k;
- in 2008, investment inflows were higher by PLN 23 783 k despite the decrease in inflows by - PLN 8 614 k in respect of dividends received (PLN 16 680 k in 2008, including the dividend from EC ZG S.A. PLN 16 346 k and PLN 25 294 k in 2007, including PLN 25 047 k from EC Zielona Góra); the increase in investment inflows was caused by the advance repayment of the capital of the subordinated loan given to EC Zielona Góra S.A. for development of the CC Gas Unit (+ 20 107 k) and proceeds from the compensation in respect of the weather derivative of PLN 2 929 k as well as the sale of fixed assets of PLN 8 305 k.

3) Financing activities

The cash flows from financing activities in 2008 were positive at PLN 50 622 k while in 2007 the balance was negative at – PLN 58 258 k. The change was driven by:

- the increase in financial inflows in 2008 by PLN 73 322 k (in 2008, a loan of PLN 24 000 k was received from a connected entity; overdraft of PLN 29 979 k was obtained and bonds were issued, whose total value at the end of 2008 was PLN 32 723 k);
- lower financial spend by PLN 35 558 k, including: higher dividend payment in 2008 (PLN 30 545 compared with PLN 27 565 in 2007 roku) and lower spend on loan repayments (decrease by PLN 39 566 k), i.e. the total loan charge in 2008 was -PLN 3 772 compared with - PLN 43 338 in 2007.

4) Total net cash flows

In 2008, total net cash flows were positive and amounted to PLN 5 660 k. In the comparative period, the value was also positive at PLN 264 k. At the end of 2008, the balance of cash was PLN 6 065 k, up by PLN 5 660 k on 2007.

b. Financial liquidity

	<i>for the period from 1 January 2008 to 31 December 2008</i>	<i>for the period from 1 January 2007 to 31 December 2007</i>	<i>Change (%)</i>
Current liquidity	0,94	1,67	(43)
Quick liquidity	0,48	0,96	(50)

Current liquidity = current assets / short-term liabilities

Quick liquidity = (current assets – inventory) / short-term liabilities

Liquidity ratios of KOGENERACJA S.A. in 2008 were as follows: current liquidity of 0.94, quick liquidity at 0.48. The lower level of these ratios compared with 2007 is mainly due to the significant increase in short-term liabilities by 139%, mainly as a result of an increase in investment obligations.

As at 31 December 2008, the Company’s long-term liabilities in respect of borrowings were PLN 16 125 k. Short-term liabilities are paid timely.

III. Investments and development

1. Assessment of investment capacity

(in accordance with § 91 section 6, point 12 of the Ordinance)

The key objective of the Company’s investments is to increase its market value. KOGENERACJA primarily invests into property, plant and equipment (internal and external) and to a lesser degree - into equity instruments.

Tangible investments are focused on development, including environmental protection, modernisation and replacement of fixed assets. The purpose of modernisation and replacement investments (i.e. investments into the Company’s production assets) is to increase productivity and availability of equipment and reduce its failure rate as well as to improve work safety standards. As part of equity investments, new shares in related parties were acquired. The Company intends to invest actively to acquire new energy markets, consolidate its market position and increase production capacity.

In the Company’s opinion, there are no obstacles that would prevent it from delivering its investment plans or make this task difficult. The planned spend is secured by external finance (bank debt) and by the loan from the Provincial Environmental Protection and Water Management Fund.

Below are the key projects to be started or continued in 2008 as well as the initiatives planned for the subsequent year.

a. Internal investments

These investments are aimed at phased replacement of decapitalised production assets as well as their modernisation.

1) *Industrial development*

As part of the Industrial Development projects were started to ensure operation of the Company's production equipment in the context of the tighter environmental requirements following 2015. Also, projects were initiated to support the Company's economic development.

The key initiatives included:

- redevelopment of boiler OP130/K-2 in EC Czechnica into CFB boiler (100% biomass fired) and construction of an installation for storage, separation, grinding and transport of the biomass to the boiler (contractors identified, contracts signed, operational part commenced);
- worked aiming at adjustment of boilers K-2 and K-3 in EC Wrocław to the new emission standards after 2015 (currently analyses are being held to define the best technical solution);
- continuation of work on the project of development of the new extraction condensing units in EC Czechnica (work in under way to prepare the materials to start the tender for a technical advisor; also the technical infrastructure in EC Czechnica is being prepared to accommodate the new units);
- development of a biomass torrefaction installation (project done with a partner from Holland; biomass torrefaction as additional fuel for unit BC-1 in EC Wrocław, to achieve 100% biomass share in the fuel used by the unit).

2) *Technological Project*

In 2008, the Company continued its initiatives covered by the so-called **Technological Project**. Below is a specification of the key investments completed in Wrocław (W) and Czechnica (C):

- upgrade of the medium-pressure turbine TG-1 (W);
- upgrade of test, measurement and automatic control equipment of unit BC-1 (W);
- upgrade of the supporting equipment for boiler K-1 (W);
- upgrade of the electrical system for unit BC-1 (W);
- upgrade of the rooms and structures for the electrical system of unit BC-1 (W).

New tasks completed under the Technological Project, including:

- transfer of the control room of unit BC-1 to the control room for units BC-2,3 (W);
- upgrade of the coal section with replacement of the burners of boiler K-1 (W);
- upgrade of the system for power outlet in the generator G-1 (W).

3) *Other internal investments*

These investments are aimed at phased replacement of decapitalised production assets as well as their modernisation.

In the reporting year of 2008 majority of the capital expenditures were spent on unit BC-1 in EC Wrocław. Completion of these tasks in fact ends modernisation of the unit with regard to the boiler, turbine and the electrical system and the test, measurement and automatic control equipment, together with the transfer of the control room to the control room for units BC-2 and 3 and adjustment of unit BC-1 to one-operator handling. As part of the modernisation effects, the units BC-2 and 3 were also adjusted to one-operator handling.

The key initiatives completed in 2008 include:

- upgrade of water intake system BC-1 (including pumps no. 11 and 12);
- upgrade of boiler K-1 (C);
- upgrade of the coal transport equipment (W);
- upgrade of the control room (W);
- change of the system for removal of exhausts (W) (including modernisation of the exhaust ducts behind the unit and water boilers and modernisation of the chimneys);
- upgrade of the security features of generator G-1 W (W) and unit BC-1.

The key tasks planned for 2009 include:

- upgrade of the control room (W);
- change of the system for removal of exhausts (including modernisation of the exhaust ducts behind the unit and water boilers and modernisation of the chimneys) (W);
- upgrade of the coal transport equipment (W);
- upgrade of unit K-2 to make it fit for biomass firing (C);
- upgrade of the pressurised part of boiler K-4 (C) and the mill control station (C);
- upgrade of the boiler trays and with a covering structure for the extinguisher installation (W);
- upgrade of the internal network system and the technological steam system (W);
- property protection.

The investments to be delivered in 2009 will also be financed from the Company's own funds and from bank overdrafts.

b. External investments

KOGENERACJA S.A. delivers external investments with regard to new connection to the Wrocław heat network, which are aimed to increase the heat market, and results from the Company's strategic goals. Also investments are made into development of own network and connection of new buyers in Siechnice. In 2008, new buyers were connected to the heat network and a total power of 37,32 MWt was provided to them: in Wrocław – 49 heat stations with capacity of 33,97 MWt, including construction of own heat stations at the customer sites and in Siechnica - development of 10 heat stations using own heating network (with capacity of 3,35 MWt). New connections will be continued.

c. Equity investments

In 2008, KOGENERACJA S.A. purchased:

- 26 000 shares of VKN Polska Sp. z o.o., for PLN 13,000 k.

In 2008, KOGENERACJA S.A. sold shares in the following companies:

- ESV S.A. 134 600 shares of the associated company were sold (24.94%), yielding profit of PLN 956 k;
- PFK S.A. - distribution of the net worth of the liquidated entity; profit on the transaction amounted to PLN 48 k;
- Fortum Wrocław S.A. - sale of 1 share.

The effect of these transactions of KOGENERACJA's percentage share in the share capitals of the Group companies was described in point 6d of this Report

2. Events with significant impact on the Company's activities

(in accordance with § 96 section 5, point 1 of the Ordinance and art. 49, section 2, point 1 of the Act)

1) Events with significant impact on the Company's activities in the financial year

In 2008, the following events significantly affected the Company's business:

- Allocation of PLN 30 545 k to dividend (PLN 2.05 /share compared with PLN 1.85 / share in 2007);
- KOGENERACJA S.A. received a dividend of PLN 16 346 k from EC Zielona Góra (in 2007, the dividend amounted to PLN 25 047 k);
- On 23 January this year, KOGENERACJA S.A. received a compensation of PLN 2 929 k from the insurer under the cover for the loss of profit due to weather anomalies (weather derivative – collar);
- as a result of changes in the *Energy Law*:
 - the sale of conventional energy was reduced – resulting in the change of the transformation efficiency ratio from 70% to 75%;
 - commencement of the sale of certificates for the co-generated energy (red energy) and the energy derived from renewable sources - co-combustion of biomass (green energy);
- signing and implementing an agreement for the sale of energy with Everen Sp. z o.o.;
- On 3 July 2008, the President of the Energy Regulatory Office issued decision OWR-4210-21/2008/1276/IX-A/DB “Tariff for heat” for KOGENERACJA S.A., coming into force on 1 August 2008;
- 1 July 2008 the Council of Ministers adopted an ordinance on distribution of rights to CO2 emissions. The volume of rights for KOGENERACJA S.A. is lower than the planned emissions for 2008 therefore the Company raised a provision of PLN 2 731 k. Pursuant to Art. 47 of the Act on Trading in Emission Rights of 22 December 2004, a request will be made to the Marshall’s Office (upon review of the emissions in 2008) to use the 2009 rights to cover the difference between the actual emissions and the volume of rights held in 2008;
- Updated the Strategic Plan of the Company for the years 2009-2010.

2) Events significantly affecting the Company's activities after the end of the financial year until approval of the financial statements

- On 19 February 2009, the following persons resigned from the Company’s Supervisory Board: Richard Perrier, Michel Sondag. On 25 February, resignation was filed by the Supervisory Board Chairman, Philippe Vavasseur, effective from 3 March 2009;
- On 4 March 2009, the Extraordinary General Meeting appointed the following persons to the Supervisory Board: Birgit Fratzke-Weiss, Philippe Castanet, Dominique Silvain; also the composition of the Board was increased from 11 to 12 members by appointing Mr. Raimondo Eggink; on 30 March, the Supervisory Board appointed Mr. P.Castanet as the Supervisory Board President;
- On 16 February 2009, KOGENERACJA S.A. again received a compensation for the loss of profit due to weather anomalies (under weather derivative – collar). The insurance payment amounted to PLN 3 372 k (compared with PLN 2 929 k in 2008);
- The Company sold 17,4% shareholding in Ekotrakt Sp. z o.o. to its subsidiary VKN Sp. z o.o.;
- On 1 April 2009, a merger took place between the subsidiaries operating in Zielona Góra: EC Zielona Góra S.A. and ZEC Sp. z o.o.

3. Assessment of factors and extraordinary items affecting the Group’s performance in 2008

(in accordance with § 91 section 6, point 12 of the Ordinance)

In the reporting year of 2008, the Company disclosed a decrease in assets and an increase in PBT as a result of the “Insurance agreement for the loss of profit due to weather anomalies - collar weather derivative”. The value of this instrument was estimated by an independent valuer at the balance sheet date at PLN 4 431 k. The difference in the valuation of PLN 597 k was charged to the profit and loss account. Also, the deferred tax liability was reduced from PLN 955 k to PLN 842 k and the difference of PLN 113 k increased the Company’s net profit.

Recognition of this instrument led to an increase in the value of cash flows from investing activity - the settlement took place as contractually agreed (at the end of 2007). The short term portion of the compensation of PLN 2 929 k was received on 23 January 2008 and increased the other operating income.

The overall impact on the net profit was PLN 2 455 k. Assumptions of the agreement are presented in the Financial Statements of KOGENERACJA S.A., point 29 *Risk Management* g. Weather risk.

4. Internal and external factors affecting the Company’s development

(in accordance with § 91 section 6, point 14 of the Ordinance)

a. External factors

1) *Downward trend in the consumption of heat and the sale of electricity*

As KOGENERACJA S.A. produces electric energy in association with heat, stability of the volume of heat bought by customers is of key importance. This is seen as a challenge due to the continuous investments in the insulation of buildings and the implementation of energy-saving technologies by buyers.

As a result of the programme of linking 25 MWt of “new” power each year, in 2006 for the first time the production and sale of heat stabilised (linking “new” 28.22 MWt of heat power under the heat sale agreements).

This achievement was greatly facilitated by our good relations with our strategic partner – Fortum Wrocław S.A., which is the main buyer of heat in Wrocław. (now Fortum Power and Heat Polska Sp. z o.o). We are positive that the development plans of both our companies will be aligned in this regard and the good co-operation to-date will be continued. At the same time, KOGENERACJA S.A. will continue its policy of maximising the sale of electricity, taking into account the possibilities and limitations arising from the revised Energy Law and its subordinate legislation.

2) *Trading in CO₂ emission rights*

The ordinance of the Council of Ministers of 1 July 2008 on *adoption of the national plan of distribution of the CO₂ emission rights for the years 2008-2012 within EU emission rights trade*, the entitlement granted to KOGENERACJA S.A. was reduced to 1 609 580 Mg CO₂ (compared with 2 168 400 previously) for each year of the national plan’s validity:

actual emissions in 2008:	– 1 652 393 Mg
annual emission entitlement	– 1 609 580 Mg
shortage of entitlement for 2008:	– 42 813 Mg

Due to the identified shortage, the costs of 2008 contain a provision of PLN 2 731 k for the purchase of the required emission rights. However, the Company will not be buying these rights as under Art.47 of the Act on trading in emission rights of 22 December 2004, upon review of the emissions in 2008, a request was made to the Marshall’s Office to use the 2009 rights to cover the difference between the actual emissions and the volume of rights held in 2008.

In order to reduce CO₂ emissions in the years to come, KOGENERACJA’s strategy will be to increase the share of biomass in the combusted fuel.

b. Internal factors

1) Strategy of KOGENERACJA S.A.

The overarching objective of the Company will be to achieve high profitability at the level expected by the shareholders, acting in line with the Company's mission statement.

The strategy until 2015 rests on the following Strategic Objectives:

- A. Development of staff competencies taking into account the social aspects;
- B. Improvement of the Health and Safety and environmental protection management in the Company;
- C. Maintaining the lead position in the heat market;
- D. Improvement of efficiency of production and reduction of the negative environmental impact;
- E. Industrial development of KOGENERACJA S.A.;
- F. Ensuring the expected profitability of the KOGENERACJA Group.

At the end of 2008, the Company's Strategic Plan for 2009-2010 was revised and new objectives were defined.. As a result, the new strategy of KOGENERACJA S.A. and KOGENERACJA Group until 2015 was formulated. The strategic objectives remain unchanged. 16 new objectives were added to the operational plan and delivery of 11 objectives was closed.

New adopted tasks include:

- as part of Objective A: management of HR resources in anticipation of possible competence changes. The Company wishes to manage its personnel in an optimum way, also in the context of upcoming changes in the retirement regulations;
- as part of Objective B: in addition to the constant focus on increasing quality and environment management and improving Health & Safety standards in the Company, initiatives were undertaken aimed to increase security of the information system and to increase security on the plant premises;
- as part of Objective C: the Company is implementing actions connected with network development, image building and expansion of service range;
- as part of Objective D: actions aimed to develop an optimum worktime planning for operation of the production equipment;
- as part of Objective E: operational objectives focused on building the technical foundations for future development of the Company;
- as part of Objective F: the Company focuses on different management aspects affecting its trading performance.

These strategic objectives were translated into 47 operational objectives contained in the Operational Plan of KOGENERACJA S.A.

The progress towards achievement of individual objectives is monitored and assessed using precisely defined metrics.

2) Industrial Development and the Technological Project

Preparation of the development initiatives described in the Company's strategy is the responsibility of the Industrial Development Division.

In 2008, the Company continued its initiatives, started in 2005, under by the so-called Technological Project. The Project was spread over the years 2005-2010. Its scope is very broad: it includes investments into modernisation of production equipment to increase its reliability; technological changes and organisational changes in the organisation to increase management efficiency and optimise employment.

In EC Wrocław, the scope of plant modernisation did not change – it still relates to the core machinery of unit BC-50. However, the scope of modernisation in EC Czechnica was modified and now an earlier deployment of new units is envisaged.

The Technological Project and Industrial Development are the key projects currently being progressed in KOGENERACJA S.A.

3) *Integrated Information System*

On 1 January 2007, the Integrated Information System went live in KOGENERACJA. The system is based on mySAP Business Suite application. As part of the post-implementation support, the consultants from the integrating company (IBM) provide assistance to the users. After the end of this phase, further operation of the system will be covered by the maintenance and support agreement. The new system allowed optimisation of a part of business processes, ensured faster access to a fuller and more diverse information while providing more effective support for management decisions.

Currently work is under way to complete the next phase - extension of the planning, reporting and strategic analyses module.

4) *Management Through Objectives*

2008 saw continuation of the Management Through Objectives exercise implemented in 2002. This management methodology is supposed to facilitate effective management of the Company. Since 2004, also specialist positions have been covered by the Management Through Objectives system.

In early 2008 detailed Objectives Contracts were signed between the Managing Director and the individual Operational Directors. The provisions of the Objectives Contracts for 2008 resulted directly from the strategy of the Company and contained a part which referred to the standard tasks of each Division.

For the first time in the history of the system in the Company, priorities were assigned to the operational objectives and the Objectives Contracts contained weights for particular actions and precise scores for measuring their delivery. The tasks covered by the Contracts were being pursued based on the Objectives Contracts signed by the Operational Directors with the Department Managers and with staff members holding independent positions.

5) *Integrated Permits*

On 21 May 2008, the Marshall of the Dolnośląskie Province made a decision amending the integrated permit for EC Wrocław as per the submitted request.

Changes implemented by virtue of the decision include:

- Treatment of biomass as the second fuel without any restrictions on its volume, provided that the combusted biomass is not waste as defined in the Waste Act;
- Linking the emission standards for boilers K-1, K-2, K-3 to the content of biomass in the fuel;
- Defining emissions in other than normal conditions;
- Modification of the regulatory disclosure requirements;
- Modification of the volume of some waste generated in the overhaul periods.

6) *Integrated Management System*

KOGENERACJA S.A. hold the Integrated Management System certification, covering three systems:

1. Quality Management System compliant with standard PN-EN ISO 9001:2001;
2. Environmental Management System compliant with standard PN-EN ISO 14001:2005;
3. Health and Safety Management System compliant with standard OHSAS 18001:1999 and PN-N-18001:2004.

The certification is valid until 22 April 2010.

In April 2008, an audit of the Integrated Management System took place in KOGENERACJA S.A. The audit confirmed that the system operates properly in the Company.

At present, KOGENERACJA is working on implementation of the Health and Safety Management System compliant with standard OHSAS 18001:2007;

7) *Employment Policy*

In 2008, a policy was implemented designed to adjust employment to the current needs arising from technological and legal considerations. Voluntary termination programmes were in place, including from the retiring employees. As part of the competence improvement actions, 5 new staff members were hired, including one disabled.

8) Healthcare

Owing to the agreement with PZU Życie S.A., the Company’s staff will have an easier access to General Practitioners and specialist healthcare. Also, in 2008, the scope of insurance was expanded to include additional services: heart health checks, blood sugar checks and rehabilitation. Also, flu vaccination was subsidised.

In December 2008, KOGENERACJA S.A. signed another agreement with EMC Instytut Medyczny SA for further provision of medial services to the Company’s employees. As part of expansion of the medial services, an x-ray scanner was put in place in the Company’s on-site clinic. Also an emergency phone line was created for reporting any first aid needs.

As part of co-operation with the EDF Group Companies, in March 2008 the project of preventative health checks was implemented for the employees of EDF companies in Poland. The project aims to provide full medical cover to the employees in wider scope than required by the occupational medicine (with key focus on prevention).

9) Competence development – EU funding for training in the EDF Group in Poland

In 2008, trainings were held financed from the Company’s own funds and the funds of the European Social Fund (EFS). As part of this initiative IT training courses were (MS Excel level II and III) whose total cost was PLN 55.5 k, including the funding from KOGENERACJI S.A. of PLN 22.1 k. The other costs were covered by the EFS. Also, 50% discount was received for the trainings not covered by the subsidies.

As part of the actions taken within the EDF Group in Poland, an application was submitted for EFS subsidy under the project "Shared competencies as the strength of the EDF Group in Poland". In October 2008, the Polish Entrepreneurship Agency (PARP) approved 60% subsidy to the project.

The total value of the project is ca. PLN 6 500 k, including the subsidy of PLN 3 800 k. The following three key subprojects were completed under the project:

- Manager’s Academy;
- Talent development programme;
- Programme for production managers.

Also, a subproject was designed to provide training in hard skills. The training programme will run from January 2009 to December 2010.

10) Mobility in the EDF Group

In 2007, The EDF Group Poland implemented an internal recruitment system whereby job vacancies will be communicated simultaneously to all the Group companies. This aims to encourage mobility and activeness in the labour market. The system was developed in 2008.

11) Synergies in the EDF Group

In search of synergies in its companies, the EDF Group is doing research work to set up the Shared Services Centres. The centres would provide support services (in the purchasing area and supporting business services) for the Group companies which would joint the project. Currently analyses are being held in the Company to identify the benefits that the Company could derive from participation in the project and the conditions on which the accession might take place.

5. Outlook for the Company’s development

(in accordance with § 91 section 6, point 14 of the Ordinance and art. 49, section 2, point 2 of the Act)

The outlook for the Company’s development is described in the updated Strategic Plan for the years 2008-15 and in other documents showing a longer time horizon. The key strategic objective continues to be achievement of high profitability, satisfactory to the Shareholders.

In this context, many actions are being run to increase revenues and reduce costs.

By far, the biggest projects currently being implemented in KOGENERACJA S.A. are in the investments into renewable energy sources (co-firing of biomass). In EC Wrocław, modernisation of unit BC-1 is about to be finished. The new unit will be able to co-fire up to 45% biomass (in terms of power) while the other two units (BC-2 and BC-3) already now are characterised by 10% biomass weight fraction, which will be increased in the future. Also, in EC Czechnica the K-2 boiler will be modernised to ensure that it is fully biomass fired.

The efforts have been intensified in that direction due to the fact that sale of electric power from renewable sources is characterised by a relatively high profitability due to, among other things, the possibility to sell the resultant green certificates and the fact that the CO₂ emission connected with biomass co-firing does not consume the emission rights. What is important, delivery of these initiatives will ensure that the volume of CO₂ emission rights granted to KOGENERACJA S.A. under national plan NAP2 for the 5-year period from 2008 to 2012 will be sufficient despite the significant decrease of this volume versus NAP1. Without such investments the emission rights granted for 2008-12 would not be sufficient.

Other actions aimed to increase the Company’s revenue streams include active search for new buyers of network heat. This is being supported by the special marketing programmes. For several years, the newly connected power has been gradually rising and exceeds the annual power losses, so the heat market shows a growing trend. Incrementally, new connections over the last years have exceeded 10% share in the total sale of heat by KOGENERACJA S.A. The customer acquisition actions will also be continued going forward.

The Company is also trying to make its customer proposition more attractive, offering the new product - trigeneration. This is a connection for providing: heat, cold for air conditioning in the summer and electric energy. It is expected that the interest in this new product will be gradually rising.

As regards electricity sales, prices are expected to increase for some time as a result of the growing demand, limited supply, rising fuel prices and the high cost of environmentally friendly investments as well as the risk of insufficient volume of CO₂ emission rights in the energy sector. However, the price increases will be restricted by the Polish government which sees energy price limitation as one of its priorities.

2009 is the last year covered by the weather insurance for KOGENERACJI S.A.. Although the derivative contract does not fully eliminate the risk of loss of profits in the event of a warm winter, but it does significantly reduce this risk. The weather derivative is a very innovative insurance product which worked well in the years 2007-08. It is the Company’s intention to sign a similar insurance agreement for the years after 2009.

On the other hand, to keep operating costs down, the Company is engaged in active research into the use of the potential synergies arising from its participation in the EDF Group which considers establishment of the Shares Services Centres to provide support services (in the purchasing area, and supporting business services) for those Group companies which would join the project. The analyses are to identify the benefits that the Company could derive from participation in the project and the conditions on which the accession might take place.

Cost control efforts in KOGENERACJA S.A. are also facilitated by the restrictive policy on fixed and variable costs in the Company, tight monitoring of plans using the SAP system tools (work-flow mechanisms and multi-level approval of requisitions and orders), which ensures full control over costs and allows them to be kept within the assumed limits. However, in some areas (e.g. fuel purchase, salaries, third party services, etc.) cost increases cannot be avoided.

Invariably, it is priority for KOGENERACJA S.A. to continue increasing the work safety level. The Company’s Management Board is undertaking many actions to totally eliminate accidents at work by implementing a safe work culture in KOGENERACJA. All these efforts have led to significant reduction of the number of accidents at work, however the efforts must be continued in the future.

In particular, staff awareness must be raised and their commitment to security matters must be increased. Also, detailed risk analysis must be performed prior to undertaking any potentially dangerous activity.

All these plans are expected to contribute to achievement of the overarching strategic objective of KOGENERACJI S.A., which is achievement of the profitability satisfactory to the Shareholders.

6. Key achievements in research and development

(in accordance with art. 49, section 2, point 3 of the Act)

In 2008, the Company's research activity focussed on adjusting its production equipment to the requirements regarding environmental protection, combustion of low sulphur coal and (co)combustion of biomass:

- project was continued to adjust boiler OP-230/K-1 in EC Wrocław to co-combust dry biomass with coal (at 45% share of biomass in the power production process);
- in parallel, efforts were commenced to increase the share of combusted biomass from 10% to 20% in terms of weight (weight fraction). As the low sulphur coal is used as the core fuel in EC Wrocław, the licence trials in the research will be conducted under the supervision of the Institute of Chemical Conversion of Coal from Zabrze;
- completed the first stage of the project of conversion of one of the pulverised coal units in EC Czechnica into BFB unit combusting 100% biomass; a tender was held and agreements were signed with the contractors selected to complete this project;
- co-developed a plan of a standard co-generation unit with an extraction condensing turbine and circulating fluid bed boiler (CFB) for the EdF Poland companies. Several options were analysed. The latest achievements in the construction of circulating fluid bed boilers and steam turbines were explored. As part of the project a profound analysis of the market of different biomass types was made, including the biomass from recycling of communal and industrial waste;
- participated in the international project of development of the industrial biomass torrefaction plant. Financial aid for the project was sought from the European Commission as part of the EU aid programmes;
- led a team of experts from 10 heat and power plants, co-operating with the Warsaw University of Technology and the Silesian University of Technology under a research programme for the Ministry of Economy that can contribute to the development of the highly efficient co-generation in Poland by the year 2020. The research paper was officially announced by the Ministry of Economy in December 2008;
- supervised the environmental project delivered in co-operation with the Syndicate of Third Level Institutes in Poland, EdF Poland and EdF R&D to prepare optimisation tools for investment decisions in the context of environmental protection; Among other things, a methodology and a tool were developed for analysis of external costs generated by producers of energy and external costs avoided owing to the co-generation of energy.

7. Description of key risks and threats

(in accordance with § 91 section 5, point 3 of the Ordinance and art. 49, section 2 of the Act)

Key risks and threats relating to the operations of KOGENERACJA S.A.:

1) *Dependence on buyers*

The Company's business is to some extent dependent on Fortum Wrocław S.A., which is the operator of the heat distribution network. The Management Board of KOGENERACJA S.A. held talks with the owner of Fortum Wrocław S.A. to agree a common strategy towards the heat market in 2008. The talks will be continued in the next years.

2) *Change of Energy Law*

The Energy Law and its subordinate acts give shape to Poland's power sector as they lay down the terms and conditions for sourcing and using fuels and energy and define the authorities regulating the management of fuels and energy.

In 2008, in connection with Art. 12 of the Act changing the Energy Law of 12 January 2007 – the Law on environmental protection and the Act on the compliance system (Journal of Laws of 2007, No. 21, item 124), reading as follows: *“The existing operating procedures issued under art. 9a section 9 of the Act changed in art. 1, shall remain in force until implementation of the new operating procedures under art. 9a section 9 of the Act specified in art. 1, in the wording presented in this act, however for not later than 1 year from the effective date of this act”*.

As the act became effective on 9 February 2007, so a year passed after which the previous ordinance of the Minister of Economy of 19 December 2005 ceased to apply.

In effect, the Energy Regulatory Office suspended, in March 2008, the process of considering the requests for the issue of green certificates until August inclusive, i.e. until the effective date of the new ordinance (14 August 2008). The system of issuing red certificates was operated in 2008 in line with the Energy Law Act.

3) Other legal developments

The Ordinance of the Ministry of Economy of 28 August 2008 limited the share of wood in the process of co-combustion by the power plants with the capacity in excess of 5 MW. From 2015 onwards forest biomass is to be replaced with agricultural biomass, and combustion of wood waste will no longer be treated as generation of renewable energy.

4) Factors connected with changes in the demand for heat by buyers

In the recent year, the demand for heat decreased, which is due to, among other things, restructure of the industry, upgraded insulation of houses and apartments, reduced heat losses during transmission; installation of weather sensors in the central heat stations and the effects of global warming. The active steps taken by KOGENERACJA S.A. to acquire new buyers, especially its co-operation with the Wrocław Municipality with regard to connection of new and existing buildings to the network partly compensate for the reduced demand and help stabilise the sale of heat.

5) Factors connected with fluctuating levels of heat and electricity sales

The trading business of KOGENERACJA S.A. is subject to significant seasonality. In the period from October to April the demand for heat is much higher than in other months.

This means that the possibility to generate electricity in the combined system is also seasonal. The Company does have the technological capacity to generate electricity also in the period of a lower demand for heat (through the so called “pseudo-condensation”) but this has been significantly limited since 1 July 2007 due to the requirement to keep the minimum gross efficiency of transformation of chemical energy into electricity and heat in the cogenerated system at minimum 75%.

6) Fuel deliveries

In 2008, a significant risk factor was disruptions in the regularity of supplies (coal, biomass, mazout) as a result of deterioration in the transport, mining and biomass markets, and in particular:

- reduced possibility to supply coal by water or rail transport;
- no possibility to secure the coal with appropriate parameters;
- increase in coal prices;
- difficulties with obtaining production input in the coal or mazout market;
- difficulties with sourcing biomass of the proper quality and in the required volume.

7) Long Term Contracts (LTC)

On 1 April 2008, the LTCs of EC Zielona Góra S.A. were terminated. EC Zielona Góra will be receiving funds to recoup the stranded costs and the costs connected with the mandatory purchase of natural gas. The presented analyses clearly show that LTC termination based on the ratified Act did not impair the company's performance compared with the situation that would exist if the LTCs were still in place. For this reason, there is no risk that KOGENERACJA S.A. might not receive dividends or payments under the loan made to the company.

8) CO₂ emission

A new threat is the insufficient value of the rights allocated under the plan of emission rights distribution for the years 2008 – 2013. The plan is less favourable for the power sector than the plan binding in the previous settlement period (National Plan of Distribution of Emission Rights, Ordinance of the Council of Ministers of 27 December 2005).

The draft adopted on 1 July by the Council of Ministers is less favourable for KOGENERACJA S.A., as the allocated volumes of emissions are lower than in the previous settlement system. The possible unfavourable allocation of rights may result in a decrease in the income from sale of the rights compared to the previous periods and may cause an increase in costs if the value of rights is lower than the actual emission. It may also lead to the need to reduce production. This effect will be mitigated by increasing production from renewable sources in order to reduce the annual CO₂ emissions.

The Company identified a shortage of emission rights in 2008 and thus created a provision of PLN 2 737 k. However, the provision will be covered in the subsequent years by the planned surpluses.

8. Changes in the key principles of the Company and Group management

(in accordance with § 91 section 5, point 15 of the Ordinance)

In the reporting year of 2008, there were no significant changes in the principles of management of the Company and the Group.

IV. Statement of compliance with the corporate governance principles

1. Corporate governance principles

(in accordance with § 91 section 3, point 4 a and b of the Ordinance)

a. Collection of the corporate governance principles

On 4 July 2007, the Supervisory Board of the Warsaw Stock Exchange adopted the corporate governance principles under the name Code of Best Practice for the WSE Listed Companies, which became effective on 1 January 2008 (Appendix to the Resolution of the Stock Exchange Council no. 12/1170/2007 of 4 July 2007).

The document is available at the dedicated WSE website www.corp-gov.gpw.pl.

As a WSE-listed company KOGENERACJA S.A. is covered by this Code.

b. Application of best practice in corporate governance and election not to use the corporate governance principles

I BEST PRACTICE - RECOMMENDATIONS			
	PRINCIPLE		COMMENT OF KOGENERACJA S.A.
1	A company should pursue a transparent and effective information policy using both traditional methods and modern technologies ensuring fast, secure and broad access to information. Using such communication methods to the broadest extent possible, a company should ensure adequate communication with investors and analysts, enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website.	Partly	The Company has a press spokesman who ensures proper communication with the media, provides up-to-date information on-line, organises annual meetings with shareholders, answers the questions asked by the shareholders and analysts and gives interviews to the media. Information on the General Meeting proceedings is not released to the public.
2	A company should ensure effective access to information necessary to assess the company’s situation and outlook as well as its operations.	YES	The Company presents its development outlook in the Management Report on the Company and Group activities. Such information is also provided at the annual meeting with shareholders. The Company is open to meetings with shareholders in its headquarters.
3	A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders’ right to participate in a General Meeting.	YES	The Company makes efforts to meet the shareholders' expectations in this regard.
4	Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.	YES	The securities issued by the Company are traded only in Poland
5	Remuneration of members of the company’s governing bodies should correspond to the scope of tasks and responsibilities of the exercised function and be proportionate to the size of the company’s business and reasonable in relation to its financial results.	YES	The remuneration is connected with the roles and responsibilities of directors (<i>see point.10 Management Board, Supervisory Board – principles of operation of the governing bodies</i>)
6	A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company.	YES	§15 section 1 of the General Meeting Regulations says that: “the General Meeting elects Supervisory Board Members from among the persons having appropriate skills, high moral principles and who are able to perform their duties on the Supervisory Board competently”. The Company’s shareholders decided that such criteria for selection of the Board members are sufficient to appoint the Board that will properly fulfil its role.

7	Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular: - refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments; - raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest the company.	YES	
8	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities.	YES	The Management Board makes every effort to ensure the shareholders are receiving equal treatment

II BEST PRACTICE FOR MANAGEMENT BOARDS OF LISTED COMPANIES

	PRINCIPLE		COMMENT OF KOGENERACJA S.A.
1	<p>Website, level of information A company should operate a corporate website and publish:</p> <ol style="list-style-type: none"> 1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies; 2) professional CVs of the members of its governing bodies; 3) current and periodic reports; 4) the date and place of a General Meeting, its agenda and draft resolutions together with their legal basis as well as other available materials related to the company’s General Meetings, at least 14 days before the set date of the General Meeting; 5) where members of the company’s governing body are elected by the General Meeting – the basis for proposed candidates for the company’s Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution; 6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board; 7) shareholders’ questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions; 8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds; 9) information about breaks in a General Meetings and the grounds of those breaks; 10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations; Such information should be published within a timeframe enabling investors to make investment decisions; 11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company’s General Meeting; 	Partly	<p>This rule is partly followed as the Company does not publish on its website the materials referred to in point 1, 2, and partly 4 (no justification), 6 and 7.</p> <p>In the Company’s opinion the information contained on its website is sufficient to enable its investors and shareholders to assess the financial position of the Company.</p> <p>However, the Company plans to expand the information published in 2009 on its new website which is being currently developed.</p>

	<p>12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from its introduction;</p> <p>13) a report on compliance with the corporate governance rules contained in this document.</p>		
2	<p>Website in English A company should publish its website in English, at least to the extent described in section II.1. This rule should be applied not later than 1 January 2009.</p>	Partly	<p>The Company has on its website the Investor Relations section with information in English, although its scope is narrower than prescribed by point 2. The Company is developing its new website which will be available in Polish and English.</p>
3	<p>Significant agreement Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake. For the purpose of this document, the linked entity shall be understood within the meaning of the Regulation of the Minister of Finance dated 19 October 2005 concerning current and periodic reports submitted by issuers of securities.</p>	NO	<p>The applicable laws, including the Statutes of the Company do not provide for the requirement to obtain approval for such agreements</p>
4	<p>Conflict of interest A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.</p>	YES	
5	<p>Draft General Meeting resolutions Draft resolutions of a General Meeting should have grounds attached, with the exception of resolutions on points of order and typical resolutions adopted in the course of an Ordinary General Meeting. In view of the foregoing, the Management Board should present grounds or request the person motioning for the inclusion of an issue on the agenda of a General Meeting to provide grounds.</p>	Partly	<p>The Management Board provides justification for the resolutions in the materials provided to the Supervisory Board and the shareholders, but it does not the entities requesting certain items on the agenda to provide a justification in writing. As a rule, the grounds for the draft resolutions are presented during the General Meeting at the request of the Chairman.</p>
6	<p>Participation in the General Meeting A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.</p>	YES	<p>In line with §4 section 4 of the Management Board Regulations, “the Management Board Members shall take part in the meetings of the General Meeting”</p>
7	<p>Organisation of the General Meeting A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.</p>	YES	<p>The Company each time makes efforts to meet the shareholders' expectations in this regard.</p>

III BEST PRACTICE FOR SUPERVISORY BOARD MEMBERS

	PRINCIPLE		COMMENT OF KOGENERACJA S.A.
1	<p>In addition to its responsibilities laid down in legal provisions the Supervisory Board should: 1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company’s standing including an evaluation of the internal control</p>	Partly	<p>The Company’s Supervisory Board does not make annual assessment of the internal control system and the significant risk management system.</p>

	<p>system and the significant risk management system; 2) once a year prepare and present to the Ordinary General Meeting an evaluation of its work; 3) review and present opinions on issues subject to resolutions of the General Meeting.</p>		<p>The Commercial Companies Code sets out the documents that the Board should present to the General Meeting and the Board members decided that such documents are sufficient.</p>
2	<p>A member of the Supervisory Board should submit to the company’s Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.</p>	YES	
3	<p>A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.</p>	YES	<p>Pursuant to the Supervisory Board Regulations, (§7 section.3): “At least one Supervisory Board Member should take part in the General Meeting of the Company. Due to the significant presence of foreigners on the Board, whose travel to Poland entails additional costs, it was decided that waive the requirement of their participation in the General Meeting and that the presence of at least one member of the Board will be sufficient.</p>
4	<p>A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.</p>	YES	
5	<p>A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board’s capacity to act, including the adoption of resolutions by the Supervisory Board.</p>	NO	<p>Given lack of the possibility to reliably define when such as case might happen (given the number of members and the rules of formation of the Company's Supervisory Board), Board members decided not to adopt this rule.</p>
6	<p>At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the 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. 6.: “At least two members of the supervisory board shall meet the criteria of independence from the company and other entities that have material ties with the company. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.</p>	NO	<p>In 2008, no member of the Supervisory Board met the independence criteria.</p> <p>Currently, there is one independent member on the Company's Supervisory Board.</p>

7	The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board.	NO	The Supervisory Board Regulations do not provide for formation of any committees. This is pursuant to Directive 2006/46/WE and to the act on statutory auditors, their self-governing authorities, audit firm and public supervision.
8	Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors should apply to the tasks and the operation of the committees of the Supervisory Board.	NO	as above
9	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	NO	The applicable laws, including the Statutes of the Company do not provide for the requirement to obtain Supervisory Board approval for such agreements

IV BEST PRACTICE OF SHAREHOLDERS

	PRINCIPLE		COMMENT OF KOGENERACJA S.A.
1	Presence of representatives of the media should be allowed at General Meetings.	YES	Pursuant to §3 section 4 of the General Meeting Regulations: “The General Meeting may be attended by representatives of the media except there due to the matters discussed their present might expose the Company to damage. The request for allowing media representatives to participate in the General Meeting is put to vote by the Chairman immediately on signing the attendance list. The voting is not secret”. The shareholders reserved the right to decide on the presence of the media representatives at the General Meeting.
2	The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.	YES	
3	Any shareholder who motions for the inclusion of an issue on the agenda of the General Meeting, including a motion to take an issue off the agenda, should provide grounds enabling an informed decision on the resolution.	Partly	The shareholder requesting an item to be put on the agenda of the General Meeting is under to obligation to provide its justification. However, customarily the Chairman asks for oral justification of the draft resolution during the General Meeting.
4	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.	YES	
5	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	YES	
6	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	NO	The date of setting the right to dividend and the date of dividend payment are agreed in line with the Detailed Operating Rules of National Depository of Securities (KDPW), the Company’s Statutes and other applicable laws.

7	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to dividend.	YES	
8	The General Meeting or the Supervisory Board should ensure that the company authorised to audit financial statements changes at least once every seven financial years.	YES	The existing practice in the Company confirms this rule, however the Supervisory Board, which is not an entity authorised to select the auditor, did not find justification for laying down this rule expressly in the Supervisory Board Regulations.

2. Internal control and risk management systems with regard to the financial reporting process

(in accordance with § 91 section 5, point 4c of the Ordinance)

a. Internal control system

The Company’s internal control system includes the processes performed by the Management Board, management and other personnel and the system is designed to provide reasonable assurance regarding achievement of the organisation’s objectives in the following areas:

- operating effectiveness and efficiency;
- reliability of financial reporting;
- compliance with the applicable laws and regulations.

In the process of preparation of the Company’s and the Group’s financial statements is one of the key control elements is the audit of the financial accounts by an independent auditor. The auditor is responsible for: review of the half-yearly financial statements and preliminary audit and final audit of the annual consolidated and unconsolidated financial statements. The auditor is selected by the Supervisory Board is a bidding procedure from among the recognised audit firms that ensure high level of service and meet the independence requirements.

Preparation of the financial statements, interim and current financial and management reporting of the Company is the responsibility of the Head of Finance and HR. The Company’s and the Group’s financial statements are prepared by the middle management and prior to their submission to the auditor they are checked by the Head of Finance and HR.

The Company has appropriate procedures in place to check the financial statements to ensure they are complete and reliably reflect all the economic transactions occurring in the particular period. There are specific actions defined relating to the process of preparation of financial statements, planning of all the tasks around preparation of the accounts and determination of the detailed schedule of actions with assigned responsibilities.

The Company’s accounting policy on financial reporting is used both in the process of budget preparation, forecasting and preparation of periodic management information, so the Company uses consistent accounting rules for presentation of financial figures in the financial statements, interim accounts and other reports presented to the shareholders.

The financial figures that underlie the financial statements and the interim accounts are derived from the monthly management reports. On closing the books of account at the end of each calendar month, the middle and upper management jointly analyse the Company's performance and achievement of plans of the particular units, comparing them with the assumptions. Any identified errors are rectified on an on-going basis in the books of account in line with the existing accounting policy.

The Company runs its books using the integrated IT system SAP. The system facilitates analysis of all the economic / financial aspects, which pertain to all the organisational units of the Company. This permits full analysis of the current situation as well as precise planning, budgeting and forecasting of economic events. The system has full technical documentation and the access to its resources is defined by appropriate user rights granted to the relevant staff members by reason of their job roles. The access control takes place at each stage of preparation of the financial statements, starting from input of the source data to data processing to generation of output information.

b. Risk management system

The risk management system covers all the areas of the Company’s activity and is run in line with appropriate rules. Risk management is the responsibility of a team whose members represent all the key areas of the Company. KOGENERACJA S.A. has and regularly updates its Risk Map. Mitigants are defined for all the material risks that the Company is exposed to.

The Risk Map is analysed by the Management Board and the key risks are reflected and described in the interim and annual accounts.

To determine the financial threats connected with the market environment, counterparty risks are being analysed to quantify the potential losses, e.g. those arising from bankruptcy of the counterparty.

The internal control as well as management of the key risks in the financial reporting process is subject to on-going supervision by the Company’s Management Board.

3. Shareholders of the Company

(in accordance with § 91 section 5, point 4d of the Ordinance)

As at 31 December 2008,

	<i>No. of ordinary bearer shares</i>	<i>Voting power</i>	<i>% of share capital</i>	<i>% of voting power</i>
EC Kraków S.A.	2 642 869	2 642 869	17,74	17,74
EDF International S.A.	2 483 830	2 483 830	16,67	16,67
EnBW A.G.	2 323 302	2 323 302	15,59	15,59
OFE PZU "Złota Jesień"	1 499 114	1 499 114	10,06	10,06
Legg Mason TFI S.A.	766 442	766 442	5,14	5,14

In 2008, the following changes took place in the Group’s shareholding structure:

- In June OFE PZU “Złota Jesień” Open Pension Fund advised that it exceeded 5% threshold in the number of votes at the General Meeting;
- In November OFE PZU “Złota Jesień” increased its stake in the Company to 10.06%.

On 16 March 2009, the Company was again advised by OFE PZU “Złota Jesień” that it increased its shareholding to 12.13%.

4. Preference shares

(in accordance with § 91 section 5, point 4e of the Ordinance)

All the shares of KOGENERACJA S.A. are ordinary bearer shares with no preference features.

5. Limitation on title transfer and voting

(in accordance with § 91 section 5, point 4f and g of the Ordinance)

There are no limitations on the transfer of title to shares or on the right to exercise voting power from the Company's shares.

6. Changes to the Statutes

(in accordance with § 91 section 5, point 4i of the Ordinance)

Changes to the Company’s Statutes are made pursuant to art. 430 and 402 paragraph 2 of the Commercial Companies Code.

7. General Meeting: operation, powers, shareholders’ rights

(in accordance with § 91 section 5, point 4j of the Ordinance)

The brief of the General Meeting and its main powers are laid down in the Statutes of KOGENERACJA S.A. and in the General Meeting Regulations.

Pursuant to §24 of the Statutes, the remit of the General Meeting includes in particular:

- review and approve the Management Board’s report on the Company’s operations for the previous financial year and granting discharge to the members of the Company’s governing bodies for performance of their duties;
- making decisions on distribution of profit or loss cover;
- changing the objects of the Company;
- changing the statutes of the Company;
- increasing or reducing the share capital;
- deciding on the manner and conditions of redeeming the Company’s shares;
- merging and transforming the Company;
- winding up / liquidation of the Company;
- issuing convertible bonds or bonds with pre-emptive rights;
- disposing or leasing the company or its organised part; encumbering the company’s assets;
- making decisions regarding the claim for damage caused by the formation of the Company or performance of the management or supervisory duties by the Company’s bodies;
- purchasing treasury shares in the case outlined in art. 362 §1 point 5 of the Commercial Companies Code;
- creating and releasing reserves and making decisions on the use of the supplementary / reserve capital;
- approving the sale or disposal of properties, perpetual usufruct rights or interest in properties whose value exceeds PLN equivalent of EUR 5 000 k;
- deciding on other matters which fall within the remit of the General Meeting by virtue of the Commercial Companies Code.

Shareholders exercise their rights in accordance with the Commercial Companies Code.

8. Changes in the Management Board and the Supervisory Board

(in accordance with § 91 section 5 point 4k of the Ordinance)

a. Changes in the Management Board

Members of the Management Board of the 6th tenure until 17 June 2008:

- | | |
|-------------------------|------------------------------|
| 1. Denis Bretaudeau | - Management Board President |
| 2. Michael Kowalik | - Management Board Member |
| 3. Mariusz Misiak | - Management Board Member |
| 4. Krzysztof Wrzesiński | - Management Board Member |

Pursuant to art. 14 of the Act on Commercialisation and Privatisation of 30.08.1996 and §10 section 4 of the Company's Statutes, on 13 March 2008 the employees elected Andrzej Siennicki as their representative in the Management Board. Mr. Andrzej Siennicki became a representative of the employees.

On 17 June 2008, the Supervisory Board appointed Andrzej Siennicki to his role and appointed for another term of office the previous Management Board members: Denis Bretaudeau, Michael Kowalik, Krzysztof Wrzesiński.

Since 17 June 2008, the Management Board of the 7th tenure has consisted of the following persons:

- | | |
|-------------------------|------------------------------|
| 1. Denis Bretaudeau | - Management Board President |
| 2. Michael Kowalik | - Management Board Member |
| 3. Andrzej Siennicki. | - Management Board Member |
| 4. Krzysztof Wrzesiński | - Management Board Member |

b. Changes in the Supervisory Board

The composition of the Supervisory Board appointed on 28 June 2007 did not change and at 31 December 2008 was as follows:

- | | |
|-------------------------|--|
| 1. Marian Augustyn | - Supervisory Board Member |
| 2. Wojciech Burdynowski | - Supervisory Board Member |
| 3. François Driesen | - Supervisory Board Member |
| 4. Harald Minkner | - Supervisory Board Member |
| 5. Richard Perrier | - Supervisory Board Member |
| 6. Arkadiusz Repczyński | - Secretary of the Supervisory Board |
| 7. Michel Sondag | - Supervisory Board Member |
| 8. Joachim Wojaczek | - Supervisory Board Member |
| 9. Philippe Vavasseur | - Chairman of the Supervisory Board |
| 10. Henryk Zajas | - Supervisory Board Member |
| 11. Danuta Żeleźna | - Vice-Chairman of the Supervisory Board |

In 2008, no changes were made to the rules of appointing and removing the executives and the rights vested in them, particularly the rights to issue or redeem shares.

9. The rules of appointment and removal of executives

(in accordance with § 91 section point 4h of the Ordinance)

Executives are appointed and removed in accordance with the Commercial Companies Code. The Company's Statutes does not provide for other rules to this procedure.

10. Terms of reference of the Management Board and the Supervisory Board

(in accordance with § 91 section 5 point 4k of the Ordinance)

a. Terms of reference of the Management Board

Detailed terms of reference of the Management Board and its powers are set out in the Statutes of KOGENERACJA S.A. and the Management Board Regulations:

(in accordance with § 11 point 3 and 4 of the Statutes:

- Management Board resolutions are required for the cases beyond the ordinary course of business, particularly for approval of the organisational regulations defining the structure of the Company, approval of loans, the giving of guarantees (for loans and others), appointment and revoking of proxies, disposal and acquisition of fixed assets whose value exceeds the PLN equivalent of EUR 50 k as well as the cases that are passed on by the Management Board to General Meeting and the Supervisory Board.
- The remit of the Management Board also includes acquisition and disposal of properties, perpetual usufruct rights or interest in properties, but where the value of such transactions exceeds the PLN equivalent of EUR 500 k, an approval of the Supervisory Board is required and any transactions whose value exceeds EUR 5 000 k must also be approved by the General Meeting.

The roles and responsibilities of the individual members of the Management Board of KOGENERACJA S.A. are as follows:

Denis Bretaudeau- Management Board President

Supervises the overall functioning of the Company and the Company's external relationships; manages the work of the Management Board and is in charge of the following: Production Directorate, Overhauls Directorate, Industrial Division Directorate, Company Office Directorate, Internal Audit Department, Management Through Objectives Department and the Health and Safety Area; also has responsibility for shaping the Company’s HR policy.

Michael Kowalik - Management Board Member

Is in charge of the Trade and Internal Development Directorate with regard to investments (including in EC Zielona Góra S.A.). He is particularly responsible for the trading effects in the markets of electricity, heat, certificates and CO₂ emission rights.

Andrzej Siennicki – Management Board Member

Supervises the HR operations, excluding the personnel and payroll policy. He is responsible for ongoing cooperation with the Trade Unions; sponsors the social policy and the social governance in the Company and is responsible for preparation of the negotiations connected with legal and social partnership between the Employer, Trade Unions and the Employee Council.

Krzysztof Wrzesiński – Management Board Member

Supervises the Finance and HR Directorate, with a responsibility for the Stock Exchange area and the Company's strategy towards its controlled entities; is also responsible for managing the IT area and shaping the Company's personnel and payroll policy.

b. Terms of reference of the Supervisory Board

Detailed terms of reference of the Supervisory Board and its key powers are set out in the Statutes of KOGENERACJA S.A. and the Supervisory Board Regulations:

The powers of the Supervisory Board include in particular:

- approving the regulations of the Company’s Management Board and expressing opinion on the organisational regulations defining the structure of the Company;
- determining the rules of remuneration for the Management Board and the individual remuneration amounts of the members of the Company’s Management Board;
- appointing and removing, in a secret vote, the Management Board and/or its individual members;
- suspending, for material reasons and in a secret vote, the Management Board and/or its individual members;

- seconding member(s) of the Supervisory Board to act as a member of the Company's Management Board if a member of the Management Board (or the entire Management Board) is suspended or removed or where the Management Board is unable to function for other reasons;
- granting permission, at the request of the Management Board, to establishment of foreign operations;
- at the request of the Management Board, granting permission to Management Board members to act as directors (and receive the remuneration for such roles) in the companies in which KOGENERACJA S.A. has an ownership interest;
- at the request of the Management Board, granting permission to disposal of fixed assets not connected with the core activities of the Company or to acquisition and disposal of the properties, perpetual usufruct rights or interest in the properties where the value of such transactions exceed the PLN equivalent of EUR 500 k;
- selecting the auditor of the financial statements;
- assessing the Company’s report on the Company’s operations and the financial statement in terms of their compliance with the books of account, applicable records and the actual state of affairs;
- assessing the requests of the Management Board regarding distribution of profit or loss cover;
- making written reports to the General Meeting on the effect of the activities referred to in the Company's Statutes;
- adopting, in the form of a resolution, for the Company’s internal purposes, the full text of the Company’s Statutes prepared by the Management Board under § 30 section. 6 of the Statutes.

11. Emoluments, awards and benefits of directors

(in accordance with § 91 section 6 point 17 of the Ordinance)

The gross value of the emoluments, awards and benefits obtained in 2008 and 2007 by the Company’s directors are presented in the Unconsolidated Financial Statements of KOGENERACJA S.A. point 37 *Related Party Transactions, 37b), Transactions with management, p.64.*

The other agreements signed between the Company and the Management and Supervisory Board Members, such as Social Fund loan agreements, are presented in point 10 to this report.

12. Shares of the Company and its connected companies held by directors

(in accordance with § 91 section 6 point 18 of the Ordinance)

- as at 31 December 2008, Andrzej Siennicki, Management Board Member, held 254 ordinary bearer shares in the Company;
- as at 31 December 2008, Michael Kowalik, Management Board Member, held 2 500 ordinary shares in the Company.

In 2008, the following changes took place in the shareholdings by Directors:

- A Supervisory Board Member sold 425 ordinary shares, and holds no shares in the Company;
- Michael Kowalik, Management Board Member, purchased 2 500 ordinary shares in the Company.

13. Agreements between the Company and the Executive Directors providing for payment of compensation

(in accordance with § 91 section 6 point 16 of the Ordinance)

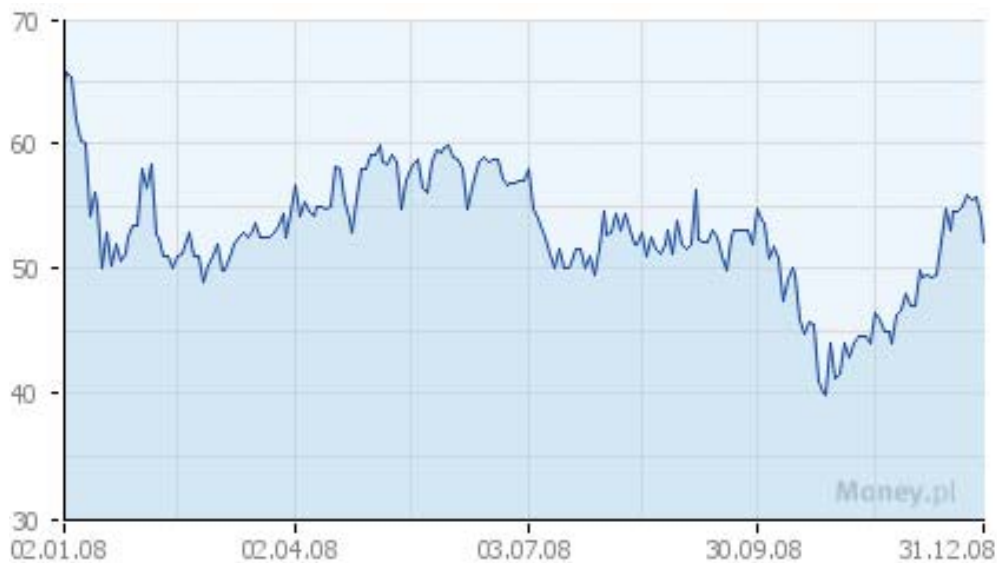
The Company has not signed any agreements with the executive directors that would provide for compensation in the case these directors resign or are dismissed from their office without an important reason or where their resignation or dismissal results from a merger of the Company through acquisition.

V. Share price

1. Quotation of the KOGENERACJA shares on Warsaw Stock Exchange

At the first session in 2008, on closing, the share price was PLN 65.70 per share and the trading volume was 715 shares. The lowest price in 2008 was recorded on 27 October when the closing quotation of KOGENERACJA shares was PLN 39.89 per share at the volume of trading of 26 158 shares. 2008 closed with the share price of PLN 52.05 and at the volume of 1 629 shares traded.

Quotations of KOGENERACJA Shares on Warsaw Stock Exchange in 2008



In 2008, KOGENERACJA S.A. was listed on Warsaw Stock Exchange in the continuous quotation system in index sWIG80. After the session on 20 March 2009, the Company left the sWIG 80 index and now is a member of index **mWIG40** (as provided in the announcement of the Management Board of the Stock Exchange on 5 February 2009).

sWIG80 in 2008



Source: Money.pl

2. Agreements vs changes in the proportion of shareholdings

(in accordance with § 91 section 6 point 19 of the Ordinance)

KOGENERACJA S.A. obtained no information on any agreements (including those signed after the balance sheet date) that in the future might affect the proportion of shareholdings of the existing shareholders and bondholders.

3. Control of employee shares programmes

(in accordance with § 91 section 6 point 20 of the Ordinance)

In the Company there are no systems of control of the employee shares programmes.

4. Agreement with the Auditor

(in accordance with § 91 section 6 point 21 of the Ordinance)

	<i>Report for 2008</i>	<i>Report for 2007</i>
Date of the financial report review agreement	27 June 2008	8 August 2007
Date of the financial report audit agreement	13 November 2008	15 October 2007
Term of the audit agreement	Until receipt of the auditor's opinion and report from audit of the fin. statements (no later than 24.04.2009)	Until receipt of the auditor's opinion and report from audit of the fin. statements (no later than 14.05.2008)
Total fee (PLN, net of VAT):	183 250	174 750
financial report audit	125 000	125 000
certification services, including review of the financial report	49 750	49 750
advisory services	-	-
other services	8 500	-

Wrocław, 24 April 2009

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Denis Bretaudeau
President of the Management Board

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Michael Kowalik
Member of the Management Board

.....

Andrzej Siennicki
Member of the Management Board

.....

Krzysztof Wrzesiński
Member of the Management Board