

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

2009

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I. Profile of the Company

1. Legal Basis

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

2. Company characteristics

Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.

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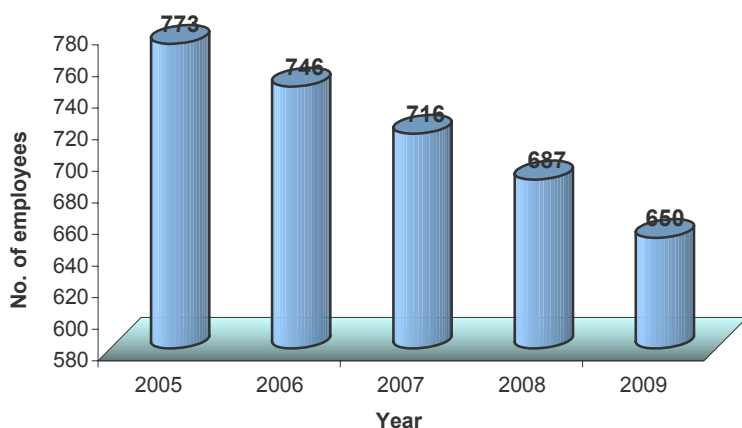
Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (*KOGENERACJA S.A., Company*) is an enterprise operating in the power sector – it produces heat and electricity and provides heat transmission and distribution services. Co-generation of heat and electricity ensures that the average yearly production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

The Company comprises of two production plants:

- Elektrownia Wrocław (Wrocław Heat and Power Plant), located in Wrocław, ul. Łowiecka 24, and
 - Elektrownia Czechnica (Czechnica Heat and Power Plant), located in Siechnice near Wrocław
- totals 363 MW of electricity power and 1,059 MWt of heating power.

3. Employment

Over the last 5 years the number of FTEs in the Company decreased by 123. As at December 31, 2009 the Company employed 650 persons – 112 women and 538 men.



4. Organisational and equity relations with other entities

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

The Company has equity and organisational relations with

- the members of the Company Group (see the chart below) and
- significant shareholders, particularly with EDF Group (see item 3 *Shareholders of the Company*).

a. Group structure

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

As at December 31, 2009



LEGEND:

- KOGENERACJA’s shares
- ⋯→ Subsidiaries’ shares

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

Even though KOGENERACJA S.A. does not have any equity relations with Everen Sp. z o.o., the entity is reported as an associate due to the fact that the Company carries out material transactions with this entity.

b. Subsidiaries

The following charts reveal 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 December 31, 2009 and 2008.

As at 31 December 2009

| | Share capital | Number of shares | Nominal value of a share (PLN) | No. of shares held by KOGENERACJA S.A. (directly) | | |
|-----------------------------|---------------|------------------|--------------------------------|---|-------------------------------|--------------|
| | | | | Number of shares | Nominal value of shares (PLN) | % of capital |
| EC Zielona Góra S.A. | 13 853 150 | 554 126 | 25 | 545 277 | 13 631 925 | 98,40 |
| Renevis Sp. z o.o.* | 19 100 000 | 38 200 | 500 | 38 200 | 19 100 000 | 100,00 |
| ZEC Hurt Sp. z o.o. | 625 500 | 1 251 | 500 | 1 251 | 625 500 | 100,00 |
| Z.C. Term Hydral Sp. z o.o. | 8 712 000 | 8 712 | 1 000 | 8 712 | 8 712 000 | 100,00 |
| PPO Siechnice Sp. z o.o. | 18 680 500 | 37 361 | 500 | 19 054 | 9 527 000 | 51,00 |
| Ekotrakt Sp. z o.o. | 1 765 000 | 3 530 | 500 | - | - | - |

* As at September 16, 2009 VKN Polska Sp. z o.o. company name was changed to Renevis Sp. z o.o.

As at 31 December 2008

| | Share capital | Number of shares | Nominal value of a share (PLN) | No. of shares held by KOGENERACJA S.A. (directly) | | |
|--------------------------|---------------|------------------|--------------------------------|---|-------------------------------|--------------|
| | | | | Number of shares | Nominal value of shares (PLN) | % 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 | - | - | - |

c. Associates

The following charts reveal the structure of the share capitals of associates and the nominal value of the shares held by KOGENERACJA S.A. as at December 31, 2009 and 2008.

As at 31 December 2009

| | Share capital | Number of shares | Nominal value of a share (PLN) | No. of shares held by KOGENERACJA S.A. (directly) | | |
|-----------------------|---------------|------------------|--------------------------------|---|-------------------------------|--------------|
| | | | | Number of shares | Nominal value of shares (PLN) | % of capital |
| Energokrak Sp. z o.o. | 415 000 | 830 | 500 | 103 | 51 500 | 12,40 |

As at 31 December 2008

| | <i>Share capital</i> | <i>Number of shares</i> | <i>Nominal value of a share (PLN)</i> | <i>No. of shares held by KOGENERACJA S.A. (directly)</i> | | |
|-----------------------|----------------------|-------------------------|---------------------------------------|--|--------------------------------------|---------------------|
| | | | | <i>Number of shares</i> | <i>Nominal value of shares (PLN)</i> | <i>% of capital</i> |
| 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 |

In 2008, ECeRemont Sp. z o.o./ECeAuto Sp. z o.o. was also indicated as an associate although the Company did not have any direct interest in the company. The indirect share was 21.79% and the voting power was 35.81%. The Company was consolidated with the use of the equity method. On September 30, 2009, EC Zielona Góra S.A. sold its shares in ECeAuto Sp. z o.o.

d. Changes in the Group structure

Below is a presentation of transactions and events that affected the Group structure in 2009.

Subsidiaries

1) Merger of EC Zielona Góra S.A. and ZEC Sp. z o.o.

- On April 1, 2009 the District Court in Zielona Góra registered the merger of EC Zielona Góra S.A. and Zielonogórska Energetyka Ciepła Sp. z o.o. The merger of the two entities was executed pursuant to article 492 § 1 item 1 of the Commercial Companies Code through the assignment of all the assets and liabilities of ZEC Sp. z o.o. (Assignor) to EC Zielona Góra S.A. (Assignee) in return for shares from the increased share capital of the Assignee provided to the shareholders of the Assignor. Due to the merger KOGENERACJA S.A. holds 545,277 shares in EC Zielona Góra S.A., which is 98.40% of the Company share capital. The Municipality of Zielona Góra holds 8,152 (1.47%) shares and the employees – 697 (0.13%) shares in EC Zielona Góra S.A.

2) Purchase of shares in ZEC Hurt Sp. z o.o.

- In March 2009, share sales contracts were concluded, based on which KOGENERACJA S.A. purchased altogether 218 shares in the company from 59 individual shareholders of ZEC Hurt Sp. z o.o. As at the end of March 2009, KOGENERACJA S.A. held 43% of the share capital in ZEC Hurt Sp. z o.o.
On April 6, 2009, share sales contracts were concluded, based on which KOGENERACJA S.A. purchased altogether 708 shares in the company from 6 institutional shareholders of ZEC Hurt Sp. z o.o.
On October 9, 2009, the remaining shares were purchased. At the moment KOGENERACJA S.A. holds 1,251 shares in ZEC Hurt Sp. z o.o., which is 100 % of the company share capital.

3) Purchase of shares in VKN Polska Sp. z o.o.

- On June 18, 2009 the Management Board of KOGENERACJA S.A. made a statement on acquiring 10,000 new shares in the increased share capital of VKN Polska Sp. z o.o. The payment to the increased share capital was made on June 29, 2009. On June 16, 2009 the company share capital was increased by PLN 5,000 k (from PLN 14,100 k to PLN 19,100 k) with the resolution of the Extraordinary General Meeting of Shareholders of VKN Polska Sp. z o.o.

4) Company name change from VKN Polska Sp. z o.o. to Renevis sp. z o.o.

- On September 16, 2009 the name of VKN Polska Sp. z o.o. was changed to RENEVIS Inżynieria Środowiska Sp. z o.o., in short Renevis Sp. z o.o. The change was due to obligations to a former shareholder, VKN Ens Dorf.

5) *Sale of shares in Ekotrakt Sp. z o.o.*

- On February 27, 2009 a contract was made between KOGENERACJA S.A. and VKN Polska Sp. z o.o. to sell shares in Ekotrakt Sp. z o.o. KOGENERACJA S.A. sold 613 shares in Ekotrakt Sp. z o.o. to VKN Polska Sp. z o.o. for the total amount of PLN 473,849. KOGENERACJA S.A. does not hold any shares in Ekotrakt Sp. z o.o., nevertheless the indirect share of the Company is 100%.

6) *Sale of shares in ZEC Service Sp. z o.o.*

- On June 29, 2009 a contract was concluded between ZEC Service Sp. z o.o. and KOGENERACJA S.A. to redeem its own shares. KOGENERACJA S.A. sold its shares at the total amount of PLN 5,289 k to ZEC Service Sp. z o.o. (for redemption). The transfer of ownership and redemption of the shares was effective at the moment of the Contract’s conclusion.

7) *Purchase of shares in Z.C. Term Hydral Sp. z o.o.*

- On December 1, 2009 a contract was made, based on which KOGENERACJA S.A. purchased 8,712 shares in Zakład Ciepłowniczy Term Hydral Sp. z o.o. for the total amount of PLN 3,000 k from Kombinat PZL-Hydral S.A., which resulted in holding 100% shares in the share capital of the company. On December 7, 2009, the share capital of Z.C. Term Hydral Sp. z o.o. was increased by PLN 1,500 k with the issue of 1,500 new shares of the nominal value of 1,000 each. The shares in the increased share capital were funded with cash payment of PLN 1,500 k on December 8, 2009. On March 15, 2010 the increased share capital was registered in court. The main area of Z.C. Term Hydral Sp. z o.o. business activities is heat production in vapour and hot water to meet the communal and industrial buyers’ needs based on gaseous fuel. The Company holds licences to distribute and sell electricity.

Associates

1) *Sale of shares in ECeAuto Sp. z o.o.*

- On December 30 EC Zielona Góra S.A. concluded a sale contract with Polimex-Energo for the organised part of the company (overhaul division) of PRE ECeRemont Sp. z o.o. company. In January 2009 the remaining part of the company – Skoda car showroom – changed its name to ECeAuto Sp. z o.o.; the Parent Company held unchanged indirect shareholdings in the entity through EC Zielona Góra S.A. On February 9, 2009, the District Court in Zielona Góra registered the changes in the National Court Register documents of the company. On September 30, 2009, EC Zielona Góra concluded contracts to sell shares in ECeAuto Sp. z o.o. to individual shareholders. The total transaction was for 1,192 shares in ECeAuto Sp. z o.o. The title to the shares was transferred to the buyers on the dates of payment, i.e. on October 9 and 19, 2009. Currently, EC Zielona Góra S.A. does not hold any shares in ECeAuto Sp. z o.o. company.

e. Equity investments within the Group

In 2009, equity investments were made by the Parent Company with the following transactions:

- purchase of 10,000 shares in VKN Polska Sp. z o.o.; the transaction value was PLN 5,000 k,
- purchase of shares in ZEC Hurt Sp. z o.o.; the transaction value was PLN 1,898 k,
- purchase of shares in Z.C. Term Hydral Sp. z o.o. with share capital increase; the total transaction value was PLN 4,535 k,
- sale of shares in ZEC Service Sp. z o.o.; the transaction value was PLN 5,289 k, and
- sale of shares in Ekotrakt Sp. z o.o.; the transaction value was PLN 474 k.

The impact of these transactions on KOGENERACJA’s percentage share in the share capitals of the Group companies was described in item 6d of this report.

f. Other equity investments

KOGENERACJA S.A. holds shares in Towarowa Gielda Energii S.A. The share in capital voting power was 4.66% both in 2009 and 2008.

II. Key production and financial figures

1. Key financials and ratios for 2006 – 2009

| <i>in PLN thousand</i> | <i>from 1 January to 31 December 2009</i> | <i>from 1 January to 31 December 2008</i> | <i>from 1 January to 31 December 2007</i> | <i>from 1 January to 31 December 2006</i> |
|---|---|---|---|---|
| Revenues, including: | 531 802 | 429 667 | 387 211 | 460 410 |
| Sales of electricity | 226 709 | 214 057 | 202 378 | 201 200 |
| Sales of heat | 239 109 | 174 741 | 163 005 | 193 090 |
| Certificates | 57 058 | 35 073 | 16 950 | 1 466 |
| Cost of sales | (437 802) | (386 022) | (358 995) | (434 905) |
| Gross profit on sales | 94 000 | 43 645 | 28 216 | 25 505 |
| Administrative expenses | (7 135) | (7 340) | (6 710) | (8 379) |
| Selling expenses | (920) | (1 009) | (587) | (766) |
| Other operating revenues/costs | 5 742 | (4 538) | 16 878 | 13 715 |
| Operating profit (EBIT) | 91 687 | 30 758 | 37 797 | 30 075 |
| Net finance income | 29 459 | 25 055 | 31 473 | 14 372 |
| Income tax | (17 680) | (8 266) | (9 244) | (6 654) |
| Net profit | 103 466 | 47 547 | 60 026 | 37 793 |
| Non-current assets | 959 564 | 848 693 | 751 749 | 740 224 |
| Current assets | 292 357 | 202 676 | 151 170 | 163 326 |
| Total assets | 1 251 921 | 1 051 369 | 902 919 | 903 550 |
| Non-current liabilities | 119 014 | 65 620 | 60 417 | 46 388 |
| Current liabilities | 288 344 | 215 246 | 90 742 | 138 366 |
| Equity | 844 563 | 770 503 | 751 760 | 718 796 |
| Net cash from operating activities | 69 903 | 27 587 | 95 210 | 72 440 |
| Net cash used in investing activities | (121 541) | (72 549) | (36 688) | (77 441) |
| Net cash from financing activities | 52 553 | 50 622 | (58 258) | (38 292) |
| Total net cash flows | 915 | 5 660 | 264 | (43 293) |
| | (%) | | | |
| Return on assets (ROA) | 8,26 | 4,52 | 6,65 | 4,18 |
| Return on equity (ROE) | 12,25 | 6,17 | 7,98 | 5,26 |
| Return on capital employed (ROCE) | 11,98 | 5,05 | 7,49 | 5,93 |
| Current liquidity | 1,01 | 0,94 | 1,67 | 1,18 |
| Quick liquidity | 0,52 | 0,48 | 0,96 | 0,73 |
| Sales of heat (TJ) | 9 061 | 8 717 | 8 687 | 8 929 |
| Sales of electricity (MWh) | 1 125 446 | 1 175 336 | 1 181 388 | 1 391 035 |
| <i>including biomass production (MWh)</i> | 132 211 | 56 348 | 28 012 | 14 343 |

The methodology of the ratios’ calculation was presented in item III 8 of this report.

2. Key products

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

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

The sales of heat and electricity (in production units) in the years 2009 and 2008 are presented in the chart below.

| | <i>J.m.</i> | <i>from 1 January to 31 December 2009</i> | <i>from 1 January to 31 December 2008</i> | <i>Change (number)</i> |
|--|-------------|---|---|----------------------------|
| Sales of heat | TJ | 9 061 | 8 717 | 344 |
| Sales of electricity | MWh | 1 125 446 | 1 175 336 | (49 890) |
| Totale sales of products in units | TJ | 13 113 | 12 948 | 164 |

Sale of heat in 2009 was 9,061 TJ and was higher than in 2008. The increase was caused by lower temperatures noted in the heating period as compared with the previous year. The Company undertakes marketing efforts aimed at acquiring new heat buyers.

Sale of electricity in 2009 was at the level of 1,125,446 MWh and it was lower than in 2008 by 49,890 MWh, i.e. by 4.2%. The decrease resulted from the need to reduce the so-called pseudo-condensation (i.e. electricity production without the simultaneous generation of heat) due to the increase in the statutory level of gross efficiency of transformation of fuel chemical energy for co-generated production of energy up to 75%.

Total sale of products in the reporting period was 13,113 TJ (including 9,061 TJ for heat) and it was higher than in the previous year by 1.3%.

The value and structure of revenues from product sales in 2009 and 2008 are presented in the following chart.

| | <i>31 December 2009</i> | | <i>31 December 2008</i> | | <i>Change (value)</i> |
|---|------------------------------------|--------------------------|------------------------------------|--------------------------|---------------------------|
| | <i>Value (in PLN thousand)</i> | <i>Structure (%)</i> | <i>Value (in PLN thousand)</i> | <i>Structure (%)</i> | |
| Sales of heat | 239 109 | 45 | 214 057 | 50 | 25 052 |
| Sales of electricity | 226 709 | 42 | 168 356 | 40 | 58 353 |
| Certificates | 57 058 | 11 | 35 074 | 8 | 21 984 |
| Ancillary services | 3 158 | 1 | 6 385 | 1 | (3 227) |
| Other revenues | 3 838 | 1 | 5 447 | 1 | (1 609) |
| Revenues from the sale of finished goods | 529 872 | 100 | 429 319 | 100 | 100 553 |

3. Key economic and financial results of the Company

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

In 2009 the Company generated net profits of PLN 103,466 k, which was higher than last year by PLN 55,919 k, when the net profit was at the level of PLN 47,547 k. The key financials of the Company are presented in the following charts.

a. Selected items from the Income Statement of KOGENERACJA S.A.

| <i>in PLN thousand</i> | <i>from 1 January to 31 December 2009</i> | <i>from 1 January to 31 December 2008</i> | <i>Change (value)</i> |
|--------------------------------|---|---|---------------------------|
| Revenues | 531 802 | 429 667 | 102 135 |
| Cost of sales | (437 802) | (386 022) | (51 780) |
| Gross profit on sales | 94 000 | 43 645 | 50 355 |
| Administrative expenses | (7 135) | (7 340) | 205 |
| Selling expenses | (920) | (1 009) | 89 |
| Other operating revenues/costs | 5 742 | (4 538) | 10 280 |
| Operating profit (EBIT) | 91 687 | 30 758 | 60 929 |
| Net finance income | 29 459 | 25 055 | 4 404 |
| Income tax | (17 680) | (8 266) | (9 414) |
| Net profit | 103 466 | 47 547 | 55 919 |

b. Revenues

| <i>in PLN thousand</i> | <i>from 1 January to 31 December 2009</i> | <i>from 1 January to 31 December 2008</i> | <i>Change (value)</i> |
|---|---|---|---------------------------|
| Revenues | 531 802 | 429 667 | 102 135 |
| Revenues from the sale of finished goods | 529 872 | 429 319 | 100 553 |
| <i>including certificates</i> | 57 058 | 35 073 | 21 985 |
| <i>including ancillary services</i> | 3 158 | 6 385 | (3 227) |
| Revenues from the sale of merchandise and raw materials | 1 930 | 348 | 1 582 |

In 2009, the Company generated **revenues** amounting to PLN 531,802 k, including revenues of PLN 529,872 k from the sale of products and revenues from the sale of merchandise and raw materials amounting to PLN 1,930 k. In 2008 the revenues were at a level of PLN 429,667 k, including revenues from the sale of products amounting to PLN 429,319 k, and from the sale of merchandise and raw materials amounting to PLN 348 k.

The higher **revenues from the sale of products** achieved in 2009 (by PLN 100,553 k) were affected by the following factors:

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

The yearly average increase in so-called “black” electricity prices was 36%, which was due to favourable market conditions and negative adjustment – transfer of excise tax obligations from manufacturers to distributors. The increase in the price of heat was, respectively, 7.7%, and the price of heat power increased by 6.5%; this is an effect of favourable prices and heat tariffs for KOGENERACJA, which became effective as of August 1, 2009, following the approval of the President of the Energy Regulatory Office.

In 2009 KOGENERACJA S.A. acquired and sold rights under certificates for co-generated energy (red certificates) and energy from renewable sources – co-combustion of biomass – (green certificates) for an amount of PLN 57,058 k. The production of electricity through co-combustion of wooden biomass increased over twofold in 2009 (by 134.6%) as compared to 2008. The production of green energy in 2009 amounted to 132,211 MWh as compared to 56,348 MWh in 2008. The increase in prices of “green” and “red” certificates was, respectively, by 10.7% and 6.6%.

c. Fixed costs and variable costs

In 2009, *variable costs* related to the generation of sold products were 20.9% higher than in 2008, amounting to PLN 248,873 k. In 2008, these costs were at a level of PLN 205,843 k. The increase in variable costs by PLN 43,030 k is a consequence of the increase in fuel costs caused by the increase in prices of basic production fuel by 25.4% (the average price of burnt coal in 2009 was 230.28 PLN/t, and in 2008 – 183.68 PLN/t) and wooden biomass by 66.4% (the average price of burnt biomass in 2009 was 400.65 PLN/t, and in 2008 – 240.77 PLN/t). In 2009, the share of wooden biomass in the process of co-combustion largely increased – from 51,627 t in 2008 to a level of 109,300 t in 2009. The decrease in other variable costs results from the absence of the need to purchase energy in the balancing market to meet the sales terms of the energy produced in KOGENERACJA S.A. – it resulted in economies of PLN 2,654 k. It results also from releasing provision for the purchase of CO₂ emission rights amounting to PLN 1,915 k in 2009.

Lower costs of excise tax, amounting to PLN 16,505 k, result from the transfer of fiscal obligations, as of March 1, 2009, from electricity manufacturers to distributors pursuant to the act of December 6, 2008 on excise tax.

| in PLN thousand | Cost of sales | | Administrative expenses | | Selling expenses | | Total | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | from 1.01.2009 to 31.12. 2009 | from 1.01.2008 to 31.12. 2008 | from 1.01.2009 to 31.12. 2009 | from 1.01.2008 to 31.12. 2008 | from 1.01.2009 to 31.12. 2009 | from 1.01.2008 to 31.12. 2008 | from 1.01.2009 to 31.12. 2009 | from 1.01.2008 to 31.12. 2008 |
| Variable costs | (248 873) | (205 843) | - | - | - | - | (248 873) | (205 843) |
| fuel costs | (237 246) | (170 291) | - | - | - | - | (237 246) | (170 291) |
| excise tax | (5 620) | (22 125) | - | - | - | - | (5 620) | (22 125) |
| other variable costs | (6 007) | (13 427) | - | - | - | - | (6 007) | (13 427) |
| Fixed costs | (188 886) | (180 095) | (7 135) | (7 340) | (920) | (1 009) | (196 941) | (188 444) |
| labour costs | (71 424) | (66 643) | (5 063) | (5 165) | (661) | (776) | (77 148) | (72 584) |
| overhauls | (24 008) | (23 197) | - | (6) | - | - | (24 008) | (23 203) |
| depreciation | (44 397) | (43 455) | (22) | (22) | - | - | (44 419) | (43 477) |
| services | (34 597) | (32 747) | (2 039) | (2 111) | (116) | (171) | (36 752) | (35 029) |
| other fixed costs | (14 460) | (14 053) | (11) | (36) | (143) | (62) | (14 614) | (14 151) |
| Value of goods and materials sold | (43) | (84) | - | - | - | - | (43) | (84) |
| Total costs | (437 802) | (386 022) | (7 135) | (7 340) | (920) | (1 009) | (445 857) | (394 371) |

Fixed costs of the products sold in 2009 amounted to PLN 196,941 k. In 2009 labour costs increased by 4,564 k and so did costs of depreciation and overhauls of production machinery by PLN 1,747 k, which resulted from the continuous upgrade and improvement of the power generating equipment to adapt it to co-combustion of biomass and coal.

The increase in labour costs in 2009 was driven by

- increase in salaries and social security costs by PLN 1,519 k,
- increase in severance payments within the Voluntary Severance Scheme by PLN 361 k,
- higher increase in provisions for labour costs (provisions for energy allowance, jubilee awards and retirement severance payments) by PLN 2,255 k, which results mainly from the discount rate change from 7% to 6% while valuating actuarial provisions, and
- increase in other employees’ benefits by PLN 429 k.

The increase in the costs of external services by PLN 1,723 k result from an increased scope of direct production services such as combustion wastes utilisation and ash discharge services, heavy equipment services, electric services in ports, third party work duties, measurements and diagnostic tests and warehousing services. This category of costs includes also property insurance costs that increased as compared to the previous year as a result of increased insurance premiums.

The increase in other fixed costs (by PLN 463 k) results from the increase in tax rates and local fee payments (real estate tax) and licence fees due to the increase in revenues from the sales of products.

d. Other operating profit (loss)

In 2009 the profit on other operations was at the level of PLN 5,742 k, while in 2008 the loss on other operations amounted to PLN -4,538 k. Such a considerable increase in profit on other operations was an effect of additional revenues in the amount of PLN 5,823 k due to the valuation of a financial instrument related to the swap of CO₂ emission rights (EUA/CER) within swap contracts. Net revenues from the execution of the swap of CO₂ emission rights (EUA/CER) in 2009 amounted to PLN 2,899 k.

e. Net financial profit (loss)

The higher profit on financial activities in 2009, by PLN 4,404 k, was mainly due to higher financial revenues from dividend (by PLN 8,739 k), a higher result on the sales of financial assets (by PLN 4,114 k) and offset by the lack of reversal of impairment for the shares of Towarowa Giełda Energii S.A. amounting to PLN 3,694 k as in 2008.

Financial costs were higher than last year (by PLN 2,672 k) due to the interest, which results from the increase in the Company debt in 2009 related to the investments aimed at the increase in the production of “green” energy.

f. Net profit (loss)

In 2009, the Company generated a net profit of PLN 103,466 k as compared to PLN 47,547 k earned in 2008.

The significant improvement in net profit in 2009 as compared to the previous year, by PLN 55,919 k, results from the following aspects:

- higher gross profit on sales of key products by PLN 50,355 k in 2009 – mainly due to the strong increase in “black” electricity prices from PLN 148.71 PLN/ MWh in 2008 up to 202.30 PLN/MWh in 2009 i.e. by 36% per unit and over twofold increase in the production of green, biomass-derived energy with the increase in green certificates’ prices by 10.7%,
- increase in other revenues in 2009 by PLN 7,259 k with lower other operating costs, by the amount of PLN 3,021 k, and increased balance of provisions, by PLN 349 k:
 - additional revenues in 2009 from financial instruments valuation and actual execution of CO₂ emission rights swap (EUA/CER) at the total amount of PLN 8,722 k (swap contracts),
 - other operational costs in 2008 included a write-down for the investment in real estate amounting to PLN 3,559k and fixed assets depreciation amounting to PLN 1,916 k – such one-time cost items did not arise in 2009,
- higher revenues from financial activities (by PLN 7,076 k) with higher financial costs (by PLN 2,672 k), including higher revenues in 2009 by PLN 8,700 k from dividend received from EC Zielona Góra.

g. Key ratios: ROA, ROE and ROCE

| (%) | <i>from 1 January to 31 December 2009</i> | <i>from 1 January to 31 December 2008</i> | <i>Change (%)</i> |
|-----------------------------------|---|---|-----------------------|
| Return on assets (ROA) | 8,26 | 4,52 | 83 |
| Return on equity (ROE) | 12,25 | 6,17 | 99 |
| Return on capital employed (ROCE) | 11,98 | 5,05 | 137 |

The Company’s profitability ratios in 2009 were significantly higher year-to-year mainly due to the increased level of operating profit (EBIT) by 198% and increase in net financial profit earned by the Company – by 118%.

4. Distribution markets and supply sources

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

a. Distribution markets

KOGENERACJA S.A. meets the legal requirements specified in article 32 and article 47 of *Energy Law*. The Company holds required licences granted by the President of the Energy Regulatory Office (URE) to carry business activities consisting in the production of electricity and heat and heat distribution; prices regulated in relevant tariffs are applied in transactions with energy buyers. Another Tariff for heat was approved by the President of the Energy Regulatory Office on June 18, 2009 (decision no. OWR-4210-30/2009/1276/X-A/MB). 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 June 23, 2005).

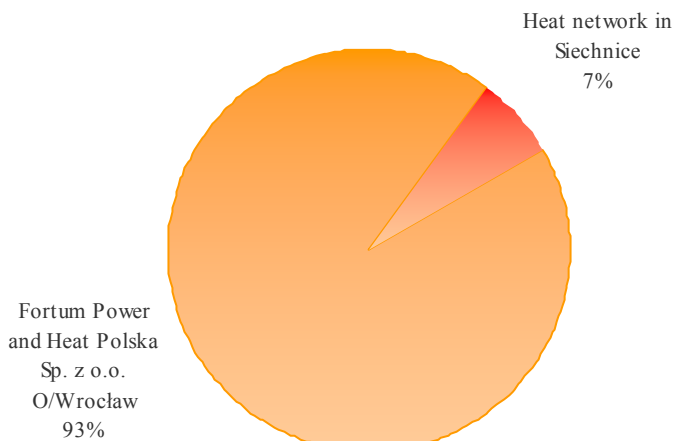
Additionally, decisions changing the following licences were obtained:

- WEE/38-ZTO-B/1276/W/OWR/2009/DB of July 20, 2009 for the production of electricity, increasing the stream of biomass combustion up to 70% of weight share,
- WCC/583-ZTO-B/1276/W/OWR/2009/DB of July 20, 2009 for heat production, increasing the stream of biomass combustion up to 70% of weight share, and
- PCC/611-ZTO-B/1276/W/OWR/2009/MB of November 16, 2009 for heat transmission and distribution, extending the area of business activities with the city of Wrocław.

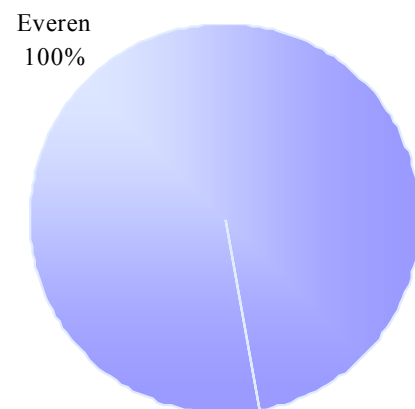
The key distribution markets in 2009 were as follows:

- buyers connected to the heating system of Wrocław and Siechnice, to whom heat is supplied through local heat distribution networks:
 - a network of a local heat distributor, i.e. Fortum Power and Heat Polska Sp. z o.o., division in Wrocław – 93 % of heat sales,
 - heat distribution network in Siechnice (the commune of Św. Katarzyna) – 7 % of heat sales,
- buyers of electricity co-generated with heat:
 - Everen Sp. z o.o. – 100 % of electricity sales.

Buyers connected to the heat network system



Buyers of electricity



b. Relations with customers

For the purpose of heat sale the Company mainly uses the distribution network of Fortum Power and Heat Polska Sp. z o.o., division in Wrocław.

In the electricity market, energy is sold under annual two-party agreements with Everen Sp. z o.o. and SPOT agreements concluded directly with other customers. However, physically, electricity is sent through the distribution network of EnergiaPro GRUPA TAURON S.A.

c. Relations with vendors

| <i>Subject of the agreement</i> | <i>Vendor</i> | <i>Agreement</i> |
|-------------------------------------|---|--|
| Sale of power coal | Przedsiębiorstwo Handlowo-Usługowe Energokrak Sp. z o.o. | Agreement no. SW/05/174/UH concluded on July 6, 2005. The agreement expires on June 30, 2021. |
| Sale of power coal | Syndicate of KOGENERACJA S.A. – Energokrak Sp. z o.o. and Katowicki Holding Węglowy | Long-term agreement no. KW/05/153/UH concluded on May 25, 2005. Energokrak Sp. z o.o. will be buying the contracted coal to sell it to KOGENERACJA S.A. Coal deliveries are made from July 1, 2007 to June 30, 2021. |
| Supply of heavy fuel oil | Elektrociepłownia “Kraków” S.A. – acting on its own behalf and companies within EDF Polska / Lotos Asphalt Sp. z o.o. Group | Agreement no. 97/2008 concluded on May 19, 2008. The agreement expires on March 31, 2011. |
| Transport and shipment of hard coal | Odratrans S.A. and Energokrak Sp. z o.o. | Long-term agreement no. 1/2005 of July 4, 2005. The agreement expires on June 30, 2021. |
| Transport and shipment of hard coal | Odratrans S.A. and Energokrak Sp. z o.o. | 1-year agreement no. 1/2009 concluded on May 18, 2008. The agreement expired on March 31, 2009. |
| Supply of biomass | Energokrak Sp. z o.o. | Master Agreement no. SB/08/332/UH of June 27, 2008. The agreement expires on November 30, 2016. |

5. Material agreements concluded in 2009

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

On November 30, 2009 KOGENERACJA S.A. entered into the following electricity sale agreement and property rights sale agreement with Everen Sp. z o.o.:

1. the electricity sale agreement is effective as of January 1, 2010 and is concluded for the indefinite period of time. The estimated value of the transactions in 2010 shall amount to PLN 215,000 k;
2. the property rights sale agreement is effective as of January 1, 2010 and is concluded for the indefinite period of time. The estimated value of the transactions in 2010 shall amount to PLN 95,000 k. (*Current Report no. 38/2009*).

On November 30, 2009 the total value of overdraft agreements with BOŚ S.A. amounted to PLN 81,000 k, including the following agreements:

1. the Agreement of November 30, 2009 by and between the Company and Bank Ochrony Środowiska S.A. – Overdraft Agreement with the limit of PLN 30,000 k, and
2. the Agreement of July 13, 2009 by and between the Company and Bank Ochrony Środowiska S.A. – Investment Loan Agreement for funding tasks related to the protection of the environment for PLN 51,000 k. (*Current Report no. 39/2009*).

6. Key domestic and foreign investments

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

In the reporting period of 2009 KOGENERACJA S.A. did not invest in any securities other than shares specified in item 4e *Equity investments within the Group* of this report.

However, in 2008 under financial instruments the Company recognised the “Insurance against the loss of profit due to weather anomalies – weather collar derivative”, whose value was estimated as of December 3, 2008 by an independent valuer at the amount of PLN 4,431 k.

As the term of the weather policy held by KOGENERACJA S.A. expired on December 31, 2009 the Management Board already in mid-2009 ordered necessary market research to check the terms and conditions of a comparable agreement for the forthcoming 3-year period. However, the collected offers proved that the conclusion of a comparable agreement would result in a manifold increase in the insurance rate, which would be highly unfavourable to KOGENERACJA S.A.

7. Related party transactions

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

The key transactions with the related parties (including financial revenues and costs) in 2009 are presented in the chart below. Also, Everen Sp. z o.o. was classified as a related party. The company has no direct capital relations with KOGENERACJA S.A. but it is a member of the EDF Group, and significant transactions are being made between the entity and the Parent Company.

Transactions with Group entities are concluded and executed in compliance with general market terms.

Other transactions with related parties are presented in detail in the Individual Financial Statements of KOGENERACJA S.A. for 2009, item 39 *Related Party Transactions (III Notes)*.

| <i>in PLN thousand</i> | <i>Revenues earned from related party transactions in the current period</i> | <i>Purchases/Costs incurred in related party transactions in the current period</i> |
|--------------------------|--|---|
| EC ZG S.A. | 27 800 | 140 |
| Everen Sp. z o.o. | 272 968 | 10 170 |
| PPO Siechnice Sp. z o.o. | 11 338 | 11 |
| Energokrak Sp. z o.o. | 88 | 266 125 |
| Renevis Sp. z o.o. | 1 503 | 8 828 |
| ZEC Service Sp. z o.o. | 1 317 | 9 855 |
| ZEC Hurt Sp. z o.o. | 953 | 2 583 |

8. Loan agreements concluded and terminated in 2009

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

a. Loan agreements concluded in 2009

1) *Bank overdraft – ING Bank Śląski S.A.*

On November 30, 2009 the Company renewed its Overdraft Agreement with ING Śląski S.A., Katowice for PLN 30, 000 k for another year. The agreement will expire on October 29, 2010. The facility is secured by:

- registered pledge on hard coal inventory kept on heaps in Wrocław and Siechnice, with the total value of at least PLN 23,750 k,
- open mortgage up to PLN 48,900 on the perpetual usufruct of land and on the machinery and buildings situated on that land, and
- assignment of insurance policy for the coal inventory and real estate.

2) *Bank overdraft – BOŚ S.A.*

On December 4, 2009 the Company renewed its Overdraft Agreement for PLN 30,000 k, with BOŚ S.A. in Warsaw for another year. The agreement expires on November 29, 2010. The facility is secured by:

- blank bill of exchange with a B/E declaration;
- open mortgage up to PLN 75,000 k for real estate in Siechnice including the perpetual usufruct of land and buildings and facilities of EC Czechnica in the perpetual usufruct of KOGENERACJA S.A.,
- assignment of insurance policy against fire and other fortuitous events for the real estate that secures the loan,
- receivables from Everen Sp. z o.o., as of December 31, 2009 amounting to PLN 40,324 k, and
- power attorney to the Borrower’s account in BOŚ S.A.

3) *Bank overdraft – BPH S.A.*

On November 4, 2009 the Company concluded an agreement for multipurpose facility amounting to PLN 60,000 k (from May 1 to October 29 the loan amount will be PLN 30,000 k) with BPH S.A. in Warsaw. The agreement expires on October 29, 2010.

The facility is secured by:

- open mortgage up to PLN 90,000 k for perpetual usufruct of real estate located in Wrocław, ul. Łowiecka, and property rights for buildings and objects that are a separate real estate property, and
- assignment of insurance policy against fire and other fortuitous events for the real estate that secures the loan.

4) *Investment loan – BOŚ S.A.*

On July 13, 2009 the Company concluded an agreement on an investment loan amounting to PLN 51,000 k, with BOŚ S.A. in Warsaw. The agreement expires on September 30, 2015. The facility is secured by:

- blank bill of exchange with a B/E declaration,
- registered pledge on a modernised boiler OP130/K-2,
- ordinary mortgage of PLN 51,000 k and contractual open mortgage up to the amount of PLN 25,500 k on perpetual usufruct of land and property rights to facilities and buildings in perpetual usufruct of the Company,
- assignment of insurance policy against fire and other fortuitous events for the modernised boiler and real estate that secures the bank facility, and
- assignment of receivables from bank guarantee issued at the order of the investment contractor.

As at 31 December 2009

in PLN thousand

| | | <i>Contractual amount</i> | <i>Interest rate</i> | <i>CCY</i> | <i>Date borrowed</i> | <i>Balance</i> | <i>Date due</i> |
|------------------|-----------------|---------------------------|----------------------|------------|----------------------|----------------|-----------------|
| Loans | | | | | | | |
| BOŚ | Overdraft | 30 000 | WIBOR 1M + 1,2% | PLN | 04-12-2009 | 29 590 | 29-11-2010 |
| BOŚ | Investment loan | 51 000 | WIBOR 3M + 2,85% | PLN | 13-07-2009 | 33 000 | 30-09-2015 |
| ING | Overdraft | 30 000 | WIBOR 1M + 1% | PLN | 30-11-2009 | 2 | 29-10-2010 |
| Bank Handlowy | Overdraft | 60 000 | WIBOR 1M + 1% | PLN | 06-11-2009 | - | 29-10-2010 |
| Société Générale | Debt securities | 180 000 | WIBOR + 1,5% | PLN | 05-01-2009 | 116 183 | 06-11-2011 |

b. Loan agreements concluded in previous years

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

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

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, and
- bank guarantee of PLN 10,750 k issued by ING Bank Śląski S.A.

The loan was drawn in tranches in 2006 and 2007. As at December 31, 2009, the balance of the loan was PLN 12,590 k.

9. Loans granted

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

a. Loans granted in 2009

In 2009, the Company did not grant any loans to its Group companies.

b. Loans granted in previous years

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

As at 31 December 2009

in PLN thousand

| | <i>Contractual amount</i> | <i>Interest rate</i> | <i>CCY</i> | <i>Date granted</i> | <i>Balance</i> | <i>Date due</i> |
|----------------------|---------------------------|----------------------|------------|---------------------|----------------|-----------------|
| Loans | | | | | | |
| EC Zielona Góra S.A. | 69 700 | WIBOR 3M+ 1,3% | PLN | 03-06-2002 | 49 529 | 30-06-2016 |

c. Loans granted to the Members of the Management Board and Supervisory Board

Within the Company Social Benefit Fund in 2009 loans were granted to the following related parties:

As at 31 December 2009

| <i>in PLN</i> | <i>Contractual amount</i> | <i>Interest rate</i> | <i>CCY</i> | <i>Date granted</i> | <i>Balance</i> | <i>Date due</i> |
|----------------------|---------------------------|----------------------|------------|---------------------|----------------|-----------------|
| Andrzej Siennicki | 6 000 | 1% | PLN | 07-05-2008 | 2 904 | 31-05-2011 |
| Wojciech Burdynowski | 6 000 | 1% | PLN | 07-05-2008 | 2 904 | 31-05-2011 |
| Arkadiusz Repczyński | 6 000 | 1% | PLN | 16-03-2009 | 4 616 | 31-03-2012 |
| Henryk Zajas | 8 000 | 1% | PLN | 02-10-2008 | 4 750 | 31-07-2011 |
| Henryk Zajas | 30 000 | 1% | PLN | 04-09-2009 | 30 648 | 30-09-2015 |
| Danuta Żeleźna | 30 000 | 1% | PLN | 06-05-2008 | 26 500 | 31-05-2014 |
| Danuta Żeleźna | 6 000 | 1% | PLN | 02-10-2008 | 3 556 | 31-07-2011 |

10. Guarantees and sureties

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

a. Guaranties and sureties granted

In 2009, the Company did not grant any guarantees (for loans or other), whose total value would amount to at least 10% of the Company’s equity.

A detailed list of all guarantees and sureties granted to companies is presented in the Individual Financial Statements of KOGENERACJA S.A. for 2009, item 38 *Contingent Liabilities (III Notes)*.

b. Guaranties and sureties received

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

11. Information on litigation

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

In 2009 there were no proceedings in courts or bodies competent for conciliatory proceedings or public administration bodies against KOGENERACJA S.A. or the Company subsidiaries with respect to obligations or receivables exceeding the value of 10% of the Company equity.

12. Issue of securities

(in accordance with § 91 section 6, item 9 of the Ordinance)

As at December 31, 2009 the value of securities issued by the Company was PLN 116,183 k. The proceeds from the bonds issue were used to fund the Company current operations.

13. Reported financials versus projections

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

The Company did not publish its projections for 2009.

14. Assessment of financial resources management

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

a. Cash flows

In 2009-2008, the Company’s cash flows were as follows (selected data):

| <i>in PLN thousand</i> | <i>for the period from 1 January 2009 to 31 December 2009</i> | <i>for the period from 1 January 2008 to 31 December 2008</i> | <i>Change (value)</i> |
|---|---|---|---------------------------|
| Net cash from operating activities | 69 903 | 27 587 | 42 316 |
| Net cash used in investing activities | (121 541) | (72 549) | (48 992) |
| Net cash from financing activities | 52 553 | 50 622 | 1 931 |
| Total net cash flows | 915 | 5 660 | (4 745) |
| Cash and cash equivalents at the beginning of the financial year | 6 065 | 405 | 5 660 |
| Cash and cash equivalents at the end of the financial year | 6 980 | 6 065 | 915 |

The financial management in 2009 did not allow, as in 2008, for balancing the Company cash flows, i.e. funding its investment and financial expenses with cash flows.

1) Operating activities

In the reporting year of 2009, as compared to 2008, the operating cash flows increased by 153%. Net cash flows from operating activities increased by PLN 42,316 k, and in 2009 amounted to PLN 69,903 k versus PLN 27,587 k in 2008.

The key drives of the operating cash flows included:

- higher EBITDA in 2009, which made a positive impact on the Company’s cash position by PLN 56,900 k (PLN 132,217 k in 2009 vs. PLN 75,317 k in 2008),
- decrease in working capital in 2009 (change in receivables, inventory and liabilities) by PLN 10,069 k (in 2009 – 55,944 k and in 2008 – 45,875 k) caused by the increase in trade receivables – by PLN 28,914 k, increase in inventories – by PLN 7,953 k, offset by the increase in trade liabilities – by PLN 26,274 k.

2) Investing activities

In 2009 cash flows from investing activities were negative and amounted to PLN 121,541 k versus PLN 72,549 k in 2008. 68% increase in the negative cash flows from investing activities in 2009 vs. 2008, i.e. by PLN 48,992 k, is mainly the result of higher investment outflows, chiefly due to the purchase of tangible assets.

The expenditures on purchase of tangible and intangible fixed assets increased by PLN 42,157 k (in 2009 PLN 154,582 k while in 2008 PLN 112,425 k), while the expenditures on financial assets decreased by PLN 5,828 k. In 2009 the expenditures were at the level of PLN 11,533 k versus PLN 17,361 k in 2008. The structure of capital investments is presented in item III.1.

At the same time investment inflows in 2009 decreased by PLN 12,663 k (PLN 44,574 k in 2009 versus PLN 57,237 k in 2008) despite the increase in inflows by PLN 8,740 k from dividends received (PLN 25,420 k in 2009, including the dividend from EC Zielona Góra – PLN 25,047 k versus PLN 16,680 k in 2008, including PLN 16,346 k from EC Zielona Góra) and increased proceeds from the compensation on account of the weather derivative by PLN 443 k (PLN 3,372 k in 2009 and PLN 2,929 k in 2008).

In 2008 extraordinary items included the increase in investment inflows, which was caused by the advance repayment of the capital of the subordinated loan given to EC Zielona Góra S.A. for the development of CC Gas Unit in amounting to PLN

15,000 k and proceeds from the sale of tangible assets amounting to PLN 8,305 k. The absence of such items in 2009 resulted in the decrease in investment inflows. Additionally, inflows from interest decreased by PLN 2,016 k (decrease in WIBOR), which was offset with the increase in inflows from the sale of financial assets by PLN 2,285 k and the sale of ZEC Service Sp. z o.o.

3) *Financial activities*

The cash flows from financial activities in 2009 were positive, at the level of PLN 52,553 k, i.e. increased by 4% as compared to the previous year; in 2008 the balance was at the level of PLN 50,622 k. The change was driven by the fact that in 2009 the financial inflows increased by PLN 28,981 k and their structure changed; inflows from loans decreased by PLN 20,979 k (in 2009 first tranches of the investment loan were drawn amounting to PLN 33,000 k; in 2008 a short-term loan was granted by a related entity amounting to PLN 24,000 k as well as overdraft of PLN 29,979 k). Inflows from bonds increased by PLN 49,960 k.

The increase in financial outflows by PLN 27,050 k, including the increased outflows for loan repayments by PLN 24,200 k, were caused by the repayment of a loan drawn in 2008. In 2009 the amount of repaid loans and overdrafts amounted to PLN 27,972 k versus PLN 3,772 k in 2008. The amount of dividend paid in 2009 and 2008 was at the same level of PLN 30,545 k.

4) *Total net cash flows*

In 2009, total net cash flows were positive and amounted to PLN 915 k. In the comparative period the value was also positive at the level of PLN 5,660 k. At the end of 2009 total cash flow was at the level of PLN 6,980 k versus PLN 6,065 at the end of 2008.

b. Liquidity

| | <i>for the period from 1 January 2009 to 31 December 2009</i> | <i>for the period from 1 January 2008 to 31 December 2008</i> |
|-------------------|---|---|
| Current liquidity | 1,01 | 0,94 |
| Quick liquidity | 0,52 | 0,48 |

Liquidity ratios for KOGENERACJA S.A. in 2009 were slightly higher than in 2008: current liquidity at the level of 1.01 and quick liquidity at the level of 0.52. The level of these ratios compared with 2008 is mainly due to the higher increase in current assets – by 44 % than in current liabilities – by 34 %.

As at December 31, 2009, the Company’s non-current liabilities on account of borrowings were at the level of PLN 37,101 k and current liabilities on account of borrowings – at the level of PLN 154,265 k.

III. Investments and development

1. Assessment of investment capacity

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

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

Tangible investments are focused on development, including environmental protection, modernisation and replacement of fixed assets. The purpose of modernisations and replacement investments (i.e. investments in the Company’s production assets) is the increase in productivity and availability of equipment, reduction of the failure rate as well as improvement of work safety standards. Within capital investments new shares in related parties were acquired. The Company intends to invest actively to reach new energy markets, strengthen 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 hinder the Company plans. The planned expenditures are secured by external financing (bank facilities), by the loan from the Voivodship Environmental Protection and Water Management Fund in Warsaw and the investment loan as well as the company’s own resources.

The chart below presents key investment projects developed or continued in 2009 and in 2008.

| | <i>from 1 January 2009 to 31 December 2009</i> | <i>from 1 January 2008 to 31 December 2008</i> |
|-----------------------|--|--|
| Internal investments | 47 541 | 7 591 |
| Capitalised repairs | 18 941 | 45 434 |
| Technological Project | 7 328 | 44 688 |
| Industrial Project | 69 772 | 36 527 |
| External investments | 8 021 | 10 551 |
| Total | 151 603 | 144 791 |
| Capital investments | 11 399 | 13 000 |

a. Internal investments

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

1) Industrial Development

Within the Industrial Development projects were started to ensure operation of the Company's production equipment in the context of strict environmental requirements after 2015. Also, projects were initiated to support the Company's economic development.

The key initiatives include:

- a) works aimed at the adaptation of three energy blocks in EC Wrocław to the new emission standards after 2015; in 2009 analyses were being carried to define the best technical solutions for desulphuring exhaust gases with the selection of the best concept of the desulphuring installation implementation with parallel works on alternative solutions to this issue (e.g. the use of natural gas to run some boilers),
- b) continuation of work on the project of development of new extraction condensing units in EC Czechnica; the scope of work was extended to test the option of building one unit of high capacity instead of the two planned ones; at the same time works were carried out to prepare documentation to start tender procedures aimed at selecting a technical advisor,
- c) development of a biomass torrefaction installation – an innovative project. The installation is aimed at changing physical and chemical characteristics of biomass into such new features that are required in the combustion process so that biomass can replace coal without further investments, and thus, significantly increase the production of energy from renewable sources, and
- d) adaptation of EC Czechnica’s infrastructure to the needs of developmental projects of the Company.

2) *Technological Project*

In 2009 the Company continued its initiatives within the so-called **Technological Project**. Below there is a specification of the key investments completed in Wrocław:

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

3) *Other internal investments*

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

In the reporting year of 2009 the majority of funds was devoted to the modernisation of control and measurement instruments and automation that enable efficient exploitation of the units’ DCS systems in EC Wrocław. In 2009 the modernisation of the control and measurement instruments and automation systems was performed in the milling plant in EC Czechnica including the movement of the control room of steam boilers, which allows the system operation by fewer operators. Fuel supply and exhaust gas discharge systems were also modernised.

The key initiatives completed in 2009 include:

- upgrade of the control room in EC Wrocław,
- change of exhausts discharge system organisation (including modernisation of exhaust ducts behind the unit and water boilers and modernisation of chimneys) in EC Wrocław,
- upgrade of coal conveyor equipment in EC Wrocław,
- upgrade of boiler trays with a covering structure for the extinguisher installation in EC Wrocław,
- upgrade of internal network system and technological steam system in EC Wrocław,
- property protection,
- upgrade of coal mills at K-2 and K-3 boilers in EC Wrocław (adaptation for low-sulphur coal),
- upgrade of coal discharge to K-1, K-2 and K-3 boilers in EC Wrocław,
- upgrade of external heat network system in EC Wrocław (including modernisation of heat supply mains, MI MII)
- upgrade of K-2 boiler to adapt it to biomass combustion in EC Czechnica,
- upgrade of a pressurised part of K-4 boiler and mill control station in EC Czechnica,
- upgrade of boiler trays with a covering structure for the extinguisher installation in EC Wrocław,
- upgrade of internal network system and technological steam system in EC Wrocław,
- upgrade of mill control room in EC Czechnica.
- upgrade of K-2 boiler to adapt it to biomass combustion in EC Czechnica.

The key tasks planned for 2010 include:

- upgrade of the control system, protective measures and measuring instruments between BC-1, 2 and 3 units and R-144 switch station, ul. Długa (W)
- change of exhausts discharge system organisation (including modernisation of exhaust ducts behind the unit and water boilers and modernisation of chimneys in EC Wrocław),
- upgrade of coal conveyor equipment in EC Wrocław,
- upgrade of coal supply control and measurement instruments and automation system in EC Wrocław,
- upgrade of a pressurised part of K-4 boiler and mill control station in EC Czechnica,
- upgrade of K-2 boiler to adapt it to biomass combustion in EC Czechnica,
- upgrade of industrial objects’ elevations in EC Wrocław, and
- property protection.

The investments in 2010 will be funded with the Company’s own funds and from external sources.

The refurbishment of coal boiler OP130/K2 in EC Czechnica a into biomass boiler will be funded, among others, from external resources:

- in July 2009 the Company concluded an investment loan agreement amounting to PLN 51,000 k (*Current Report no. 24/2009*) to fund investment tasks which includes the upgrading of the OP130/K-2 boiler in EC Czechnica to a bubbling fluidised-bed boiler (BFB). Till December 31 the Company used 2 tranches amounting to PLN 33,000 k;
- in December 2009 a subsidy agreement was concluded amounting to PLN 20,000 k with the National Environmental Protection and Water Management Fund in Warsaw within the Operational Programme Infrastructure and Environment, 2007-2013, action 4.5, priority IV. Till December 31, 2009 the Company did not start qualifying expenditures and did not obtain any funds.

b. External investments

KOGENERACJA S.A. delivers external investments consisting of new connections to the Wrocław heat network which are aimed at increasing the heat market share and result from the Company's strategic goals. In 2009, new buyers were connected to the heat network of a total power of 34.05 MWt, namely, in Wrocław, 66 heat stations with the capacity of 29.64 MWt including the construction of own heat stations at the customer sites from the Company’s own funds. At the same time in Siechnice 56 heat stations were developed within the Company’s heating network (with the capacity of 4.41 MWt). In 2009 the first stage of the new heating network construction was started in Święta Katarzyna. New connections will be continued.

c. Capital investments

In 2009, KOGENERACJA S.A. purchased shares in the following companies:

- 10,000 shares in VKN Polska Sp. z o.o. (currently Renevis sp. z o.o.) – the transaction value of PLN 5,000 k,
- up to the value of 100% shares in ZEC Hurt Sp. z o.o. – the transaction value of PLN 1,899 k,
- 100% shares in Z.C. Term Hydral Sp. z o.o. – the transaction value of PLN 3,000 k, and
- shares in ZC Term Hydral Sp. z o.o. – the transaction value of PLN 1,500 k; equity increase.

In 2009, KOGENERACJA S.A. sold shares in the following companies:

- shares in a subsidiary, ZEC Service Sp. z o.o. – the transaction value of PLN 5,289 k, and
- shares in a subsidiary, Ekotrakt Sp. z o.o. – the transaction value of PLN 474 k; the company is still indirectly related to the Company in 100% through Renevis Sp. z o.o.

The effect of these transactions on KOGENERACJA’s percentage share in the share capitals of the Group companies is described in item 4.d *Changes in the Group structure* of this report.

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

(in accordance with § 91 section 5, item 1 of the Ordinance and art. 49, section 2, item 1 of the Act)

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

In 2009, the following events significantly affected the Company’s business:

- increase in electricity prices and prices of so-called “yellow” and “green” certificates,
- allocation of PLN 30,545 k to be divided (in 2009 – 2.05 PLN/share; in 2008 – 2.05 PLN/share),
- dividend from EC Zielona Góra S.A. amounting to PLN 25,047 k, (in 2008 KOGENERACJA S.A. received dividend from EC Zielona Góra S.A. amounting to PLN 16,346 k),
- on February 16, 2009 the Parent Company received compensation amounting to PLN 3,372 k (PLN 2,929 k in 2008) from the insurer under the cover for the loss of profit due to weather anomalies (weather derivative – collar),
- on March 4, 2009, the Extraordinary General Meeting of Shareholders elected the following persons as members of the Supervisory Board: Birgit Fratzke-Weiss, Philippe Castanet and Dominique Silvain; also the composition of the Board was increased from 11 to 12 members by appointing Mr. Raimondo Eggink; on March 30, the Supervisory Board appointed Mr. P. Castanet as the President of the Supervisory Board;
- the Parent Company sold 17.4% shares in Ekotrakt Sp. z o.o. to its subsidiary, VKN Sp. z o.o. (currently, Renevis Sp. z o.o.),
- on April 1, 2009 a merger was executed between subsidiaries operating in Zielona Góra: EC Zielona Góra S.A. and ZEC Sp. z o.o.
- as a result of changes in the *Energy Law*:
 - the sale of conventional energy was reduced – as a result of the change in the transformation efficiency ratio from 70% to 75%;
 - continuation of the sale of certificates for co-generated energy (“red” energy) and energy from renewable sources – in co-combustion of biomass (“green” energy),
- EC Zielona Góra S.A. concluded an agreement with PSE S.A. terminating a long-term agreement of electricity sale (concluded in 2001 for the period of 20 years) and as of April 1, 2008 pursuant to the act of June 29, 2007 on the principles of costs settlements related to premature long-term contracts termination for the sale of electricity and heat power, so-called stranded costs were calculated; the damages in 2009 amounted to PLN 18,340 k,
- on July 3, 2009 the President of the Energy Regulatory Office issued decision no. OWR-4210-30/2009/1276/IX-A/MB “Tariff for heat” for KOGENERACJA S.A., effective as of August 1, 2009,
- as of March 1, 2009 the Parent Company and EC Zielona Góra are not charged with excise tax on account of so-called “black” energy production; the obligation was transferred to distributors and at the same time electricity prices were reduced,
- on July 1, 2008 the Council of Ministers changed the ordinance on distribution of rights to CO₂ emissions. The volume rights for KOGENERACJA S.A. are lower than in the 1st ordinance. Emissions for 2008 were higher than the plan, and thus, the Company created a provision of PLN 2,731 k. Pursuant to Art. 47 of the act on trading in emission rights of December 22, 2004, the Marshall of the Dolnośląskie Province approved the use of the 2009 rights to cover the differences between the actual emissions and the volume of rights allocated in 2008. In 2009 excesses of rights was noted at the level of 15,473 Mg. As a result of compensating shortages in 2008 with excess rights in 2009, the provisions to purchase emission rights were reduced to the level of PLN 816 k.
- the state of proceeding in the case of excise tax refund for the financial periods from January 2006 to February 2009 is as follows:
 - on September 16, 2009 a favourable verdict was announced by the Provincial Administrative Court in Wrocław, referring to the financial period of January 1, 2006 to July 31, 2008 – the overpayment of PLN 63,887 k, the verdict is not valid as the Customs Office brought cassation appeal to the Highest Administrative Court,
 - after a negative decision from the Customs Office an appeal was brought to the Provincial Administrative Court on September 30, 2009 referring to the period from August 1, 2008 to December 31, 2008 (overpayment of PLN 8,703 k), on January 19, 2010 the Provincial Administrative Court suspended the proceedings till the legal issue settlement by the Constitutional Tribunal (ref. I FSK 240/08) on the constitutionality of the principles of excise tax refund to electricity producers,
 - proceedings in the Customs Office to claim invalidity of the negative decision on the overpayment refund for the period of January 1, 2009 to February 28, 2009 – the overpayment amounted to PLN 5,504 k,

Total amount of receivables does not exceed 10% of equity as of December 31, 2009.

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

• **Merger of Renevis sp. z o.o. and Ekotrakt Sp. z o.o.**

On January 26, 2010 a merger plan for Renevis sp. z o.o. (100% shares owned by KOGENERACJA S.A.) and Ekotrakt Sp. z o.o. (100% shares owned by Renevis sp. z o.o.) was announced in the Court and Commercial Gazette (Monitor Sądowy i Gospodarczy). On January 27, 2010 and February 15, 2010 the first and second announcements of the plan to merge the companies were published. The resolution to execute the merger was issued by the Extraordinary General Meeting of Shareholders in Ekotrakt Sp. z o.o. on March 3, 2010. The entry to the National Court Register (KRS) was made on April 1, 2010.

• **Collective labour disputes: restructuring project and remuneration increase rate**

Due to the fact that it is planned to establish a Shared Services Centre in Kraków for the companies of EDF Group in Poland, with the purpose to provide services of comprehensive shared services within finances and accountancy, Human Resources management, IT support and logistics (purchase, production support processes), on March 16, 2010 a collective labour dispute was initiated in the Company. The reason for the dispute was non-compliance with the Trade Unions’ requirements of abandoning the activities within the planned organisational changes (*Current Report no. 4/2010*).

On March 15 a collective dispute was initiated to determine the level of remuneration increase rate in KOGENERACJA S.A. and occasional award payments on the Energy Sector Day (*Current Report no. 3/2010*).

• **Announcement of KOGENERACJA S.A. and Z.C. Term Hydral Sp. z o.o. merger**

On April 6, the Company published a plan of merger with a related company, Z.C. Term Hydral Sp. z o.o. (*Current Report no. 6/2010*) and the first announcement for shareholders (*Current Report no. 8/2010*). The merger shall be made pursuant to article 492 § 1 item 1 and with reference to article 515 § 1 and article 516 § 6 of the Commercial Companies Code in the process of assigning all the assets and liabilities of the assignor to the assignee (without equity increase in the assignee and exchange of the assignor shares to the assignee shares), i.e. in the assignment. As a result of the merger, the equity of the assignee shall not be raised and no new shares shall be issued (article 515 § 1 of the Commercial Companies Code). The Statutes of the assignee shall not be amended.

3. Assessment of factors and extraordinary items affecting the Group’s performance in 2009

(in accordance with § 91 section 6, item 13 of the Ordinance)

a. Weather derivative

In the reporting year of 2009 the Company noted a decrease in assets and a decrease in gross profit as a result of the “Insurance agreement for the loss of profit due to weather anomalies – collar weather derivative”.

Recognition of this instrument led to the increase in the value of cash flows from investing activity – the settlement took place as contractually agreed at the end of 2007 and 2008. The current portion of the weather compensation of PLN 3,372 k in 2009 affected the increase in other operating income (in 2008 – PLN 2,929 k).

In 2009 the overall impact on the net profit was PLN -1 059 k. Assumptions of the agreement are presented in the Individual Financial Statements of KOGENERACJA S.A., item 35 *Risk Management g. Weather risk*.

b. Sales of shares in a related company ZEC Service Sp. z o.o.

On June 29, 2009 KOGENERACJA S.A. sold to ZEC Service Sp. z o.o. its shares amounted to a total of PLN 5,289 k. The transfer of ownership was executed at the time of the Agreement and at the same time the shares were depreciated pursuant to the Resolution of the General Meeting of Shareholders of ZEC Service Sp. z o.o. as of June 1, 2009.

c. Exchange of CO₂ emission rights (EUA/CER)

In December 2009 the Company valued the exchange of rights to CO₂ emissions – EUA/CER qualified units. The transaction shall be performed through an entity of a wide portfolio of qualified units (Certified Emission Reduction Units and Emission Reduction Units) within the Clean Development Mechanism (CDM) and Joint Implementations (JI), as specified in Kyoto Protocol.

For the needs of financial statements the operation was qualified as financial instruments valued at fair value through financial result. The recognition of the instrument in the statement resulted in the increase in assets (investments) by PLN 5,823 k and increase in gross profit. Additionally, a provision was created for income tax amounting to PLN 1,106 k, which was deducted from the financial result. The final effect on the net financial result was PLN 4,717 k.

4. Characteristics of internal and external factors affecting the Company development

(in accordance with § 91 section 6, item 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 electricity co-generated with heat, the stability of the heat volume bought by customers is of key importance. This is seen as a challenge due to continuous investments in the insulation of buildings and the implementation of energy-saving technologies.

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

This achievement was greatly facilitated by good relations with our strategic partner – Fortum Power and Heat Polska Sp. z o.o. – the main buyer of heat in Wrocław. We are convinced that the development plans of both our companies will be aligned in this regard and the satisfactory co-operation will be continued. At the same time, KOGENERACJA S.A. will continue its policy of maximising the sale of electricity, taking into account the opportunities 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 July 1, 2008 on the adoption of the National Allocation Plan of CO₂ Emission Rights for the years 2008-2012 within EU emission rights trade, the rights allocated to KOGENERACJA S.A. were reduced to the level of 1,609,580 Mg of CO₂ (as compared with 2,168,400 in the previous decision) for each year of the national plan’s validity:

| | |
|-------------------------------|----------------|
| the actual emissions in 2009 | – 1,594,107 Mg |
| the annual emission rights | – 1,609,580 Mg |
| the excessive rights for 2009 | – 15,473 Mg |

Due to the identified shortage of 42,813 Mg, the costs of 2008 contain a provision of PLN 2,731 k for the purchase of the required emission rights. After the adjustment in 2009 an independent entity verified the value amounting to 12,371 Mg, and thus, the final shortage in 2008 amounted to 30,442 Mg. The Company was granted consent by the Marshall of the Dolnośląskie Province to use the rights of 2009 to cover the shortage of 2008. As a result of balancing the shortage in 2008 with excessive rights of 2009, the provision for the rights purchase was decreased to the amount of PLN 816 k.

As in the previous year, pursuant to article 47 of the act of December 22, 2004 on trading in emission rights, after the verification of emission volumes for 2009, the Company shall also provide a request to the Marshall’s Office to use the 2010 rights to cover the difference of -14,969 Mg between the actual emissions and the volume of rights allocated in 2009; the Company shall not purchase emission rights.

In 2010 further reductions in CO₂ emissions is expected due to the increase in the production of electricity from renewable sources.

b. Internal factors

1) Strategy of KOGENERACJA S.A.

The ultimate objective of KOGENERACJA S.A. is to achieve high profitability, at the level expected by the shareholders, acting in line with the Company’s mission statement.

The strategy until 2015 is based on the following Strategic Objectives:

- A. development of the employees’ competencies with consideration of social aspects;
- m B. improvement of EHS and quality assurance management in the Company;
- C. maintaining the position of the leader in the heat market;
- D. improvement of efficiency in production and reduction of negative environmental impact;
- e E. industrial development of KOGENERACJA S.A.; and
- F. ensuring the expected profitability of the KOGENERACJA Group.

At the end of 2009, the Company’s Strategic Plan for 2010 – 2011 was revised and new objectives were defined. As a result a new strategy for 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 the delivery of 37 objectives was closed.

New adopted tasks include, among others:

- as part of Objective A: management of HR resources in anticipation of expected competence changes. The Company wishes to manage its personnel in the most efficient way so as to ensure business continuity by ensuring the availability of necessary competences;
- as part of Objective B: in addition to the constant focus on increasing quality and environment management and improving EHS standards in the Company, initiatives were undertaken aimed at the preparation of changes within the Company related to the creation of Shared Services Centre of EDF Polska and tasks focused on efficient application of internal audit to master the processes;
- as part of Objective C: the Company implements actions connected with the network development, image building and expansion of service range by enhancing the distribution of electricity, heat and cool air;
- as part of Objective D: actions aimed at the adaptation of EC Czechnica to biomass combustion, changes in technologies of side products discharge and implementation of quality assurance system in the chemical laboratory;
- as part of Objective E: operational objectives focused on building technical foundations for future development of the Company;
- as part of Objective F: the Company focuses on various management issues affecting the financial aspect of business, e.g. by ensuring the continuity of financial services while launching the Shared Services Centre.

These strategic objectives were translated into 26 operational objectives and 13 operational actions specified in the Operational Plan of KOGENERACJA S.A.

The progress towards the achievement of individual objectives is monitored and assessed with the use of precisely defined measures.

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 2009 the Company continued its initiatives started in 2005 under the so-called Technological Project. Its scope is very wide – it includes investments into modernisation of production equipment to increase its reliability, technological changes and organisational changes in the Company to increase management efficiency and to optimise employment.

The scope of modernisation in EC Wrocław relates to the core machinery of BC-50 unit. However, the scope of modernisation in EC Czechnica was reduced and now an earlier deployment of new units is envisaged.

The Industrial Development is the key project under implementation in KOGENERACJA S.A.

3) Integrated Information System

On January 1, 2007 the Integrated Information System in KOGENERACJA was launched. The system is based on mySAP Business Suite application. Within the scope of post-implementation support, the consultants from the integrating company (IBM) provided assistance to the system users. After the completion of this stage further care of the system is executed by the joint team BASIC organised within EDF Polska Group in cooperation with two consulting companies, ICON and BCC, based on concluded service agreements. The new system enabled the optimisation of certain business processes, ensured faster access to more comprehensive and structured information while providing more effective support for management decisions.

4) Management Through Objectives

2009 saw the continuation of Management Through Objectives program implemented in 2002. This management methodology is supposed to enable effective management of the Company. As of 2004 also specialist positions were covered by the Management Through Objectives program.

In early 2009 detailed Objectives Contracts were concluded between the Managing Director and individual Operational Directors. The provisions of the Objectives Contracts for 2009 result directly from the strategy of the Company and contain a part which refers to the standard tasks of each Division.

As in the previous year priorities were assigned to the operational objectives. The Objectives Contracts specify weights for particular actions and precise measures for evaluating the delivery. The tasks covered by the Contracts were being pursued based on the Objectives Contracts concluded by the Operational Directors with the Department Managers and with employees holding independent positions.

5) Integrated Permits

As of August 5, 2009 the Marshall of the Dolnośląskie Province issued a decision (no. PZ 36.1/2009), amending the integrated permit for EC Czechnica. The changes implemented by virtue of this decision pertained to the quantities of wastes generated in the deposit.

On October 7, 2009 the Company concluded an agreement with Renevis Sp. z o.o. on registering chemical substances in EU REACH system.

6) Integrated Management System

KOGENERACJA S.A. holds the Integrated Management System certification covering the three following 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; and
3. EHS Management System compliant with standard OHSAS 18001:2007.

The certification is valid until April 22, 2010.

On June 15-16, 2009 the audit of the Integrated Management System took place in KOGENERACJA S.A. The audit confirmed that the system operates properly.

The documentation was updated to meet the requirements of OHSAS 18001:2007.

7) *Employment Policy*

In 2009 the Company carried activities designed to adapt the employment to the current needs of the Company. The tasks within the project consisted of monitoring and facilitating voluntary retirement leaves (special programs). Moreover, a Voluntary Severance Scheme was available for all the interested employees.

8) *Healthcare*

KOGENERACJA S.A. cooperates with EMC Instytut Medyczny SA within the occupational healthcare and provision of healthcare services for the Company employees. Moreover, the Company signed an agreement with PZU pursuant to which the Company employees have an easier access to specialists and other healthcare services in a wider scope, depending on the individual insurance policy.

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

In 2009 the Company initiated a training cycle “Shared Competencies as the Strength of the EDF Group in Poland” subsidised from the European Social Fund (EFS). In October 2008, the Polish Entrepreneurship Agency (PARP) approved for 60% subsidy of the project.

The following three groups participated in the training:

1. the management – in the program entitled *Manager’s Academy*,
2. the medium management – in the program entitled *Management Master*, and
3. selected employees with high potential – in the program entitled *Talent Development*.

Moreover, Project Management and Stress Management trainings were available for all the interested employees.

Apart from trainings organised with the use of EU funds the Company organised trainings funded with the Company’s own resources. The trainings were focused mainly on EHS issues.

10) *Mobility in EDF Group*

In 2007 the EDF Group Poland implemented an internal recruitment system whereby job vacancies are communicated simultaneously to all the Group companies. This system aims at promoting mobility and an active approach to employment opportunities. The system was further developed in 2009.

11) *Synergies in the EDF Group*

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

5. Sustainable Development and Social Responsibility

Sustainable development is a philosophy that enables combining satisfactory economic results with deep interest and care of the social and natural environment.

Natural environment

Environmental activities in KOGENERACJA S.A. consist in the reduction of emissions of hazardous gases, the use of renewable energy sources (increased production based on biomass), liquidation of waste dumps etc. Currently biomass is co-combusted in BC-1, BC-2 and BC-3 blocks in EC Wrocław. Within the investments in EC Czechnica an upgrade and adaptation of one coal boiler to bubbling fluidised-bed boiler (BFB) is carried in order to supply the boiler in 100% with biomass. After the modernisation is complete the boiler, powered with biomass, shall have a capacity of 100 t of vapour per hour, which will be used for electricity and heat production for Wrocław and Siechnice. The exploitation of the fluidised-bed boiler with supporting infrastructure for biomass supply is to be started early in Q3, 2010.

An important element is cooperation with the Municipality of Wrocław within the revitalisation of tenement houses, new heat connections to the centralised municipal network and comprehensive rationalisation of energy consumption:

- 1) a revitalisation project for Secession tenement houses in Wrocław,
- 2) 100 tenement houses program (connecting Secession tenement houses to the municipal heating network),
- 3) Heat on the Phone – connecting blocks of houses to the municipal heating network,
- 4) Energy Patronage over the Youth Sociotherapy Centre,
- 5) program of replacing local boilers with heat distribution stations supplied from municipal heating network.

Social environment

Social awareness of the Company, consistent with the idea of Sustainable Development, is implemented in the policy of promoting rational energy consumption, involvement in the integration of the disabled with their environment and promoting health-oriented behaviour. These objectives are enhanced by the energy patronage over the Youth Sociotherapy Centre, industrial tourism, promotion of energy efficiency among customers and employees, supporting integration actions, a program supporting socially sensitive buyers and promotion of health-oriented behaviour.

a. Energy Patronage over Youth Sociotherapy Centre

In May 2009 a contract was signed by KOGENERACJA and Wrocław Municipality for the patronage over the Youth Sociotherapy Centre no. 2, ul. Kielecka 51 in Wrocław. The agreement promotes actions aimed at heat and energy economies (support with thermal modernisation of the building and installation of renewable energy sources) and educational actions for the youth related to natural environment care and savings. Owing to the action KOGENERACJA S.A. will have a promotional object as a reference of energy services offered by the Company.

b. Industrial tourism

Industrial tourism involves regularly organised lessons in primary schools aimed at promoting knowledge of such issues as advantages of co-generated heat and electricity, energy saving and ecological activities. The classes are organised by retired company employees who can still participate in the Company life. Within the annual Open Doors Day the Company welcomes a wide audience to its premises.

c. Programs supporting organisations for the integration of the disabled

The Company actively supports international events with the participation of the disabled that are held in Wrocław:

- the patronage over the International Wheelchair Tennis Cup organised by the Lower Silesian Association of Disabled Sportsmen “AKTYWNI”,
- the International Wheelchair Ballroom Dance Tournament “Pergola” in Wrocław, and
- continuous cooperation with the Wrocław Regional Council of Disabled People.

d. Socially sensitive customers

In 2009 a program supporting socially sensitive customers in Siechnice was continued within the framework of cooperation with the Community Social Aid Centre (June 2008) and with the Municipal Social Aid Centre in Wrocław (November 2008). 48 buyers in Siechnice and 2 buyers in Wrocław took advantage of heat coupons.

e. Health oriented activities

The Company promotes an active lifestyle. Employees take advantage of organised forms of leisure activities offered by the Touristic and Sports Society.

In 2009 the employees could take advantage of additional cardio checks, prostate cancer or breast cancer checks and flu vaccinations.

f. Council of Ethics

The Council of Ethics continues its activities in the Company; the Council is composed of the Company representatives. This body functions outside formal structures as an example of social activities. The objective of the Council of Ethics is promotion of ethical behaviour among the Company employees based on an internal Ethical Code “Values of KOGENERACJA S.A.”. As the Council’s initiative the “Aid Program for Persons Overusing Psychoactive Substances” was initiated with cooperation of the Emergency Aid Association KARAN as well as many charity actions for the Wrocław Society of Palliative Medicine were organised.

6. Natural environment protection

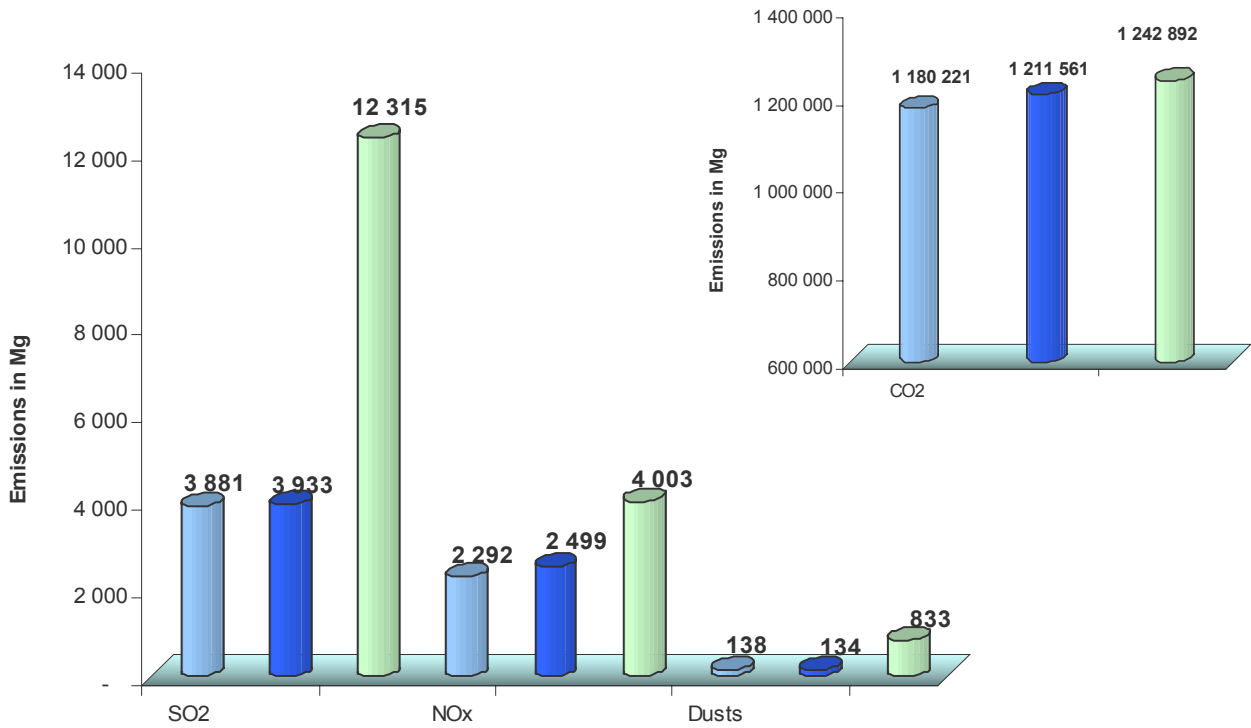
KOGENERACJA S.A. co-generates electricity and heat, and thus, contributes to more comprehensive utilisation of fuel chemical energy, which results in the reduction of pollution. The basis for the Company activities is **Sustainable Development** enabling the combination of satisfactory economic results and social and natural environment care.

For the period of January 1 till December 31, 2009

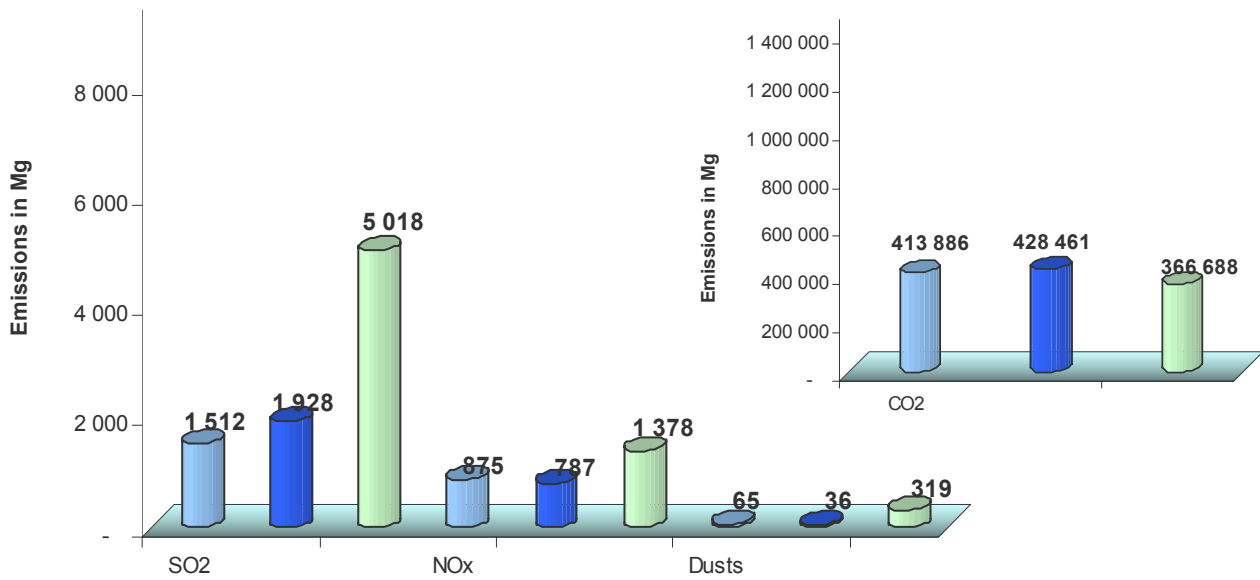
| <i>(in Mg)</i> | <i>EC Wrocław</i> | | <i>EC Czechnica</i> | |
|-----------------|-------------------|-------------------|---------------------|-------------------|
| | <i>Emission</i> | <i>Acceptable</i> | <i>Emission</i> | <i>Acceptable</i> |
| SO ₂ | 3 881 | 12 315 | 1 512 | 5 018 |
| NO _x | 2 292 | 4 003 | 875 | 1 378 |
| Dusts | 138 | 833 | 65 | 319 |
| CO ₂ | 1 180 221 | 1 242 892 | 413 886 | 366 688 |

In 2009 no excess of emission norms for KOGENERACJA S.A. was observed as specified in integrated permits and the National Allocation Plan of Emission Rights (KPRU).

Actual emissions in 2009 and 2008 and allowable emissions in EC Wrocław



Actual emissions in 2009 and 2008 and allowable emissions in EC Czechnica



■ Actual emissions in 2009
■ Actual emissions in 2008
■ Allowable emissions in 2009

7. Outlook for the Company’s development

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

The outlook for the Company’s development is described in the updated Strategic Plan up to the year of 2015 and in other documents; the outlook for the Company’s development did not change essentially as compared with previous years. The key strategic objective continues to be the achievement of high profitability that satisfies Shareholders.

In line with revenue-driven activities in 2010 modernisation of equipment shall be completed. As a result, the share of electricity produced from renewable sources in the total electricity volume shall increase. The increase will be achieved through the maximisation of co-combustion of biomass in both production plants of KOGENERACJA S.A. And so, in EC Wrocław it will be possible to co-combust even up to 50% of biomass (in energy terms) in BC-1 (50 MW), while in BC-2 and BC-3 (100 MW each) the share of co-combusted biomass will reach 12% (in mass). In EC Czechnica K-2 boiler will be upgraded so as to combust 100% of biomass. It is also planned that the boiler will be operated as a “base”, i.e. started as first and turned-off as last, and thus, the production of energy from renewable sources will be maximised.

The production of electricity from renewable sources is environment-friendly and supported both by Polish authorities and the European Union. Its production is economically efficient owing to the possibility of selling “green” certificates and the fact that CO₂ emissions related to biomass co-combustion are not included in overall emission rights. As a result the CO₂ emission rights assigned to KOGENERACJA S.A. in NAP2 program till 2012 are sufficient enough to cover the plant needs for this period. It is noteworthy that without the investments in biomass co-combustion share increase the allocated emission rights for years 2008 – 2012 would be insufficient. However, through the aforementioned upgrades the problem is solved.

An example of other actions aimed at increasing revenues are successful active marketing programmes with objectives of acquiring new network heat buyers. That is the reason for generating a positive sales trend in the heat market, due to the fact that heat capacity volume of newly connected accounts exceeds the sales decrease resulting from thermal economies. The scale of the involvement of KOGENERACJA S.A. in such activities can be exemplified with the fact that in 2009 the number of new connections supported by the Marketing Department doubled as compared to the previous year. In the forthcoming periods, the activities aimed at acquiring new accounts as well as the Company efforts to make the Company offer even more attractive (including the promotion of “three-generation” i.e. supplying the accounts with heat, electricity and cool air for air-conditioning installations in summer) will be even more intensified.

In the electricity market, after a slight decrease in prices in 2010, a long-term gradual increase trend in prices is expected in the following years, resulting among others from the increase in demand for electricity, increasing fuel prices and high investment costs, both developmental and ecological, in the energy sector and also with the risk of insufficient entitlements to CO₂ emission rights for electricity producers. Nevertheless, it can be expected that the Polish government, driven by social aspects, shall undertake actions aimed at restricting the assumed increase in prices for final recipients.

Another crucial group of activities aimed at achieving high profitability is continuous cost reduction in KOGENERACJA S.A. The Company is looking for cost reductions by implementing subsequent projects leading to economies and strictly abides by budget assumptions for fixed and variable costs. However, simple cost-cutting solutions have already been exploited and it gets more difficult to find further economies.

A certain new prospective has appeared as a result of KOGENERACJI S.A.’s joining EDF Group in Poland, which offers further possibilities of taking advantage of cost synergies.

KOGENERACJA S.A. carries analytical and introductory activities within so-called “Trefl Project” to possibly implement integrated support functions in such areas as finances, human resources, IT, purchasing/logistics and engineering planned within EDF Polska structure (Shared Services Centre in Kraków). The principles underlining the support activities would be specified in contracts concluded by the Company and EDF Polska, and the transfer of supporting activities to EDF Polska would be connected with the transfer of a certain number of employees of KOGENERACJA S.A. to the new employer pursuant to article 23¹ of the Labour Code. The implementation of the project would contribute not only to further cost optimisation but also it would create new developmental opportunities and enable focusing on core activities of the Company, which is the main source of revenues and profits.

The aforementioned actions within the area of revenues and costs of the Company have a direct impact on the profitability, however, the Strategic Plan of KOGENERACJA S.A. till 2015 refers also to other strategic objectives that are in line with the main objective. They include EHS improvement, development of competencies and motivating employees and industrial development of KOGENERACJA S.A.

Increasing the safety level is a constant priority of the Management of KOGENERACJA S.A. There are numerous actions aimed at the reduction of work accidents by promoting a safe work culture in the Company. The responsibility for safety issues is not limited to EHS services only but it pertains to all the employees. The objective is supported with intensive training (including risk evaluation) and a system of periodical EHS audits implemented with the obligatory participation of the managers from all the levels. Additionally, a project aimed at changing the mentality of employees entitled “House-keeping” is held. Its expected outcomes includes improvement, and then maintaining, safer work conditions and goods technical conditions of buildings and appliances.

All the actions related to safety issues will be further continued in future with the same intensity.

Following the technological changes, driven by the modernisation of equipment, the development of employee competencies is indispensable. KOGENERACJA S.A. underlines continuous development of qualifications through a training system, supporting higher education of the Company employees and creating a positive atmosphere for self-development. Competent employees are the best guarantee of future development for the Company.

As for the industrial development in KOGENERACJA S.A. there is a special team of specialists with the objective to offer solutions to adapt the Company potential to market and environmental conditions, to use the existing preferences for “green energy” and to elaborate development scenarios for KOGENERACJA S.A. Especially issues related to desulphuring in EC Wrocław as of 2016, optimisation of biomass utilisation and construction of new facilities in EC Czechnica in future are analysed.

The Management of KOGENERACJA S.A. is convinced that all these plans shall contribute to the main strategic objective of KOGENERACJA S.A., which is the achievement of profitability satisfactory to its Shareholders.

8. Key achievements in research and development

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

In 2009, 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, including:

- continuation of a project to adapt the boiler OP-230/K-1 in EC Wrocław to co-combust dry biomass with coal (at 55% share of biomass in the power production process); the start-up of the upgraded boiler took place in June 2009;
- efforts to increase the share of combusted biomass from 10% to 12% in terms of weight. As the low sulphur coal is used as the core fuel in EC Wrocław, the licence trials within the research are conducted under the supervision of the Institute of Chemical Coal Processing in Zabrze;
- initiation of the first stage of the conversion project of one of the pulverised coal units in EC Czechnica into BFB unit combusting 100% biomass; after obtaining necessary environmental permits and building permits, the works on the boiler and biomass management were initiated in June 2009;
- continuation of works on preparation of a project to build a new electricity and heat generation unit in EC Czechnica of 120 MWe and 150 MWth capacity with extraction condensing turbine and circulating fluid bed boiler (CFB). Additional analyses of the unit with the boiler for overcritical parameters were performed, for 460 MWe and 500 MWth. Comparative analyses of dust boiler with fluidised-bed boiler were carried out with respect to biomass co-combustion. Within the project of a new block a whole range of works related to the infrastructure was carried out, e.g.
 - 1 km of internal roads within the post-steelwork area,
 - geotechnical tests within the area of the unit construction.
- continuation of research project related to recycled biomass (paper, cardboards) combustion in boilers. Combustion tests were carried out for such biomass in cooperation with the Institute of Chemical Coal Processing in Zabrze. A meeting with the Director of Waste Department in the Ministry of Environment was held with the presentation of co-combustion concepts and the discussion of procedures of introducing changes in legal regulations in the context of obtaining “green” certificates;
- continuation or research and analytical works related to the project of piloting facility construction for industrial scale torrefication of biomass. In this project the Company cooperated with partners from Holland and Belgium. Torrefication tests for agro-biomass were performed in the facilities of CMI company from Belgium;
- supervision of an environmental project run in cooperation with the Syndicate of Third Level Institutes in Poland, EDF Poland and EDF R&D to elaborate optimisation tools for investment decisions in the context of environmental protection; waste dispersion analyses were carried out for EC Kraków and Cergia; further analyses are carried for EC Wrocław and EC Czechnica;
- initiation of a research project with the use of “GIS” tool to determine CO₂ emission in the entire chain of biomass supply to EC Wrocław.

9. Description of key risks and threats

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

Key risks and threats related to the operations of KOGENERACJA S.A. are as follows:

1) *Dependence on buyers*

The Company’s business is to some extent dependent on Fortum Power and Heat Polska Sp. z o.o. O/Wrocław, which is the operator of the heat distribution network. The Management Board of KOGENERACJA S.A. and the owner of Fortum Power and Heat Polska Sp. z o.o. O/Wrocław discussed the common strategy in the heat market in 2008. The talks will be continued in the following years.

2) *Change of Energy Law*

The Energy Law and its subordinate acts govern the Polish power sector as they specify the terms and conditions for the supply and use of fuels and energy and define the authorities competent for the management of fuels and energy.

In 2009 there were no such significant changes in the act on Energy Law that would affect the Company operations.

3) *Other legal developments*

- *limitation of the share of wood in the process of co-combustion*

The ordinance of the Ministry of Economy of August 28, 2008 restricted 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 wooden biomass is to be replaced with agricultural biomass, and the combustion of wooden waste will no longer be treated as a generation of renewable energy.

- *unfavourable definition of emission source (boiler/chimney)*

Valid emission standards were determined based on the nominal capacity of the emission source, i.e. a boiler. The change of the source definition from a boiler to a chimney shall result in the accumulation of boiler capacities. The threat is caused by the excess of 500 MW capacity for the emission source and increased emission standards for SO₂ and NO_x for boilers connected to the chimneys in EC Wrocław and EC Czechnica. The draft new directive introduces a definition of the emission source (chimney) and higher emission standards for SO_x and NO_x from 2016.

In order to abide by the higher standards the Company shall have to incur very high modernisation costs.

4) *Factors related to changes in the demand for heat by buyers*

In recent years, the demand for heat decreased, which is due to, among others, restructuring of the industry, upgraded insulations in houses and apartments, reduced heat losses in distribution, 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 connecting new and existing buildings to the network partly compensate for the reduced demand and help stabilise the sale of heat. In 2009 a slight increase in heat volumes was observed.

5) *Factors related to fluctuating levels of heat and electricity sales*

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

This means that the generation of 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 restricted since July 1, 2007 due to the requirement to maintain the minimum gross efficiency of chemical energy processing into electricity and heat in the cogenerated process at minimum 75%.

6) Fuel deliveries

In 2009, a significant risk factor was the problem with irregular supplies (coal, biomass and fuel oil) as a result of deterioration in the transport, mining and biomass markets, and in particular:

- disruptions in coal deliveries by water or rail transport,
- difficulties with obtaining raw materials in the fuel oil market, and
- difficulties with obtaining biomass of the proper quality and in the required volume.

7) Long Term Contracts (LTC)

On April 1, 2008, the LTCs of EC Zielona Góra S.A. were terminated. EC Zielona Góra will be receiving funds to cover the stranded costs and the costs connected with the obligatory 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 loan repayments from the company.

8) CO₂ emission

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

The Second National Allocation Plan of Emission Rights is less favourable for KOGENERACJA S.A., as the allocated volumes of emission rights are lower than in the previous allocation system. The unfavourable allocation of rights may result in the decrease in income from sales of rights compared to the previous periods and may cause the increase in costs if the allocated rights are insufficient to cover the actual emission. It may also lead to the need to decrease the production volume. This effect will be mitigated by the increase in production from renewable sources in order to reduce the annual CO₂ emissions.

The Company identified a deficit of emission rights in 2008 and excess in 2009, and thus, reduced the provision created in 2008 amounting to PLN 2,731 k to the amount of PLN 816 k. However, the provision will be covered in the subsequent years by the planned surpluses.

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

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

In the reporting year of 2009, there were no significant changes in the principles of management of the Company and the Group.

Within the Group, on April 1, 2009 a merger of the companies of Elektrociepłownia “Zielona Góra” S.A. and Zielonogórska Energetyka Ciepła Spółka z o.o. was executed pursuant to article 492 § 1 item 1 of the Commercial Companies Code. As a result the organisational structure of EC Zielona Góra was changed.

II. Statement of compliance with the corporate governance principles

1. Corporate governance principles

(in accordance with § 91 section 5 item 4a and b of the Ordinance)

a. Collection of corporate governance principles

On July 4, 2007, the Supervisory Board of the Warsaw Stock Exchange adopted the corporate governance principles under the name of Code of Best Practices for the WSE Listed Companies, which became effective on January 1, 2008 (Appendix to the resolution of the Stock Exchange Council no. 12/1170/2009 of July 4, 2007).

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

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

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

| I BEST PRACTICES – 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 related to the roles and responsibilities of directors (see item.10 Management Board’s Report: Management Board, Supervisory Board – principles of operation of the governing bodies) |

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| 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 were sufficient to ensure the Board composition that would 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 PRACTICES FOR MANAGEMENT BOARDS OF LISTED COMPANIES

| | PRINCIPLE | | COMMENT OF KOGENERACJA S.A. |
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| 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 | Partly | <p>This rule is partly followed as the Company does not publish on its website the materials referred to:</p> <p>partly in item 1 – the Company presents the Statutes and Regulations of the General Meeting but it does not publish the regulations of the Supervisory Board and the Management Board,</p> <p>item 2 – the Company did not present CVs of the members of its governing bodies, however, they are indirectly available at the website in the form of current reports published at the moment of appointing the representatives,</p> <p>partly in item 4 – the Company published all the specified document apart from rationale for draft resolutions within the deadline specified in the Ordinance,</p> <p>item 6 – the Supervisory Board provides the statement to the General Meeting; the Supervisory Board’s activities are not evaluated,</p> <p>item 7 – the Company does not record questions of shareholders before or during the General Meeting,</p> <p>item 11 – the Management Board did not receive declarations of relations and thus the information is not</p> |

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| | <p>submitted before and during a General Meeting together with answers to those questions;</p> <p>8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;</p> <p>9) information about breaks in General Meetings and the grounds of those breaks,</p> <p>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;</p> <p>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,</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> | | <p>available at the website.</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>The Company expanded the scope of information available at the Company’s new website in 2009 and developed the website in two language versions.</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>In December 2009 the Company launched a new website – also in English version. The scope of section II item 1 is applied as described above.</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 require from the entities to include the items on the agenda or 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> |

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| 6 | 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 | YES | In line with §4 section 4 of the Management Board Regulations, “the Management Board Members shall take part in the seating of the General Meeting” |
| 7 | 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. | YES | The Company each time makes efforts to meet the shareholders’ expectations in this regard. |

III BEST PRACTICES FOR SUPERVISORY BOARD MEMBERS

| | PRINCIPLE | | COMMENT OF KOGENERACJA S.A. |
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| 1 | 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 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. | Partly | The Company’s Supervisory Board does not make annual assessments of the internal control system and the significant risk management system. 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 were sufficient. |
| 2 | 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. | YES | |
| 3 | A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting. | YES | 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 representation of foreigners on the Board, whose travel to Poland entails additional costs, it was decided to 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.” |
| 4 | 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. | YES | |
| 5 | 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. | NO | Given the impossibility 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. |

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| 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 item (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> | <p>Partly</p> | <p>As a result of changes in the Supervisory Board, as of March 2009, one member of the Supervisory Board – Mr. Raimondo Eggink – meets the requirement of independence in the meaning of Annex II (...).</p> |
| 7 | <p>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.</p> | <p>YES</p> | <p>As of December 2009 within the Supervisory Board there is an Audit Committee, composed of two independent members; the requirement of independence as per the act on certified auditors (...) is met by Mr. Harald Minkner while the requirement of independence in the meaning of Annex II (...) is met by Mr. Raimondo Eggink. All the members of the Audit Committee are competent within accountancy and finances.</p> <p>Additionally there is a Committee for Payroll in the Supervisory Board.</p> |
| 8 | <p>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.</p> | <p>NO</p> | <p>as above</p> |
| 9 | <p>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.</p> | <p>NO</p> | <p>The applicable laws, including the Statutes of the Company do not provide for the requirement to obtain Supervisory Board’s approval for such agreements. The procedures of executing agreements by the Company are sufficient to ensure the Company’s interests.</p> |

| IV BEST PRACTICES OF SHAREHOLDERS | | | |
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| | 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 where 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 open”. 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 no 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 ground. | 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 the National Depository of Securities (KDPW), the Company’s Statutes and other applicable laws. In 2009 the Management Board, recommending the date of setting the right to dividend and the date of dividend payment, considered provisions of item IV 6, which was approved by the General Meeting. However, it is not certain that the rule shall be followed permanently. |
| 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 an entity authorised to select the auditor, did not find justification for laying down this rule expressly in the Supervisory Board Regulations. Due to the change in the act on certified auditors the Company is required to change the entity authorised to audit financial statements at least every five years. |

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

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

a. Internal control system

The Company’s internal control 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, and
- compliance with the applicable laws and regulations.

The Company uses COSO model to build and develop the Company internal control system. The internal control system based on COSO model is composed of five interdependent elements: control environment, risk assessment, control actions, information and communication and internal control management. On the annual basis the Company performs self-assessment of the internal control system. Works related to the self-assessment are coordinated by the Internal Audit Department that prepares a report approved by the Company Management Board.

The internal control system is outlined in the Organisational Regulations, Internal Control and Audit Policy, Internal Control Instructions and Internal Audit Guidelines and it includes

- functional control, and
- institutional control.

The functional internal control is performed by all the Company employees and it is evaluated and monitored on regular basis within the institutional internal control performed by the Internal Audit Department. The Internal Audit Department is subordinate to the Managing Director – the President of the Management Board and reports to the Management Board. The Internal Audit Department runs audits pursuant to the Audit Schedule. The Audit Schedule is prepared annually based on the risk analysis in all the significant areas of the Company activities and it is approved by the Management Board. The results of audits are reported to the Management Board. The Internal Audit Department is responsible for monitoring the implementation of post-audit recommendations with the use of IT systems.

The Company has appropriate procedures in place to audit the financial statements to ensure they are complete and reliably reflect all the economic transactions occurring in the reporting 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 in the process of budget preparation, forecasting and preparation of periodic management information. The Company uses consistent accounting rules for the 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 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 relevant employees. The access control takes place at each stage of preparation of the financial statements.

The Company and Group financial statements are prepared by the Accounting Department which is an independent organisational unit reporting to the Financial and HR Management. A coordinator of financial statements audits is the Deputy Financial Director. Substantial and organisational supervision over the preparation of financial statements is ensured by the Financial and HR Director – Member of the Management Board. The financial statement is verified by the

Management Board, then by an independent auditor and assessed by the Supervisory Board. On December 2, 2009 an Audit Committee was formed within the structures of the Supervisory Board.

In the process of preparation of the Company’s and the Group’s financial statements one of the key control elements is the audit of the financial accounts by an independent auditor. The auditor is responsible for the review of the mid-year financial statements as well as preliminary and final audits of the annual financial statements. The auditor is selected by the Supervisory Board in a bidding procedure from amongst recognised audit firms that ensure a high level of service and meet the independence requirements.

b. Risk management system

The risk management system that covers all the areas of the Company’s activity is run in line with appropriate rules; the system is described in Instructions. KOGENERACJA S.A. has and regularly updates a Risk Map for the Company and companies within the Group. Risks are identified for all the areas of the Company activities; the risks are evaluated and ranked in compliance with 3 criteria: impact – probability – control level. For high ranked risks risk charts are prepared.

Risk charts identify and describe the risk, determine the risk owner and action plan to mitigate the risk. For major risks periodical evaluations of mitigation plans are performed. Risk assessment is performed by Risk Controllers, Directors and Managers as well as the Internal Audit Department. The Risk Map is approved by the Management Board.

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 Company controls risks in the financial reporting process also in an on-going process of monitoring changing requirements of external regulations related to financial statements and prepares in advance to introduce the changes.

The Company controls the subsidiaries and associated companies that are not consolidated for the purposes of the Group financial statements through the Company representatives in the Supervisory Boards of the related companies and by appointing Senior Specialists for Owner Supervision who report directly to the Financial and HR Director.

3. Shareholders of the Company

(in accordance with § 91 section 5, items 4d and 4e of the Ordinance)

As at December 31, 2009

| | No. of ordinary bearer shares | Voting power | % of share capital | % of voting power |
|------------------------|-------------------------------|--------------|--------------------|-------------------|
| 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" | 1 457 820 | 1 457 820 | 9,78 | 9,78 |
| Legg Mason TFI S.A. | 1 067 837 | 1 067 837 | 7,17 | 7,17 |
| OFE ING | 796 000 | 796 000 | 5,34 | 5,34 |

In 2009, the following changes took place in the Group’s shareholding structure:

- in March the Company was advised by OFE PZU “Złota Jesień” that it increased its shareholding to the level of 12.13% (*Current Report no. 14/2009*);
- in June Legg Mason TFI S.A. increased its stake in the Company from 5.14% to 7.17%, according to data updated after the General Meeting of Shareholders as of June 25, 2009 (*Current Report no. 23/2009*);
- in August OFE ING exceeded 5 % threshold in the number of votes (*Current Report no. 25/2009*);
- the Company advised also of changes in the OFE PZU “Złota Jesień” plans from increase to decrease its stake in the Company; the Fund holds over 10% of shares, at the General Meeting of Shareholders (*Current Report no. 26/2009*);
- in August OFE PZU “Złota Jesień” reduced its shareholdings in the Company to 10.42% (*Current Report no. 28/2009*);
- in October OFE PZU “Złota Jesień” reduced its shareholdings in the Company to 9.78% (*Current Report no. 35/2009*).

As at the date of publication of the report the structure of shareholders was not changed.

4. Preferred shares

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

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

5. Restrictions of title transfer and voting

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

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

6. Principles of changes to the Statutes

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

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

7. General Meeting of Shareholders: operation, powers and shareholders’ rights

(in accordance with § 91 section 5, item 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 approval of 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 to perform their duties;
- 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;
- 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 item 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;
- 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.

In 2009 the Extraordinary General Meeting of Shareholders was held on March 4 and the General Meeting of Shareholders – on June 25.

a. Extraordinary General Meeting of KOGENERACJA S.A. Shareholders

On March 4, 2009 r., at the motion of OFE PZU “Złota Jesień” the Extraordinary General Meeting of Shareholders was held with the following outcomes:

- the number of Supervisory Board Members was changed from 11 to 12;
- due to the resignation, on March 3, 2009 of the Chairman of the Supervisory Board, Philippe Vavasseur and the following members of the Supervisory Board: Richard Perrier and Michel Sondag, three new Members of the Supervisory Board were appointed: Mr. Philippe Castanet, Mrs. Birgit Fratzke-Weiss and Mr. Dominique Silvain;
- Mr. Raimondo Eggink was appointed the 12th Member of the Supervisory Board as a representative of financial shareholders.

b. Ordinary General Meeting of KOGENERACJA S.A. Shareholders

On June 25, 2009 the Ordinary General Meeting of Shareholders was held. The Meeting changed the Company Statutes, inter alia, adjusting the subject matter of the Company operations to the valid PKD 2007 classification and changes introduced in the Commercial Companies Code (as of December 5, 2008). The consolidated text of the Company Statutes was approved by the Supervisory Board on the General Meeting of Shareholders that was held on October 8, 2009 (*Current Report no. 32/2009*).

At the same time, due to changes in the Commercial Companies Code (as above) the General Meeting of Shareholders changed the reading of the General Meeting Regulations; the changes shall become effective as of the forthcoming General Meeting of Shareholders.

8. Changes in the Management Board and Supervisory Board

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

a. Changes in the Management Board

Members of the Management Board of the 7th tenure until October 7, 2009:

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

On October 8, Mr. Michael Kowalik resigned from the function of the Member of the Management Board. During the Supervisory Board Meeting on October 8 Mr. Roman Traczyk was appointed a new Member of the Management Board.

The structure of the Management Board of the 7th tenure as of the report publication date is as follows:

- | | |
|-------------------------|-------------------------------------|
| 1. Denis Bretaudeau | – President of the Management Board |
| 2. Andrzej Siennicki | – Member of the Management Board |
| 3. Roman Traczyk | – Member of the Management Board |
| 4. Krzysztof Wrzesiński | – Member of the Management Board |

b. Changes in the Supervisory Board

The composition of the Supervisory Board appointed on June 28, 2007 changed in 2009.

As at December 31, 2008 and till March 4, 2009 the composition of the Supervisory Board was as follows:

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

On February, 2009 the Company received resignations of the following Supervisory Board Members: Richard Perrier, Michel Sondag and on February 25 the resignation of the Chairman of the Supervisory Board, Philippe Vavasseur, effective as at March 3, 2009.

On March 4, 2009 the Extraordinary General Meeting of Shareholders

- due to the resignation of the Supervisory Board Members appointed three new Members of the Supervisory Board: Mr. Philippe Castanet, Mrs. Birgit Fratzke-Weiss and Mr. Dominique Silvain; and
- changed the number of Supervisory Board Members from 11 to 12; Mr. Raimondo Eggink was appointed the 12th Member of the Supervisory Board.

As at March 30, 2009, the composition of the Supervisory Board of the 7th tenure (after the Board was formed and a new Chairman – Mr. Philippe Castanet appointed) was as follows:

- | | |
|-------------------------|--|
| 1. Marian Augustyn | – Member of the Supervisory Board |
| 2. Wojciech Burdynowski | – Member of the Supervisory Board |
| 3. Philippe Castanet | – Chairman of the Supervisory Board |
| 4. François Driesen | – Member of the Supervisory Board |
| 5. Raimondo Eggink | – Member of the Supervisory Board |
| 6. Birgit Fratzke-Weiss | – Member of the Supervisory Board |
| 7. Harald Minkner | – Member of the Supervisory Board |
| 8. Arkadiusz Repczyński | – Secretary of the Supervisory Board |
| 9. Dominique Silvain | – Member of the Supervisory Board |
| 10. Joachim Wojaczek | – Member of the Supervisory Board |
| 11. Henryk Zajac | – Member of the Supervisory Board |
| 12. Danuta Żeleźna | – Vice Chairman of the Supervisory Board |

In 2009, no changes were made to the rules of appointing and revoking the executives and the rights vested in them, particularly the rights to issue or redeem shares.

9. The rules of appointment and revoking of executives

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

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

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

(in accordance with § 91 section 5 item 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 items 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, issuing 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 the 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 where the value exceeds EUR 5,000 k must also be approved by the General Meeting of Shareholders.

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

Denis Bretaudeau – President of the Management Board

The President of the Management Board supervises the overall functioning of the Company and the Company’s external relationships; he 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 EHS area; his responsibilities include the management of the Company’s HR policy.

Roman Traczyk – Member of the Management Board

The Member of the Management Board is in charge of the Trade and Internal Development Directorate. He is particularly responsible for the trading effects in the markets of electricity, heat, certificates and CO₂ emission rights.

Till October 8, the function of the Member of the Management Board and Trade and Internal Development Director was held by Mr. Michael Kowalik.

Andrzej Siennicki – Member of the Management Board

The Member of the Management Board supervises the Company Social Benefit Fund. He is responsible for ongoing cooperation with Trade Unions; he supervises 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 Wrzeński – Member of the Management Board

The Member of the Management Board supervises the Financial and HR Directorate, with responsibility for the Stock Exchange area and the Company’s strategy towards its controlled entities; he is also responsible for managing IT and managing 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 revoking 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(members) of the Company’s Management Board if a member of the Management Board (or the entire Management Board) is suspended or removed or when the Management Board is unable to function for other reasons;
- granting permission, at the request of the Management Board, to establish 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 exceeds 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 accounting books, applicable records and the actual state of affairs;
- assessing the requests of the Management Board regarding the distribution of profit or loss cover;
- providing 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.

COMMITTEES IN THE SUPERVISORY BOARD

Within the Supervisory Board there are two standing committees that act as advisors to the Supervisory Board:

- Payroll Committee, and
- Audit Committee.

Payroll Committee

Payroll Committee was established on June 28, 2007. The composition of the Committee was as follows:

- Philippe Vavasseur
- Danuta Źeleźna
- Harald Minkner
- Michael Sondag

Due to the change in the Supervisory Board composition on May 28, 2009 the composition of the Payroll Committee changed as well into the following:

- Philippe Castanet
- Danuta Źeleźna
- Harald Minkner
- Brigit Fratzke-Weiss

Responsibilities of the Payroll Committee:

- creating draft agreements in the process of hiring new Members of the Management Board,
- monitoring of the Management remuneration system pursuant to the Regulations of the Management Board Remuneration,
- recommendations of bonus payments for the Management Board,
- monitoring of extra benefits for the Management Board pursuant to agreements.

Audit Committee

On December 2, 2009 the Supervisory Board created the Audit Committee within the Supervisory Board, pursuant to the requirements of article 86 section 1 of the act of May 7, 2009 on certified auditors their professional associations, audit companies and public supervision, in the following composition:

- Harald Minkner *Chairman of the Audit Committee*
- Philippe Castanet
- Raimondo Eggink

Responsibilities of the Audit Committee:

- monitoring financial reporting processes,
- monitoring efficiency of internal control and audit systems and risk management,
- monitoring financial audit processes,
- monitoring independency of certified auditors and entities authorised to audit financial statements,
- recommending auditors to audit financial statements to the Supervisory Board.

The Chairman of the Audit Committee, Mr. Harald Minkner, is a member who meets the criteria of an independent auditor and who has proper qualifications in accountancy and financial audit, pursuant to the act of May 7, 2009 on certified auditors their professional associations, audit companies and public supervision (Journal of Laws, no. 77, item 649).

Mr. Raimondo Eggink is a member who meets the criteria of an independent auditor pursuant to the recommendation of the European Commission (Appendix II) as of February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the supervisory board (2005/162/WE).

The members of the Audit Committee have proper qualifications and experience in finances.

11. Emoluments, awards and benefits of the Management and Supervisory Board

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

The gross value of the emoluments, awards and benefits obtained in 2009 and 2008 by the Company’s directors is presented in the Separate Financial Statements of KOGENERACJA S.A. for 2009, item 37 *Related Party Transactions, 37b), Transactions with management, p.64.*

Other agreements signed between the Company and the Management and Supervisory Board Members, such as Social Fund loan agreements, are presented in item 10 of this report.

12. Shares of the Company and related companies held by the Management and Supervisory Board

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

- Andrzej Siennicki, Member of the Management Board, holds 254 ordinary bearer shares in the Company of the total face value of PLN 1,270 and the value is the same as at the publication date of the last quarterly report,
- Member of the Supervisory Board, Mr. Raimondo Eggink holds 25,000 shares of the total face value of PLN 125,000 PLN, including directly 24,000 shares in the Company and 1,000 shares through a related company.

In 2009 the changes in shares held by the Management and Supervisory Board Members were caused by changes in the compositions of the Management Board and the Supervisory Board.

13. Agreements between the Company and Executives providing for compensation payments

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

The Company concluded a non-competition agreement with Mr. Roman Traczyk, Member of the Management Board, obliging Mr. Roman Traczyk to absolutely refrain from activities competitive to the Company operations within 12 months from the date of the employment agreement termination and for the following 12 months the non-competition obligation is valid in Wrocław and communes in the vicinity of Wrocław. The obligation does not pertain to EDF Group companies (including EC Zielona Góra S.A.).

The agreement specifies compensation equal to 100% of the gross basic remuneration paid on account of the employment agreement and managerial contract for 24 months preceding the termination of the employment agreement.

The Company did not conclude comparable agreements with other Members of the Management Board.

III. Share price

1. Quotation of KOGENERACJA S.A. shares on Warsaw Stock Exchange

At the first session in 2009, on closing, the share price was PLN 53.15 per share and the trading volume was 1,387 shares. The highest price in 2009 was recorded on June 1, when the quotation of KOGENERACJA S.A. shares was PLN 86.90, which was the highest value in the shares’ quotation history. The lowest price in 2009 was recorded on January 19, with the share closing price of PLN 52.25 per share at the volume of 360 shares traded. The year of 2009 was closed with the price of PLN 78.60 per share at the volume of 1,604 shares traded.

Quotations of KOGENERACJA S.A. shares on Warsaw Stock Exchange in 2009



2. mWIG40 Index

At the beginning of 2009 KOGENERACJA S.A. was listed on Warsaw Stock Exchange in the continuous quotation system in sWIG80 index. After the session on March 20, 2009, the Company left the sWIG80 index and now belongs to **mWIG40 index** (as provided in the announcement of the Management Board of the Stock Exchange on February 5, 2009). As a result of annual revision of the Warsaw Stock Exchange, as at January 31, 2010 the Company holds 22nd place in the portfolio of mWIG40 index and the Company share in the index is 2.04%.

mWIG40 in 2009



3. WIG-Energy subindex

On January 4, 2010 the Warsaw Stock Exchange initiated calculation and publishing of the 10th sector subindex – WIG-Energy. The index includes all the companies in the energy sector that are included in WIG index, i.e. Polska Grupa Energetyczna (66% share), CEZ (22% share), Polish Energy Partners (6% share) and KOGENERACJA S.A. (also 6% share).

4. Dividend policy

The dividend payment depends on the financial position of the Company. The most significant factors include investments, debt level and liquidity. In the last years the level of dividend was increasing and last year, in spite of the financial result decrease, it was maintained at the same level as in the previous year.

Pursuant to resolution no. 7/2009 of the Ordinary General Meeting of Shareholders on the profit distribution, as of June 25, 2009, dividend for 2008 was PLN 30,545 k, i.e. 2.05 PLN/share (*Current Report no. 22/2009*). All the Company shares in the quantity of 14,900 k give equal rights to dividend.

| | 2008 | 2007 | 2006 | 2005 |
|---|-------------|-------------|-------------|-------------|
| Net profit (<i>in PLN thousand</i>) | 47 547 | 60 026 | 37 793 | 10 652 |
| Profit devoted to dividend (<i>in PLN thousand</i>) | 30 545 | 30 545 | 27 565 | 11 920 |
| Profit share devoted to dividend (<i>in %</i>) | 64 | 51 | 73 | 112 |
| No. of shares (<i>in thousand</i>) | 14 900 | 14 900 | 14 900 | 14 900 |
| Dividend per annum (<i>in PLN per share</i>) | 2,05 | 2,05 | 1,85 | 0,80 |

Pursuant to the Management Board’s resolution on the profit distribution, as of April 19, 2010 the dividend proposal for the year of 2009 is PLN 52,150 k, i.e. 3.50 PLN/share.

Due to the increasing investments and seasonality of the Company operations the Company changes the date of settlement of the right to dividend and the date of dividend payment to the forthcoming calendar months, however, the Company shall make every effort to ensure that the interval between the two dates is no longer than 15 days, in compliance with item IV 6 of Best Practices of Listed Companies.

| | 2009 | 2008 | 2007 | 2006 |
|---------------------------------|--------------|----------|-----------|-----------|
| Dividend settlement date | 22 September | 8 July | 13 July | 14 July |
| Dividend payment date | 13 October | 8 August | 24 August | 28 August |

5. Agreements vs. changes in the proportion of shareholdings

(in accordance with § 91 section 6 item 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.

6. Control of employee shares programmes

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

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

7. Agreement with the Auditor

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

| <i>Specification</i> | <i>Report for 2009</i> | <i>Report for 2008</i> |
|--|--|--|
| Date of the financial report review agreement | 14 June 2009 | 27 June 2008 |
| Date of the financial report audit agreement | 21 October 2009 | 13 November 2008 Annex of 29 June 2009 |
| Term of the audit agreement | Until receipt of the auditor's opinion and report from audit of the fin. statements (no later than 23.04.2010) | Until receipt of the auditor's opinion and report from audit of the fin. statements (no later than 24.04.2009) |
| Total fee (in PLN, net of VAT): | 184 750 | 193 250 |
| financial report audit | 135 000 | 135 000 |
| certification services, including review of the financial report | 49 750 | 49 750 |
| advisory services | - | - |
| other services | - | 8 500 |

8. Ratio calculation methodology

$ROA = \text{net profit} / \text{total assets}$,

$ROE = \text{net profit} / \text{equity}$,

$ROCE = \text{EBIT} / \text{capital employed defined as equity} + (\text{non-current and current borrowings less current investments less non-current investments})$.

$\text{Current liability} = \text{current assets} / \text{current liabilities}$

$\text{Quick liability} = (\text{current assets} - \text{inventories}) / \text{current liabilities}$

Wrocław, April 26, 2010

.....
Denis Bretaudeau

The President of the Management Board

.....
Roman Traczyk

The Member of the Management Board

.....
Andrzej Siennicki

The Member of the Management Board

.....
Krzysztof Wrzesiński

The Member of the Management Board