

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

2010

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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 – Dz.U. [Journal of Laws] no. 33, item 259 (“*Ordinance*”) and the Accounting Act of September 29, 1994 – Dz.U. of 2009 no. 152 item 1223, as amended (“*Act*”).

2. Company characteristics

Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.

Address:	ul. Łowiecka 24, 50-220 Wrocław
Phone no.:	71/32-38-111
Fax no.:	71/32-93-521
Website:	http://www.kogeneracja.com.pl
E-mail:	kogeneracja@kogeneracja.com.pl
REGON:	931020068
NIP:	896-000-00-32
KRS:	0000001010

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.

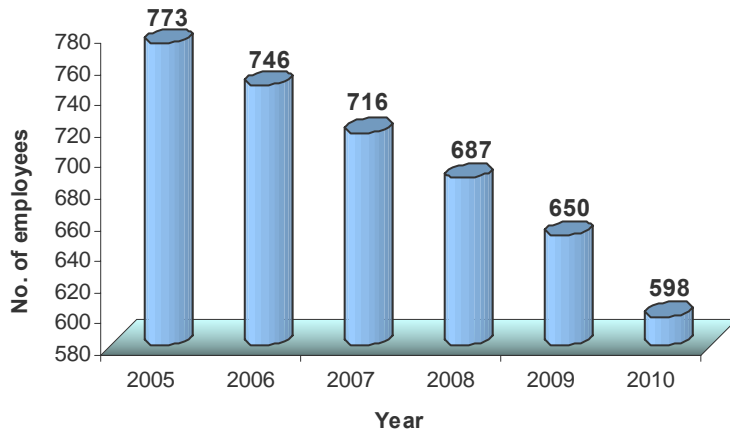
The Company comprises of three production plants:

- Elektrociepłownia Wrocław (Wrocław Heat and Power Plant), located in Wrocław, ul. Łowiecka 24,
- Elektrociepłownia Czechnica (Czechnica Heat and Power Plant), located in Siechnice near Wrocław; and
- Elektrociepłownia Zawidawie (Zawidawie Heat and Power Plant), located in the eastern part of Wrocław, in Psie Pole district,

offering the total of 363 MW of electricity power and 1,083.2 MWt of heating power.

3. Employment

Over the last 6 years, the number of FTEs in the Company decreased by 175. As at December 31, 2010, the Company employed 598 persons – 89 women and 509 men (as at December 31, 2009 the Company employed 650 persons – 112 women and 538 men).



The number of employees decreased within the last few years as a result of restructuring and in the last year as a result of setting apart non-production operations and a gradual transfer of auxiliary areas of the Company’s operations to the Shared Services Centre in Kraków, which provides services to companies within EDF Group in Poland. In 2010, the following areas of operations were covered by outsourcing: Engineering, Finances, Logistics and Purchasing, IT.

4. Organisational and equity relations with other entities

(pursuant to § 91 section 6, item 4 of the Ordinance)

The Company has equity and organisational relations with:

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

a. The highest-tier Parent Company

In the reporting period, EDF Group seated in France was the highest-tier Parent Company.

b. Group structure

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

As at December 31, 2010



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.

On July 1, 2010, an entry was made into the Companies Register of the National Companies Register (decision of the District Court for Wrocław-Fabryczna in Wrocław, the 6th Business Division of July 2, 2010) regarding a merger of KOGENERACJA S.A. (acquiring Company) and Z.C. “Term-Hydral” Sp. z o.o. (acquired company).

On July 29, 2010, the Extraordinary Meeting of Shareholders of ZEC Hurt Sp. z o.o. adopted a resolution regarding commencement of the process of liquidation of the Company on July 31, 2010.

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c. Subsidiaries

The following tables show the percentage share in the share capital of the Group subsidiaries and the nominal value of shares held by KOGENERACJA S.A. as at December 31, 2010 and 2009.

As at 31 December 2010

	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.	29 100 000	58 200	500	58 200	29 100 000	100,00
ZEC Hurt Sp.z o.o.in liquidation **)	625 500	1 251	500	1 251	625 500	100,00
PPO Siechnice Sp. z o.o.	18 680 500	37 361	500	19 054	9 527 000	51,00

*) On July 31, 2010, the process of liquidation of ZEC Hurt Sp. z o.o. was commenced.

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	-	-	-

d. Associates

The following tables show the structure of the share capitals of associates and the nominal value of shares held by KOGENERACJA S.A. as at December 31, 2010 and 2009.

As at 31 December 2010

	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 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

e. Changes in the Group structure

Transactions and events that affected the Group structure in 2010 are presented below:

Subsidiaries

1) *Increasing the share capital of Z.C. “Term-Hydral” Sp. z o.o.*

- On March 15, 2010, the increase in the share capital of Z.C. “Term-Hydral” Sp. z o.o. by PLN 1,500 k was registered. Resolution regarding the increase in the share capital of the Company from PLN 8,712 k to PLN 10,212 k was adopted by the Extraordinary Meeting of Shareholders on December 7, 2009. On the same date, KOGENERACJA S.A. signed a declaration regarding taking up the shares, in which the Company declared that it shall take up the new shares by December 15, 2009.

2) *Merger of Ekotrakt Sp. z o.o. and Renevis Sp. z o.o.*

- On April 1, 2010, the District Court in Wrocław issued a decision about the acquisition of Ekotrakt Sp. z o.o. by Renevis sp. z o.o. The merger was effected pursuant to article 492 § 1 item 1) in relation to article 516 § 5 and 6 of the Polish Code of Commercial Partnerships and Companies by transferring all assets of the acquired company (Ekotrakt Sp. z o.o.) to the acquiring company (Renevis sp. z o.o.) (without increasing the share capital of the acquiring company and without issuing shares to the shareholder of the acquired company).

3) *Increasing the share capital of Renevis Sp. z o.o.*

- On June 23, 2009, the Management Board of KOGENERACJA S.A. made a declaration regarding taking up 20,000 new shares in the increased share capital of Renevis sp. z o.o. The payment for the increased capital was made on June 28, 2010. The share capital of the company was increased by PLN 10,000 k (from PLN 19,100 k to PLN 29,100 k) by virtue of a resolution of the Extraordinary Meeting of Shareholders of Renevis sp. z o.o. adopted on June 23, 2010. On July 2, 2010, the increased capital was registered by the Court.

4) *Merger of KOGENERACJA S.A. and a subsidiary Z.C. “Term-Hydral” Sp. z o.o.*

- On May 25, 2010, the Extraordinary Meeting of Shareholders of KOGENERACJA S.A. and Ordinary Meeting of Shareholders of Z.C. “Term-Hydral” Sp. z o.o. adopted a resolution regarding the merger of both Companies – by transferring all assets of the acquired company (Z.C. “Term-Hydral” Sp. z o.o.) to the acquiring company (KOGENERACJA S.A.) (without increasing the share capital of the acquiring Company).

On July 1, 2010, the District Court in Wrocław issued a decision about the acquisition of Z.C. “Term-Hydral” Sp. z o.o. by KOGENERACJA S.A.

5) *Commencement of the process of liquidation of ZEC Hurt Sp. z o.o.*

- On July 29, 2010, the Extraordinary Meeting of Shareholders of the subsidiary ZEC Hurt Sp. z o.o. adopted a resolution regarding commencement of the process of liquidation of the company on July 31, 2010. During the same Meeting, a resolution was adopted regarding appointment of two receivers. ZEC Hurt Sp. z o.o. shall be dissolved after liquidation (when the company shall be deleted from the register). On August 31, 2010, the Extraordinary Meeting of Shareholders of ZEC Hurt Sp. z o.o. approved the liquidation opening balance sheet as at July 31, 2010.

f. Equity investments within the Group

In 2010, equity investments were made by the Parent Company with the following transactions:

- purchase of 20,000 shares in Renevis sp. z o.o.; transaction value: PLN 10,000 k.

g. Other equity investments

KOGENERACJA S.A. holds shares in Towarowa Gielda Energii S.A. The share in votes and capital was 4.66% in both, 2010 and 2009.

II. Key production and financial figures

1. Key financials and ratios for 2006-2010

<i>in PLN thousand</i>	<i>from 1 January to 31 December 2010</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:	587 237	531 802	429 667	387 211	460 410
Sales of electricity	220 220	226 709	214 057	202 378	201 200
Sales of heat	274 668	239 109	174 741	163 005	193 090
Certificates	84 421	57 058	35 073	16 950	1 466
Cost of sales	(506 352)	(437 802)	(386 022)	(358 995)	(434 905)
Gross profit on sales	80 885	94 000	43 645	28 216	25 505
Administrative expenses	(6 916)	(7 135)	(7 340)	(6 710)	(8 379)
Selling expenses	(939)	(920)	(1 009)	(587)	(766)
Other operating revenues/costs	(6 136)	5 742	(4 538)	16 878	13 715
Operating profit (EBIT)	66 894	91 687	30 758	37 797	30 075
Net finance income	39 506	29 459	25 055	31 473	14 372
Income tax	(13 438)	(17 680)	(8 266)	(9 244)	(6 654)
Net profit	92 962	103 466	47 547	60 026	37 793
		-			
Non-current assets	1 052 987	966 291	848 693	751 749	740 224
Current assets	269 798	293 977	202 676	151 170	163 326
Total assets	1 322 785	1 260 268	1 051 369	902 919	903 550
Non-current liabilities	134 706	125 611	65 620	60 417	46 388
Current liabilities	302 704	290 094	215 246	90 742	138 366
Equity	885 375	844 563	770 503	751 760	718 796
Net cash from operating activities	150 209	69 903	27 587	95 210	72 440
Net cash used in investing activities	(116 266)	(121 533)	(72 549)	(36 688)	(77 441)
Net cash from financing activities	(28 161)	52 553	50 622	(58 258)	(38 292)
Total net cash flows	5 782	923	5 660	264	(43 293)
	(%)				
Return on assets (ROA)	7,43	8,26	4,52	6,65	4,18
Return on equity (ROE)	11,01	12,25	6,17	7,98	5,26
Return on capital employed (ROCE)	8,74	11,98	5,05	7,49	5,93
Current liquidity	0,89	1,01	0,94	1,67	1,18
Quick liquidity	0,51	0,52	0,48	0,96	0,73
Sales of heat (TJ)	9 943	9 061	8 717	8 687	8 929
Sales of electricity (MWh)	1 126 308	1 125 446	1 175 336	1 181 388	1 391 035
<i>including biomass production (MWh)</i>	191 040	132 211	56 348	28 012	14 343

Due to a merger with Z.C. “Term-Hydral” Sp. z o.o., necessary corrections were made to comparative data for 2009, in line with figures reported in the *Individual Financial Statements for 2010*.

The methodology of the ratios’ calculation is presented in item V 9 of this report.

2. Key products

(pursuant to § 91 section 6, item 1 of the Ordinance)

The Company’s key products include 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 2010 and 2009 are presented in the table below.

	<i>J.m.</i>	<i>from 1 January to 31 December 2010</i>	<i>from 1 January to 31 December 2009</i>	<i>Change (number)</i>
Sales of heat	TJ	9 943	9 061	882
Sales of electricity	MWh	1 126 308	1 125 446	862
Totale sales of products in units	TJ	13 998	13 113	885

Sale of heat in 2010 was 9,943 TJ and was higher than in 2009 by 882 TJ. The increase by 10% was caused by lower temperatures noted in the heating period as compared to the previous year. The Company undertakes marketing efforts aimed at acquiring new heat buyers.

Sale of electricity in 2010 was at the level of 1,126,308 MWh and it was higher than in 2009 by 862 MWh. This increase is a result of the specificity of production in co-generation.

Total sale of products in the reporting period was 13,998 TJ (including 9,943 TJ for heat) and it was higher than in the previous year by 7%.

The value and structure of revenues from product sales in 2010 and 2009 are presented in the following table (revenues from distribution were recognised as follows: PLN 1,398 k in revenues from the sale of heat and PLN 2,502 k in revenues from the sale of electricity).

	<i>31 December 2010</i>		<i>31 December 2009</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	274 668	47	239 109	45	35 559
Sales of electricity	220 220	38	226 709	42	(6 489)
Certificates	84 421	14	57 058	11	27 363
Ancillary services	2 080	0	3 158	1	(1 078)
Other revenues	4 998	1	3 838	1	1 160
Revenues from the sale of finished goods	586 387	100	529 872	100	56 515

3. Key economic and financial results of the Company

(pursuant to § 91 section 5, item 2 of the Ordinance)

In 2010, the Company generated net profit of PLN 92,962 k, which was lower than last year by PLN 10,504 k, when the net profit was at the level of PLN 103,466 k. The key economic and financial results of the Company are presented in the following tables.

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

<i>in PLN thousand</i>	<i>from 1 January to 31 December 2010</i>	<i>from 1 January to 31 December 2009</i>	<i>Change (value)</i>
Revenues	587 237	531 802	55 435
Cost of sales	(506 352)	(437 802)	(68 550)
Gross profit on sales	80 885	94 000	(13 115)
Administrative expenses	(6 916)	(7 135)	219
Selling expenses	(939)	(920)	(19)
Other operating revenues/costs	(6 136)	5 742	(11 878)
Operating profit (EBIT)	66 894	91 687	(24 793)
Net finance income	39 506	29 459	10 047
Income tax	(13 438)	(17 680)	4 242
Net profit	92 962	103 466	(10 504)

b. Revenue

<i>in PLN thousand</i>	<i>from 1 January to 31 December 2010</i>	<i>from 1 January to 31 December 2009</i>	<i>Change (value)</i>
Revenues	587 237	531 802	55 435
Revenues from the sale of finished goods	586 387	529 872	56 515
<i>including certificates</i>	84 421	57 058	27 363
<i>including ancillary services</i>	2 080	3 158	(1 078)
Revenues from the sale of merchandise and raw materials	850	1 930	(1 080)

In 2010, the Company generated **revenues** amounting to PLN 587,237 k, including revenues of PLN 586,387 k from the sale of products and revenues from the sale of merchandise and raw materials amounting to PLN 850 k. In 2010, the revenues were at a level of PLN 531,802 k, including revenues from the sale of products amounting to PLN 529,872 k, and from the sale of merchandise and raw materials amounting to PLN 1,930 k.

The higher **revenues from the sale of products** generated in 2010 (by PLN 55,435 k) were affected by the following factors:

- higher heat prices and higher heat sales volume,
- increased production of green energy and received property rights certificates.

The increase in the price of heat was, respectively, 8.0%, and the price of heat power increased by 5.3%; this is a result of favourable prices and heat tariffs of KOGENERACJA S.A., which became effective as of October 1, 2010, following the approval by the President of the Energy Regulatory Office. The heat sales volume increased by 10%. Revenues from the sale of electricity decreased despite the increased sales volume due to a reduction in the average “black” electricity price by 3.3%.

In 2010, as the result of electricity production, KOGENERACJA S.A. acquired rights under certificates for co-generated energy (red certificates) and energy from renewable sources – co-firing of biomass (green certificates) for the amount of PLN 84,421 k (PLN 57,058 k in 2009). The production of electricity through co-firing of wooden biomass increased in 2010 by 44.5% as compared to 2009. The production of green energy in 2010 amounted to 191,040 MWh as compared to 132,221 MWh in 2009. The increase in prices of “green” and “red” certificates was, respectively, by 0.9% and 20.2%.

c. Fixed costs and variable costs

In 2010, *variable costs* related to the generation of sold products were by 23.2% higher than in 2009, amounting to PLN 306,650 k. In 2009, these costs were at a level of PLN 248,873 k. The increase in variable costs by PLN 57,777 k is a consequence of the increase in fuel costs caused by the increase in prices of production coal by 15.7% (the average price of burnt coal in 2010 was 312.37 PLN/t, and in 2009 – 269.90 PLN/t) and wooden biomass by 12.0% (the average price of burnt biomass in 2010 was 462.76 PLN/t, and in 2009 – 413.11 PLN/t). In 2009, the share of wooden biomass in the process of co-firing with coal increased significantly – from 109,300 t in 2009 to 165,947 t in 2010.

Lower costs (by PLN 5,325 k) of excise tax were a result of 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.

The increase in other variable costs from PLN 6,007 k to PLN 10,755 k includes mainly the following:

- the increase in costs by PLN 2,194 k due to setting up a provision for the purchase of CO₂ emission allowances; in 2010, a provision of PLN 279 k was set up; in 2009, a provision for CO₂ of PLN 1,915 k was released,
- the decrease in costs by PLN 109 k due to the purchase of CO₂ allowances,
- an additional cost item in the amount of PLN 1,601 k related to the trade in electricity (a result of a merger with Z.C. “Term-Hydral” Sp. z o.o.),
- the increase in costs by PLN 936 k as a result of the purchase of energy on the balancing market to meet the terms of sale of the energy produced in KOGENERACJA S.A.

<i>in PLN thousand</i>	<i>from 1.01.2010 to 31.12. 2010</i>	<i>from 1.01.2009 to 31.12. 2009</i>	<i>from 1.01.2010 to 31.12. 2010</i>	<i>from 1.01.2009 to 31.12. 2009</i>	<i>from 1.01.2010 to 31.12. 2010</i>	<i>from 1.01.2009 to 31.12. 2009</i>	<i>from 1.01.2010 to 31.12. 2010</i>	<i>from 1.01.2009 to 31.12. 2009</i>
Variable costs	(306 650)	(248 873)	-	-	-	-	(306 650)	(248 873)
fuel costs	(295 600)	(237 246)	-	-	-	-	(295 600)	(237 246)
excise tax	(295)	(5 620)	-	-	-	-	(295)	(5 620)
other variable costs	(10 755)	(6 007)	-	-	-	-	(10 755)	(6 007)
Fixed costs	(198 816)	(188 886)	(6 916)	(7 135)	(939)	(920)	(206 671)	(196 941)
labour costs	(69 829)	(71 424)	(5 211)	(5 063)	(663)	(661)	(75 703)	(77 148)
overhauls	(25 625)	(24 008)	-	-	-	-	(25 625)	(24 008)
depreciation	(49 721)	(44 397)	(19)	(22)	-	-	(49 740)	(44 419)
services	(37 587)	(34 597)	(1 583)	(2 039)	(98)	(116)	(39 268)	(36 752)
other fixed costs	(16 054)	(14 460)	(103)	(11)	(178)	(143)	(16 335)	(14 614)
Value of goods and materials sold	(886)	(43)	-	-	-	-	(886)	(43)
Total costs	(506 352)	(437 802)	(6 916)	(7 135)	(939)	(920)	(514 207)	(445 857)

Fixed costs of the products sold in 2010 amounted to PLN 206,671 k. In 2010, costs of depreciation and overhauls of production machinery increased by PLN 6,938 k, which resulted from the continuous upgrade and improvement of the equipment to adapt it to co-firing of biomass and coal and a merger with Z.C. “Term-Hydral” Sp. z o.o. The costs of outsourced services and other costs increased by PLN 4,237 k and the labour costs decreased by PLN 1,445 k.

The decrease in labour costs in 2010 was driven by the following:

- decrease in salaries and social security costs by PLN 1,026 k as a result of a lower number of employees as of July 1, 2010 due to the fact that IT, finance, logistics and engineering services were outsourced to EDF Polska Centrum Usług Wspólnych,
- increase in severance payments within the Voluntary Severance Scheme by PLN 2,329 k,
- decrease in provisions for labour costs (provisions for energy allowance, jubilee awards and retirement severance payments) by PLN 2,683 k,
- decrease in other employees’ benefits by PLN 65 k.

The increase in outsourced services was due to new cost items related to services provided by the Shared Services Centre – costs of these services provided to KOGENERACJA S.A. amounted in 2010 to PLN 7,211 k. The costs of IT services, warehousing services, property insurance, services provided in relation to sidings and security agency services decreased. The budget and controlling efforts are made in the Company in order to control fixed costs.

The increase in other fixed costs (by PLN 721 k) results from the increase in tax rates and local fee payments (real estate tax), a merger with Z.C. “Term-Hydral” Sp. z o.o. and increased licence fees.

d. Other operating profit (loss)

In 2010, the profit on other operations was a negative figure and amounted to PLN 6,136 k, while in 2009 it was a positive figure and amounted to PLN 5,742 k. Such a significant decrease in profit on other operations in 2010 as compared to 2009 (by PLN 11,878 k) was mainly due to the valuation of a financial instrument related to the swap of CO₂ emission allowances (EUA/CER) and swap contracts. In 2010, a positive figure related to swap contracts in the amount of PLN 2,628 k was reported and a negative figure in relation to a swap instrument valuation (PLN 3,400 k); thus, the total effect on the profit on other operations was negative and amounted to PLN 772 k. In 2009, revenues related to a swap instrument valuation were reported in the amount of PLN 5,823 k and swap contracts in the amount of PLN 2,899 k.

Furthermore, provisions were set up in relation to writing off capital expenditure as losses and in relation to employee energy cost rebate in the total amount of PLN 1,036 k. Costs of repairs were also reported in relation to damages caused by partial flooding of the port in EC Wrocław during the flood in 2010.

e. Net financial profit (loss)

The higher profit on financial activities in 2010 (by PLN 10,047 k) was mainly due to higher financial revenues (by PLN 10,055 k) (including in relation to received dividends by the amount of PLN 16,674 k). In 2010, there were no additional revenues from the sale of financial assets as those reported in 2009 in the amount of PLN 5,118 k. Financial costs were at the same level as in 2009.

f. Net profit (loss)

In 2010, the Company generated a net profit of PLN 92,962 (PLN 103,466 k in 2009). A decrease in net profit was caused by the following factors:

- decreased profit on sales of the key products by PLN 13,115 k due to the increased cost of sales (by 16%) as compared to generated revenue (an increase by 10%). A change was mainly due to decreased revenues from the sale of electricity as a result of decreased “black” electricity prices from PLN 202.3/ MWh in 2009 to PLN 196.16/MWh in 2010 and over twofold increase in the sales volume of “green” energy generated using wooden biomass. At the same time, the prices of green certificates increased by 0.9% and prices of red certificates increased by 20%. An increase in the cost of sales by 16% was due to higher fuel prices,
- other operating profit that was lower in 2010 by PLN 11,878 k – mainly due to a difference in valuation of an instrument related to a swap of CO₂ emission allowances (EUA/CER) and swap contracts in the total amount of PLN 9,223 k,
- net financial profit higher by PLN 10,047 k mainly due to a dividend received from EC Zielona Góra S.A. higher by PLN 16,667 k (PLN 41,713 k in 2010 and PLN 25,046 k in 2009).

g. Key ratios: ROA, ROE and ROCE

(%)	<i>from 1 January to 31 December 2010</i>	<i>from 1 January to 31 December 2009</i>	<i>Change (%)</i>
Return on assets (ROA)	7,03	8,21	(14)
Return on equity (ROE)	10,50	12,25	(14)
Return on capital employed (ROCE)	7,94	11,98	(34)

The Company’s profitability ratios in 2010 were lower than in 2009.

ROA was lower by 14% as a result of the net profit lower by 10% and assets increased by 5%. ROE was also lower by 14% as a result of net profit lower by 10% and capitals higher by 5%. ROCE decreased by 34% due to a 27% decrease in operating profit and a 10% increase in capital employed (increased debt of the Company).

4. Distribution markets and supply sources

(pursuant to § 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 the *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 August 26, 2010 (decision no. OWR-8/2010/1276/XI-A/AŁ). 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:

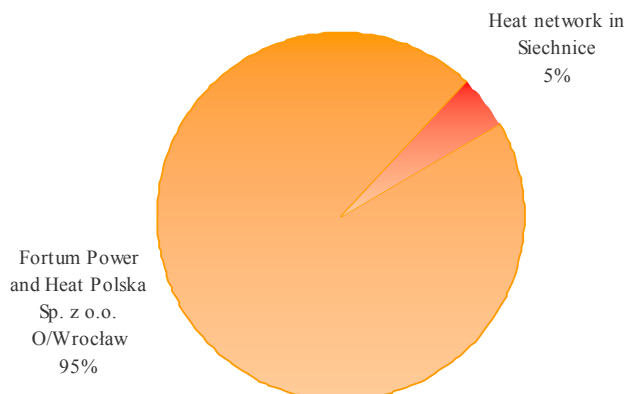
- WEE/38-ZTO-D/1276/W/OWR/2010/DB/AŁ of November 26, 2010 for the production of electricity, concerning co-firing of biomass and light fuel oil in EC Czechnica,
- WCC/583-ZTO-D/1276/W/OWR/2010/DB of November 16, 2010 for the production of heat, concerning introduction of the name EC Zawidawie following the acquisition of Z.C. “Term-Hydral” Sp. z o.o. by KOGENERACJA S.A. as of July 1,
- WCC/583-ZTO-E/1276/W/OWR/2010/DB/AŁ of November 26, 2010 for the production of heat, concerning co-firing of biomass and light fuel oil in EC Czechnica,
- DEE/237B/1276/W/OWR/2010/DB of August 31, 2010 for distribution of electricity, making KOGENERACJA S.A. a distributor of electricity following the acquisition of Z.C. “Term-Hydral” Sp. z o.o. by KOGENERACJA S.A. as of July 1.

The key distribution markets in 2010 were as follows:

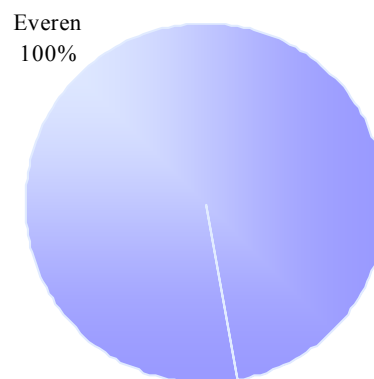
- buyers connected to the heating system of Wrocław and Siechnice, to whom heat is supplied through local heat distribution networks:
 - a network of a local heat distributor, i.e. Fortum Power and Heat Polska Sp. z o.o., division in Wrocław – 95.4% of heat sales,
 - a heat distribution network in Siechnice (the commune of Św. Katarzyna) – 4.6% of heat sales,
- buyers of electricity co-generated with heat:
 - Everen Sp. z o.o. – 100% of electricity sales.

Additionally, KOGENERACJA S.A. provides services related to the availability of generating units (system services) to PSE – Operator S.A.

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 agreements with Everen Sp. z o.o. However, physically electricity is sent to 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-Uslugowe 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./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 will be made from July 1, 2007 to June 30, 2021.
Supply of heavy fuel oil	Elektrociepłownia “Kraków” S.A. – acting on its own behalf and on behalf of companies within EDF Polska Group/Lotos Asphalt Sp. z o.o.	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 concluded on July 4, 2005. The agreement expires on June 30, 2021.
Supply of biomass	Energokrak Sp. z o.o.	Framework agreement no. SB/08/332/UH concluded on June 27, 2008. The agreement expires on November 30, 2016.

5. Material agreements concluded in 2010

(pursuant to § 91 section 6, item 3 of the Ordinance)

Outsourcing of services to EDF Polska CUW Sp. z o.o.

On November 24, 2010, the total value of long-term agreements concluded in the period of 12 months by the Entity and its subsidiary with one contractor – EDF Polska Sp. z o.o., estimated for the period of 5 years, is PLN 107,810 k. The agreements together met the criterion of a material agreement.

The agreements with Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. were concluded on June 28, 2010 and concerned the implementation of the program of integration of the so-called non-technical support functions (i.e. finances and IT) and technical support functions (i.e. purchasing and engineering) by EDF Polska Sp. z o.o.:

- service framework agreement and detailed agreements:
- financial process service agreement,
- IT service agreement,
- engineering service agreement,
- purchasing and logistics service agreement.

The agreements came into force on July 1, 2010 (*Current Report 34/2010*).

Process implementation agreements between EDF Polska Sp. z o.o. and EC Zielona Góra S.A. were concluded on November 24, 2010 and came into force on January 1, 2011 (*Current Report 34/2010*).

6. Key domestic and foreign investments

(pursuant to § 91 section 6, item 4 of the Ordinance)

In the reporting period, KOGENERACJA S.A. did not invest in any securities, shares (other than the shares specified in item I *Equity investments within the Group* of this report), intangible assets or real property.

7. Related party transactions

(pursuant to § 91 section 6, item 5 of the Ordinance)

The key transactions with the related parties (including financial revenues and costs) in 2010 are presented in the table below. Everen Sp. z o.o. was also classified as a related party. This company has no direct capital relations with KOGENERACJA S.A. but it is a member of EDF Group in Poland, a Parent Company of the entity, and significant transactions are being made between these companies.

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 2010, note 40 *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 Zielona Góra S.A.	44 062	124
Everen Sp. z o.o.	304 390	3 468
EDF Group	6 097	8 485
PPO Siechnice Sp. z o.o.	8 728	11
Energokrak Sp. z o.o.	98	256 009
Renevis Sp. z o.o.	1 528	12 690
ZEC Hurt Sp. z o.o. <i>in liquidation</i>	797	1 220

8. Loan agreements concluded and terminated in 2010

(pursuant to § 91 section 6, item 6 of the Ordinance)

a. Loan agreements concluded and terminated in 2010

1) Bank overdraft – ING Bank Śląski S.A. – renewal of the agreement

On October 27, 2010, 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 31, 2011. 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 k on the perpetual usufruct of land and on the machinery and buildings situated on that land; and
- assignment of rights under the insurance policy covering hard coal inventory and real estate.

2) Bank overdraft – BOŚ S.A. – termination of the agreement

On November 30, 2010, the Company renewed its Overdraft Agreement for PLN 30,000 k with BOŚ S.A. in Warsaw for one month. The agreement will expire on December 30, 2010.

The facility was 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 (to the Bank) of rights under the insurance policy against fire and other fortuitous events for the real estate that secures the loan,
- receivables from Everen Sp. z o.o. Everen Sp. z o.o.,
- power of attorney to the Borrower’s account in BOŚ S.A.

On January 26, 2011, the mortgage was deleted.

3) Bank overdraft – BPH S.A. – termination of the agreement

On October 29, 2010, the agreement for multipurpose facility amounting to PLN 60,000 k (from May 1 to October 29 amounting to PLN 30,000 k) with BPH S.A. in Warsaw expired.

The facility was secured by:

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

On February 24, 2011, the mortgage was deleted.

Loan agreements as at December 31, 2010.

As at 31 December 2010

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	Investment loan	51 000	WIBOR 3M + 2,85%	PLN	13-07-2009	46 143	30-09-2015
ING	Overdraft	30 000	WIBOR 1M + 1%	PLN	27-10-2010	-	31-10-2011
Société Générale	Debt securities	180 000	WIBOR + 1,5%	PLN	05-01-2009	167 831	06-11-2011

b. Loan agreements concluded in previous years

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>
WFOŚiGW	Investment loan	21 500	3,55%	PLN	29-12-2006	9 002	16-06-2013

1) Loan from the Provincial Environmental Protection and Water Management Fund [Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej – WFOŚiGW]

On December 29, 2007, the Company signed a loan agreement with the Provincial Environment and Water Protection Fund in Wrocław for PLN 21,500 k to subsidise a project.

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, 2010, the balance of the loan was PLN 9,002 k.

2) 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 shall expire 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 (to the Bank) of rights under the 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 request of the investment contractor.

In 2010, the last tranches were received and the loan repayment was commenced. As at December 31, 2010, the balance of the loan was PLN 46,143 k.

9. Loans granted

(pursuant to § 91 section 6, item 7 of the Ordinance)

a. Loans granted in 2010

In 2010, the Company granted a loan to its subsidiary Z.C. “Term-Hydral” Sp. z o.o. from the Group in the amount of PLN 500 k. The short-term loan was repaid in June 2010.

b. Loans granted in previous years

KOGENERACJA S.A. receives quarterly financial revenues from loans granted to its subsidiary EC Zielona Góra S.A. The loan agreements were signed on June 3, 2002 for the 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 Zielona Góra S.A., which was commercially commissioned in 2004.

As at 31 December 2010

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	43 032	30-06-2016

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

Within the Company Social Benefit Fund, loans were granted to the following related parties – Company’s employees, Members of the Supervisory Board:

As at 31 December 2010

in PLN

	<i>Contractual amount</i>	<i>Interest rate</i>	<i>CCY</i>	<i>Date granted</i>	<i>Balance</i>	<i>Date due</i>
Roman Nowak	6 000	1%	PLN	16-03-2009	2 540	31-03-2012
Roman Nowak	6 000	1%	PLN	07-12-2006	2 496	31-12-2011
Andrzej Siennicki	6 000	1%	PLN	07-05-2008	840	31-05-2011
Henryk Zajas	8 000	1%	PLN	02-10-2008	1 750	31-07-2011
Henryk Zajas	30 000	1%	PLN	04-09-2009	28 500	30-09-2015
Danuta Żeleźna	30 000	1%	PLN	06-05-2008	20 500	31-05-2014
Danuta Żeleźna	6 000	1%	PLN	02-10-2008	1 300	31-07-2011

10. Guarantees and sureties

(pursuant to § 91 section 6, item 8 of the Ordinance)

a. Guaranties and sureties granted

In 2010 the Company did not grant any guarantees (for loans or other), the total value of which 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 2010, item 38 *Contingent Receivables and Liabilities (III Notes)*.

b. Guaranties and sureties received

In 2010 the Company did not receive any loan guarantees or sureties, the total value of which would amount to at least 10% of the Company’s equity.

11. Information on litigation

(pursuant to § 91 section 5, item 5 of the Ordinance)

In 2010 there were no proceedings in courts or bodies competent for conciliatory proceedings or public administration bodies against KOGENERACJA S.A. or Company’s subsidiaries with respect to liabilities or receivables exceeding 10% of the Company’s equity

12. Issue of securities

(pursuant to § 91 section 6, item 9 of the Ordinance)

As on December 31, 2010 value of the securities issued by the Company was PLN 167,831 k. The proceeds from the bonds issue were used to fund Company’s current operations.

13. Reported financials versus projections

(pursuant to § 91 section 6, item 10 of the Ordinance)

The Company did not publish its projections for 2010.

14. Assessment of financial resources management

(pursuant to § 91 section 6, item 11 of the Ordinance and Article 49, section 2, item 4 of the Act)

a. Cash flows

In 2010-2009, the Company’s cash flows were as follows (selected data):

<i>in PLN thousand</i>	<i>for the period from 1 January 2010 to 31 December 2010</i>	<i>for the period from 1 January 2009 to 31 December 2009</i>	<i>Change (value)</i>
Net cash from operating activities	150 209	69 903	80 306
Net cash used in investing activities	(116 266)	(121 533)	5 267
Net cash from financing activities	(28 161)	52 553	(80 714)
Total net cash flows	5 782	923	4 859
Cash and cash equivalents at the beginning of the financial year	6 988	6 065	923
Cash and cash equivalents at the end of the financial year	12 770	6 988	5 782

Financial management in 2010 allowed, as in 2009, for balancing the Company’s cash flows, i.e. funding its capital expenditure and financial expenses with operating activities.

1) Operating activities

In the reporting year of 2010, as compared to 2009, the operating cash flows **increased by** 115%. Net cash flows from operating activities increased by PLN 80,306 k, and in 2010 amounted to PLN 150,209 k versus PLN 69,903 k in 2009.

The key drives of the operating cash flows included:

- lower EBITDA in 2010, which made a negative impact on the Company’s cash position by PLN 14,960 k (PLN 117,257 k in 2010 vs. PLN 132,217 k in 2009),
- a change in the working capital structure in 2010 (change in receivables, inventory and liabilities) by PLN 95,563 k (in 2010 PLN 39,619 k and in 2009 - PLN 55,944 k). The change resulted from the following: a change in trade receivables by PLN 52,194 k, a change in inventories by PLN 70,992 k and a change in trade liabilities by PLN 26,787 k.

2) Investing activities

In 2010 cash flows from investing activities were negative and amounted to PLN 116,266 k versus PLN 121,533 k in 2009. The expenditure on purchase of tangible fixed and intangible assets increased by PLN 4,371 k (in 2010: PLN 158,953 k, in 2009: PLN 154,582 k), while the expenditure on financial assets decreased by PLN 1,510 k. In 2010 the expenditures were at the level of PLN 10,015 k versus PLN 11,525 k in 2009. The structure of capital investments is presented in item III.1.

At the same time investment inflows in 2010 increased by PLN 8,128 k (PLN 52,702 k in 2010 versus PLN 44,574 k in 2009) thanks to the increase in inflows by PLN 16,674 k from dividends received (PLN 42,094 k in 2010: including the dividend from EC Zielona Góra amounting to PLN 41,714 k versus PLN 25,420 k in 2009: including PLN 25,047 k from EC Zielona Góra). In 2010 the Company did not record any inflows from compensation on account of the weather derivative (PLN 3,372 k in 2009).

In 2010 the Company recorded such events as sale of IT property to the Shared Services Centre, which translated into increased investment inflows and did not occur in the previous year.

3) *Financial activities*

The cash flows from financial activities in 2010 were negative, at the level of PLN 28,161 k, i.e. decreased by 154% as compared to the previous year. In 2009 the balance was at the level of PLN 52,553 k. The change was driven by the fact that in 2010 financial inflows decreased by PLN 45,569 k. Inflows from loans decreased by PLN 15,000 k (in 2010 two subsequent tranches of the investment loan were drawn in the amount of PLN 18,000 k; in 2009 the first tranche of the investment loan was drawn in the amount of PLN 33,000 k). Inflows from bonds issue decreased by PLN 30,569 k.

Increased financial outflows by PLN 35,145 k were caused by increased dividend paid, which increased by PLN 21,605 k. In 2010 the dividend paid amounted to PLN 52,150 k and PLN 30,545 in 2009. At the same time outflows for loan repayment increased by PLN 10,060 k as in 2010 repayment of the investment loan started. Additionally, there was an increase in outflows for interest on loans as well as bond issue.

4) *Total net cash flows*

In 2010 total net cash flows were positive and amounted to PLN 5,782 k. In the comparative period the value was also positive and amounted to PLN 923 k. At the end of 2010 cash amounted to PLN 12,770 k versus PLN 6,988 k at the end of 2009.

b. Liquidity

	<i>for the period from 1 January 2010 to 31 December 2010</i>	<i>for the period from 1 January 2009 to 31 December 2009</i>	<i>Change (%)</i>
Current liquidity	0,89	1,01	(12)
Quick liquidity	0,51	0,52	(2)

Liquidity ratios for KOGENERACJA S.A. in 2010 were lower than in 2009: current liquidity ratio was 0.89 and quick liquidity ratio was 0.51. The level of these ratios, compared with 2009, results mainly from the decrease in current assets – by 8 %, which exceeded the increase in current liabilities – by 4 %.

As on December 31, 2010 Company’s non-current liabilities on account of borrowings amounted to PLN 41,804 k and current liabilities on account of borrowings amounted to PLN 181,172 k.

III. Investments and development

1. Assessment of investment capacity

(pursuant to § 91 section 6, item 12 of the Ordinance)

The key objective of the Company’s investments is to increase its market value. KOGENERACJA S.A. invests mainly 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 modernisation and replacement oriented 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. New shares in affiliated companies were acquired under capital investments. 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 hinder or prevent completion of its investment plans. The planned expenditures are secured by external financing in the form of bank facilities, a subsidy from the National Fund for Environmental Protection and Water Management in Warsaw, an investment loan as well as the company’s own resources.

The chart below includes the most important projects to be completed or continued in 2010.

	<i>from 1 January 2010 to 31 December 2010</i>	<i>from 1 January 2009 to 31 December 2009</i>
Internal investments	56 958	47 541
Capitalised repairs	9 771	18 941
Technological Project	15	7 328
Industrial Project	52 926	69 772
External investments	16 905	8 021
Total	136 575	151 603
Capital investments	10 000	11 399

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 new and sharper environmental requirements to be applicable after 2015. Also, projects were initiated to support the Company's economic development.

Key initiatives include the following:

- a) works aimed at adaptation of boilers of three heat units in EC Wrocław to the new emission standards to apply after 2015; in 2009 analyses were carried to identify the best technical solutions for desulphuring exhaust gases and select

the best concept for completion of the desulphuring installation. At the same time works on alternative solutions to this problem were undertaken (e.g. the use of natural gas to run selected boilers),

- b) continuation of works on the project of development of new extraction condensing units in EC Czechnica; the scope of works 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 required to start a tender procedure for selection of a technical advisor,
- c) development of a biomass torrefaction installation – an innovative project. The installation is to change physical and chemical characteristics of biomass to make it more suitable for the combustion process so that biomass could replace coal without further investments, and thus, significantly increase production of energy from renewable sources, and
- d) adaptation of EC Czechnica’s infrastructure to the needs of developmental projects of the Company

2) Other internal investments

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

In 2010 majority of general expenditure was allocated to conversion of EC Czechnica K-2 boiler into a fluidised-bed boiler and adjustment for biomass firing. Fuel supply and exhaust gas discharge systems were also modernised.

Key projects completed in 2010 include the following:

- conversion of the OP-130/K-2 boiler into a BFB boiler in EC Czechnica,
- modernisation of the K-2 boiler in EC Czechnica in order to make it suitable for biomass firing,
- modification of the exhaust gas discharge system in EC Wrocław,
- modernisation of belt conveyors No. 5 and 6 in EC Wrocław, modernisation of coal conveying equipment in EC Wrocław,
- modernisation of coal conveyor equipment in EC Wrocław,
- modernisation of TG-2 and TG-2 turbine control systems in EC Wrocław.

Conversion of the coal OP130/K2 boiler in EC Czechnica into a biomass-fired boiler was financed, among others, from external resource:

- in July 2009 the Company completed an investment credit agreement for the value of PLN 51,000 k (*Current Report 24/2009*) in order to finance the investment based on conversion of the OP130/K-2 boiler in EC Czechnica into a BFB boiler. By December 31 the Company received 2 tranches of the credit in the amount of PLN 33,000 k.
- In December 2009 the Company executed a contract for a subsidy amounting to PLN 20,000 k with the National Fund for Environmental Protection and Water Management in Warsaw under measure 4.5 priority IV of the Operational Programme Infrastructure and Environment 2007-2013.

Key projects scheduled for 2011 include the following:

- modernisation of the 6kV R3.1 and R3.2 switch station at B-C unit in EC Wrocław,
- modernisation of TG-2 and TG-2 turbine control systems in EC Wrocław,
- modernisation of OP-430 boilers equipment and installations in EC Wrocław,
- installation of a Bruks type feeder from the distribution tower No. 5 to the distribution tower No. 6 in EC Wrocław,
- modernisation of the installation for biomass storage, preparation and supply in EC Wrocław,
- modernisation of the heavy fuel oil supply and heating installation,
- modernisation of the compressed air installation in EC Wrocław,
- modernisation of the control system, protective devices and measurement instruments between BC-1, 2 and 3 units and R-144 switch station, ul. Długa EC Wrocław,
- modernisation of rotary air heaters at K-2 and K-3 boilers in EC Wrocław.

Investments to be completed in 2011 will be financed from the Company’s resources as well as external resources, including the subsidy received from the National Fund for Environmental Protection and Water Management in Warsaw.

b. External investments

KOGENERACJA S.A. completes external investments related to new connections to the heat distribution network in Wrocław, which are to increase the heat market and result from the Company's strategic objectives. In 2010 new customers were connected to the heat distribution network for the total power of 31.75 MWt, namely: in Wrocław – 63 heat stations with the capacity of 28.58 MWt, including through construction of own heat stations at the customers' sites financed from the Company's own funds. At the same time 39 heat stations with the capacity of 3.17 MWt were developed in Siechnice within the Company's heat distribution network. In 2010 the Company continued construction of a new heat distribution network in Święta Katarzyna District, which started in 2009. Activities related to new connections will be continued and developed.

c. Capital investments

In 2010 KOGENERACJA S.A. acquired:

- 20 000 shares of Renevis Sp. z o.o.; transaction value: PLN 10,000 k; equity increase.

In 2010 KOGENERACJA S.A. did not sell any shares.

The effect of these transactions on KOGENERACJA's percentage share in the share capitals of the Group companies is described in item I of this report.

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

(pursuant to § 91 section 5, item 1 of the Ordinance and Article 49, section 2, item 1 of the Act)

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

In 2010 the following events significantly affected the Company's business:

- decrease in “black” electricity prices and increase in the price of the so-called “red” and “green” certificates,
- allocation of PLN 52,150 k to the dividend (PLN 3.50/share in 2010 versus PLN 2.05/share in 2009),
- dividend from EC Zielona Góra S.A. amounting to PLN 41,714 k (in 2009 KOGENERACJA S.A. received dividend from EC Zielona Góra S.A. in the amount of PLN 25,047 k),
- on April 1, 2010 a merger took place between the following two subsidiaries operating in Wrocław: Ekotrakt Sp. z o.o. and Renevis Sp. z o.o.
- merger between KOGENERACJA S.A. and Z.C. Term-Hydral Sp. z o.o. of July 1, 2010,
- start-up of the Shared Services Centre on July 1, 2010 and transfer of operations from the following areas: Engineering, Finances, Purchase and Logistics and IT to EDF Polska CUW Sp. z o.o.,
- on August 26, 2010 the “Tariff for heat” for KOGENERACJA S.A. applicable as of October 1, 2010 was approved pursuant to the decision of the President of the Energy Regulatory Office No. OWR-4210-8/2010/1276/XI-A/AL,
- on July 1, 2008 the Council of Ministers adopted the ordinance regarding carbon dioxide emission allowances. The volume of emission allowances received by KOGENERACJA S.A. was lower than in the first National Allocation Plan of Emission Allowances. As the settlement for 2008 was set against the settlements for the period 2009-2010, the provision for purchase of emission allowances was reduced by PLN 1,095 k.
- The state of affairs related to reimbursement of the excessive excise tax for the settlement periods from January 2006 to February 2009 was as follows:
 - on December 21, 2010 the Supreme Administrative Court ruled in favour of KOGENERACJA S.A. (file No. I GSK 54/10) and dismissed the cassation appeal of the Customs Chamber in Wrocław. As the result of the favourable ruling the Company can now claim reimbursement of the excise tax paid for the period from January 2006 to July 2008 in the amount of PLN 63,887 k with interest. The ruling is final and binding.
 - Having received a negative decision from the Customs Chamber, a complaint was submitted to the Province Administrative Court on September 30, 2009 regarding the period between August and December 2008 (excess payment amount: PLN 8,703 k). The Province Administrative Court, pursuant to the decision of January 19, 2010, stayed the proceedings until a decision has been made by the Constitutional Court regarding the legal question (file No. I FSK 240/08) regarding constitutionality of the principles on reimbursement of excess payment of excise tax in the case of electricity manufacturers. On November 16 the Company addressed the Province Administrative

Court in Wrocław and requested that the stayed proceedings should be reinstated, yet the Court, pursuant to the decision of December 6, 2010, refused to do so.

- On November 29, 2010 the Constitutional Court issued a decision on discontinuance of the proceedings (file No. P 45/09).
- Having received a negative decision from the Customs Chamber, a complaint was submitted to the Province Administrative Court in Wrocław on April 21, 2010 regarding the period between January and February 2009 (excess payment amount: PLN 5,504 k). On July 15, 2010 the Province Administrative Court in Wrocław (file No. I SA/Wr 541/10) stayed the proceedings until a decision has been made by the Constitutional Court regarding the legal question (file No. I FSK 240/08) regarding constitutionality of the principles on reimbursement of excess payment of excise tax in the case of electricity manufacturers. On November 29, 2010 the Constitutional Court issued a decision on discontinuance of the proceedings (file No. P 45/09).

As on December 31, 2010 the total value of the liability does not exceed 10% of the issuer’s equity.

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

• Impact of the subsidy from the National Fund for Environmental Protection and Water Management

On February 1, 2011 the Company received PLN 18,930 k from the subsidy granted in 2009 by the National Fund for Environmental Protection and Water Management for the total value of PLN 20,000 k as a financial support for conversion of the K-2 boiler under measure 4.5 priority IV of the Operational Programme Infrastructure and Environment 2007-2013 in terms of Air Protection.

• Purchase of bonds from Renevis Sp. z o.o.

On February 3, 2011 KOGENERACJA S.A. purchase debt bonds for the nominal value of PLN 5,800 k issued by Renevis Sp. z o.o. The transaction is an investment and was concluded pursuant to the market terms and conditions through Raiffeisen Bank Polska S.A. The bonds will be redeemed on December 1, 2011.

• Purchase of EnBW Neckarpri shares

On February 17, 2011 Neckarpri GmbH exceeded the 15% threshold of the total number of votes in KOGENERACJA S.A. due to indirect purchase of the Company shares. Neckarpri GmbH purchased from EDF International S.A. 45.01% of EnBW A.G. shares, which is a shareholder of the Issuer. Due to sale of EnBW shares by EDF International S.A. as well as the fact that the previous agreement was upheld, the share of EDF International S.A. in the Company remained unchanged, whereas the legal basis for shareholder's rights were changed.

• Appointment of a Management Board member

In the Current Report No. 3/2011 the Management Board noted that Mr Andrzej Siennicki, currently a member of the Management Board appointed by the employees, would not seek election for the subsequent term of office. On March 16 the employees appointed Mr Henryk Zajas their representative in the Management Board (Current Report No. 4/2011).

• Excise tax proceedings

On March 28, 2011 the Company received an official copy of the ruling issued by the Supreme Administrative Court along with the statement of reasons regarding reimbursement of the excise tax for the period between January 2006 and July 2008 in the amount of PLN 63,887 k adjudged on December 21, 2010. The excess payment of excise tax had not been reimbursed by the date of publication of this report.

The state of affairs regarding the other two proceedings was as follows:

- on January 10, 2011 the Province Administrative Court in Wrocław issued a decision regarding reinstating the stayed proceedings regarding reimbursement of the excise tax for the period between August and December 2008 amounting to PLN 8,703k. Subsequently, the Province Administrative Court, pursuant to the decision of February 21, 2011 stayed the proceedings until a relevant resolution has been passed by the Chamber of Commerce of the Supreme Administrative Court.
- The Province Administrative Court in Wrocław, pursuant to the decision of January 10, 2011, reinstated the previously stayed proceedings regarding identification of excess payment of excise tax for the period between January and February 2009 in the amount of PLN 5,504 k. Subsequently, the Province Administrative Court, pursuant to the decision of February 21, 2011, stayed the proceedings until a relevant resolution has been passed by the Chamber of Commerce of the Supreme Administrative Court.

The Supreme Administrative Court, with relation to identification of an excess payment of excise tax in the context of provisions of the Tax Law, pursuant to the decision of February 3, 2011, moved that an explanatory resolution should be adopted by all the members of the Chamber of Commerce of the Supreme Administrative Court.

- **Purchase of property from Renevis Sp. z o.o.**

On April 1, 2011 KOGENERACJA S.A. purchased *the installation for biomass unloading, storage and supply in EC Wrocław harbour* under the following agreement: agreement completed with Renevis Sp. z o.o. subsidiary regarding settlement of capital expenditure on buildings and installations related to the land in the amount of PLN 16,813 k as well as the contract for sale of movable installations for the value of PLN 10,015 k.

- **Liquidation of ZEC Hurt Sp. z o.o. under liquidation**

An Extraordinary Meeting of Shareholders of ZEC Hurt Sp. z o.o. under liquidation was held on April 18, 2011. During the meeting the following resolutions were adopted: regarding approval of the liquidation report, granting discharge to the company liquidator, distribution of the post-liquidation property.

3. Assessment of factors and extraordinary events affecting Company’s performance in 2010

(pursuant to § 91 section 6, item 13 of the Ordinance)

a. Merger with Z.C. Term-Hydral Sp. z o.o.

On July 1 a merger was registered in the National Court Register seated in Wrocław pursuant to article 492 § 1 item 1 with relation to article 515 § 1 as well as article 516 § 6 of the Code of Commercial Partnerships and Companies by transfer of all assets of the company being taken over, i.e. Z.C. Term-Hydral Sp. z o.o., to the taking over Company, i.e. KOGENERACJA S.A., that is by a takeover. As the company being taken over had been a sole proprietorship of the Company taking over, the merger was completed without increasing the initial capital and issuing shares in exchange for shares of the company being taken over.

Z.C. Term-Hydral Sp. z o.o. was a subsidiary of KOGENERACJA S.A. (as of December 1, 2009 100% share in the initial capital); the company is located in the eastern part of Wrocław and deals with production and sale of thermal energy to municipal and industrial customers as well as distribution of electricity.

b. Exchange of CO₂ emission allowances (EUA/CER)

For the purpose of preparing financial statements the operation was classified as financial instruments valued at fair value through financial result. Recognition of the instrument in the financial statements resulted in a decrease of assets (investments) to PLN 2,423 k and a decrease in the gross profit by PLN 3,400 k. Additionally, the income tax provision was reduced from PLN 1,106 k to PLN 460 k, that is by PLN 646 k. The total impact of the valuation change on the financial result was negative and amounted to PLN 2,754 k. At the same time the Company completed EUA/CER exchange and achieved a positive result on sales in the amount of PLN 2,628 k. Allowing for the valuation effect (PLN 3,400 k) as well as the effect of the EUA/CER exchange (PLN 2,628 k), the impact on EBIT was negative and amounted to PLN 772 k. The total impact on the net financial result was negative and amounted to PLN 126 k

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

(pursuant to § 91 section 6, item 14 of the Ordinance)

a. External factors

1) *Downward trends in consumption of heat and sale of electricity*

As KOGENERACJA S.A. produces electricity co-generated with heat, stabilisation of the heat volume bought by customers is of key importance, which is a challenge due to continuous investments in the insulation of buildings and implementation of energy-saving technologies.

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

At the same time KOGENERACJA S.A. will continue its policy aiming at maximisation of sale of electricity allowing for the opportunities and limitations resulting from the amendment to the *Energy Law* and executive regulations.

2) Trade in CO₂ emission allowances

In the Ordinance by the Council of Ministers of July 1, 2008 on approval of the National Allocation Plan of Emission Allowances regarding carbon dioxide emission during the period between 2008 and 2012 for the community trade in emission allowances the allocation of CO₂ emission for KOGENERACJA S.A. was reduced to 1,626,966 Mg CO₂ (previously 2,168,400) for each year of applicability of II KPRU (National Allocation Plan of Emission Allowances):

actual emission in 2010 was – 1,623,865 Mg

annual emission allocation – 1,626,966 Mg

other events affecting allowances volume – 23,214 Mg

total shortage of allowances for 2010 – 20,113 Mg

Due to the shortage amounting to 20,113 Mg the budget for 2010 includes a provision in the amount of PLN 1,095 k for purchase of necessary allowances.

On March 30, 2011 the missing allowances were purchased, thus the Company emission balance is currently at zero.

In 2011 CO₂ emission is expected to drop due to increased electricity production from renewable fuels, once the K-2 boiler has been started in EC Czechnica, which in 2010 was adjusted to 100% biomass firing.

b. Internal factors

1) KOGENERACJA S.A. strategy

The key objective of KOGENERACJA S.A. is to achieve high profitability expected by its shareholders, while acting in line with the Company's mission.

The Strategy for the period up to 2015 is based on the following Strategic Objectives:

- A. development of employees’ competence while respecting social aspects,
- B. improvement of EHS and quality assurance management in the Company,
- C. maintaining the leading position on the heat market,
- D. improvement of production efficiency and reduction of negative environmental impact,
- E. industrial development of KOGENERACJA S.A.,
- F. ensuring expected profitability of the KOGENERACJA S.A. Capital Group.

In early 2010 the Company’s Strategic Plan for the period 2010-2011 was verified and Company’s objectives were updated. As a result, the Strategy of KOGENERACJA S.A. and its Capital Group for the period up to 2015 was updated. Strategic objectives remained unchanged. 14 new operational objectives and measures were added to the operational plan. Realisation of 27 objectives was completed; realisation of another 26 objectives was continued.

In 2010 the following objectives were pursued:

- under objective A: far-sighted HR management ahead of the competence changes. The Company's objective is to manage its personnel in the best way possible, in order to ensure business continuity through ensuring required competence. For this purpose the Company has started realisation of technical employees’ development plans,
- under objective B: apart from focusing on improving the level of quality and environment management as well as EHS status, the Company also pursued tasks aiming at adjusting the company with relation to establishing Centrum Usług Wspólnych EDF Polska,
- under objective C: the Company pursues measures related to network development as well as creating the corporate image and extending the scope of rendered services through introduction of a distribution offer for electricity, heat and chill. Incorporation of Z.C. Term-Hydral Sp. z o.o. into the structure of KOGENERACJA S.A. was prepared within development-related measures,
- under objective D: objectives focused around adjusting EC Czechnica to biomass firing, modification of the technology applied to discharge combustion by-products as well as implementation of the quality assurance system in the chemical laboratory,
- under objective E: operational objectives focused around building technical base for the Company’s future,
- under objective F: the Company focuses on diversified aspects of management affecting the financial side of its operations, among others on ensuring continuity of financial processes while establishing the Shared Services Centre as well as during the first several months of its operation.

The above-mentioned Strategic Objectives were translated into 26 operational objectives and 16 operational measures included in the Operational Plan of KOGENERACJA S.A. Completion of particular objectives is monitored and assessed based on the precisely defined and measurable indexes.

In late 2010 and early 2011 the Management Board together with Company’s Operational Directors carried out an annual update of Strategy of KOGENERACJA S.A.

2) Industrial development

Industrial Development Division’s task is to prepare realisation of development tasks stipulated in the Company’s strategy.

In the reporting year of 2010 the Company continued realisation of the tasks encompassed by the so-called Industrial Development started in 2005. The scope of the project is extensive, it includes investments in modernisation of production equipment for increasing their reliability, technological as well as organisational changes within the Company introduced in order to improve management effectiveness and employment optimisation.

The scope of modernisation in EC Wrocław pertains to core equipment of the BC-50 unit, whereas the previously planned modernisation scope for EC Czechnica equipment was reduced due to the scheduled completion of new units in the combined heat and power plant.

Industrial Development is currently the key project completed within the Company.

3) Integrated Information System

On January 10, 2011 KOGENERACJA S.A. started using SAP and SAP HR systems shared by all EDF Group companies operating in Poland. The new tool was introduced in order to standardise processes in all Polish EDF Group companies, make Group reporting uniform, streamline workflow functionality as well as organisation operations. Q4 2010 was dominated by internal trainings, cooperation with consultants and preparation of data for the migration.

4) Objective Oriented Management

In 2010 the Company continued the Objective Oriented Management introduced in 2002. The chosen management method is to enable effective Company management. From 2004 the Objective Oriented Management system is also realised at the level of specialists’ positions.

In early 2010 detailed Objective Contracts were completed between the General Director and particular Operational Directors. Provisions of the Objective Contracts for 2010 resulted directly from the approved Strategy of KOGENERACJA S.A.

Similarly to the previous year, operational purposes were prioritised and Objective Contracts stipulate significance of particular measures as well as criteria for score-based assessment of their completion. The tasks included in the Contracts were realised pursuant to Objective Agreements completed between Operational Directors and Department managers as well as individuals holding independent positions.

5) Environment, Health and Safety

Constant improvement of EHS status is a priority for KOGENERACJA S.A. The Company Management Board has implemented a number of measures aiming at improving the current state of affairs in order to achieve an ambitious goal, that is eliminate all accidents at work. The above-mentioned efforts will be continued in the following years, particularly through increasing awareness and involvement of the employees in that area, analysing risks prior to performing dangerous activities as well as promoting thoughtful behaviour.

6) *Integrated permits*

In 2010 the integrated permit for EC Czechnica was updated twice:

- Decision by the Marshall of the Dolnośląskie Province of June 11, 2010 No. PZ 36.2/2010 (DM-S.V.7650-47/10) amending the permit within the scope of:
 - emergency procedures, particularly in the event changes in terms of quality of ground waters are identified due to emission from the landfill site,
 - production waste management, particularly volume of waste approved for disposal using D5 procedure at the landfill site, volume of waste approved for extraction, technical method of extraction and preventing extraction environmental impact as well as securing the extraction site,
 - underground waters and supernatant water.

- Decision by the Marshall of the Dolnośląskie Province of November 26, 2010 No. PZ 36.3/2010 (DM-S.IV.7650-22/10) amending the permit within the scope of:
 - modernisation of the K-2 boiler, i.e. conversion of the steam OP-130 boiler into a BFB boiler suitable for 100% biomass firing,
 - construction of the installation for biomass unloading storage and transport,
 - introduction of new emission standards for the BFB boiler (K-2) suitable for 100% biomass firing,
 - particularisation of the current integrated permit provisions regarding terms and conditions applicable to taking up surface waters,
 - change of type and volume of generated waste as well as the waste management method.

7) *Integrated Management System*

KOGENERACJA S.A. has an Integrated Management System certificate, the scope of which encompasses three systems:

1. Quality Management System conforming to PN-EN ISO 9001:2009 standard,
2. Environmental Management System conforming to PN-EN ISO 14001:2005 standard,
3. EHS Management System conforming to OHSAS 18001:2007 standard.

The certificate is valid through May 10, 2012.

8) *Employment Policy*

The applicable employment policy provides for employees’ retirement under the implemented Voluntary Severance Schemes. In 2010 18 employees decided to be covered with the Voluntary Severance Scheme. Additionally, the Company employed new employees for production-related positions. 17 new employees were hired.

Trefle Project

75 individuals left the Company or changed their workplace. 5 employees were covered by the Voluntary Severance Scheme and 10 changed their employment area. The remaining employees left to CUW EDF Polska Sp. z o.o. pursuant to a mutual agreement of the parties or pursuant to article 23-1.

9) *Mobility within the EDF Group*

In 2007 EDF Group implemented an internal recruitment system in Poland, which provides for informing employees of all Group companies about available job positions. The system is to support mobility and activity on the labour market. The system was being developed in 2010. For the first time 11 employees of the Company used the mobility package offered by EDF Polska Sp. z o.o. and moved to EDF Polska Centrum Usług Wspólnych seated in Kraków under the Trefle project.

10) Synergy within the EDF Group

In search for synergy in affiliated companies, EDF Group established a Shared Services Centre seated in Kraków. As of July 1, 2010 the Centre renders services related to engineering, purchase and logistics, finances and IT to all EDF Group companies operating in Poland. Advantages resulting from establishing the Shared Services Centre are as follows:

- 1) increased Company growth rate – thanks to integration of both technical and non-technical support functions available within EDF Polska, the Company can focus on its core operations, which are the main source of revenue and profit;
- 2) development of a new organisation of EDF Group companies operating in Poland, which is to enable making the most of all development opportunities available to the Group on both domestic and foreign market;
- 3) improved exchange of good practices developed by particular EDF Group companies operating in Poland thanks to the uniform processes implemented in all Group companies, and
- 4) optimisation of costs.

11) Health care

KOGENERACJA S.A. cooperates with EMC Instytut Medyczny S.A. in terms of rendering health care services for employees of the Company as well as industrial medicine services. Additionally, the Company completed a contract with PZU, which ensures access to specialists as well as other non-standard health care services depending on one’s individual insurance policy to Company employees. In 2010, under cooperation with the above-mentioned companies, the Company reimbursed its employees for influenza vaccinations, rendered available additional rehabilitation procedures, prophylactic spirometry test programme as well as osteoporosis tests for women.

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

In 2010 the Company finished a series of training sessions under the banner “Shared competence as the strength of EDF Group in Poland” subsidised by the European Social Fund. In October 2008 the Polish Agency for Enterprise Development granted a 60% subsidy for the above-mentioned project.

The said trainings covered three groups of employees:

1. Managerial staff (participating in the *Manager’s Academy* programme)
2. Middle management (participating in the *Management Master* programme)
3. Selected employees characterised by a high potential (participating in the *Talent Development* programme).

Additionally, the Company organised trainings in project or stress management for all employees willing to participate.

Apart from the trainings subsidised by the European Social Fund, the Company organised trainings financed from its own funds. There was a lot of emphasis on EHS issues.

5. Sustainable Development and Corporate Social Responsibility

Sustainable Development is a development philosophy, which ensures a compromise between a satisfactory economic result and concern for social surrounding and natural environment.

Natural environment

KOGENERACJA S.A. environmental measures pertain to reduction of emission of harmful gases, using renewable energy sources (increased production from biomass), elimination of landfill sites etc. Currently biomass is co-fired in BC-1, BC-2 and BC-3 units in EC Wrocław. Under investments in EC Czechnica one of the coal boilers was converted into a BFB 100% biomass fired boiler. Following the modernisation the boiler generates (from biomass) 100 tons of steam per hour, which is used to generate electricity and heat for Wrocław and Siechnice. Operation of the BFB boiler along with its adjacent infrastructure for biomass supply started in late Q4 2010.

An important element is cooperation with the Municipality of Wrocław regarding revitalisation of tenement houses, new heat connections to the centralised municipal network and comprehensive rationalisation of energy consumption in order to reduce the so-called “low emission”:

- 1) Participation in the project for revitalisation of old tenement houses in Wrocław
- 2) Energy Patronage over Youth Socioterapy Centre
Participation in modernisation of energy solutions in the Youth Socioterapy Centre using renewable energy sources where justified (heat pumps, solar systems) in order to improve energy efficiency of the buildings. Set objective: budgetary savings thanks to the reduced energy consumption as well as increased environmental awareness of both pupils and staff of the Centre – the project has been scheduled by the Municipality of Wrocław for 2011.
- 3) Participation in “Kasztanowa without barriers” project
Participation in modernisation of energy solutions in buildings for blind and short-sighted persons managed by the Office of the Marshall of Lower Silesia (“Kasztanowa without barriers” project) using modern technologies (heat from the heat distribution network, production of ice water using absorption technology, individual heat consumption measurements) – contribution to preparations related to construction works (construction plans).
- 4) Participation in “Wrocław for climate” project
Company Management Board approved extending the scope of the contract completed with McKinsey & Company regarding participation in the “Wrocław for climate” project. The objective of the project is to make Wrocław “the first climate friendly city of Central Europe” through reduction of carbon dioxide emission on the part of residential, public and commercial buildings, transport, heating installations, energy, waste, water, air as well as green areas management.
- 5) Biodiversity oriented measures
The Company, in cooperation with the Eco Development Foundation, carried out a campaign based on planting trees to support social initiatives utilising natural qualities. A line of 50 linden trees was planted at Kwiatkowskiego street in Siechnice.

Promotion of energy accessibility and eco-effectiveness

The Company tries to acquire new customers for its heat distribution network. The offer for major and small enterprises includes heat supplies through heat distribution networks in Wrocław and Siechnice Commune instead of local heat sources based on oil, gas or coal. The offer for residential buildings includes heat supplied from a next-generation heat distribution network:

- individual heat exchangers for heating buildings and hot water for household purposes,
- individual measurements of heat consumption in order to control thermal energy consumption.

Additionally, the Company is engaged in initial negotiations with Wrocław 2012 company regarding an offer for supplies of green energy to be used by the Wrocław Stadium during 2012 European Football Championships games.

At the same time construction of a trigeneration unit (electricity, heat and cooling) started in the Wrocław Technology Park.

Social environment

Corporate social responsibility of the Company, consistent with the idea of Sustainable Development, is manifested by 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 an agreement 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 economy (support with thermal modernisation of the building and installation of renewable energy sources) as well as educational actions for the youth related to natural environment and resources preservation. Thanks to the undertaken measures KOGENERACJA S.A. will gain a reference facility, which will be a benchmark for the energy services provided by the Company. Under the Energy Patronage trainings for pupils of the Sociotherapy Centre in energy economy were organised in 2010.

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 production, energy economy and environment friendly measures. The classes are organised by retired Company employees, who by the same token can still participate in the Company affairs. Within the annual Open Doors Day the Company welcomes a wide audience to its premises.

c. Programmes supporting organisations for the integration of the disabled

For a number of years the Company has supported international events with the participation of the disabled 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

The Company continued performance of the contracts completed with the Social Welfare Centres in Wrocław and Siechnice. Customers with low income were selected, who received heat coupons reducing heating bills (80 coupons were distributed).

e. Health oriented measures

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

In 2010 Company employees could take advantage of additional examinations under prophylactic spirometry tests, osteoporosis tests, rehabilitation procedures as well as influenza 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 of the 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 “Values of KOGENERACJA S.A.” Code of Ethics. On the initiative of the Council of Ethics the “Aid Programme for Persons Abusing Psychoactive Substances” was initiated in cooperation with KARAN Emergency Aid Association. Additionally, numerous charity actions for the benefit of Wrocław Society of Palliative Care were organised as well as individuals affected by the flood.

g. Patronage

KOGENERACJA S.A. along with EC Zielona Góra S.A. funded the portrait of Maria Leszczyńska, wife of Louis XIV, painted by Jean Marc Nattier, displayed at the Royal Palace in Wrocław. Cooperation with Municipality of Wrocław is to promote the city, which aspires to the title of the European Capital of Culture 2016.

6. Environment protection

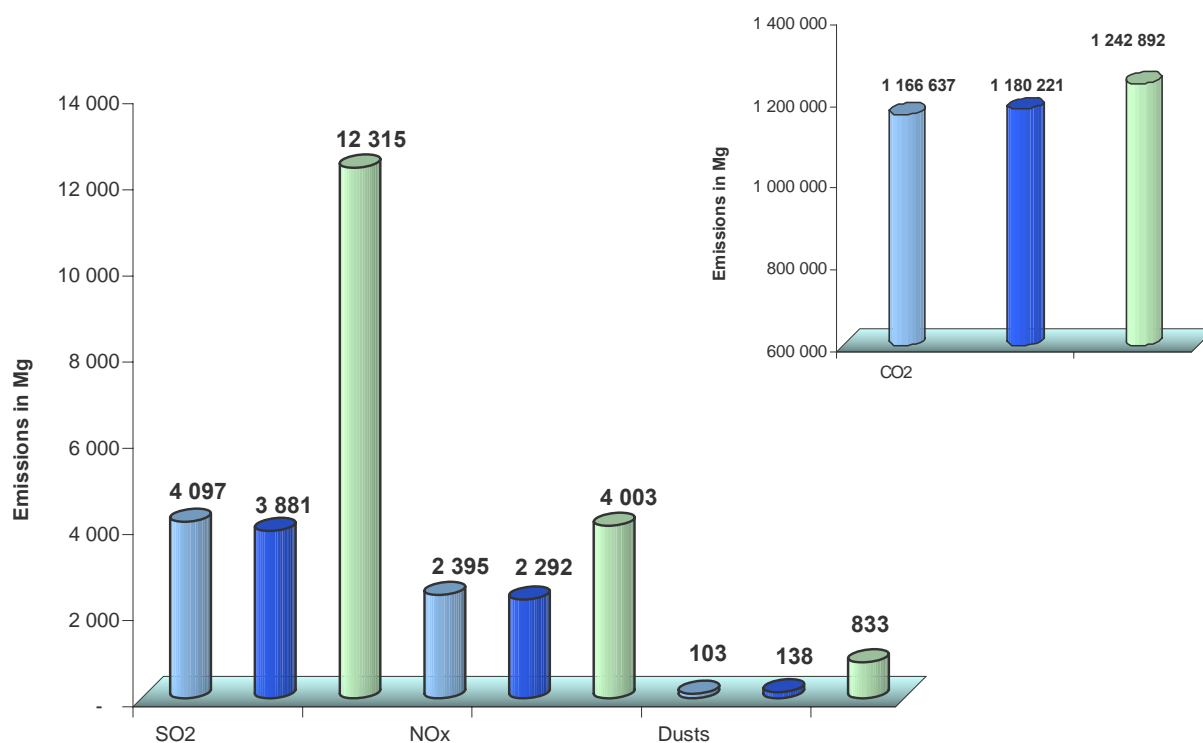
KOGENERACJA S.A. co-generates electricity and heat, and thus, contributes to more comprehensive utilisation of fuel chemical energy, which results in reduced pollution. The basis of the Company operation is Sustainable Development aiming at satisfactory business result as well as the care of the social and natural environment.

For the period from January 1 to December 31, 2010

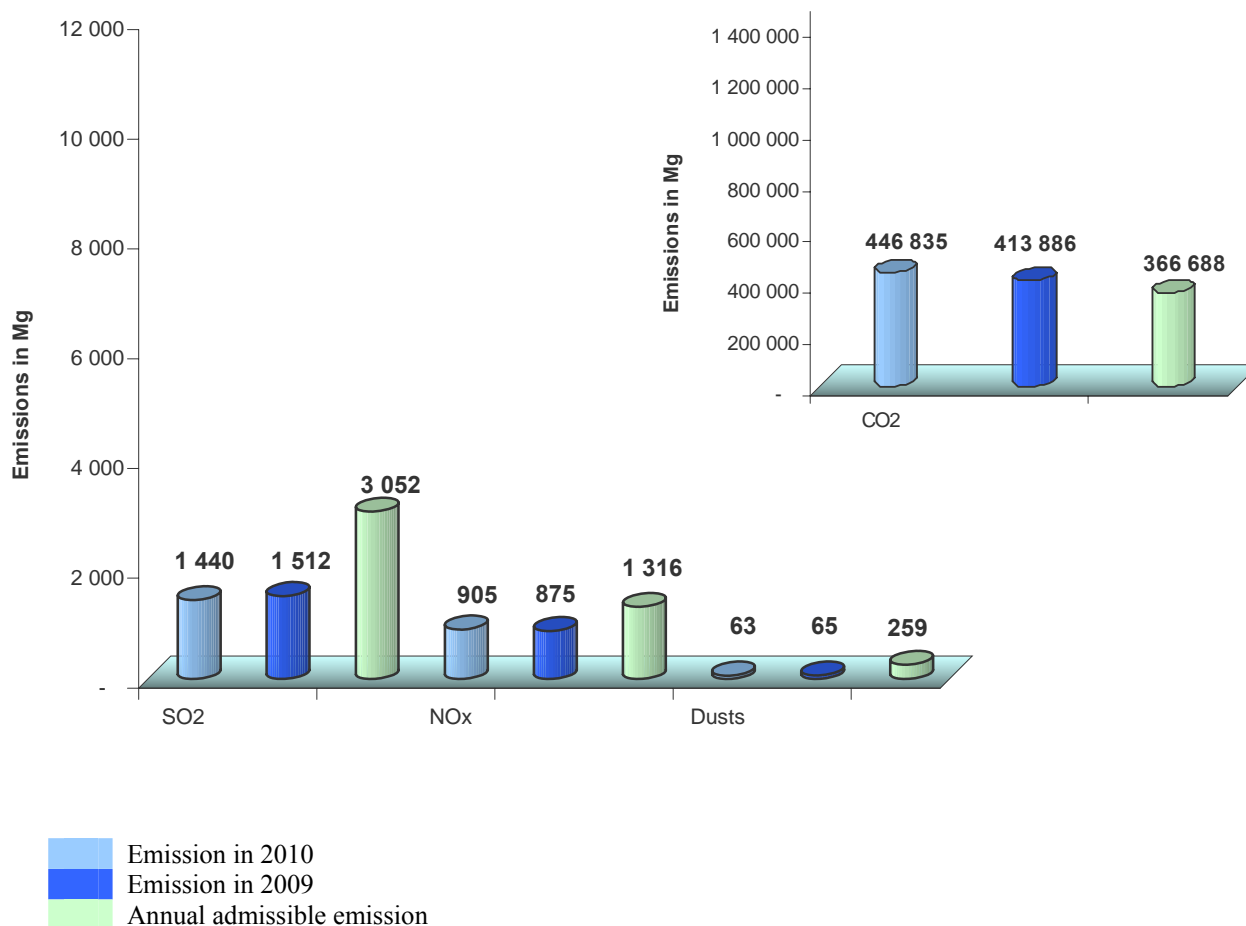
(in Mg)	EC Wroclaw		EC Czechnica		EC Zawidawie	
	Emission	Acceptable	Emission	Acceptable	Emission	Acceptable
SO2	4 097	12 315	1 440	3 052	6	89
NOx	2 395	4 003	905	1 316	12	42
Dusts	103	833	63	259	2	24
CO2	1 166 637	1 242 892	446 835	366 688	10 393	17 386

In 2010 emission standards applicable in the case of KOGENERACJA S.A. plants and stipulated in the integrated permits as well as the National Allocation Plan of Emission Allowances were not exceeded.

Actual emission volumes in 2010 and 2009 as well as admissible emission volumes for EC Wroclaw



Actual emission volumes in 2010 and 2009 as well as admissible emission volumes for EC Czechnica



7. Outlook for the Company’s developmet

(pursuant to § 91 section 6, item 14 of the Ordinance and article 49, section 2, item 2 of the Act)

The outlook for the KOGENERACJA S.A.’s development is described in the updated Company Strategic Plan up to the year of 2016 and in other documents. The key strategic objective continues to be the achievement of high profitability satisfying Shareholders. To achieve the above, many steps are being taken to maximise revenues and optimise costs while striving to continuously increase the staff’s commitment and to implement the highest occupational safety standards.

Following the conversion of the K-2 boiler in EC Czechnica into the bubbling fluidised-bed boiler in 2010 and the obtaining of the licence for the generation of electricity and heat from biomass co-firing in EC Czechnica, there are plans to construct additional measuring instruments in the near future and to obtain the licence for co-firing in a hybrid system, which will eventually make it possible to co-fire 100% biomass in the K-2 boiler. This will also enable the application of more favourable proportions of agricultural and wooden biomass, which will translate into higher investment effectiveness.

In the coming years, the Company will focus on optimising the use of various biomass types (in search of the best energy value/price ratio) and maximising the operation time of biomass-firing equipment (EC Czechnica: K-2; EC Wrocław: BC-1 unit firing up to 50% biomass by energy as well as BC-2 and BC-3 units firing up to 12% biomass by mass).

The production of electricity from renewable sources is environment-friendly and supported by both Polish authorities and the European Union. Its production is economically efficient owing to the possibility of selling “green” certificates and to the fact that CO₂ emissions related to biomass co-firing are not included in emission allowances. As a result, the CO₂ emission allowances assigned to KOGENERACJA S.A. in the NAP2 programme till 2012 are sufficient to cover the plant needs for this period.

Examples of other actions aimed at increasing revenues include successful active marketing programmes with the objective of acquiring new network heat buyers. That is the reason for generating a positive sales trend in the heat market arising from the fact that heat capacity volume of the newly connected customers exceeds the sales decrease resulting from thermal economies. The above actions will be continued in the forthcoming years in order to attain an ambitious goal: a minimum of 25 MW of new connections every year. There are also plans to provide the existing heat consumers that have not been connected by the heat distributor to the heat distribution network for economic reasons with an attractive offer of connecting them to their own heat distribution network. In order to encourage them to get connected, KOGENERACJA S.A. intends to expand its own heat distribution networks in Wrocław.

In the electricity market, a gradual increase trend in prices is expected in the following years, resulting among others from the increase in demand for electricity, growing fuel prices and high investment costs, both developmental and ecological, in the energy sector and also with the risk of insufficient number of CO₂ emission allowances for electricity producers.

As regards continuous cost reduction in KOGENERACJA S.A., the Company is constantly looking for cost savings, implements savings projects and strictly abides by budget assumptions for fixed and variable costs. It is not easy since simple cost-cutting solutions have already been exploited. However, there is a possibility of using synergy effects among the companies belonging to EDF in Poland, including KOGENERACJA S.A. Having centralised such functions as finances, IT, purchasing and logistics, and engineering within Centrum Usług Wspólnych EDF Polska in Kraków, the Company also plans to integrate the area of human resources and other minor support functions. The implementation of the project would contribute not only to further cost optimisation; it would also create new development opportunities and enable focusing on core activities of the Company.

The afore-mentioned 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 2016 refers also to other strategic objectives that are in line with the main objective. They include, among others: EHS improvement, development of competencies, increasing the employees’ commitment and achieving high production efficiency, at the same time reducing the negative environmental impact.

Achieving high EHS standards is a constant priority of the KOGENERACJA S.A.’s Management Board. There are numerous actions aimed at safety improvement: promoting a safe work culture among employees and contractors, increasing the safety system effectiveness, involving company social associations in EHS affairs, minimising occupational risk, organising regular managerial visits in the field, increasing the commitment of EHS services, improving the site security, etc. The expected outcomes include a radical improvement as regards safety within the Company and a change in the employees’ attitude, increasing their personal responsibility for observing safety rules in KOGENERACJA S.A.

Apart from that, KOGENERACJA S.A. stresses continuous development of competencies within the Company. Therefore, considerable funds will be allocated for increasing qualifications, carrying out training programmes and creating favourable conditions for self-development. Competent employees are the best guarantee of future development for KOGENERACJA S.A.

Thanks to a better incentive system and the employment of an employee evaluation system, greater commitment of employees to attaining the Company’s objectives will be promoted.

Considerable challenges will face KOGENERACJA S.A. as regards technical and commercial issues. The need for the whole energy sector to adapt to the new environmental requirements that will come into force on January 1, 2016 will call for making investment in this respect. Nearing completion are analytical studies designed to develop the Company’s development scenarios including the application of solutions necessary to desulphurise and denitride flue gases in accordance with the new standards.

Well-advanced are also the analyses concerning the possibility of modernising the BC-1 unit in Wrocław in order to adjust it to firing 100% of biomass.

As far as commercial issues are concerned, the plans to increase the heat volumes sold to the buyers connected to the heat distribution network who now buy it through a distributor are important. In order to encourage consumers to change the heat provider, KOGENERACJA S.A. intends to take intensive marketing measures on the heat market.

The Management Board of KOGENERACJA S.A. is convinced that all these plans will lead to good performance of the Company also in the future and will contribute to the attainment of the main strategic objective, which is the profitability satisfactory to the Company’s Shareholders.

8. Key achievements in research and development

(pursuant to article 49, section 2, item 3 of the Act)

In 2010, the Company’s research activity focused on adjusting its production equipment to the requirements regarding environmental protection, including in particular firing and co-firing of biomass with low sulphur coal:

- continuation of research activities aiming at testing the process of co-firing different types of biomass in the OP-230/K-1 boiler in EC Wrocław, modernised in 2009, to co-fire dry biomass with coal (at 55% share of biomass in the power production process);
- continuation of research activities initiated in 2009, aiming at increasing the share of co-fired biomass from 10% to 12% by weight, as the low sulphur coal is used as the core fuel in K-2 and K-3 boilers in EC Wrocław;
- finalisation of the conversion project concerning one of the pulverised coal units in EC Czechnica into a BFB unit firing 100% biomass;
- conclusion of the assembly works in July 2010 and commencing the stage of various warranty commissioning tests;
- continuation of the 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 connected with the location of the new unit as well as technical and economic analyses were performed. Apart from that, a tender procedure for the appointment of a technical advisor was held. Within the project of a new unit, a whole range of works related to the infrastructure was carried out, e.g.:
 - 1 km of a railway siding was constructed,
 - geotechnical tests within the area of the unit construction were carried out;
- supervision over the 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. Analyses encompassing the entire biomass supply chain to EC Wrocław using the “GIS” tool were done to determine the CO₂ emission;
- economic and market analysis of the factors conditioning the resuming of the investment project on the construction of the “Młoty” pumped storage power station.

9. Description of key risks and threats

(pursuant to § 91 section 5, item 3 of the Ordinance and article 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.

2) Construction of a competitive combined heat and power plant

In 2010, Fortum Power and Heat Polska Sp. z o.o., the main heat buyer, put the delivery of a gas and a steam turbine out to tender. Fortum continues to work on the investment decision. The construction commencement date has not been determined.

3) *Change of Energy Law*

The Energy Law and its subordinate acts govern the Polish power sector, 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 2010, a new ordinance of the Minister of Economy came into force on September 17, 2010, *stipulating the detailed principles of defining and calculating tariffs and settlements for heat delivery*, which in the case of heat sources for heat produced in the cogenerated process allows the use of a simplified method of calculating prices and rates for the heat tariff based on the so-called reference prices announced by the President of the Energy Regulatory Office.

4) *Other legal developments*

– *limitation of the share of wood in the process of co-firing*

The Ordinance of the Ministry of Economy of August 28, 2008 restricted the share of wood in the process of co-firing 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 firing 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 onwards.

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

5) *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 central heat stations and the effects of global warming. 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 municipal buildings to the network, partly compensate for the reduced demand and help stabilise the sale of heat. In 2010, a slight increase in sold heat volumes was observed.

6) *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 limit gross efficiency of chemical energy processing into electricity and heat in the cogenerated process at a minimum of 75%.

7) Fuel deliveries

In 2010, a significant risk factor was the problem with irregular supplies (coal, biomass and fuel oil) caused by deterioration in the transport, mining and biomass markets, and in particular:

- disruptions in coal deliveries by water or rail transport due to floods in the first half year,
- difficulties with obtaining coal of the proper quality in the last quarter of the year,
- difficulties with obtaining biomass of the proper quality and in the required volume.

8) Long Term Contracts (LTC)

On April 1, 2008, the LTCs of EC Zielona Góra S.A., a subsidiary, 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 subsidiary.

9) CO₂ emission

A new threat that appeared in 2008 is the insufficient value of allowances allocated under the Allocation Plan of Emission Allowances 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 Allowances, the Ordinance of the Council of Ministers of December 27, 2005).

The Second National Allocation Plan of Emission Allowances is less favourable for KOGENERACJA S.A., as the allocated volumes of emission allowances are lower than in the previous settlement period. The unfavourable allocation of allowances may result in the decrease in income from sales of allowances compared to the previous periods and may cause the increase in costs if the allocated allowances 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 allowances in 2008 and excess in 2009 and 2010, and thus reduced the provision created in 2009 to the amount of PLN 1,095 k in 2010. The provision will be released the moment the said volume of allowances is purchased before the allowances for 2010 are finally redeemed.

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

(pursuant to § 91, section 5, item 15 of the Ordinance)

In the reporting year of 2010, the principles of the Company were subject to significant changes.

Within the Group, on July 1, 2010, a merger of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. and Z.C. „Term-Hydral” Sp. z o.o. was carried out. At the same time, on July 1, the project connected with marking off non-technical areas for the Shared Services Centre in Kraków was launched. As a result of the merger and of the establishment of the Shared Services Centre, the organisation structure of KOGENERACJA S.A. was modified.

On 1 April, Renevis Sp. z o.o., a subsidiary, took over Ekotrakt Sp. z o.o., a 100% subsidiary.

IV. Statement of compliance with the corporate governance rules

1. Corporate governance rules

(pursuant to § 91 section 5, item 4a and 4b of the Ordinance)

a. Sets of corporate governance rules

On July 4, 2007, the Supervisory Board of the Warsaw Stock Exchange adopted new corporate governance rules under the name of the Code of Best Practices for the WSE Listed Companies, which became effective on January 1, 2008. On May 19, 2010, WSE introduced changes (for the first time since July 4, 2007) to the Code of Best Practice for WSE Listed Companies. The Code was adapted to recent amendments to the law, current international trends in the area of corporate governance and expectations of market players. The amendments to the Code of Best Practice for WSE Listed Companies became effective on July 1, 2010. (Appendix to the resolution of the Stock Exchange Council no. 17/1249/2010 of May 19, 2010).

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 rules

I BEST PRACTICES – RECOMMENDATIONS			
	RULE		COMMENT OF KOGENERACJA S.A.
1	<p>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.</p> <p>Using such methods to the broadest extent possible, a company should in particular:</p> <ul style="list-style-type: none"> -maintain a company website whose scope and method of presentation should be based on the model investor relations service available at http://naszmodel.gpw.pl/; -ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication; - enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website. 	Partly	<p>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.</p> <p>Information on the General Meeting proceedings is not released to the public.</p>
3	<p>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.</p>	YES	<p>The Company makes efforts to meet the shareholders' expectations in this regard.</p>
4	<p>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.</p>	YES	<p>The securities issued by the Company are traded only in Poland.</p>
5	<p>A company should have a remuneration policy and rules of defining the policy.</p> <p>The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission</p>	Partly	<p>Remuneration is related to the roles and responsibilities (see item.10 Management Board’s Report: Management Board, Supervisory Board – principles of operation of the governing bodies).</p> <p>The remuneration policy is analysed in order to check</p>

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	Recommendation of December 14, 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of April 30, 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.		whether it is in line with the Commission Recommendation of December 14, 2004.
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 stipulates that “the General Meeting elects Supervisory Board Members from among 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. It is also stipulated in §3 item 3 of the Management Board Regulations.
9	The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies’ economic business.	YES	

II BEST PRACTICES FOR MANAGEMENT BOARDS OF LISTED COMPANIES

	RULE		COMMENT OF KOGENERACJA S.A.
1	<p>Website, level of information A company should operate a corporate website and publish: 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; 5) where members of the company’s governing body are elected by the General Meeting – the basis for proposed candidates for the company’s Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution; 6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board; 7) shareholders’ questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions; 8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds; 9) information about breaks in General Meetings and the grounds of those breaks; 10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations; such information should be published within a timeframe enabling investors to make investment decisions; 11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company’s General Meeting; 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; 13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published; 14) information about the content of the company’s internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.</p>	Partly	<p>This rule is partly followed as the Company does not publish on its website the materials referred to: 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, item 2 – the Company did not present CVs of the members of its governing bodies; however, they are indirectly available on the website in the form of current reports published at the moment of appointing the representatives, partly in item 4 – the Company published all the specified documents apart from rationale for draft resolutions within the deadline specified in the Ordinance, item 6 – the Supervisory Board provides the report to the General Meeting; the work of the Supervisory Board and the internal control system are not evaluated, item 7 – the Company does not record questions of shareholders before or during the General Meeting, item 11 – the Management Board did not receive declarations of relations and thus the information is not available on the website.</p> <p>The Company shall make all efforts to broaden the scope of information available on the website.</p>
2	<p>Website in English A company should ensure that its website is also available in English, at least to the extent described in section II.1. This rule should be applied not later than on January 1, 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</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>

	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 related entity shall be understood within the meaning of the Regulation of the Minister of Finance dated October 19, 2005 concerning current and periodic reports submitted by issuers of securities.		
4	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.	YES	
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	Pursuant to §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.
8	If a company’s Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2–4 of the Code of Commercial Partnerships and Companies, the company’s Management Board shall immediately perform the actions it is required to take in connection with organising and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorisation given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies.	YES	

III BEST PRACTICES FOR SUPERVISORY BOARD MEMBERS

	RULE		COMMENT OF KOGENERACJA S.A.
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 Code of Commercial Partnerships and Companies 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	YES	

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	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.		
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 a 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.
6	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 February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	Partly	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 (...).
8	Annex I to the Commission Recommendation of February 15, 2005 on the role of non-executive or supervisory directors should apply to the tasks and the operation of the committees of the Supervisory Board.	NO	As above.
9	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	NO	The applicable laws, including the Statutes of the Company, do not provide for the requirement to obtain Supervisory Board’s approval for such agreements. The procedures of executing agreements by the Company are sufficient to ensure the Company’s interests.

IV BEST PRACTICES OF SHAREHOLDERS			
	RULE		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 presence 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	
4	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.	YES	
5	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	YES	
6	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	NO	The date of setting the right to dividend and the date of dividend payment are agreed in line with the Detailed Operating Rules of the National Depository of Securities (KDPW), the Company’s Statutes and other applicable laws.
7	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to dividend.	YES	
9	A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.	NO	

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

(pursuant to § 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. The Company performs self-assessment of the internal control system on the annual basis. Works related to the self-assessment are coordinated by the Internal Audit Department that prepares a report approved by the Company’s 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 the following:

- 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 related to the 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 senior 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.

For the purposes related to the Stock Exchange, all subsidiaries of KOGENERACJA S.A. use the same system for consolidation and apply the same presentation rules. The responsibility for consolidation on the Stock Exchange is placed on KOGENERACJA S.A. and is each time verified if the structure of shares changes. KOGENERACJA S.A. has in place a system for gathering and processing data from subsidiaries. Information is provided in order to prepare consolidated reports and management accounting. Data presentation rules for the purposes of consolidation are the same for all subsidiaries (IFRS). For the purposes of consolidation, the same consolidation rules were applied even when records were kept in subsidiaries in line with different rules. Each subsidiary analyses differences between the previous collective closing and opening.

The Company and Group financial statements are prepared by the Controlling and Stock Exchange Department within the Financial and HR Management. Substantial and organisational supervision over the preparation of financial statements is ensured by the Financial and HR Director – Member of the Management Board. Financial statements are verified by the Management Board, then they are audited 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. The Audit Committee is an advisory and consultative body.

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 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 the Risk Management Instruction. 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 the following 3 criteria: impact – probability – control level. Risk charts are prepared for high ranked risks. These 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 that are consolidated for the purposes of the Group financial statements through the Company representatives in the Supervisory Boards of these subsidiaries and by appointing a Senior Specialist for Owner Supervision who report directly to the Financial and HR Director.

3. Shareholders of the Company

(pursuant to § 91 section 5, item 4d and 4e of the Ordinance)

As at December 31, 2010

	<i>No. of ordinary bearer shares</i>	<i>Voting power</i>	<i>% of share capital</i>	<i>% of voting power</i>
EC Kraków S.A.	2 642 869	2 642 869	17,74	17,74
EDF International S.A.	2 483 830	2 483 830	16,67	16,67
EnBW A.G.	2 323 302	2 323 302	15,59	15,59
OFE PZU "Złota Jesień"	1 477 715	1 477 715	9,92	9,92
OFE ING	1 093 491	1 093 491	7,34	7,34
Legg Mason FIO	767 837	767 837	5,15	5,15

In 2010, the following changes took place in the Group’s shareholding structure:

- OFE PZU “Złota Jesień” increased its shareholdings from 9.78% to 9.92%,
- OFE ING increased its shareholdings from 5.34% to 7.34%,
- Legg Mason FIO reduced its shareholdings from 7.17% to 5.15%.

The shareholdings of Open Pension Funds (OFE) were updated based on information on the Open Pension Fund asset structure published by the Funds on their open-access websites for the period of one year, i.e. as at December 31, 2010, pursuant to the Ordinance of the Council of Ministers on reporting duties of pension funds (Dz.U. 05.70.627). The shareholdings of Legg Mason FIO were updated on the basis of data following the General Meeting of the Company on June 24, 2010 as at the registration date, i.e. as at June 8, 2010.

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

Starting from February 17, 2011, there will be no equity relations between the shareholders EDF International S.A. and EnBW A.G. as the shares of EnBW A.G. have been sold to Neckarpri GmbH (*Current Report 2/2011*).

EDF International S.A., EnBW AG seated in Karlsruhe and Elektrociepłownia Kraków S.A. (companies within the Group) hold over 50% of the total number of votes in the Company under the voting agreement signed by the above-mentioned companies on December 20, 2000.

4. Preferred shares

(pursuant to § 91 section 5, item 4e of the Ordinance)

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

5. Restrictions of title transfer and voting

(pursuant to § 91 section 5, item 4f and 4g 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

(pursuant to § 91 section 5, item 4i of the Ordinance)

Changes to the Company’s Statutes are made pursuant to articles 430 and 402 section 2 of the Polish Code of Commercial Partnerships and Companies.

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

(pursuant to § 91 section 5, item 4j of the Ordinance)

The operation 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 the following:

- review and approval of the Management Board’s report on the Company’s operations and financial statements 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 covering losses;
- 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 claims 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 article 362 §1 item 5 of the Polish Code of Commercial Partnership and Companies;
- 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 Polish Code of Commercial Partnerships and Companies.

Shareholders exercise their rights in accordance with the Polish Code of Commercial Partnerships and Companies.

In 2010, the Extraordinary General Meeting of Shareholders was held on May 25 and the Ordinary General Meeting of Shareholders on June 24.

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

On May 25, 2010, the Extraordinary General Meeting of Shareholders was held with the following outcomes:

- a merger between Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (acquiring Company) and Zakład Ciepłowniczy “Term-Hydral” Sp. z o.o. (acquired company) by transferring all assets of the acquired company to the acquiring Company without increasing the share capital of the acquiring Company and without issuing stocks in exchange for the shares of the acquired company (i.e. pursuant to provisions stipulated in article 492 § 1 item 1) in relation to article 515 § 1 and article 516 § 6 of the Polish Code of Commercial Partnerships and Companies),
- approval of the Merger Plan presented by the Management Board and agreed on by the Management Boards of merging companies.

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

On June 24, 2010, the Ordinary General Meeting of Shareholders was held. The Meeting changed the Company’s Statutes by introducing a provision regarding the right of the Supervisory Board to give permission for taking over, purchasing and disposing of stocks and shares in third parties whose value exceeds PLN equivalent of EUR 2,000 k (§ 18 section 2 of the Statutes, item 14). The consolidated text of the Company’s Statutes became effective on the date of entering into the National Court Register.

8. Changes in the Management Board and Supervisory Board

(pursuant to § 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 19, 2010:

- | | |
|-------------------------|-------------------------------------|
| 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 |

As Denis Bretaudeau, President of the Management Board, handed in his resignation (as notified by the Company in the *Current Report 30/2010*), the Supervisory Board, on the meeting held on October 19, 2010, appointed Mr Philippe Gagneux the President of the Management Board of KOGENERACJA S.A., with the effect as at October 20, 2010 (*Current Report 30/2010*).

Members of the Management Board of the 7th tenure until October 20, 2010:

- | | |
|-------------------------|-------------------------------------|
| 1. Philippe Gagneux | – 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

On June 24, 2010, due to the end of the 7th tenure, mandates of Members of the Supervisory Board expired. The makeup of the Supervisory Board until that date 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 Zajas | – Member of the Supervisory Board |
| 12. Danuta Żeleźna | – Vice Chairman of the Supervisory Board |

On June 24, 2010, the Ordinary General Meeting of Shareholders was held which:

- granted discharge to the former Members of the Supervisory Board;
- acknowledged the choice made by the employees (pursuant to article 14 of the act of August 30, 1996 on commercialisation and privatisation) of the following 4 Members of the Board and appointed them Members of the Supervisory Board of the 8th tenure:

- | |
|-------------------|
| 1. Roman Cecota |
| 2. Roman Nowak |
| 3. Henryk Zajas |
| 4. Danuta Żeleźna |

- appointed the remaining 8 Members of the Supervisory Board – representatives of the Company’s shareholders:
 1. Marian Augustyn
 2. Philippe Castanet
 3. François Driesen
 4. Raimondo Eggink
 5. Birgit Fratzke-Weiss
 6. Jens Linhart
 7. Harald Minkner
 8. Dominique Silvain

The makeup of the Supervisory Board as at December 31, 2010 was as follows:

1. Marian Augustyn	– Member of the Supervisory Board
2. Roman Cecota	– Secretary 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. Jens Linhart	– Member of Supervisory Board
8. Harald Minkner	– Member of the Supervisory Board
9. Roman Nowak	– Member of the Supervisory Board
10. Dominique Silvain	– Member of the Supervisory Board
11. Henryk Zajas	– Member of the Supervisory Board
12. Danuta Żeleźna	– Vice Chairman of the Supervisory Board

In 2010, 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

(pursuant to § 91 section 5, item 4h of the Ordinance)

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

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

(pursuant to § 91 section 5, item 4k of the Ordinance)

a. Terms of reference of the Management Board

General terms of reference of the Management Board and its main powers are set out in the Statutes of KOGENERACJA S.A. and detailed terms of reference are stipulated in the Management Board Regulations.

Pursuant to § 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:

Philippe Gagneux – 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: Technical Directorate, Industrial Development 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.

Until October 19, the position of the President of the Management Board and Managing Director was held by Mr Denis Bretaudeau.

Roman Traczyk – Member of the Management Board

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

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 the Company’s payroll policy.

b. Terms of reference of the Supervisory Board

General terms of reference of the Supervisory Board and its main powers are set out in the Statutes of KOGENERACJA S.A. and detailed terms of reference are stipulated in the Supervisory Board Regulations.

The powers of the Supervisory Board include in particular the following:

- 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 or its individual Members;
- suspending, for material reasons and in a secret vote, the Management Board 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 the 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 dispose fixed assets not connected with the core activities of the Company or to acquire and dispose the properties, perpetual usufruct rights or interest in the properties where the value of such transactions exceeds the PLN equivalent of EUR 500 k;
- at the request of the Management Board, granting permission to take over, purchase and dispose stocks and shares in third parties whose value exceeds PLN equivalent of EUR 2,000 k;
- selecting the auditor of the financial statements;
- assessing the Management Board’s report on the Company’s operations and financial statements 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 covering losses;
- 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 consolidated 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

Due to changes in the makeup of the Supervisory Board, on June 24, 2010, the Payroll Committee was appointed with the following makeup:

- Philippe Castanet
- Brigit Fratzke-Weiss *Chair of the Payroll Committee*
- Harald Minkner
- Danuta Żeleźna

Responsibilities of the Payroll Committee include the following:

- drawing up draft agreements in the process of hiring new Members of the Management Board;
- monitoring of the Management Board remuneration system pursuant to the Regulations of the Management Board Remuneration;
- recommending 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 appointed 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, with the following makeup:

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

At the meeting held on June 24, 2010, the Supervisory Board of the 8th tenure appointed the Audit Committee with the same makeup.

Responsibilities of the Audit Committee include the following:

- monitoring financial reporting processes;
- monitoring effectiveness of internal control systems, internal audit 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 (Dz. U. 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) 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/EC).

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

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

(pursuant to § 91 section 5, item 17 of the Ordinance)

The gross value of the emoluments, awards and benefits obtained in 2010 and 2009 by the Company’s directors is presented in the Individual Financial Statements of KOGENERACJA S.A. for 2010, note *40 Related Party Transactions and 40b), Transactions with management*.

Other agreements signed between the Company and the Management Board representatives are presented in item 13 of this report.

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

(pursuant to § 91 section 6, item 18 of the Ordinance)

- Mr Andrzej Siennicki, Member of the Management Board, holds 254 ordinary bearer shares in the Company of the total face value of PLN 1,270;
- Mr Raimondo Eggink, Member of the Supervisory Board, holds 25,000 shares of the total face value of PLN 125,000, including 24,000 shares held directly and 1,000 shares held through a subsidiary.

In 2010, there were no changes in shares held by the Management Board and Supervisory Board Members, despite changes in the makeup of the Management Board and Supervisory Board.

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

(pursuant to § 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 contract 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 stipulates compensation equal to 100% of the gross basic remuneration paid on account of the employment contract and managerial contract for 24 months preceding the termination of the employment contract.

The Company concluded a non-competition agreement with Mr Philippe Gagneux, President of the Management Board, obliging Mr Philippe Gagneux to refrain from activities competitive to the Company operations within 12 months from the date of the employment contract termination. The non-competition obligation is valid in the Republic of Poland and does not pertain to EDF Group companies.

The agreement stipulates compensation equal to 100% of the gross basic remuneration paid on account of the employment contract and managerial contract for 12 months preceding the termination of the above-mentioned contracts.

The Company concluded a non-competition agreement with Mr Denis Bretaudeau, former President of the Management Board, obliging Mr Denis Bretaudeau to refrain from activities competitive to the Company operations within 24 months from the date of the employment contract termination. The non-competition obligation is valid in the Republic of Poland and does not pertain to EDF Group companies.

The agreement stipulates net compensation in the amount of EUR 80,514.

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

V. Share price

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

At the first session in 2010, on closing, the share price was PLN 78.50 per share and the trading volume was 3,895 shares. The highest price in 2010 was recorded on September 17, with the share closing price of PLN 119.40 per share and the trading volume of 997. 2010 was closed with the price of PLN 109.90 per share at the volume of 5,615 shares traded.

Quotations of KOGENERACJA S.A. shares on Warsaw Stock Exchange in 2010



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 the annual revision of the Warsaw Stock Exchange, as at January 31, 2010 the Company holds the 22nd place in the portfolio of mWIG40 index and the Company’s share in the index is 2.04%. Following the annual revision in 2011, the Company holds the 27th place and the Company’s share in the index is 1.64%.

mWIG40 in 2010



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). Currently, the index includes the following companies: EC Będzin, CEZ, Enea, KOGENERACJA, Polish Energy Partners, PGE and Tauron Polska Energia.

WIG-Energy in 2010



4. Dividend policy

The dividend payment depends on the financial position of the Company. The most significant factors include investments, debt level and liquidity. An upward trend was observed within the last few years (see the table below).

Pursuant to resolution no. 6/2010 of the Ordinary General Meeting of Shareholders on the profit distribution, as of June 24, 2010, the dividend for 2009 was PLN 52,150 k, i.e. PLN 3.50/share (*Current Report 23/2010*). All the Company’s shares in the quantity of 14,900 k give equal rights to dividend.

KOGENERACJA S.A. – Management Board’s Report on the Company Activities in 2010

	2009	2008	2007	2006	2005
Net profit <i>(in PLN thousand)</i>	103 466	47 547	60 026	37 793	10 652
Profit devoted to dividend <i>(in PLN thousand)</i>	52 150	30 545	30 545	27 565	11 920
Profit share devoted to dividend <i>(in %)</i>	50	64	51	73	112
No. of shares <i>(in thousand)</i>	14 900	14 900	14 900	14 900	14 900
Dividend per annum <i>(in PLN per share)</i>	3,50	2,05	2,05	1,85	0,80

Pursuant to the Management Board’s resolution on the profit distribution of April 20, 2011, the proposed dividend for 2010 is PLN 52,150 k, i.e. PLN 3.50/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 makes all efforts 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. In 2009 and 2010, this objective was achieved.

	2010	2009	2008	2007	2006
Dividend settlement date	22 September	22 September	8 July	13 July	14 July
Dividend payment date	13 October	13 October	8 August	24 August	28 August

5. Recommendations

In 2010, the Company received two recommendations:

- on January 12, 2010, DM Millenium issued the “buy” recommendation;
- on October 13, DM Bank BPS maintained the “hold” recommendation by increasing the target price of one share of the Company from PLN 88.54 to PLN 119.35.

6. Agreements vs. changes in the proportion of shareholdings

(pursuant to § 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.

7. Control of employee shares programmes

(pursuant to § 91 section 6, item 20 of the Ordinance)

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

8. Agreement with the Auditor

(pursuant to § 91 section 6, item 21 of the Ordinance)

<i>Specification</i>	<i>Report for 2010</i>	<i>Report for 2009</i>
Date of the financial report review agreement	14 June 2010	14 June 2009
Date of the financial report audit agreement	12 October 2010	21 October 2009
Term of the audit agreement	Until receipt of the auditor's opinion and report from audit of the fin. statements (no later than 19.04.2011)	Until receipt of the auditor's opinion and report from audit of the fin. statements (no later than 23.04.2010)
Total fee (in PLN, net of VAT):	234 000	212 533
financial report audit	163 000	162 783
certification services, including review of the financial report	71 000	49 750
advisory services	-	-
other services	-	-

9. Ratio calculation methodology

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

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

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

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

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

KOGENERACJA S.A. – Management Board’s Report on the Company Activities in 2010

Wrocław, April 26, 2010

.....
Philippe Gagneux

President of the Management Board

.....
Roman Traczyk

Member of the Management Board

.....
Andrzej Siennicki

Member of the Management Board

.....
Krzysztof Wrzesiński

Member of the Management Board