

# President's letter

Dear Shareholders!

Wrocław, 9 March 2020

On behalf of the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A., I hereby present you the Annual Report of the KOGENERACJA S.A. Capital Group, which shows the financial results and material events in 2019.

The project of strategic importance for the future of KOGENERACJA S.A. is the construction of combined heat and power plant - Nowa Czechnica (New Czechnica), which will replace the existing plant located in Siechnice. The implementation of the project is part of the PGE Group's Heating Strategy, which assumes ensuring energy security and improving air quality in Polish cities.

In accordance with the recommendation of the Investment Committee of the PGE Capital Group, in 2019 we conducted activities related to the preparation of the project. At the beginning of 2021, the final investment decision will be made after completion of the procedure for selection of the general contractor of the investment. The commissioning of the gas and steam power unit of the new combined heat and power plant is scheduled for the second half of 2023.

At the same time, conceptual works on the historical development of the complex of facilities of the current combined heat and power plant in Czechnica began. In the Letter of Intent signed by the President of KOGENERACJA S.A. and the Mayor of Siechnice Commune, in the presence of the Lower Silesian Governor, the Marshal of the Lower Silesian Province and the Head of the Wrocław Poviát, the willingness to involve the parties in the development of the foundations and the acquisition of stakeholders necessary to implement the project was declared.

KOGENERACJA S.A. produces electricity in cogeneration with heat, therefore stabilising the volume of heat received by customers is an extremely important aspect of production. The record-breaking in terms of high temperature year 2019 is behind us. Thanks to the systematic development of the heat market, sales of heat and electricity produced in high-efficiency cogeneration were maintained at the level of 2018. Both KOGENERACJA S.A. and Elektrociepłownia Zielona Góra S.A. are carrying out external investments in new connections to the municipal heating network. Thanks to the completed heat network development projects, in 2019 a total of 130 facilities with a total capacity of 63.7 MWt were connected in Siechnice and, in cooperation with the distributor, in Wrocław, and a record 61 facilities with a total capacity of 13.1 MWt in Zielona Góra.

An important element of stabilising the Company's future revenues in the coming years will be the support mechanism resulting from the Power Market. KOGENERACJA S.A. submitted its production units for auction and obtained qualification for long-term

contracts for three production units in Heat and Power Plant Wrocław.

In 2019, the Company's assets were successfully maintained. The planned overhauls of the production units have been carried out, which allowed for full readiness in the 2019/2020 heating season. A project is also underway to adapt the equipment to the restrictive emission standards, which will be in force from September 2021.

Last year, in cooperation with the PGE Energia Ciepła Group, a programme to prepare a vision for the operation of KOGENERACJA S.A. in the 2030 perspective was launched. Its aim is to define a strategy for the development of heat sources in the Wrocław agglomeration in the medium and long term, ensuring energy security and improving air quality.

In 2019, the Investment Committee of the PGE Capital Group also decided to launch a feasibility study for the project of the Młoty Pumped-Storage Power Station, owned by KOGENERACJA S.A. By the end of 2020, a final decision is planned to be made regarding the implementation of the investment by the PGE Capital Group or resale of the project.

In the financial summary of 2019, it should be noted that the KOGENERACJA S.A. Group generated a consolidated net result of PLN 84 million, which was higher than the result achieved in 2018 by PLN 77 million. The most significant impact on the Group's result was a decrease in costs of LTC compensation by PLN 113 million. An important factor was also a decrease in revenues from certificates by PLN 72 million due to the withdrawal of the high-efficiency cogeneration support system and an increase in the provision for the purchase of CO<sub>2</sub> emission allowances by PLN 58 million. These decreases were partly compensated for by an increase in revenues from electricity sales as a result of price increases.

I am convinced that 2020 will bring new challenges. The most important will be the next stage of New Czechnica investment connected with the selection of the main contractor. We will also actively participate in the implementation of the anti-smog resolution, contributing to the improvement of air quality in the region.

Yours sincerely,



**PAWEŁ SZCZESZEK**  
President of the Management Board of KOGENERACJA S.A.