

# President's letter

Dear Shareholders!

Wrocław, 22 March 2021

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 2020.

This past year was an enormous challenge for all of us because of the pandemic, which influenced many aspects of our lives. For KOGENERACJA S.A. the most important thing during this challenging time was to sustain continuous heat supply for our clients and to keep the production of electricity, which was achieved owing to the compliance with rules of the sanitary regime and suitable work organization.

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The project of strategic importance for the future of KOGENERACJA S.A. is construction of the new heat and power plant Nowa Elektrociepłownia Czechnica – a modern, low-carbon production unit, which will replace the plant that is currently operating in Siechnice. In accordance with the recommendation of the Investment Committee of PGE Capital Group, in 2020 the tender procedure for the general contractor of the investment begun and it ended in the first quarter of 2021 by selecting the consortium of Polimex Mostostal S.A. and Polimex Enegetyka sp. z o. o. based on the application submitted to the Energy Regulatory Office (URE) in December 2020, whereas in March 2021 KOGENERACJA S.A. received the decision from the President of URE granting individual cogeneration bonus. Receiving this bonus was one of the conditions to start the investment in Siechnice. Launching the combined cycle gas unit of the new heat and power plant is planned for 2024.

Implementation of the project is part of the PGE Group Strategy until 2030 with prospects until 2050 aiming at energy security and improvement of air quality in Polish cities.

Concurrently, in cooperation with Siechnice Municipality and Wrocław University of Science and Technology conceptual work was done on the development of complex of facilities being a part of currently used Elektrociepłownia Czechnica after its shutdown in 2024.

KOGENERACJA S.A. produces electricity in cogeneration with heat, that is why a crucial aspect of production is stabilization of heat volume received by customers. Both, KOGENERACJA S.A., as well as Elektrociepłownia "Zielona Góra" S.A. carry out external investments in the field of new connections to district heating network. Due to implemented projects in the field of development of the heating network, in 2020 in Siechnice and in Wrocław 113 facilities of joint power of 55 MW were connected in cooperation with the distributor, and in Zielona Góra 46 facilities and 32 modules for the

preparation of hot usable water of joint power of 13,2 MW. It is worth mentioning, that by the end of that year another stage of developing the network powered by our plant located in the neighborhood of Zawidawie in Wrocław was finished.

In the past year KOGENERACJA S.A. received funding in the amount of more than PLN 2 million from the Operational Program Infrastructure and Environment 2014-2020 under the contest organized by the National Fund for Environmental Protection and Water Management. Implementation of the project „Connecting recipients to the heat system by building neighborhood heat networks and connections in Siechnice and Święta Katarzyna” will allow us to develop local heat networks by almost 3 km.

A significant element of stabilizing the future revenue of the Company in oncoming years will be the support mechanism coming from the Power Market. KOGENERACJA S.A. has declared its production units to tender procedure and obtained the qualifications for multiannual agreements for three production units in EC Wrocław and annual agreements for the years of 2021 and 2022 in EC Czechnica.

In 2020 maintenance works on Company's assets were conducted successfully. Planned renovations of production units were done, which allowed reaching full potential in 2020/2021 heating season. The system of wet flue gas desulphurization was modernized under the project of adapting devices to restrictive emission standards, so-called BAT conclusions, which will start to be in force from August 2021.

In the past year, within the frames of implementing the tasks included in the accepted strategy of PGE Capital Group, aiming to reach 70% of heat production from low-emission sources until 2030, we continued our work on the program of preparing the vision of operation of KOGENERACJA S.A. in the perspective of next ten years. The goal of this program is to define the strategy of the functioning of heat sources in Wrocław metropolitan area in medium- and long-term perspective, providing the optimization of profit margin while taking into account energy security, air quality improvement and reducing the impact on climate. Within these activities consultations were held concerning the conditions of connecting gas to Elektrociepłownia Wrocław.

In 2020, KOGENERACJA S.A. Capital Group reached the consolidated net result at the level of PLN 126 million, which was higher than 2019 result by PLN 42 million. The most important factor impacting the Group results was the increase in revenue from heat sales resulting from price rise and decrease in costs due to PPAs compensation by the amount of PLN 37 million in subsidiary. Another important factor for financial results of the Group was the increase of prices for purchasing CO<sub>2</sub> emission allowances which resulted in creating reserves for purchasing CO<sub>2</sub> in the amount higher by PLN 99 million in comparison to 2019. What also had positive effect on Group's results, was a single event of selling CO<sub>2</sub> emission allowances from the allowances that had not been used in previous years of the reference period.

I am convinced that 2021 will bring new challenges. The most important of them will be the next stage of Nowa Czechnica investment. We will also take active part in the development of heat market, which contributes to the improvement of air quality condition in the region.

Best regards,



**ANDRZEJ JEDUT**

President of the Management Board of KOGENERACJA S.A.



**Letter of the President to the Shareholders**

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