



ZESPÓŁ ELEKTROCIĘPŁOWNI WROCŁAWSKICH

KOGENERACJA SA

Wrocław, 22 March 2021

Dear Shareholders!

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. Group, which shows the financial results and material events in 2020.

The past year has been a real challenge for all of us due to the pandemic, which has affected many areas of our lives. During that demanding time, the most important thing for KOGENERACJA S.A. was to maintain uninterrupted heat supply to its customers and production of electricity. We achieved this thanks to observing the sanitary precautions and appropriate work organisation within the Company.

A strategic project for KOGENERACJA S.A. is the construction of a new heat and power plant in Czechnica, a modern low-emission generation unit that will replace the existing plant located in Siechnice. In accordance with the recommendation of the Investment Committee of the PGE Group, in 2020, a procurement proceeding for the selection of the general contractor for the investment was initiated. The proceeding ended in the Q1 of 2021, with the consortium of Polimex Mostostal S.A. and Polimex Energetyka sp. z o.o. being selected. Based on the application submitted to ERO in December 2020, in March 2021, KOGENERACJA S.A. received a decision from the President of ERO granting the individual cogeneration bonus. Obtaining the bonus was one of the conditions for implementing the investment in Siechnice. The commissioning of the gas and steam power unit of the new heat and power plant is scheduled for 2024. The implementation of the project is in line with the *PGE Group's Strategy until 2030 with an outlook until 2050*, which focuses on energy security and the improvement of air quality in Polish cities.

At the same time, in cooperation with the Siechnice Commune and the Wrocław University of Technology, conceptual work was carried out on the development of a complex of facilities at the currently operating Heat and Power Plant Czechnica after it is shut down in 2024.

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. Both KOGENERACJA S.A. and Elektrociepłownia Zielona Góra S.A. are carrying out external investments in new connections to the heating network. In 2020, thanks to the heating network development projects, a total of 113 facilities with a total capacity of 55 MW_t were connected in Siechnice and in cooperation with the distributor in Wrocław, and 46 facilities and 32 hot water preparation modules with a total capacity of 13.2 MW_t in Zielona Góra. It is worth mentioning that, at the end of the year, another stage of expansion of the network supplied from our plant located in Zawidawie in Wrocław was completed.



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Last year, KOGENERACJA S.A. received a subsidy of over PLN 2 million from the Operational Programme Infrastructure and Environment 2014–2020 under a competition organised by the National Fund for Environmental Protection and Water Management. Implementation of the project "Connecting customers to the district heating system by construction of district heating networks and connections in Siechnice and Święta Katarzyna" will enable expansion of the local heating networks by almost 3 km.

In the coming years, the support mechanism based on the Capacity Market is an important element of stabilising the Company's future revenues. 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 and annual contracts for 2021 and 2022 in Heat and Power Plant Czechnica.

In 2020, the Company's assets were successfully maintained. The planned overhauls of the production units were carried out, resulting in full readiness in the 2020/2021 heating season. The wet flue gas desulphurisation plant was also modernised as part of the project to adjust the equipment to restrictive emission standards (the so-called BAT Conclusions), which will apply from August 2021.

Last year, in the course of implementation of tasks resulting from the adopted strategy of the PGE Group assuming the share of heat production from low-emission sources at the level of 70% by 2030, we continued work on the programme for the preparation of the KOGENERACJA S.A. course of action in the next ten years. The objective of the programme is to define a strategy for the operation of heat sources in the Wrocław agglomeration in the medium and long term, ensuring margin optimisation while taking into account energy security, improved air quality and reduced climate impact. These activities also included consultations on the conditions of gas supply to Heat and Power Plant Wrocław.

In 2020, KOGENERACJA S.A. Group generated a consolidated net result of PLN 126 million, which was higher than the result achieved in 2019 by PLN 42 million. The Group's result was materially affected by an increase in revenues from the sale of heat due to price increases and a decrease in costs on account of KDT compensation by PLN 37 million in the subsidiary. A significant increase in the price of CO₂ emission rights was also very important for the Group's financial results. It contributed to the creation of a provision for the purchase of CO₂ in the amount higher by PLN 99 million compared to 2019. The Group's result was positively affected by a one-off event, i.e. the sale of CO₂ emission rights from the pool of unspent allowances for previous years of the settlement period.

I am convinced that 2021 will bring new challenges. The next stage of the New Heat and Power Plant Czechnica investment will be our key challenge. We will also continue to take an active role in developing the heat market, helping to improve air quality in the region.

Yours faithfully

Andrzej Jedut

President of the Management Board
of KOGENERACJA S.A.