



ZESPÓŁ ELEKTROCIĘPŁOWNI WROCŁAWSKICH

KOGENERACJA SA

Wrocław, 11 March 2019

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. Capital Group, which presents the financial results and events material for the Company in 2018.

2018 was a time of intensive integration with the PGE Capital Group. In 2018, indirect ownership of PGE Polska Grupa Energetyczna S.A. and direct ownership of PGE Energia Ciepła S.A. increased from 50% to 58.07%. In July 2018, an intra-group Capacity Market Management Agreement between PGE Polska Grupa Energetyczna S.A. and the PGE Capital Group was entered into. This Agreement will allow to take advantage of synergy within the Group, contributing to maximising the benefits of capacity market as well as increasing the protection of the interests of respective companies. In August 2018, the General Agreement between PGE Energia Ciepła and its subsidiaries was entered into, setting forth the rules for cooperation. Its goal is to increase the effectiveness of operations within an integrated organisation of the PGE Capital Group. In January 2019, the process of integration of heating assets within the PGE Capital Group was completed, which resulted in the creation of Poland's largest entity in the heating sector, which due to economies of scale will be able to function on the market in a more optimal and competitive way. As of January 2019, PGE Energia Ciepła, the owner of KOGENERACJA S.A., owns fourteen power plants with the total thermal capacity of 7.7 GW and 4.1 GW installed electrical capacity.

Of the current investment projects of the KOGENERACJA S.A. Capital Group, the most important are the following: construction of new Czechnica heat and power plant and additional cogeneration source in Elektrociepłownia Zielona Góra S.A., a subsidiary of KOGENERACJA S.A. The Investment Committee of the PGE Group, the controlling shareholder of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. issued a positive recommendation to continue the project of construction of new Czechnica heat and power plant, which will replace existing plant. The new plant should be commissioned in 2023. Currently, the stage of works related to the selection of the investment contractor has begun. The investment decision should be taken at the beginning of 2021. Having analysed the electricity market and the possibility resulting from the Capacity Market mechanism introduced in Poland, the purposefulness of constructing additional gas-fuelled cogeneration source in Elektrociepłownia Zielona Góra was confirmed, as it is already equipped with modern and ecological production equipment, e.g. gas and steam unit or gas and oil boilers. The new source is to be built by 2024. A feasibility study has now been launched for the technical scenarios under consideration.

An event material for the Company was also the adoption by the Lower Silesian Province Regional Council on 1 July 2018 of the Anti-Smog Resolution, which aim is to help reduce air pollution



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in the area of, among others, the municipality of Wrocław. The municipal programme of subsidies for the replacement of KAWKA+ furnaces has been launched. KOGENERACJA S.A. actively participates in the elimination of coal furnaces, connecting new residents to the network and supporting them at the stage of planning and financing thermal centres. In addition, for 10 years, under agreements with the municipalities of Wrocław and Siechnice, the Company has been partially covering the heating costs of residents in a difficult financial situation.

In 2018, KOGENERACJA S.A. participated for the ninth time in the survey on social responsibility in public companies and maintained its Respect Index. In addition, in recognition of its outstanding attitude in the area of consumer dispute resolution in the Respect Index ranking, the Company received, for the first time, a distinction awarded by the Energy Regulatory Office in the "Power of Agreement" competition.

Currently, the KOGENERACJA S.A. Capital Group has commenced the stage of modernisation of its production equipment by implementing the best available techniques in order to adapt them to the of BAT/BREF emission limit values, i.e. the stricter environmental standards, which will come into force in August 2021. After the completion of the planned modernisation, all restrictive standards in this respect will be met.

In 2018, current capital expenditure in the KOGENERACJA S. A. Capital Group amounted to PLN 132 million. Thanks to the actions taken and the work carried out, we remain a reliable heat supplier in Wrocław and Zielona Góra. Last year we also began with the expansion of the heating network with a length of about 8 km in the Zawidawa housing estate in Wrocław. This investment will be co-financed with resources from the European Funds – the Infrastructure and Environment 2014-2020 Programme. Thanks to this investment, the range of the network in this housing estate will triple.

I am convinced that 2019 will bring new challenges and development opportunities for the KOGENERACJA S.A. Capital Group resulting from the implementation of the PGE Group Heat and Power Strategy. PGE Energia Ciepła plans to increase heating capacity, increase its share in the management of heating networks and build 1,000 MW of new cogeneration capacities by 2030. The share of low-emission fuels in the energy produced by PGE Energia Ciepła should exceed 50% by 2030. The project to build a Czechnica heat and power plant in Siechnice, a modern unit powered by low-emission fuel – network gas, is an example of the implementation of the PGE Group's Heat and Power Strategy, ensuring energy security in the region and better air quality in the Wrocław agglomeration.

Your sincerely,

Paweł Szczeszek

President of the Management Board
of KOGENERACJA S.A.