

Implementation of the Energa Group's Strategy in 2022 and development prospects for 2023

The overarching objective of the Company is to grow the value of the company, guaranteeing a return on capital employed for shareholders. Furthermore, the Company performs functions associated with assurance of energy security of Poland. Because of the high proportion of regulated activities in its business structure, the Group maintains the status of a company with a balanced risk profile.

Distribution Business Line

The Distribution Business Line within the Energa Group is consistently seeking to become a leading Distribution System Operator (DSO) by improving its grid performance and liability, and providing top quality customer service. The value of the baseline investment plan of Energa Operator for 2023 is more than 12% higher than its capital expenditures in 2022. The capital expenditures of Energa Operator SA account for almost 96% of total investment expenditures of the Distribution Business Line.

Energa Operator's key investment focus in 2023 includes:

- further connections of new customers and new sources, as well as the resulting construction of new networks,
- network expansion and redevelopment to meet increased power demand,
- distribution network redevelopments/upgrades at all voltage levels to improve the continuity of supply to customers (SAIDI/SAIFI), meet the required quality parameters of electricity supply and reduce network losses, such as:
 - redevelopment of overhead MV power lines running through forest and wooded land with cable lines and/or insulated overhead power lines,
 - MV network automation,
 - replacement of non cross-linked (emergency) MV cables,
 - replacement of LV cables with insulated cables and terminals,
 - construction of new MV power line connections,
 - replacement of HV/MV transformers,
- connection of public charging stations and charging infrastructure for the public road transport,
- grid connection of energy storage facilities,
- purchase and assembly of smart metering infrastructure which must be implemented pursuant to amendments to the Energy Law, Journal of Laws of 2021, item 1093, in accordance with Article 11t, and to the Capacity Market Act introducing the requirement for all customers, except for public housing tenants, to take readings of energy consumption every hour and make capacity charge settlements based on such readings starting from January 2021. Moreover, Article 4.2a of the Act on Renewable Energy Sources obligates the DSOs to take hourly readings of energy withdrawn from and fed into the grid for all producers and prosumers. Since 1 April 2022, these customers must be billed according to metered hourly profiles,
- adjusting the grid of Energa Operator to the requirements defined in Commission Regulation (EU) 2017/2196 of 24 November 2017 which established the Grid Code relating to the network code on electricity emergency and restoration (the NC ER code). The purpose of these investments is to ensure that designated facilities are capable of operating for 24 hours in the event of loss of a primary energy supply and to achieve the required functionality as defined in the National Electricity System Reconstruction Plan.

In 2023, EOP intends to intensify investments in the high voltage grid (design activities or work based on existing design documentation) provided for in the investment plan, which are aimed at developing the network in order to prepare for a strong growth of renewable energy generation, increasing the capability of connecting customers with a high connection capacity, and developing electromobility, mainly by increasing the capacity of the high voltage grid, building power new lines and building new or expanding existing 110/15 kV substations. Additionally, some investments in linear HV assets, by reason of the meshed network nature of EHV and high voltage grids, are necessary in order to ensure full power offtake from offshore wind farms which will be connected to the transmission grid. High voltage grid investments provide added value by reducing technical grid losses.

In March 2022, Energa Operator submitted a draft update of the Development Plan for Meeting Current and Future Electricity Demand 2023-2028 for consultation to the President of ERO, discharging its responsibility as a distribution system operator pursuant to Article 16(14) of the Energy Law Act. In December 2022, the President of ERO reported that he considered the submitted draft Development Plan to have been approved for 2023. The President of ERO will present the approval for 2024-2028 in the first half of 2023.

On 7 November 2022, the President of ERO and CEOs of top five electricity distributors in Poland (including Energa Operator) signed the Charter for the Efficient Transformation of Poland's Power Distribution Networks. To fulfil the provisions of this

document, as a next step, proposals for necessary changes of the DSO regulatory model will have to be developed, and investment programmes will have to be implemented consistently.

Since 2016, the Distribution Business Line of the Energa Group has been promoting and pursuing a strategy adopted by the European Union that involves energy decarbonisation and reduction of emissions from transport, especially in urban areas. The main step in that direction is the construction by Energa Operator of 279 electric vehicle charging stations in 8 cities: Gdańsk, Gdynia, Koszalin, Elbląg, Olsztyn, Płock, Toruń and Wrocław. In 2022, all charging stations were completed and transferred to the public charging station operator. In 2023, all 279 completed charging stations, in accordance with the revised provisions of the Act on Electromobility and Alternative Fuels, will have to be sold.

In 2023, Energa Operator will continue the development of the Sales Support System, a billing system with CRM features, which already covers 100% of LV customers. Two migration windows for MV and HV customers are scheduled for this year. Pre-planned functionalities will be developed to allow supporting points with non-standard settlement arrangements. Additionally, changes will be introduced in the system to allow the DSOs to adjust to the changing legislative requirements, for instance with respect to energy storage facilities, energy cooperatives, virtual prosumers, collective prosumer service, publication of prosumer data with respect to the new aggregate hourly data balancing requirement, or providing services to energy cooperatives. This development is also associated with the adjustment of IT systems of Energa Operator to the Central System of Energy Market Information (CSIRE), which is to be implemented by the TSO. CSIRE will serve as a platform for the exchange of data on supply points, customers, contracts, as well as metering and billing data between DSOs, sellers, producers and trade balancing providers on the retail energy market in Poland. In 2023, project efforts in the implementation of CSIRE are expected to intensify, including data preparation and migration tasks, establishing business requirements for the adjustment of contracting processes, implementing changes and testing new solutions.

A government-run programme My Electricity (*Mój Prąd*), in which a budget of PLN 855 million has been allocated for co-funding of microgeneration installation connections in 2021-2023, encourages the connection of renewable energy sources in 2023. At the end of 2022, 228,779 microgeneration installations with a total installed capacity of 1,897 MW were connected to EOP's grid. 63,810 new microgeneration installations were connected in 2022, of which 99.75% are photovoltaic installations using solar energy. The total installed capacity of microgeneration installations in 2022 was 593 MW. In connection with the above, Energa Operator in 2023 will face a key challenge of keeping the operation of the power supply grid safe at low voltage in spite of the increasing generating capacity of prosumers.

The year 2022 saw the implementation of strategic market developments, such as collective prosumer service, publication of prosumer data on an aggregate hourly balancing basis, or processing of declarations submitted by customers eligible for the Solidarity Shield subsidy. The year 2022 was also marked by intensive preparations for integration with CSIRE, which was being rolled out by all DSOs.

A strong increase in interest in the construction and connection of new renewable energy facilities is still observed. As at 31 December 2022, the connection process (without microgeneration installations) to the grid of Energa Operator covered 1,511 producers with a total capacity of more than 5,025 MW.

Connecting renewable sources to the grid will continue to be one of the key challenges faced by Energa Operator in 2023 and beyond.

In 2023, a new model of qualitative regulation for 2018-2025 introduced in 2019 by the President of the Energy Regulatory Office (ERO) and described in the document entitled "Qualitative Regulation in the years 2018-2025 for Distribution System Operators", version dated 29 May 2019, will continue to apply. This Regulation has introduced far-reaching changes, for instance in the division and calculation of power supply reliability indicators, ROE calculation, level of operating expenses reflected in the tariff, and quality regulation. The President of ERO set very ambitious objectives for the improvement of key performance indicators, the delivery of which (mostly of regulatory area-based power supply reliability indicators: CTP and CP as well as connection time indicators CRP) will have a direct impact on the regulated revenue of Energa Operator SA as regards return on equity – performance in 2023 will be reflected in the tariff for 2025.

The year 2023 will also mark the final year of efforts to bring the infrastructure of Energa Operator, necessary for the restoration of the National Power System, in line with the requirements of Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration.

The transition of the energy market poses new challenges also to the DSO, whose power grid connects the energy market participants. New challenges call for the development and creation of new technical, organisational and process solutions. The ambition of the Distribution Business Line is to lead the implementation of innovative solutions and to cooperate in that respect with other European countries. Energa Operator implements innovative solutions in such areas as smart grid, smart metering, advanced network asset management and cable diagnostics systems as well as smart energy storage and vendor and

customer support system. The DSO's activities additionally involve cooperation with DSOs on international research and development projects. The goal of the projects is to devise mechanisms for the development and integration of the future energy market and to set up the conditions for new services on the market on the DSO side. These include, in particular, grid flexibility and flexibility services as well as supporting customers in playing active energy market roles, in particular designing new solutions for energy communities.

In the area of research and development, it is important to build relationships with universities and scientific institutions. Cooperation with local research institutions, i.e. the Gdańsk University of Technology, the Gdańsk Branch of the Institute of Power Engineering, and the Institute of Fluid-Flow Machinery at the Polish Academy of Sciences is being developed in the framework of the activities.

A modernisation of access routes with an installation of a drainage system is planned for 2023 in EOP's Training Range in Bąkowo in order to improve safety for participants of practical training exercises.

Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o. (EOWE) provides a strategic reserve of labour resources for the Distribution Business Line in the event of massive failures in the electricity network of Energa Operator.

Generation Business Line

The development focus of Energa Wytwarzanie is aligned with the strategic documents of the Energa Group and ORLEN Group. The tasks carried out in 2023 will primarily involve activities associated with launching of new renewable capacities:

- 1) Construction and commissioning of PV Wielbark photovoltaic farm with a total capacity of 62 MW (of which 50 MW in 2023)
- 2) Construction and commissioning of PV Gryf photovoltaic farm with a capacity of 25 MW,
- 3) Construction and commissioning of five PV projects with a capacity of approx. 4.2 MW,
- 4) Development work is planned with a view to modifying the connection of the battery energy storage facility to the electricity network by making a direct connection to the 110 kV network and bypassing the connection to the Bystra wind farm,
- 5) Energa Wytwarzanie will continue working on the Offshore Wind Farms project, including specifically offshore wind farm maintenance capabilities and R&D projects in this area. Applications for permits to build and use artificial islands, structures and equipment with the necessary associated infrastructure for offshore wind farms (called *PSzW* in Polish) have been submitted jointly with and under the supervision of PKN ORLEN. The outcome of the permit proceedings will be announced in 2023.

In 2023, the Generation Business Line will carry out a range of operational and organisational activities. It will also continue activities initiated in preceding years resulting from projects pursued with a view to integrating with PKN ORLEN. Innovation plans will also be developed and initiated to reinforce the Group's market position in the coming years.

Sales Business Line

Energa Obrót is the leading entity in the Sales Business Line, engaged in the core activities relating to trading in electricity and gas and customer service. Energa Obrót trades in electricity on the wholesale market and sells electricity, gas and additional services to retail, business and institutional customers. It offers innovative pro-environmental technologies and a range of services, including energy efficiency, EV charging or PV installation services, and sells electricity to ca. 3.2 million customers, of whom ca. 3.0 million are covered by tariff G. The company is one of five leading suppliers on the Polish energy market and focuses its selling market activities on developing its services and offers. Energa Obrót attaches importance to the optimisation of customer service processes, development of electronic channels and provision of quality services.

The other companies in the Sales Business Line are:

- 1) Enspirion Sp. z o.o. – domestic leader in security support for the power industry and telecommunications via Demand Side Response services and TETRA mission-critical communications. The key aspect of Enspirion's strategy is to add value to the Energa Group by commercialising unique market services,
- 2) Energa Oświetlenie Sp. z o.o. – the main service provided to customers is lighting for roads, streets and other open spaces. The company also sells advertising space on lighting poles, provides building illumination services and offers seasonal festive decorations. The company provides lighting maintenance services.

According to the Strategic Development Plan of the Energa Group for 2021-2030, the objectives of the Sales Business Line include primarily effective digitalisation and reduction of core business expenses.

To improve business process efficiency at Energa Obrót, automation and efforts to eliminate non-value-adding steps were continued in line with the Lean Management methodology. Optimisation activities enabled system and organisational changes

that significantly reduced the time to complete each individual task. Owing to observations, analysis and practical workshops, the effectiveness of the company's operations increased, including in the sales support and debt collection areas. Numerous training courses on Lean Management tools were also delivered in 2022. Among the educational initiatives, the Lean Week learning initiative should be highlighted, with 253 employees from four locations attending 27 training sessions and workshops on work performance and process improvement. Leveraging their newly acquired knowledge, the employees actively participated in the new edition of the Employee Ideas Programme. 121 ideas for organisational and system improvements were submitted as part of the programme's third edition, which started in 2020. 37 ideas were implemented, generating substantial savings. 136 employees across 24 different units have participated in the Programme so far. New initiatives promoting the Lean culture as well as implementation of optimisation activities across EOB's new business processes are scheduled for 2023.

Furthermore, Energa Obrót, in line with the objectives of the "ORLEN Group strategy by 2030", carries out two innovative projects:

- EnerEFEKT Integrated Energy Management System (IEMS) – the objective of the project is to grow the company's Consumption Profile Visualisation revenue,
- Expanding energy efficiency services by energy storage components – the objective of the project is to develop a recommendation for the implementation of a portfolio of energy storage products and services for the business market.

Furthermore, Energa Obrót already managed 333 EV charging stations in 2022.

In 2023, Energa Obrót SA will continue the implementation of selected initiatives and focus on organic growth of the unit margin on its core product and on the sale of additional products, in particular in the area of energy efficiency. The company monitors the market situation in its business areas on an ongoing basis and dynamically adjusts its business model to any emerging challenges.