

**Financial results presentation, 13 May 2015****- Q&A session****Conference participants :**

Andrzej Tersa, President of the Management Board of Energa SA,

Seweryn Kędra, Vice President for Financial Matters (CFO) of the Management Board of Energa SA,

Jolanta Szydłowska, Vice President for Corporate Matters of the Management Board of Energa SA

Marcin Biniąś, Director of the Centre of Finance and Corporate Governance Energa SA

Konrad Tyrajski, Vice President of the Energa Obrót SA Management Board

Agnieszka Okońska, Director of Finance and Regulatory, Energa Operator SA

Joanna Pydo, Director of Investor Relations Energa SA

**Michał Kuzawiński, JP Morgan**

**Question 1:** Coming back to the reasons of improvement of the results of distribution, could you please explain in a detailed manner, how this change of readings from six month to two month readings was able to reduce grid losses to such an extent and contribute to an improvement of distribution rates to such an extent?

**Agnieszka Okońska, Director of Finance and Regulatory Energa Operator SA:** As I have mentioned this is one-off effect, this is not a reduction that will be seen long-term, but it's a seasonal difference. The previous six month readings meant, that inspectors who read the meters, visited customers once in six months and based on the readings the forecast was prepared for the following six months. Sales in individual months of the year were flatter and now when meters are read every two months, we see seasonality in energy consumption. Meaning that, in winter the consumption will be higher and in the summer it will be lower than previously as would have been indicated from six month readings. That was an effect on seasonality, now it will be no longer a forecast prepared on the basis of six months consumption, but on the basis of two months actual consumption.

For the first quarter it was one percent lower but we linked that to economic growth in the first quarter and three percent is the result of deeper sales dynamic shift in seasonality. In fact it is a simple equation, we have energy sold, losses and transit and if the energy is at one percent, sales at four percent, that means, that our balance of losses is lower. Therefore we buy energy to cover the losses, that is our cost. If the level of losses is lower, we pay less for this energy that is needed to cover our losses that is seen in our cost and sale side. This is seasonal shift effect, rather than a trend, that in general will increase the annual results.

**Question 2:** Does it mean, that in the following quarters it would be worse? In other words the dynamics can go down?

**Agnieszka Okońska, Director of Finance and Regulatory Energa Operator SA:** We will monitor the situation to find out to what extent that is the result of the change in readings and to what extent a change in dynamics. More than one percent can be explained by economy increase.

**Question 3:** Let me ask you also about operating cost and the distribution segment. Because the grid losses account for half of the reduction in cost you mentioned and depreciation down 110 million year to year. And the remaining 50?

**Agnieszka Okońska – Director of Finance and Regulatory Energa Operator SA:** In the distribution segment we have been optimizing operating cost for years now and today we can see the results of the hitherto efforts. Indeed, the operating cost in the first quarter were lower than last year and that's it.

**Question 4:** Which types of costs?

**Agnieszka Okońska, Director of Finance and Regulatory Energa Operator SA:** In general that is OPEX, that is what is related to our regulated activity. On all costs items reduction was recorded, except for the energy to cover the losses, something that I explained before.

**Question 5:** Could I ask you to give us an update on what changes might be expected in the future distribution model? Is anything known about that based on your talks with the regulator?

**Agnieszka Okońska, Director of Finance and Regulatory Energa Operator SA:** As regards the regulatory model I personally participate in the work on this model. All operators from the distribution segment are involved in those efforts and employees of the regulatory body are also involved in this effort. We have been studying the subject for more than a year now and the effort has been very intense and general outline of the model is emerging. However this is a decision of the Chairman of the Regulatory Authority. That exact level of indicators and the final shape of the model for regulation will be something we will know in mid-year probably, specific data will be presented in guidelines for setting tariffs in September probably.

**Piotr Dzięciółowski, Citi Brokerage**

**Question 1:** I still do not understand this change, I must admit, does it mean that now you will send people to read the meters every two months? And will customers have to pay for those visits, will that be included in the tariff?

**Agnieszka Okońska, Director of Finance and Regulatory Energa Operator SA:** So far customers have received their bills regularly, but those regular bills were based on the forecast developed on the basis of six month readings. Now it will be adjusted for actual results, the cost will not be reflected in the tariff. We set the rates at the level to keep the cost at the present level.

**Question 2:** Ok so, without this change that cost might be eliminated? The thing that I don't understand and you seem unwilling to say is that customer has PLN 1,200 annually, then if you change seasonal patterns you send the person to read the meter more frequently than previously. Why don't you keep that flat profile which was easier to operate? Why instead you, and what is the cost of those people, who will read the meters more frequently?

**Agnieszka Okońska, Director of Finance and Regulatory Energa Operator SA:** The switch to two month readings was the consequence of our implementation of AMI meters. We wanted to have a good picture of the situation based on readings from traditional meters and AMI meters and readings available at equal intervals. We want to treat our customers equally as previous forecasts were based on six-month readings, they did not accurately show the true demand of customers for energy consumption. Now two-month readings show a more accurate picture.

**Question 3:** This is the question to the CEO. What is your opinion of consolidation of the sector, something that was broadly discussed some six months ago. And the question to the whole management board, what is to be expected in regard to the dividend policy; you're the new management board, so my question is, will you keep up the present level of the dividend, there was some inflation adjustment, what supports the cash flow for dividend?

**Andrzej Tersa, President of the Management Board of ENERGA SA:** The first question was about consolidation. There is no decision yet. We know, that analytical work is in progress. We are now awaiting the results of this work and that is as much as I can say at the moment.

**Question 4:** And from the perspective of the interest of the Energa Group, is that good, is that bad for Energa? I understand the representative of the owners is working of the subject. But previous management board made no secret of being very much of against this merger.

**Andrzej Tersa, President of the Management Board of ENERGA SA:** I do not think the previous management board was opposed to that merger. Analytical work was conducted at Energa Group just like it was done in other groups. Whether it will be beneficial or not – we cannot say at present without knowing the results of the studies and the intentions. The information about the shape of consolidation or its underpinning rules might help us answer if it will be beneficial and for whom.

**Question 5:** An this dividend policy, that was my other question.

**Andrzej Tersa, President of the Management Board of ENERGA SA:** We declared in our release, that we would keep up the hitherto dividend policy.

**Question 6:** That was PLN 1.20 then it was adjusted and became PLN 1.40. To what level of dividend should we make references? PLN 1.44, PLN 1.20, 92% profit pay out. There were a few concepts how to go about that.

**Andrzej Tersa, President of the Management Board of ENERGA SA:** We can talk about the policy, but whether that is 1.44 or 1.20 – is another issue.

**Joanna Pydo, Director of Investor Relations Energa SA:** Let me just remind, that dividend policy that is described in our prospectus and reminds unchanged, as the CEO mentioned, and in the press release the management board upholds is a long-term dividend policy. We indicated the maximum amount of PLN 500 million adjusted in the following years by a rate equal at least the inflation rate or higher than the inflation rate. The dividend to be paid on 21 of May is the consequence of very good results of the holding company Energa SA and we treat this as a one-off event.

**Paweł Puchalski, BZ WBK Brokerage**

**Question 1:** Today in the morning there were some messages about strategy revision by the new management board. I would like to find out more details. How the new management board intends to revise the new strategy? It has been revised quite recently, and now I would like to know, in which direction the new Management Board is going to go?

**Andrzej Tersa, President of the Management Board of ENERGA SA:** We talked about an update of the strategy, an update of our development plans, something that has been expected earlier. The revision of the strategy is an ongoing process basically depending on changes in the environment, so in this sense we will update, revise the strategy.

**Question 2:** Which means, that there are no major new investments, which the new management board would like to pursue?

**Andrzej Tersa, President of the Management Board of ENERGA SA:** No, we will update the strategy based on the analysis of the situation around us and in keeping with the changes the strategy will be revised.

**Krzysztof Kubiszewski, Trigon Brokerage**

**Question 1:** My question is, whether these more frequent readings will somehow contribute to lower sales, can that be somehow influenced by more frequent meter readings?

**Konrad Tyrajski, Vice President of the Energa Obrót SA Management Board:** Thank you for this question, the two-month readings need to be explained clearly. It is not something that we just invented on a whim, it was a well thought out decision. A lot of energy users use their property on a seasonal basis. If this seasonality was taken into account and the forecast, people received huge bills for property in which they did not really stay during the following months of the year. And we received complaints as a consequence. Therefore we matched the actual consumption with the savings that we can generate from better consumer service, better customer satisfaction. The decision was a business decision, intended to improve our results and improve customer service and customer satisfaction. It has nothing to do with sales or sales people that are involved in the process.

**Question 2:** I also have a question about sales results. In the fourth quarter 2014 it was minus 18 million, now you are at 49. I do not really believe, that it is an operational improvement of sales margins, if you have 0,5 TWh generation from renewable energy sources. So it is probably the result of the reduction of prices for green certificates which are now quoted at much lower rates. Please explain, to what extent this improvement is due to certificate trading.

**Konrad Tyrajski, Vice President of the Energa Obrót SA Management Board:** The fourth quarter was weak, all of you asked, whether we would be able to improve the results in 2015 and we declared we would be. Now we are showing that we are. I would like to stress the result is similar as in the first quarter 2014. Although the costs of sales people were higher, margin on energy is 17 million higher, and 10 million more in that was linked to sales people, so margin in fact grew not by 17, but 27 million. I think that results from two elements, well one mainly – we sold energy for the first quarter 2015 a long time ago, because we sold those contracts a long time ago and green certificates so rated differently, so the difference on certificates is one factor. The second thing is that now we're managing to sell energy at a much higher price, than it was the case in 2014 when the situation on tariffs A

and B was very poor, our competitors sold below costs, then now the situation no longer applies, we do manage to make profits on tariffs A and B and we generate margins, unlike in Q1 2014.

**Question 3:** After reading the Law on Renewable Energy Sources I draw the conclusion, that the price of the certificates should not be lower than 75 percent of the replacement fee, so like PLN 225. Does it make sense to assume, that in the upcoming years, this oversupply will be offset?

**Konrad Tyrajski, Vice President of the Energa Obrót SA Management Board:** The speculators will probably make such assumptions, we do not speculate, so it is not our way of thinking. We try to avoid speculating.

**Piotr Dzieciolowski, Citi Brokerage**

**Question 1:** Why G tariff for you has not been approved yet? You are probably the only energy company, for whom the regulator has not approved this rate? So what is the issue behind that?

**Question 2** My next question is directed to the president Tersa. You have always worked in companies what are linked to green energy. What is your evaluation of the current Law on Renewable Energy Sources? How your company is going to benefit from it because part of the business case was to build your pipeline of wind projects?

**Konrad Tyrajski – Vice President of the ENERGA Obrót SA Management Board:** I will be very cautious when talking about G tariff, because no communication strategy has been agreed with the new management board, so I can speak on my own behalf, not on behalf of the whole management board. The regulator is unclear about 45 percent of the price, that we have resulting from ERO, but even if the tariff were approved now we would talk now about relatively small amounts, so let's not get excessively excited over whether we have this tariff approved or not.

**Andrzej Tersa, President of the Management Board of ENERGA SA:** As regards the Act on Renewable Energy Sources, it is as it is. We have to learn our lessons from it for doing business. Fact, that we had to wait such a long time for this act to be approved, cause such a collapse in investments, because investors were waiting for new support systems. How this situation develops is difficult to say now, future will tell but for the time being, it seems, that wind energy will be the type of installations, that will develop more than any other type of facilities.

**Question 3:** I would like to ask about this new model, that is being prepared by PTPIREE for distribution. Does this new model eliminate outperformance generated on grid losses from individual operators? You earn a lot of money on customers, who have already paid for making the grid more efficient. Will you agree, that volume effects are valid for a year and the business as such is not really sensitive to GDP or volume increase or decrease. Will there be some retrospective adjustment in the new model regarding volumes?

**Agnieszka Okońska – Director of Finance and Regulatory Energa Operator SA:** In this respect the regulatory model does not change. Regulatory OPEX and covering losses on the balance difference will not change in principle. Of course, we are subject to certain benchmarking, the measurement of our performance is taken in terms of all those parameters. But general rules in this regard do not change, the quality tariff introduces a new method of rewarding or punishing for achievement or failure to achieve SAIDI, SAIFI, and similar parameters.

**Question 4:** And the level of grid losses is to drop in the new system? Today you are paid for 5 percent and you actually have 3.5-4 percent and this 1.5 percent is your effective profit. Could the regulator be thinking about reducing the level in regulated income?

**Agnieszka Okońska, Director of Finance and Regulatory Energa Operator SA:** We do not have the results on this benchmark, so I can't answer this question.