

Results conference of ENERGA GROUP after Q1 2018, 10 May 2018

Q & A Session

Piotr Dzięciołowski, Citibank: I would like to ask, because the results in distribution are flat year-to-year, how big was the impact of increasing WACC and increasing RAB, in order to understand such like for like of the business performance.

Second question – if you could explain, I saw there an employment structure, you hired 150 people in business “Others”, Who are those people and what do they do? How much does it cost, too.

And the third question - Could you please explain, particularly the influence of IFRS on the Revenue recognition in the connections. This means, I remember that a few years ago we went into one direction, this means we distributed the revenue pro rata on the life-user, what happened now, what is the influence and what will happen with the previous changes, will it all be changed, I would like to ask for the explanation.

Marcin Kasicki: vice-CFO of Energa Operator: As for WACC the difference between 2017 and 2018, as you remember in 2017 WACC stood at 5.71 %, for 2018 – 6.21%, so there is a growth. You asked also about the regulatory asset value, here we have an increase year-to-year to the regulatory revenue, this is a difference of about PLN 70 mln year-to-year, so here we have an upward trend. In the regulated revenue there is PLN 100 mln.

Piotr Dzięciołowski: That is why I’m asking. Why those results are falling instead of growing. Realistically in the business, if you take WACC and RAB you should have shown PLN 100 mln more in distribution, around PLN 100 mln. And now why is it so flat here?

Marek Kasicki: Please note that we present Q1, which de facto in 2017 was burdened with one-times that did not occur in 2018, so this is so to speak the first reason. If you look only at the margin itself, adjusted from one-times, then we have the margin de facto in plus. So here, somehow in the whole year outlook, we assume that the results are comparable, because we do not publish forecasts. We also have here the increase of OPEX, because WACC and RAB are not the only parts that influence the results. So we manage here the wider aspect of the factors. However the estimated results should be comparable.

Piotr Dzięciołowski: Despite of WACC and RAB growth, it will be....

Marek Kasicki: Yes, because if we’re talking about OPEX, yes? So....

Jacek Kościelniak: Ladies and Gentlemen, when it’s about the others, Mr. Piotr asked, how much does it cost, I will say that the values stand at dozen, up to several dozen million. We don’t analyze deeply the people we hired from the temporary work agency. We have retreated from the certain hiring mechanism for the people, who will be in rotation, we offered them specific full-time contracts, they are the people providing sales process services, and the people who will take into consideration competency gap. Ladies and Gentlemen, educating a qualified electrician lasts at least

2,5 year, it's not so simple to let a person perform a responsible job on the HV, MV or LV power lines without the care and specific allowances, which they should acquire in the meantime. This is what is all about.

Piotr Dzięciołowski: But I'm talking about the business "Others", is it where you employ electricians, or are they employed in distribution? Or do the headquarters grow, and what do they do? Did we see them in the "Other" cost and today they are in the personal costs? And the composition of ENERGA has not changed at all.

Jacek Kościelniak: The real personal composition has not changed, in the contrary it has even shrunk substantially. First of all. Secondly, they are the people employed in ENERGA SA only in the particular business lines. Thirdly, they are also the people (thank you for the hint from our experts) who work as the security guards. We retreat from outsourcing and take care of the things on our own, including security. Because we have a critical infrastructure, we want to hire qualified security guards, who can properly and honestly perform the security tasks of this critical infrastructure.

If Mr. Piotr let us, more will be added by **Piotr Dorawa, CEO of ENERGA Distribution**.

Piotr Dorawa, CEO of ENERGA Distribution: Ladies nad Gentlemen, I would like to add the information, maybe it doesn't concern the distribution business line, however it's linked. We noted an increase in employment in our other subsidiary ENERGA Invest, which implements Main Transformer Stations, or powerlines and quite substantial, I'm not representing now ENERGA Invest, so it's hard to say how big is the number, but it's for sure significant and it's the large share of this mass.

Piotr Dzięciołowski: And the last question about the settlement of the revenues from connections? What did the IFRS change?

Marek Kasicki: It has change only the settlement in time, not one-time. So for x years we don't take into account the revenues once, i.e. we would have it in the result, this event too had an impact on Q1 better financial results, only in time. In relation to the above...

Piotr Dzięciołowski: It means that we settled payments pro-rata 5 years ago, I'm talking about the change from 2010 or 2011, I remember that then, it was some time ago, all of the companies copied from each other, good, let's don't settle in time but up front and showed very good results. And now we came back to the primal version

Marek Kasicki: Yes, but this is the matter of IFRS and it's coming to life. I don't know how was it in 2010 or 2011, because it's hard to remember. But this IFRS forced us to present it this way, it was different the last year, one-time only, and now it's spread over time. And it affects the result.

Piotr Dzięciołowski: And if we get to the numbers, because I remember that ENERGA has, I don't know, ca. PLN 100 mln, PLN 150 mln revenues from connections. So what was it, it was different in different years, as before the IPO there was a little bit more, after IPO a little bit less, so...

Marek Kasicki: It means quarterly, this is how it affects, the change stand at the level PLN 3-4 mln. Quarterly. Annually I would have to recreate it. But it should be around PLN 100 mln, or maybe not so much,,,,

Piotr Dzięciołowski: So please explain me , why 3-4 quarterly. Because if we have 100 annually and the life of the connection is ... 10 years to depreciate it totally, so now in Q1 we will show 10 in the Revenue instead of 100, which is 90... so

Marek Kasicki: Yes, but you should remember that the revenues from connections are not cyclical and not equal. It depends from the way we connect them, so as it's about the installation. So we can't divide it equally for quarters, because we can, as we have now in the quarter 11 thousand connected customers, last year we had 8 thousand. Revenues from that spread over time and it is not a mathematical division for quarters

Piotr Dzięciołowski: I understand, I don't want to understand it for quarters. I want to understand it annually. So if we have PLN 100 mln revenue, according to the old methodology you would show PLN 100 mln, which would go directly to the result, and now you will show only 10 so the difference is 90? Because the connection lasts 10 years.

Jacek Kościelniak: With a simple mathematical calculation you can do it this way, however it doesn't look like this. IFRS, the change, is legally binding this year and we presented it according to IFRS 15, having in mind that we will soon have the H1, we are in the middle of Q2 and soon we will have the auditor's review. And we have to agree on this with the auditor.

Piotr Dzięciołowski: I understand it. I'll just say why I ask about it. Because in my opinion the market overestimated the value of ENERGA, because you showed PLN 150 mln EBITDA, empty, resulting from the revenue, from which did not build RAB, to which the market assigned a billion in value, it could assign, we don't know if it did. It could assign it to this empty result. And in my opinion the result could be or not and now it turned out it may fall about PLN 90.

Jacek Kościelniak: No. We will see at the end of the year. We are in the middle of Q2 and we can see the trend, which is positive. That is why I said, that we optimistically look into the future and we stick to that. However we will publish H1 2018 results around 10, 9 of August, as far as I remember and we will get back to the subject.

Marek Kasicki: What's more to add regarding the employment and others, we have to remember, that in this year Logistics department moved from Business Line Distribution to ENERGA SA and it provides Procurement services for the whole Group and looking back in the history it was in the Distribution and right now those 70 people are in the Others. So this is a significant part of that group.

Question from the internet user: Will the company continue the dividend policy outlined in the prospectus? When will you inform the investors about the dividend payment from the in profit in 2017?

Jacek Kościelniak: Well, Ladies and Gentlemen, the decision regarding the dividends has not been taken yet. We are working on it, we conduct the owner's dialogue. Please understand, that our situation as Board members is hard because we wanted to find a consensus between the owner and the shareholders. Nevertheless, as you already know, we are processing very important investments projects. And when we take a decision about the dividends, we will inform you with the statement as soon as possible. That is all I can say for today.

Krzysztof Kubiszewski, Trigon: I would like to talk about two things. Firstly about the Sales. Because the last year's EBITDA PLN 150 mln was from the segments. Then the company, after lowering the replacement fee, published statement forecasting PLN 150 mln zł effect, change of the dealer and lowering the replacement fee, what would give PLN 300 mln zł EBITDA for this year. And then terminated the windmill contracts, which were considered to be irrelevant, what should increase the forecasted Sales EBITDA above PLN 300 mln zł. And I see PLN 50 mln zł in Q1, and I'm wondering where are we on the way to 300?

Jacek Kościelniak: Well, as we already said we are in the middle of Q2, we can observe a positive trend. I would like to calculate everything so simply. We deal with very unstable situation on the market and we try hard to minimize the effects of high CO2 emissions and coal prices. First of all. Secondly there are still court cases ongoing and our EBITDA and H1 financial result depend from them, we hope that soon a few settlements will occur on the market and we will be able to inform you. Unless Mr. Dariusz Falkiewicz want to add something, then....

Dariusz Falkiewicz, CEO of Energa Trade: I maybe add something to the last part of the director's speech, when it comes to the settlements, they are being talked over. I am careful because they are complicated talks, long-term, that is why I would like to talk about the facts rather than what is happening right now. And please trust me, we are doing our best to bring the negotiations to the successful end. And as I mentioned, they are very delicate matters and hard in negotiations, nevertheless we are optimists at the moment.

Krzysztof Kubiszewski, Trigon: There was a series of exotic statements regarding the decision about Ostrołęka. So the decision about the choice of general contractor was transferred to JV itself, then it took a decision, which is not binding according to the company's statement. I do not know, if there is an official contractor chosen or not. Where are we in that matter?

Jacek Kościelniak: Let me say a short comment on this. I don't know, you know, what does it mean exotic this is the first thing. Because, the statement clearly presented the SPV of Power Plant Ostrołęka C's state, which deals with the proceedings, I guess. Ladies and Gentlemen, you all sitting here probably, maybe not everyone, you did not expect us to be in this exact moment of tender process. And this is not exotic. Nevertheless we have to deal with a very serious investment and we treat it not exotically, even though we have a good weather and we would prefer to go out, but we treat it in a business way and we are in the place, where most of our critics thought we will never be, but we are. And we are on the schedule. That is all I can say today. If there is no agreement with the contractor, we will inform you.

Editor Rafał Zasun: I have three questions. The first one concerns the integrated permit at Ostrołęka C, it expires in June, how would you face the problem? The second question concerns capacity market and the first auction, Are you going to let all your projects in, or you keep Grudziądz for the next year? Has the decision been taken? And I also have a question about Grudziądz, what type of Gas Power plant is it going to be? Is it an open cycle or CCGT? And the fourth question concerns the stages of court proceedings, I know that first witness hearings have been done, of course with those windmill investors, my friend told me, he got a subpoena, so I would like to ask what is the progress of the case. Do you expect that the cases end earlier than possible settlements, or do you intend to settle before the end of the case. At first instance, of course.

Jacek Kościelniak: I will answer the first question. If there's no integrated permit, we wouldn't be in the investment process of Ostroleka C, in which we are. This is not true what you just said. I absolutely deny. All permits are in force, even in the unlimited range.

Rafał Zasuń: Until June

Jacek Kościelniak: Unlimited Mr. Zasuń. Unlimited I repeat once more in order for you to hear properly. When it's about the capacity market, we will submit all of our generation units and we're also in this process and this process is on schedule. Thirdly, Fourthly maybe I will get back to the third in a minute, when we talk about the windmills and calling the witnesses, that you heard... as a director Falkiewicz I suggest we stick to the facts which will occur. The cases are in motion and it looks good for today. That's all we can say today. And now the third question regarding the power plant in Grudziadz, unless Mr Piotr Meller would like to say.

Piotr Meller, CEO of Energa Wytwarzanie: Actually when it's about the certification to the capacity market all of our sources were submitted, together with projects, which are in the phase of construction permit. When it's about the Grudziadz project it is very important for us and we are preparing for the investment, what is more our schedule shows that it's possible to be on time if we apply in the third auction, because there will be 3 auctions for the next three years. The schedule would let us apply in the third auction. If it is CCGT or OCGT, we will.. we are on it. The study of implementation is being updated and it will give us an answer which solution is more profitable. In fact the transition to exhaust would be inconvenient for us due to the permit procedures, environmental procedures, starting over. So it appears that CCGT is the most suitable model. However it has to look properly in terms of business and today we are updating the implementation study of the project.

Question from the internet user: What about the lawsuits for breaching the green certification contracts, allegedly Americans demand PLN 700 mln zł from TAURON and ENERGA. How big is the amount for ENERGA?

Dariusz Falkiewicz: Ladies and Gentlemen, as I said earlier, the lawsuits are processed. Let's talk about the facts. For today referring to the question, The law issue is one thing, and our talks regarding the activities towards settlements are the other. They are not necessarily connected, they might be totally independent. In this moment we focus on both threads, so on the settlement field as also on the court cases. I wouldn't connect them.

Piotr Dzięciołowski: Thank you for the opportunity to ask two more questions.

Jacek Kościelniak: As we promised , we are at your disposal, we are talking, discussing.

Piotr Dzięciołowski: Please do not be surprised, that we are so curious about it.

Jacek Kościelniak: I am sorry Mr. Piotr, please allow us one thing ...

Piotr Dzięciołowski: There is a certain asymmetry of information. How would you say, these four entities with which you are close to an agreement, are they foreign or Polish? state-owned? With whom is it easier to conduct these discussions? Could you please say something from behind the scenes , what's the attitude, are they open to negotiations, or not? And the second question - Did

you have any impact on the PGG's decision regarding pay rise for the miners. Don't you mind losses on P&L, which you will note next year and how does it affect business plan of the company?

Adam Kasprzyk, spokesman Energa: Mr. Piotr, you are asking about the backstage of the talks. I will let myself to say two sentences. Well, in such negotiations you never reveal the backstage before the end of the talks with the outcome or other solution, of course. However, I would like to say one more word to Piotr, one word to say, the very fact that we are talking and the fact that we talk with so many subjects that you mentioned, which is not one entity, and the level, because it lasts long and we talk, inform and communicate, that we are close, because we are, it proves that there are two partners, who talk on this subject. We are convinced that the decision is right, it has been taken based on many analyzes, not only one and we are sure of our position. Other cases are in court and here the court will decide. And please give us a possibility not to say anything more than we have said at the moment. That's why let's wait for the end of the talks. I am convinced, gentlemen, that we will then be able to inform you and talk about the backstage of our talks. Can we settle it like this? It's just this business and these conversations still need some time.

Piotr Dzięciołowski: We can, but the capital market will assign probabilities to different scenarios and we will not change it. And we cannot arrange with the market, that for example we will not assign a discount to a share's price because some American guy will come and say, that he wants PLN 700 mln zł and says, that he doesn't get along with you and goes to court, so according to me the discount in the price of the shares will occur. However with me, I will wait for you to eventually say if they are polish entities or foreign, I would appreciate and about the PGG, but I promise it's my last question.

Adam Kasprzyk, spokesperson of Energa: No, we are glad to talk.

Jacek Kościelniak: Mr. Piotr, you know well, you all know that the talks are not easy. These are business talks. We care about getting along, the other side also want to get along and find a common ground for the settlement. There are some details that we balance, both the opposite side and us. Everything, please god, would be regulated by the market, but up to now you know well that it was different and we suffered severe losses. So this is the time to reverse that tendency. I will talk about the PGG in a minute. Mr Dariusz Falkiewicz will say something.

Dariusz Falkiewicz: I will just add. Unfortunately we cannot reveal the information. With all respect, we would like to do it, as soon as we have the facts we will inform you. However maybe I will add that the cases in the court are so complicated that we assume they will last long. We are prepared for long-term actions. Therefore we will work effectively until the very end. Regarding the settlements, please trust me we leave as they are. When we have the new information, we will let you know. At the end I will add that I'm an optimist.

Jacek Kościelniak: And let's stick to that. However when it comes to PGG we constantly monitor the situation. I have repeated many times, we have our representative in the Supervisory Board. Financial Situation of the company looks quite good. I wouldn't say good, cause it could always be better. In spite of the good results, we constantly try do better. We are in touch with the management of PGG. We can see that the management implements various programs to improve the economic efficiency. As for the pay-rise, I'm not surprised, that the mining industry applied for additional pay rises, because me and Dariusz Falkiewicz we were there. We went down many times,

and it's really nothing convenient. On the other hand there is a potential for pay-rise and the savings programs should finance them. What is more there is a phenomenon in the mining that we call a competency gap. Many people retire and educating a new miner is not easy. Moreover many mining schools have been closed and there is no place to educate professionals. Only AGH and polytechnics remain. That is all about PGG.

Paweł Puchalski, BZ WBK: Many questions have been asked, we have heard the answers. Firstly, let's start with a detail. You showed a relatively poor result in CHP, which is half of the last year's EBITDA. What influenced it? Any extremely high prices of coal or CO2, which hit you more than usually?

Jacek Kościelniak: You have answered your question. High prices of coal and CO2 allowances. These are the main factors.

Paweł Puchalski: Yes, but the scale seems to be a little bit too big, taking into consideration the fact that this segment does not consume so much CO2. I understand that there were no other things except of the above mentioned.

Jacek Kościelniak: Nothing else. Maybe the weather conditions.

Paweł Puchalski: The second question. I'm really sorry, but I need to go back to the Sales segment. Q1- PLN 53 mln zł. And now the question. Are there any provision for the potential settlements or is it normal operational result.

Dariusz Falkiewicz: This is normal operational result. We have not made any provision.

Paweł Puchalski: As I understand Q1 is representative for the next quarters?

Dariusz Falkiewicz: Yes

Paweł Puchalski: Good. So now I know. And the last thing You have mentioned the settlements. For me it means that the company needs to make bigger or smaller provision. As I understand you will make the provision in Q2 or Q4?

Dariusz Falkiewicz: So far we have not made any provisions. This was consulted with the auditor. In case of concluding the settlements we do not plan to make any provisions.

Paweł Puchalski: OK, good. So maybe not provisions but payments. For me a settlement if you find the contracts invalid you have the right and full profit and the other party has nothing. For me the word settlement means that we meet in the middle and that means the cash outflow, because we might not talk about the provision but about cash outflow when the settlements are made.

Dariusz Falkiewicz: I would have to reveal the certain activities, talks we conduct. We don't want to reveal the details. Let's stick to the facts only.

Jacek Kościelniak: We take into consideration the settlement concluded under the civil law, regarding the above case it's important if the parties agree to the implementation of project in the future. I don't want you to define the terms of settlements. There is law and the generally accepted principles. We don't know if the result of the settlement appears as the revenue or the cost.

Bartłomiej Sawicki, portal biznesalert.pl: I have a question concerning PGG. In connection to the pay rises do you consider taking a new loan? And if such a situation appears is it consistent with the agreement you made with PGG?

Jacek Kościelniak: I answered this question earlier. We see the programs, we see the efficiency improvement, and loads of work done by the board. Pressing PGG would be a difficult decision to take. Ladies and Gentlemen you don't ask about the new electromobility projects and there is an expert here.

Voice from the hall: I sent you an email to organize the meeting for analysts with Elektromobility Poland and you found no time for me. It's great that the man is here with us, but it's a pity that it's the very end of the conference. I promise I will prepare the questions I wanted to ask.

Jacek Kościelniak: We perceive the electromobility a little bit different. You talk about the Elektromobility Poland, vice president of Energa Obrót, MR Dariusz Chrzanowski is with us here, but he is also the member of the supervisory board in that entity. Our aim is to cover Pomeranian province and the northern part of our country with the electric car charging post. That is how we see it and we talk with the local government units in order to find the place for the devices. In Gdańsk we have 7 charging stations and we already earn money on it. I'm sorry that the management of Elektromobility Poland behaved like this. We will have the opportunity to meet the entity's board in a week or two and we will ask how many electric cars are in Poland. However I see more foreign vehicles in Gdańsk.

Robert Maj, Ipopema: I would like to ask about the Sales segment because there is PLN 53 mln zł and you say it's representative for the subsequent quarters. Do you see the pressure on price, which is accepted or not by the end-users? Because now the SPOT stands above 200, and as far as I know you buy expensive energy. And how does it impact the results?

Dariusz Falkiewicz: Answering your question, to some extent it affects the result, however we consider a series of actions on our side to maintain the positive trend. One of such activities is offering higher prices for business clients due to the dynamic growth. We are looking for different solutions to maintain this trend, which was initiated by us in the first quarter.

Robert Maj: Ok, in a word, it should not be worse.

Jacek Kościelniak: It should not be worse.

Rafał Zasuń: I would like to go back to the issue of the integrated permit....

Jacek Kościelniak: I have already said everything about it.

Rafał Zasuń: But I have the marshal's decision in front of me ...

Jacek Kościelniak: Mr editor, I have already said everything about it. Absolutely administrative decisions regarding Ostroleka C are in force.

Rafał Zasuń: But please let me read a part of the decision because I would like to get an answer to a specific part of the decision ...

Jacek Kościelniak: Mr editor, this can only be a part. Thank you, sir. Really. Everything is in power. Power plant Ostrołęka undertook this process and we are the sponsor and we work on it. We are in the advanced stage and on the schedule. And we have absolutely no problems with environmental permits or any other decisions.

Adam Kasprzyk, spokesman of Energa: Thank you very much. Mr. Editor, this text you want to quote, these words are in your text.

Rafał Zasuń: No, no, it's about the decision of the marshal ...

Adam Kasprzyk, spokesman of Energa: Well, but in the matter of the decision of the marshal of the Masovia Province, you also wrote in your text, right?

Rafał Zasuń: Yes

Adam Kasprzyk, spokesman of Energa: It's just like the chairman Jacek Kościelniak said, it is not entirely that this decision, or whatever is written in this decision, limits us in any way. We have fulfilled and all our conditions are met and this decision has a few different words there, but we have absolute permission for it and all permits to continue this investment.

Jacek Kościelniak: All decisions of an administrative nature remain in force. And they will remain in effect. And let's stick to it.

Adam Kasprzyk, spokesman of Energa: It certainly will not limit our investment and will not stop it.