

Q&A session, conference on 9 August 2018 - transcript

Paweł Puchalski, BZ WBK: Mr. Kościelniak, in one of your initial statements, the following words were used: we ensure voice and data transmission, we implement *Here and there TV*, I think it would be enough to add a mobile phone offer and we would have a new telecommunications operator in Poland, is this a potential plan of Energa?

Jacek Kościelniak: We are not aspiring to become a new mobile network operator. Having said that, however, we started a cooperation with one of the companies, which enabled us to provide such an offer.

Paweł Puchalski: In Q1, you showed a decrease of PLN 7 million in the margin on distribution, whereas in Q2, despite some one-off factors you talked about, you recorded an increase of PLN 99 million in that margin. Is it possible that the distribution result – so great in your words – is in fact overstated by over PLN 100 million?

Marek Kasicki, Member of the Management Board for Financial Matters at Energa Operator: This is a one-off event. Admittedly, the margin growth was largely due to, but not only two one-off events. The new method of estimating non-invoiced sales based on the latest functionality added in our billing system, which we have been implementing for a long time now, has resulted in the adjustment of the margin for X months, about 30, which, in turn, has caused such a significant increase in the one-off margin. No matter how we adjusted it, we would still have an increase in the margin due to the volume, we are actually in a state of economic recovery, so the volume increase is also important.

Paweł Puchalski: I understand that the majority of the growth is due to this one-time restatement for a few dozen months?

Marek Kasicki: That's correct.

Paweł Puchalski: You show stable values of the SAIDI and SAIFI indicators – on the one hand, it is very good that they are stable. But on the other hand, it is very bad because we know that the regulating authority has given you a particular corridor in which these indicators have to fall by tens of percentage points every year. When I look at your SAIDI and SAIFI values after six months, it seems to me that next year you could be forced to adjust your results by an EBITDA adjustment factor, because we know that the regulating authority has the discretion to do that. Are my guesses correct?

Piotr Dorawa: We have remained all the time within this corridor, as determined by the President of the Energy Regulatory Office, we have a safety margin. We know that new random events may occur. We are therefore working hard to make sure that these indicators are as good as possible, so that we can keep this safety margin. It does not mean, however, that because of the good values of these indicators we have become complacent and are sitting on our hands. The last year showed us that just two days, actually one weekend, meant that, although our indicators seemed safe, after this one weekend we reached the target set for December already in August. We are not afraid of an intervention by the President of ERO, but we act by simply doing our job.

Jacek Kościelniak: Mr. Puchalski, if I may add something – I do not share your view on this matter. We are in the middle of the year, we have incurred expenditures on improving the quality of distribution, and we will continue to do so. We still have 4.5 months to go till the end of this year, and we pray that the situation from 14-15 August last year does not repeat.

Paweł Puchalski: Yesterday, there were reports that the Ministry of Energy saw a need for additional, multi-billion expenditures on the distribution network in forested areas, it concerned the wiring. The

amount of PLN 11 billion was mentioned. How likely is it that next your free cash flows will deteriorate by several hundred million zlotys a year due to this new wiring project?

Piotr Dorawa: On the distribution side, the network wiring programme in forested and wooded areas has been underway since the beginning of 2016, so before the events that caused the direction you mentioned. We have a multi-annual plan, we assume that the network will be wired in the areas where it is justified. And it is in progress, we install wires year by year, at the moment I cannot remember the lengths of the lines. But we can talk about it after the conference.

Paweł Puchalski: But are you not afraid that every year you sit at the table with the regulating authority who can change this CAPEX path, are you not afraid that these expenditures will be increased from next year?

Piotr Dorawa: There is such a risk.

Jacek Kościelniak: Of course, this is a risk. But first of all, we are in constant dialogue with the regulating authority, and secondly, we are having a meeting in the Ministry of Energy on this very subject today. Undoubtedly, it is and will be our idea to move overhead lines to the ground as much as possible and we are working on it very intensively; but this process is not easy, it is a process that is much more demanding in terms of preparation and also in terms of incurring investment expenditures, and this type of construction is much more expensive. So on the basis of this latter information, we will be looking at the plan for 2019 and beyond, and we will take this into account by adjusting it accordingly, as agreed with the Ministry of Energy and the regulating authority.

Piotr Dzięciołowski, CitiBank: How will the margin on sales develop next year, do you see a problem with the G tariff? How much does it have to increase to compensate for the increase in electricity costs? Have you already estimated these costs in order to close positions - if this pressure does not appear next year, then perhaps in the future?

The second question is: is a competition for a new president planned, and when?

Jacek Kościelniak: I will answer the second question. We are not the right addressee to answer briefly and concisely if there will be a planned competition.

Piotr Dzięciołowski: And considering the decision of the previous president to purchase Lechia Gdańsk?

Jacek Kościelniak: This is not a decision – please remember that the management board works collectively, the management board makes decisions by way of resolutions and individual departments, individual business lines are obliged to implement the management board resolutions. So this is absolutely beyond doubt, it is not a decision. In general, I myself, as CFO, did not think about any financial aspects, anything related to the decision you are talking about, whether an attempt to make this decision or its estimation over as much as we are bound by the sponsorship agreement. That would be it as far as this subject is concerned.

With regard to the G tariffs, however, I would also like to pre-empt other questions from you. We do not intend to ask the President of the Energy Regulatory Office to raise any tariff. We are doing everything we can to control this difficult situation by ourselves. We have our efficiency improvement programmes, our savings programmes, our group synergy programme and we are on track. If it was not for these programmes, believe me it could be worse.

Piotr Dzięciołowski: Could you please explain how – if you sell about 5 TWh subject to the G tariff, and when I look at the market, I see about 100 zlotys of pressure – can you save 500 million? And why, if

you say that everything can be done with these savings, why did the group not save in the past? How did you manage to save 500 million from year to year, what actions did you take to make these savings, because we are talking about large sums of money?

Dariusz Falkiewicz: As far as the issues related to future years are concerned, the subject is only in the process of analysis in terms of budgets and financial plans for the following years. With regard to the G tariff, remember that we are under very strong competitive pressure. It is not the case that we can apply to the President of the Energy Regulatory Office to raise the tariff each time. Our competitiveness would fall dramatically in that case. We must take very strong account of the competitive situation in which we are in. This is a very important determinant of any tariff decision we take. Of course, you are right when you say that this will have a very strong impact, because today we can see what the prices on the energy market are like. However, please bear in mind another element, namely Minister of Energy's announcement about releasing 100 per cent of the trade obligation on PPE. We hope that to some extent, this will have an impact, firstly, on the ensuring a level playing field for all players when it comes to electricity sales, and secondly, we hope that these prices will not be so high, , that something will change on the basis of this decision.

Piotr Dzięciołowski: You are trying to avoid answering the question. Could you please explain to me how much pressure there is on margins or whether the suspicions concerning those PLN 500 million are right or wrong? And secondly, where do you see the competition on the G tariff, because it seems to me that no independent operator of the Fortum type will offer a lower price than it can get it for on the market and hedge there, so what are the margins today for anyone to compete with you for customers in the District of Gdańsk (Pomerania) on the G tariff? Because it seems to me that there will be no competition at all on the G tariff. How much first margin do you earn per client and how big is the problem of this price increase on the mark-to-market basis?

Dariusz Falkiewicz: The estimate of PLN 500 million, which you mentioned, is very strongly overestimated. I would like Zbigniew Kinal to answer that question.

Zbigniew Kinal: The amount (PLN 500 million) is heavily overestimated. The margins we have on G tariff customers are approximately 3.8 TWh, not 5 TWh. We can talk about some PLN 100 million, not PLN 500 million. The prices that are quoted today for both conventional energy and green certificates are high, as we know. If we had to calculate this tariff today, I assume that it would have to be higher than today. But we are not only competing on the price of electricity. We are also implementing, among others, additional products, such as TV, medical packages and driver packages, so that we can build this margin additionally on other elements, and not only on electricity itself. The unit margin on the tariff is already very low and may amount to PLN 30. The margin on those additional products is often higher than on the tariff, so our direction is to sell additional products.

Piotr Dzięciołowski: And what about the competition for the President? Should we ask the Ministry?

Jacek Kościelniak: You should ask the owner and the supervisory board.

ONLINE QUESTIONS

1. The question is about the introduction of the trade obligation. On the one hand, there are questions about how the obligation can affect energy sector performance, and on the other hand, how we view the whole market in this context.

Jacek Kościelniak: We are beyond any doubt in favour of the trade obligation. We believe that this is a move in the right direction. How it will end we will see. I believe that trading in energy on the exchange will be transparent. We will eliminate all suspicions of any speculations. There is such a

suspicion, the President of the Energy Regulatory Office is investigating – on the graph we presented to you, we could see a sudden increase in energy prices – so we believe that this will have a positive impact on the whole market.

Dariusz Falkiewicz: We welcomed the information presented by the Minister concerning 100% trade obligation. This is probably part of a more detailed analysis. We are treating this as a slogan and, in fact, this will only be confirmed by the final document. Whether it will be 90% or 100%, it will depend on these details, but the direction is as good as it can be. From our point of view, it is important that all transactions are transparent, so that there is no doubt as to at what price everyone is buying. This direction is the most appropriate and we support it as much as possible.

Jacek Kościelniak: I would like to add that we have an opportunity to take part in public consultations, to submit comments and remarks on draft legislation, so if there is any specific information, we will discuss them with the regulating authority and the Ministry of Energy.

2. Question on offshore wind farms

Piotr Meler: Today, this is a very prospective topic in which naturally the Group sees its contribution. We are involved in the discussion and preparation of these maritime areas and have submitted 18 comments, which I hope will be accepted. These are, mainly, comments which mean extending the areas that will be developed for offshore wind farms, and we would like to take part in this process. But, of course, it is a preliminary stage, we do not know how the construction of connections will look. The question is: will the transmission grid operator undertake this construction? This is certainly an initiative in which we want to participate.

Jacek Kościelniak: I confirm. We treat this issue as a long-term perspective, and at present we do not have a specific position that would allow us to express our opinion authoritatively for the time being. It is an interesting project, our heads remain open, we are interested in these things, we will see how it develops in the future. Perhaps there will be letters of intent. But this is the beginning of the road.

3. I would like to ask about the insurance for the Ostroleka project? Insurers and reinsurers are withdrawing from the coal sector, how will it affect the access to insurance services and the cost of insurance cover?

Jacek Kościelniak: I believe this question is addressed to the representative of Elektrownia Ostrołęka Sp. z o.o. – Vice President Robert Niewierski.

Robert Niewierski: The process of obtaining insurance coverage for Ostroleka is very advanced. We have in-depth knowledge of the insurance market, we are a member of the Mutual Insurance Association. We are aware of the market developments and the withdrawal of several reinsurers from this market; however, looking from a broader perspective, we do not see any risks in obtaining insurance according to the adopted schedule.