

Record of Q & A sessions from Energa Group's result conference Q3 of 2017

Warsaw, 8th of November 2017

Q & A session.

Adam Kasprzyk – Energa Group spokesman: I invite you to pose any questions you may have at this time.

Q: Paweł Puchalski, equity analyst at BZ WBK: Welcome, you mentioned in your last words about the major positive impact if the tax is abolished under the amendment of the Act. What is the amount of money we are talking about? If we talk about material impact on the segment– it would not be much, because the segment simply produces very little EBITDA. And secondly: How sure are you that this amendment will take place?

Jacek Kościelniak – Energa Group Chief Financial Officer, deputy CEO: After the meeting with you, I will go to the Ministry of Energy and I will talk about very important topics, particularly about our group, also on issues related to property tax regulations. At this point we estimate that it is about PLN 16 million. We hope that this amendment soon, still this quarter, will be approved by the parliament.

Q: Krzysztof Kubiszewski, equity analyst at Trigon DM: Is there any possibility that your plans on Ostrołęka C will be changed, rather as a result of ministerial decision than yours?

Jacek Kościelniak: The procedure is in progress and as you know we have prepared the terms of reference for this tender. At present, nothing indicates that plans may change.

Q: Krzysztof Kubiszewski: Can hydropower plants participate in power market auctions?

Jacek Kościelniak: As you know, at this moment the parliament works on the power market law, they can take part.

Adam Kucza, head of Energa IR department: This is a matter of details, which will be established a little later, that is the availability issue, the number of production hours, this will be case by case.

Q: Krzysztof Kubiszewski: Is there any factor that could substantially raise future results in the Distribution Segment? Of course despite regulatory model.

Jacek Kościelniak: We follow regulator's guidance, we talk with the regulator on the subject, we negotiate what we can, like issues concerning reliability and quality indicators. We stick to the law, it is a regulated business and at that moment we conduct our business based on these regulations.

Q: Krzysztof Kubiszewski: Are there any other things that you have acquired without a tender? For example CO₂. In my opinion, the Sales Segment buys energy without public tender, simply on the power exchange in bilateral agreements with other energy groups. Are you going to terminate those other contracts as well?

Jarosław Dybowski, Chief Executive Officer of Energa – Obrót: You probably mean not without a tender, but without following public procurement law - yes?

Krzysztof Kubiszewski: Yes.

Jarosław Dybowski: We reviewed all the contracts that we entered into in that period and we have not identified such type of risks.

Q: Krzysztof Kubiszewski: But if some contracts as you believe are illegal as they were not finalized in a proper way and others, which were concluded the same way are legal, so what is the difference?

Jarosław Dybowski: I understand you mean CPA, right? To buy green certificates?

Q: Krzysztof Kubiszewski: I think that the company has signed a number of contracts without entering public tenders, which we talk about in the case of green certificates, so what is the difference between those contracts?

Jarosław Dybowski: Right now we have about 150 CPA contracts. Signed at various times and under various circumstances. Some of them have already expired. And with those partners with whom we also inked deals at the time and which are virtually void - we have offered resumption of contracts if the partners agree to renew contracts at market conditions. Only 22 of these 150 contracts were concluded under market conditions. The remaining contracts were concluded in such a way that the purchase of the certificates was done at market price. Consequently, for all those contracts where the purchase of certificates was made at market prices, we offered all partners a new contract. And at the moment there is the process of concluding these contracts, and the partners agree to see those contracts as invalid and conclude new contracts with us.

Adam Kasprzyk: The answer to this question may be extended by our expert, invited to our conference, Professor Maciej Mataczyński, who represents the law firm that works with us on the issue of contracts seen as null and void.

Maciej Mataczyński, managing partner at SMM Legal Sójka, Maciak, Mataczyński law firm: Thank you. Two clarifications: the requirement to apply public procurement law has been abolished in 2015, so this situation is specific. It really applies to long-term contracts signed before the change of regulations. And as Mr Kościelniak said – audit has been carried out and a significant part of the other contracts simply expired, and time for return of claims foreseen in the law has passed. Therefore it is a rather narrow range of time and only concerns mentioned agreements.

Q: Krzysztof Kubiszewski, Trigon: So I understand that energy companies which have similar contracts, signed in the mentioned period and will not terminate it are not acting within the rule of law?

Maciej Mataczyński, managing partner at SMM Legal Sójka, Maciak, Mataczyński law firm: I think Energa should first of all answer questions concerning Energa. But - from what we know, what is in the public domain - there are two other large energy companies that have similar contracts and decided they to terminate contracts. Basically they do not see those contracts as binding. This is just a different approach. But as I say - we are able to speak for Energa, and for other companies we can rely on public information.

Adam Kasprzyk: I would like to remind you that we are also online and we have live broadcast of the conference, we are also available on the chat and we have questions from Internet users.

Adam Kucza, head of Energa IR department: We welcome our internet users, about 170 people are currently watching us. And one of the questions is about the Distribution Segment, referring to the slide we showed on underground cables, I am showing it now with the outlay on underground cables.

Q asked online: Is this new investment? Not included in distribution expenditures over the next years? The questioner here refers to planned expenditures, i.e. PLN 20.6 billion until 2025. What is the amount of money we are talking about on underground cables? Will this investment achieve the required rate of return and when?

Adam Kucza: Our investments in underground cables are definitely undergoing. This is partially reflected in the plans approved by URE (Energy Regulatory Office). On the other hand, the scope of investments, we are thinking about now, after this year's storms, is bigger. If we wanted to increase the rate of underground cables (as you see on the slide, it is less than 19% for our network, while in Western Europe it's minimum 40% for medium-voltage networks), investments would have to be substantially increased or shifted from other areas, and this would require a regulatory dialogue that is currently underway.

Adam Kasprzyk: We will ask, Mr. Marek Kasicki, our representative in this business segment to complete the answer to this question.

Marek Kasicki, deputy CEO of Energa-Operator: We have shown you the estimated cost of medium-voltage cables. This in-depth analysis we carried out after August storms and it shows only the increased capital requirements for investments in underground cables. At this stage we want to move within the framework of the current development plan approved by the President of URE. Of course, it affects the number of kilometers and therefore we show you the difference between underground cables and overhead power lines. If we wanted to increase the number of kilometers of underground lines, as head of IR said - we would have to talk with URE about change in our development plan.

Jacek Kościelniak: I would like to add that, given the acceleration that is happening now, we should invest PLN1.2 - PLN1.3 billion by the fourth quarter in network construction, network upgrade, network repairs and underground lines elements also. Thank you.

Dear Sirs, we are at your disposal.

Q: Robert Maj, equity analyst at IPOPEMA: I would like to ask about your trading policy, i.e. at what price you sell electricity for next year and at what price you buy CO₂? What is your policy regarding hedging for CO₂? Do you have any rights for next year somewhere on the balance sheet, bought at a lower price, or will you buy only next year on the spot market - please comment on this. And also I would like to ask you about underground cables, can we understand that you will not spend any CAPEX on it, which is not approved by URE, yes? I am referring to this slide about the current status of Energa-Operator and Western European countries.

Adam Kucza: When it comes to CAPEX as a network operator it is an indispensable thing. Here we have to be on an upward trend on a lot of issues also regarding CAPEX, tariff issues for next year, etc. It is always the most essential part of the distribution business, we can say, and such conversations have to take place. As for the first part I understand that it concerns the energy produced by the group, yes? In this context, please keep in mind that CO₂ prices do not affect us that much. Let's look at a slide concerning CO₂ rights. Free rights are actually falling, they are going down by 2020. Last year free allowances stood at 800 thousand tonnes. Now for 9 months of 2017 it is 600 thousand. So this decline goes more or less linearly until 2020, when those free allowances are no longer there. On the other hand, in this context the second slide is important one, i.e. this on the scale of production at the power plant in Ostrołęka in must-run formula, where CO₂ costs are covered by the operator. Therefore at this moment the Energa group is sure to be the least exposed of any energy group to any turbulence or change. Even current negotiations at European level on the future CO₂ policy.

Q: Paweł Puchalski: I have questions about 2018 in conventional production, de facto in Ostrołęka and in distribution. Firstly, I see that you have very high volumes in must-run formula at Ostrołęka and as a consequence a good result. Do you see any upside for 2018? Can you squeeze even more if the operator wanted what would impact your next year's EBITDA from Ostrołęka or it was already maximum of your

production capacity? And the second thing - distribution. Do you see any upside to this segment results in 2018, in year on year comparison?

Adam Kucza: In the context of the first question, capacity of the power plant in Ostrołęka allows for even more must-run production, and this is more a matter of operator. On the other hand - it would not be a big jump because we have had just a few repairs this year, and the year 2017 is already better than 2016 in terms of maintenance days, so we won't have many possibilities. This is more a question of the demand side, the operator, whether there is market, demand for must-run production.

With regard to distribution, the obvious factor is the WACC, the cost of capital, which, as we know, is increasing. There is a bit more than 6.0%, which already means some growth. However, there are still all other factors that we do not know, and we are talking about it with URE. Things starting from qualitative factors in which we feel fairly safe to discussions about the volume. But as you can see there are more open topics, including investment issues.

Adam Kasprzyk – Energa Group spokesman

Thank you very much. I do not see anyone willing to ask a question. As usual we are at your disposal in the lobby. Thank you very much for taking part in our conference.