



## TAURON Group's FY 2016

### Financial Results

March 16, 2017

## FY 2016 key data

### TAURON Group's FY 2016 results

[PLN m]		2016 vs 2015	
Sales revenue	17 646	↓ (3)%	
EBITDA	3 337	↓ (5)%	
Net profit*	367	↑ up PLN 2.2bn	
CAPEX	3 817	(9)%	
Net debt/EBITDA	2.32x	↑ up 0.12x (vs 31.12.2015)	↓ down 0.32 vs 30.09.2016

### FY 2016 operating data

		2016 vs 2015
Commercial coal production [t m]	6.37	↑ 30% excl. NBGT 6%
Electricity generation [TWh]	16.80	↓ (9)%
Heat generation [PJ]	11.52	↑ 0,1%
Electricity distribution [TWh]	49.68	↑ 1%
Electricity supply [TWh]	32.04	↓ (11)%

\* attributable to the shareholders of the parent company

## Q4 2016 key data

### TAURON Group's Q4 2016 results

[PLN m]		Q4 2016 vs Q4 2015	
Sales revenue	4 523	↓ (2)%	
EBITDA	879	↑ 29%	
Net profit*	93	↑ up PLN 3.0 bn	
CAPEX	1 367	(2)%	
Net debt/EBITDA	2.32x	↑ up 0.12x (vs 31.12.2015)	↓ down 0.32 vs 30.09.2016

### Q4 2016 operating data

		Q4 2016 vs Q4 2015	
Commercial coal production [t m]	2.16	↑ 48% excl. NBGT 18%	
Electricity generation [TWh]	4.36	↓ (8)%	
Heat generation [PJ]	4.53	↑ 16%	
Electricity distribution [TWh]	12.86	↑ 3%	
Retail electricity supply [TWh]	8.85	↓ (7)%	

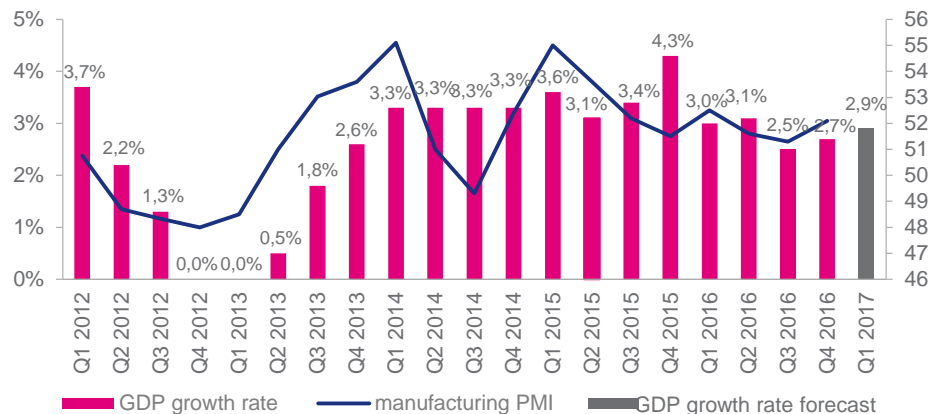
\* attributable to the shareholders of the parent company

# Highlights Summary

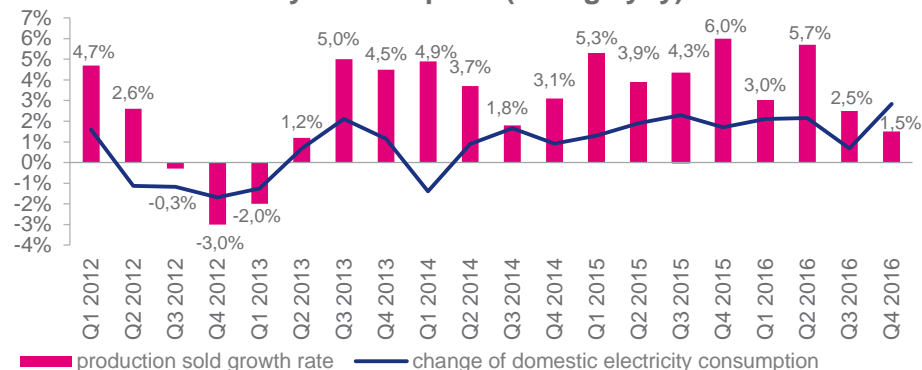


January 29	EC Stalowa Wola terminates the agreement with Abener Energia – the general contractor of the CCGT unit at Stalowa Wola. Termination cause: breach of the schedule and of the material technical provisions of the contract
March 9	Adoption of the 2016-2018 efficiency improvement program with the total planned value of PLN 1.3bn. Program's implementation will allow for increasing the Group's EBITDA by approximately PLN 400m in 2018 (a permanent, recurring effect of this magnitude in the subsequent years)
March 22	Agreements signed with bondholders under which the permitted net debt to EBITDA ratio was raised from 3.0x to 3.5x
April 25	Adoption by the Management Board of TAURON Group's new Business Model
July 26 February 14, 2017	Decision taken to book write-downs due to impairment charges related to the wind and conventional assets' carrying value for the total net amount of more than PLN 735m
July 28	Resignation from the construction of a CCGT generation unit at Elektrownia Blachownia
September 2	Adoption of TAURON Group's 2016-2025 Strategy Stopping of the implementation of a CCGT generation unit construction project at Elektrownia Łagisza
October 27	Conclusion of the agreements on the conditions of the further implementation of the "CCGT generation unit construction at Stalowa Wola" project
November 14	Fitch reaffirms the company's "BBB" long term rating in the domestic and foreign currency and upgrades the ratings' outlook from negative to stable
December 16	Issuing of hybrid bonds worth EUR 190m, underwritten by the European Investment Bank under the so-called Juncker plan. As a result of the issue the net debt to EBITDA ratio was lowered from 2.6x (end of September 2016) to 2.3x (as of the end of December 2016)
February 28, 2017	Termination of the long term agreements on the purchase of green certificates by TAURON Sprzedaż (Supply)
March 1, 2017	Amendment signed with the RAFAKO-MOSTOSTAL WARSZAWA consortium to the agreement on the construction of the 910 MW generation unit at Jaworzno III Power Plant – extension of the unit's completion deadline by 8 months, contract value increased by PLN 71m

### Poland's GDP growth rate\* and manufacturing PMI (quarterly average)\*\*



### Increase of industrial production sold\* and electricity consumption (change yoy)\*\*\*



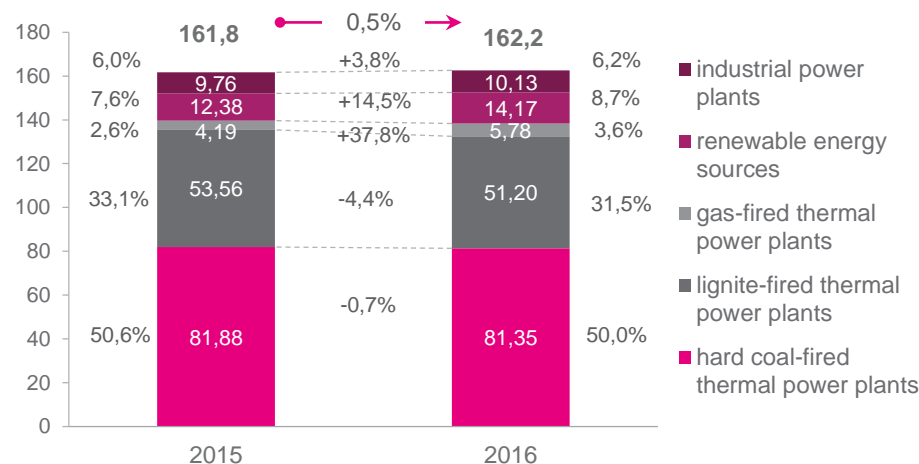
### Electricity prices under one year BASE contracts

	Average price [PLN/MWh]	Volume [GWh]
Y-13	191.60	108 861
Y-14	160.40	142 841
Y-15	168.11	146 932
Y-16	166.47	147 923
Y-17	160.27	76 729
Y-18	159.74	14 778
Y-19	164.73	1 743
Y-20	170.22	97

Average electricity sales prices on the competitive market (acc. to ERO):

- 2012: 201.36 PLN/MWh
- 2013: 181.55 PLN/MWh
- 2014: 163.58 PLN/MWh
- 2015: 169.99 PLN/MWh
- 2016: 169.53 PLN/MWh\* estimate

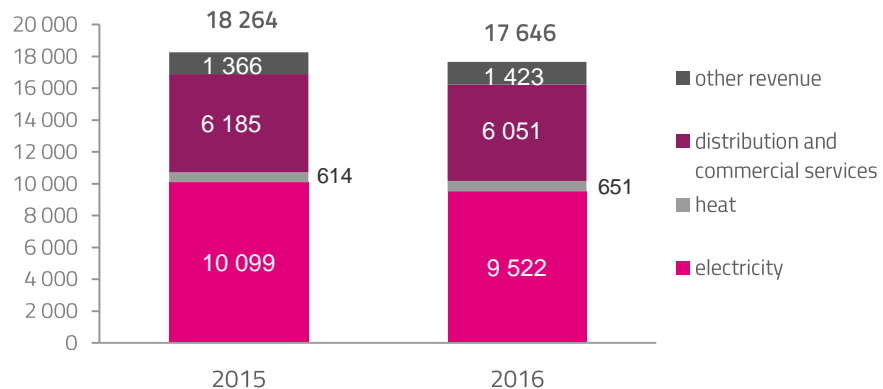
### Structure of electricity generation in Poland\*\*\* [TWh]



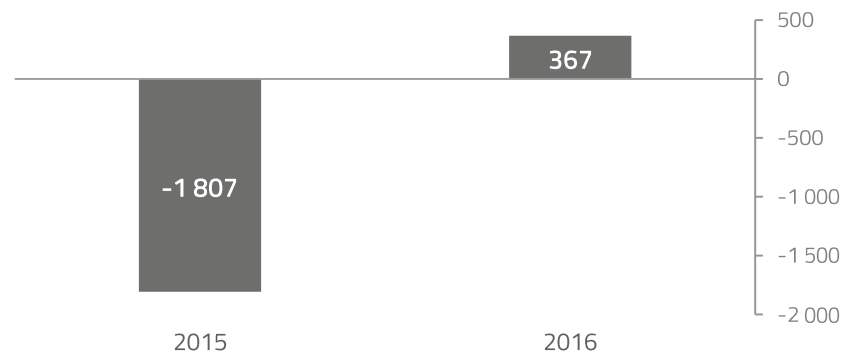
# FY 2016 key financial data



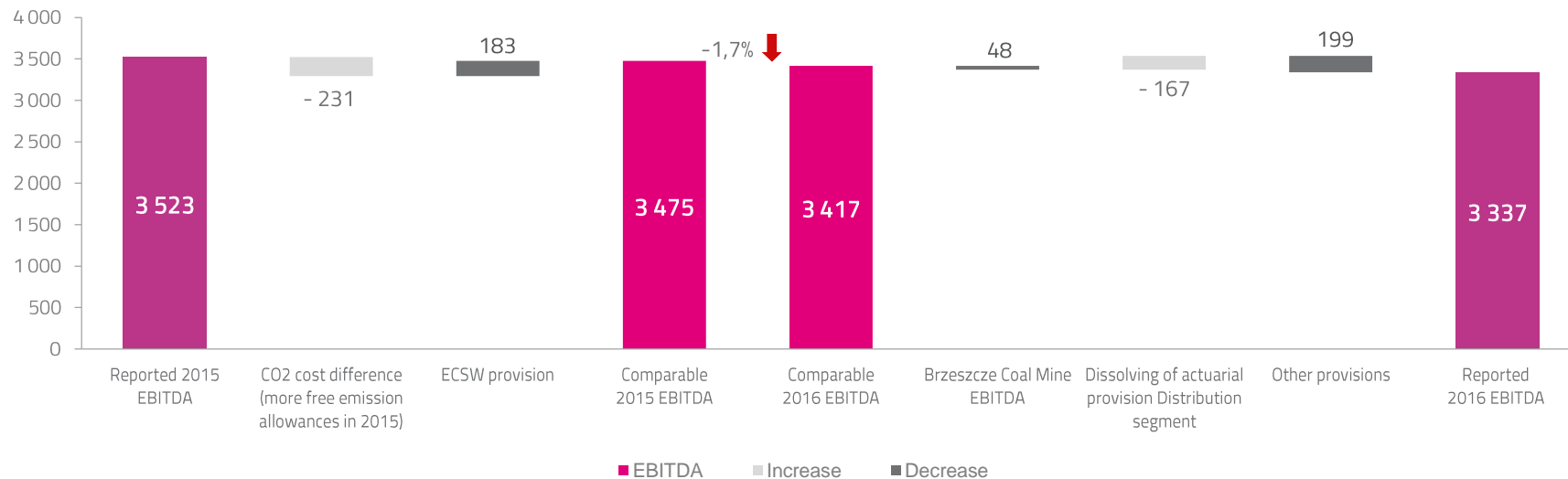
Sales revenue [PLN m]



Net profit attributable to the parent company's shareholders [PLN m]



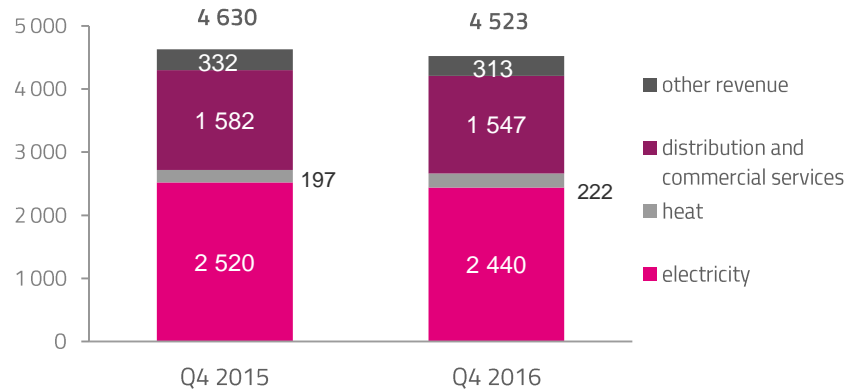
2016 vs 2015 EBITDA [PLN m]



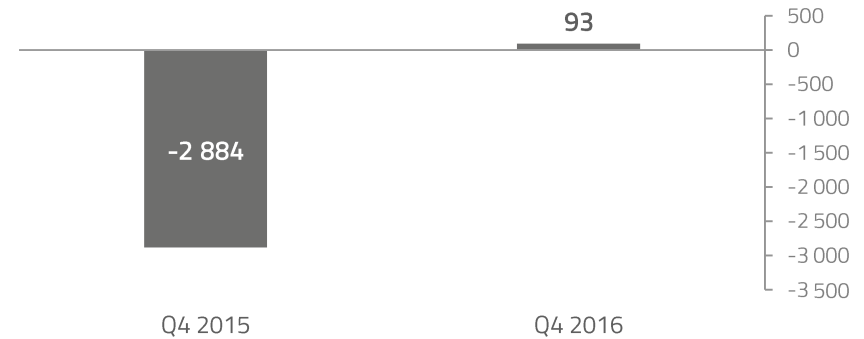
# Q4 2016 key financial data



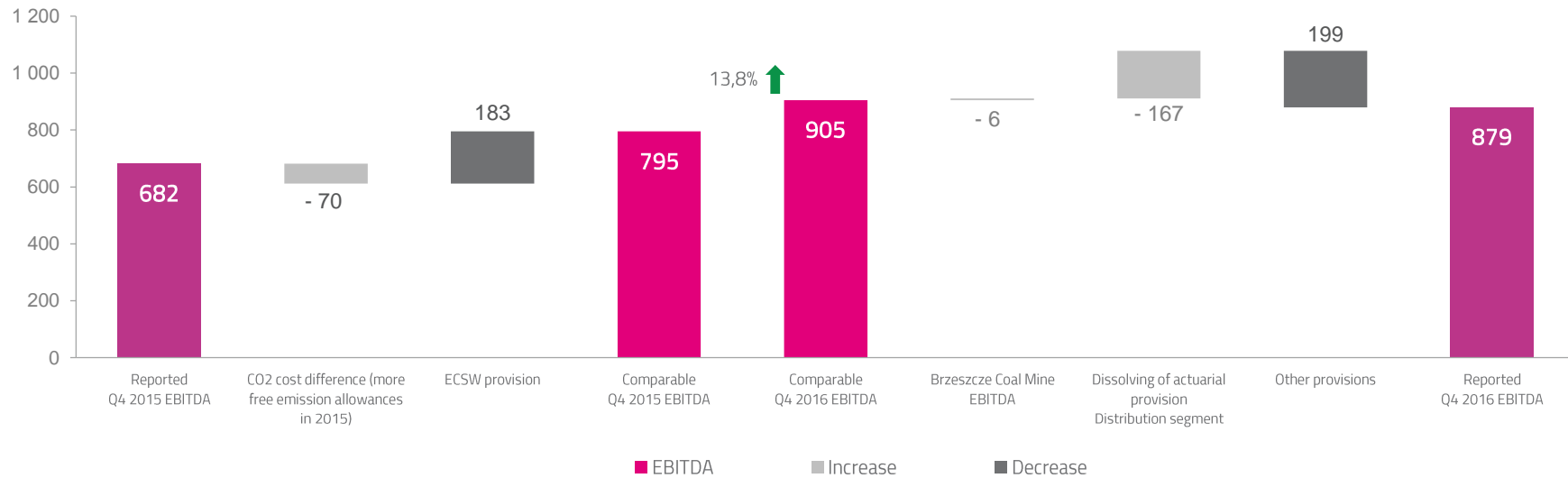
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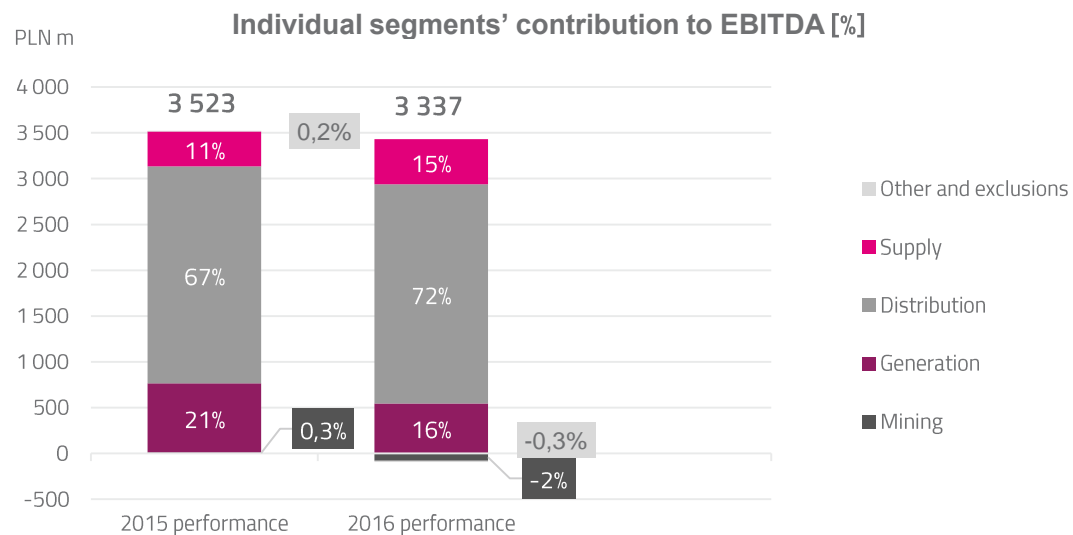


Q4 2016 vs Q4 2015 EBITDA [PLN m]



## FY 2016 key segments results

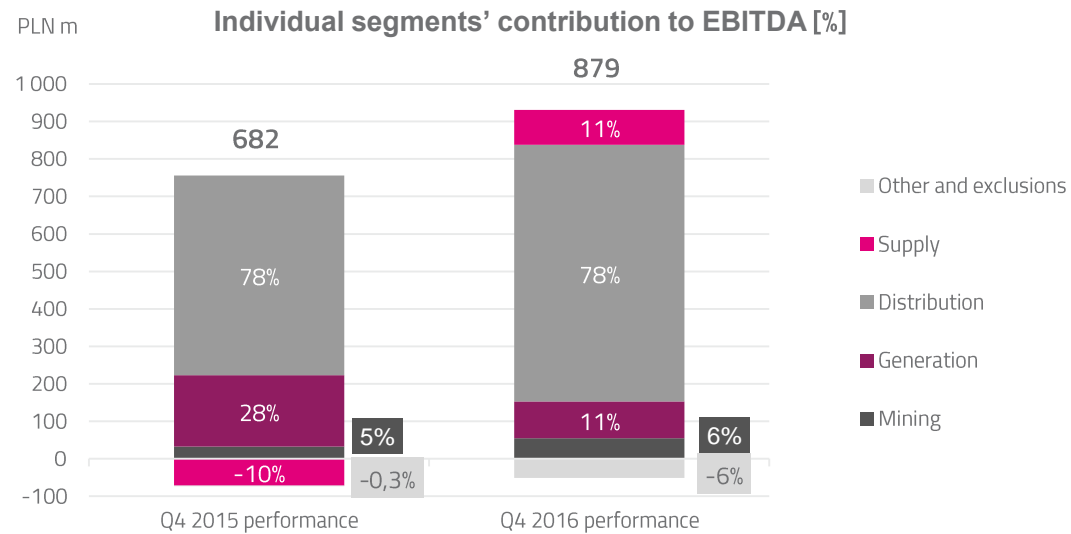
[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions
Segment's revenue	1 311	4 356	6 310	14 016	828*
EBITDA	(82)	545	2 395	490	(11)
EBIT	(205)	(753)	1 363	479	(83)
CAPEX	283	1 661	1 806	1	66





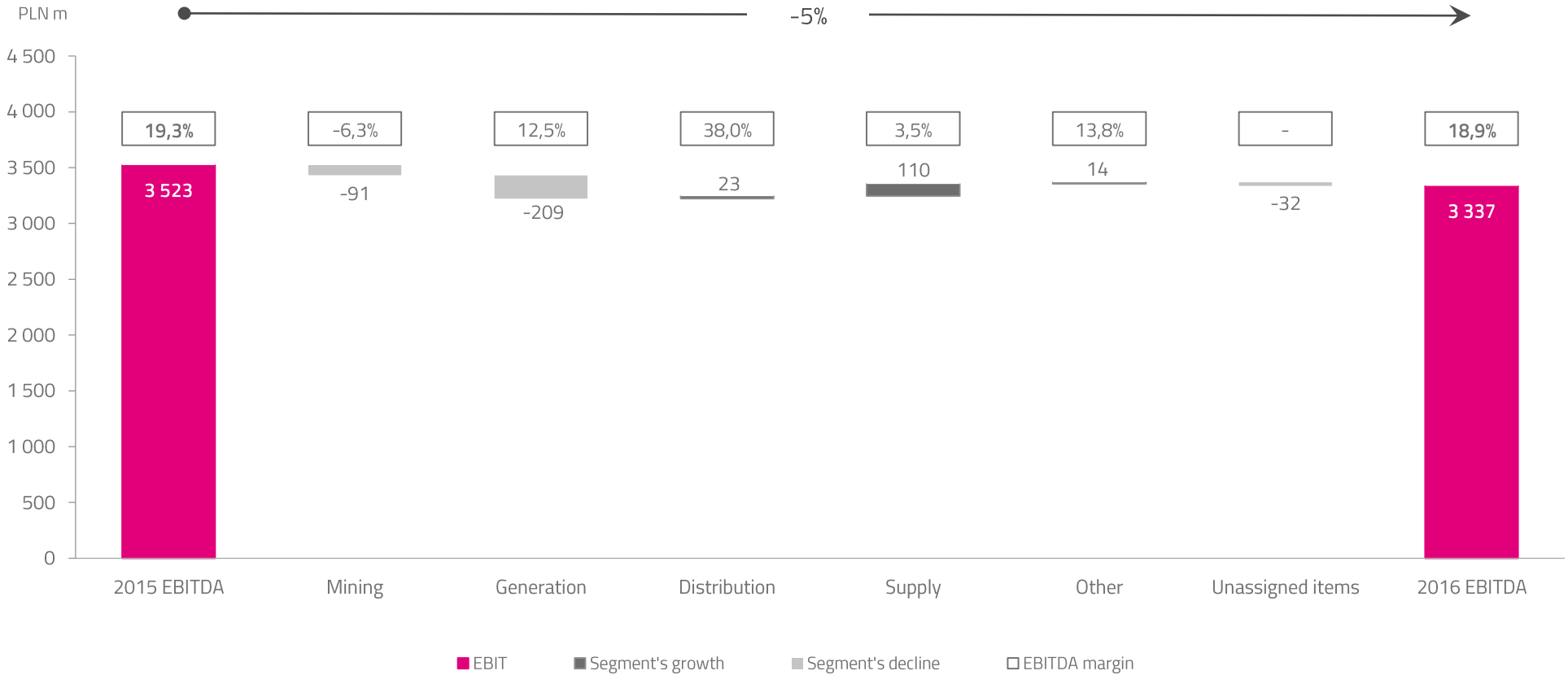
## Q4 2016 key segments results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions
Segment's revenue	424	1 112	1 634	3 729	211*
EBITDA	55	98	685	93	(51)
EBIT	24	(183)	417	91	(69)
CAPEX	151	551	635	0.3	30

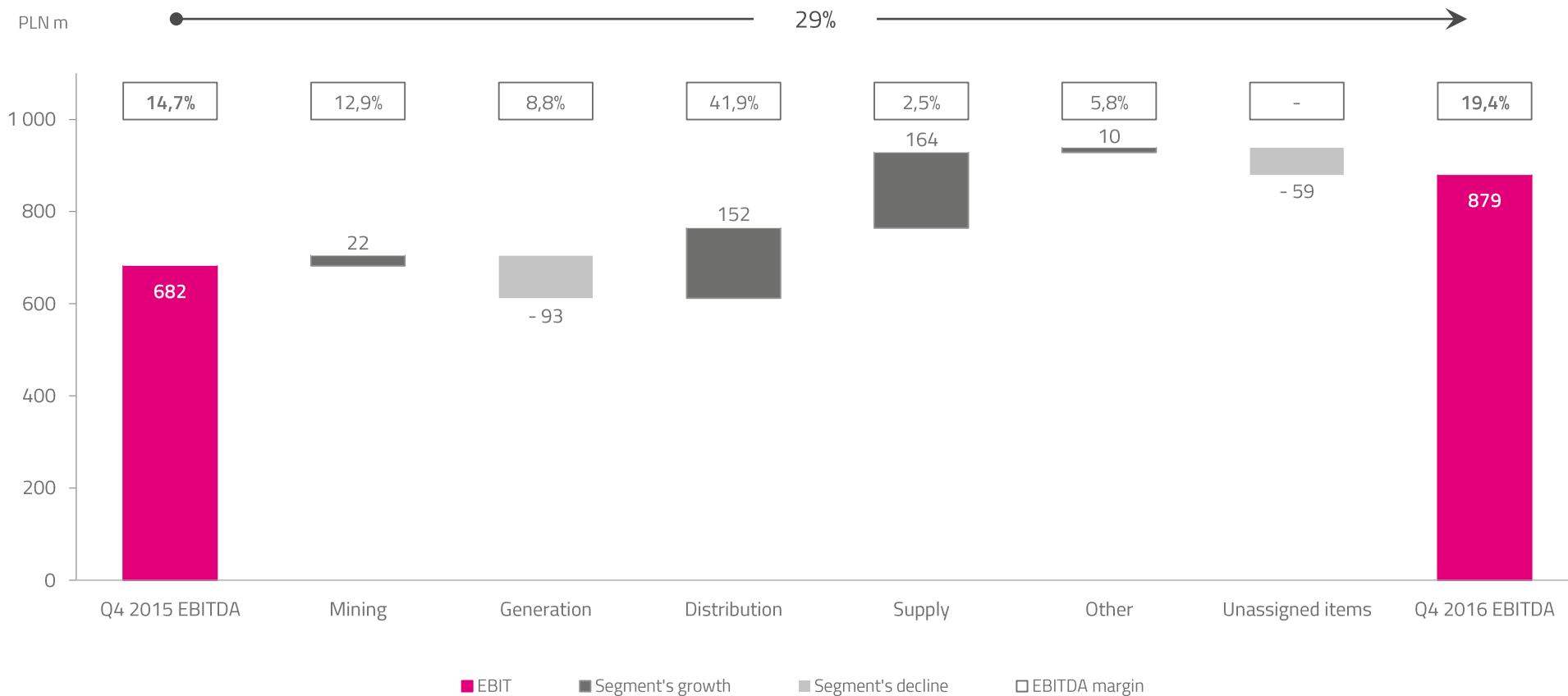


\* revenue of the Other Segment without exclusions

# FY 2016 EBITDA

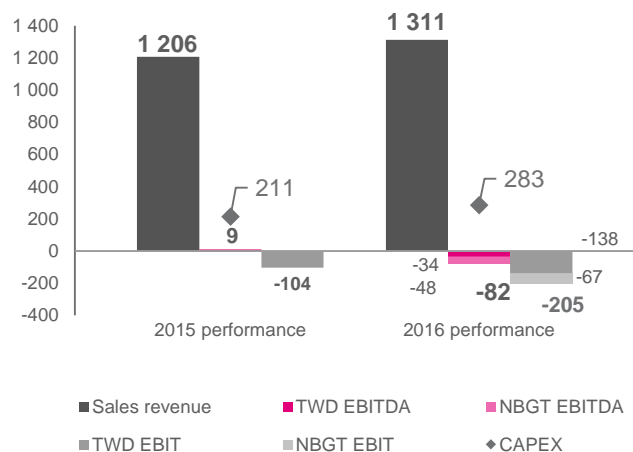


# Q4 2016 EBITDA

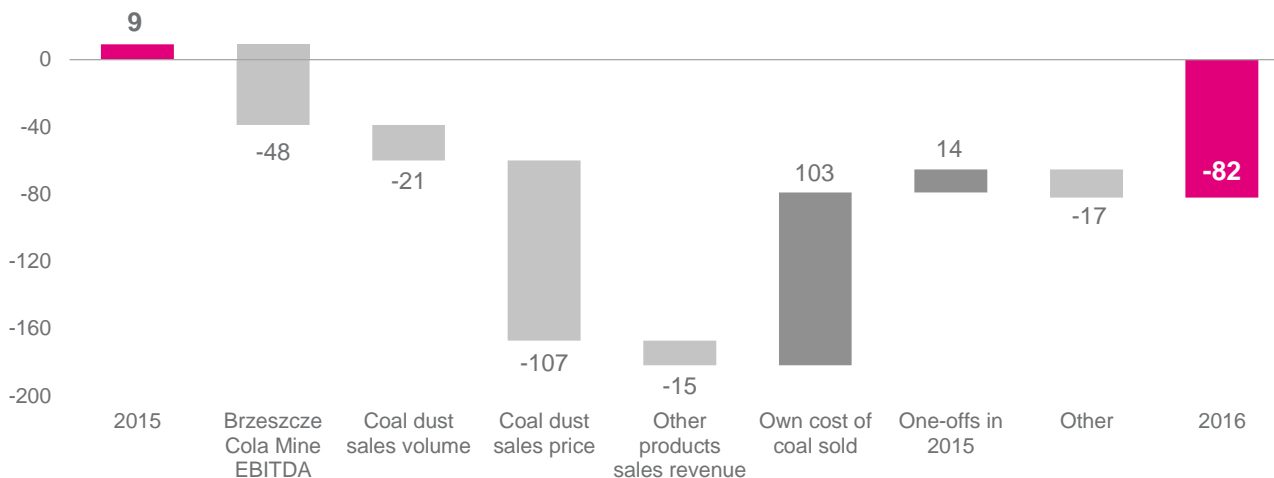


# Mining Segment – FY 2016

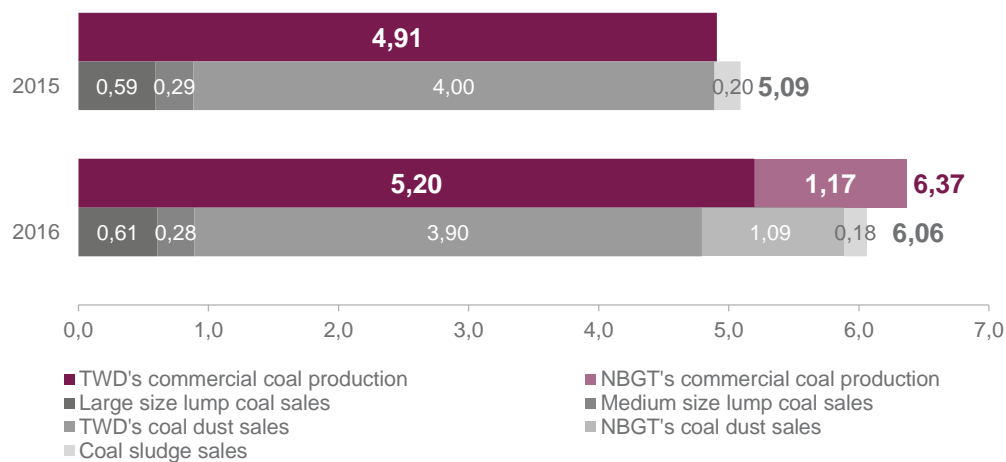
Financial data [PLN m]



Change of EBITDA [PLN m]



Commercial coal production volume vs sales per product [Mg m]



13.4% decline of coal dust prices\*



5.9% increase of production volume\*



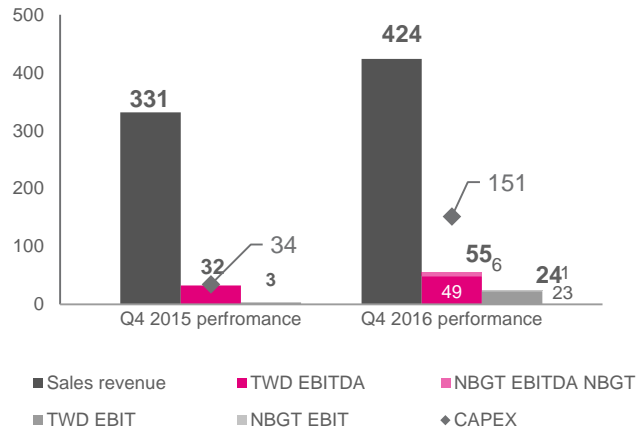
Lower headcount\* (down 522 FTEs on average)



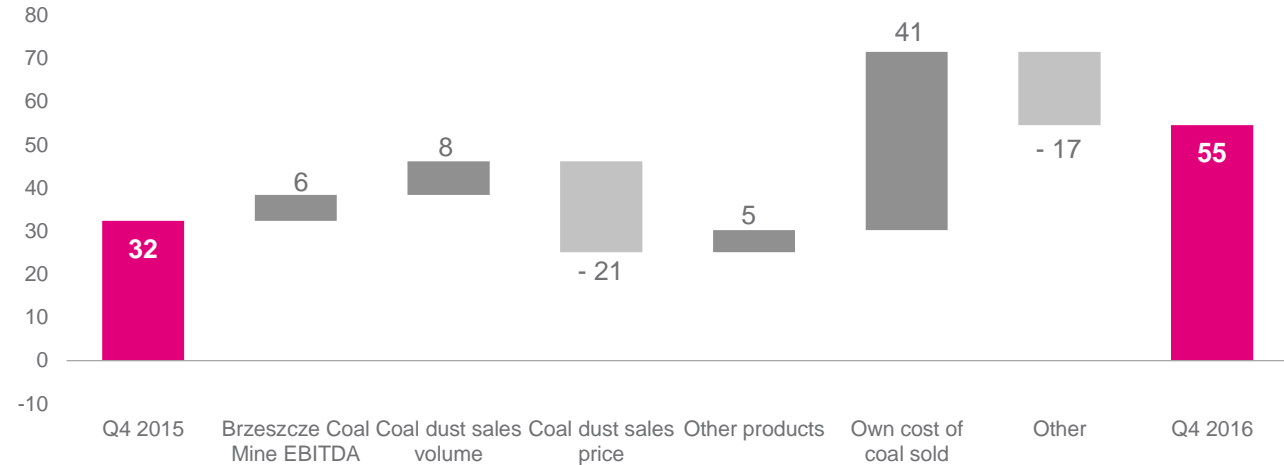
\*excluding Brzeszcze Coal Mine

# Mining Segment – Q4 2016

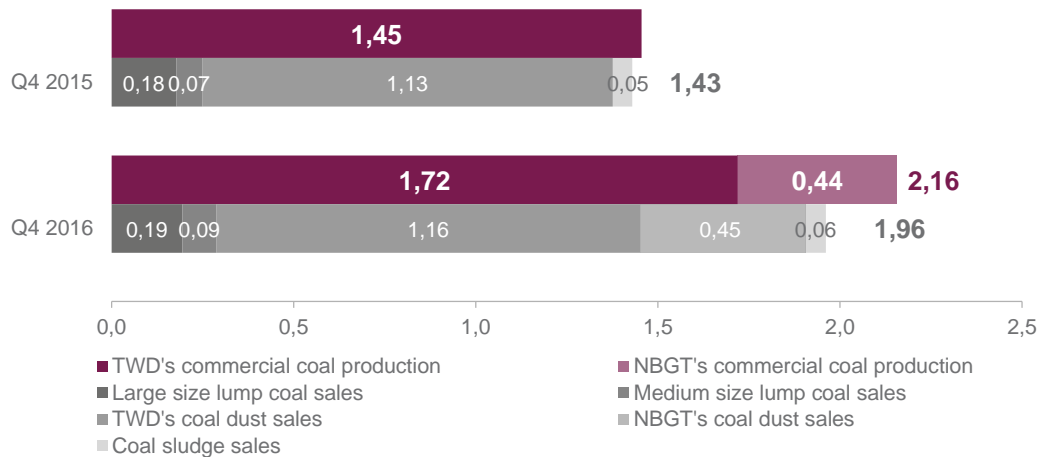
Financial data [PLN m]



Change of EBITDA [PLN m]



Commercial coal production volume vs sales per product [Mg m]



9.8% decline of coal dust prices\*



18.2% increase of production volume\*

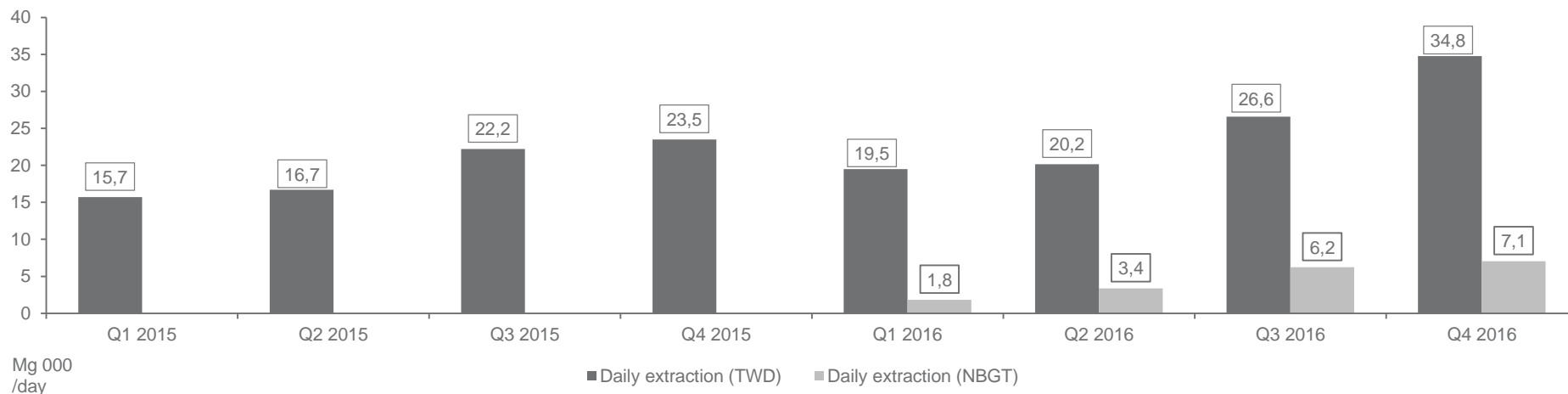


Lower headcount\* (down 429 FTEs on average)

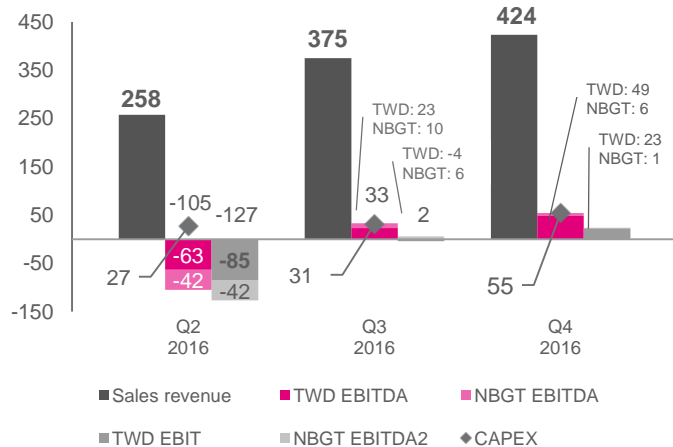


\*excluding NBGT

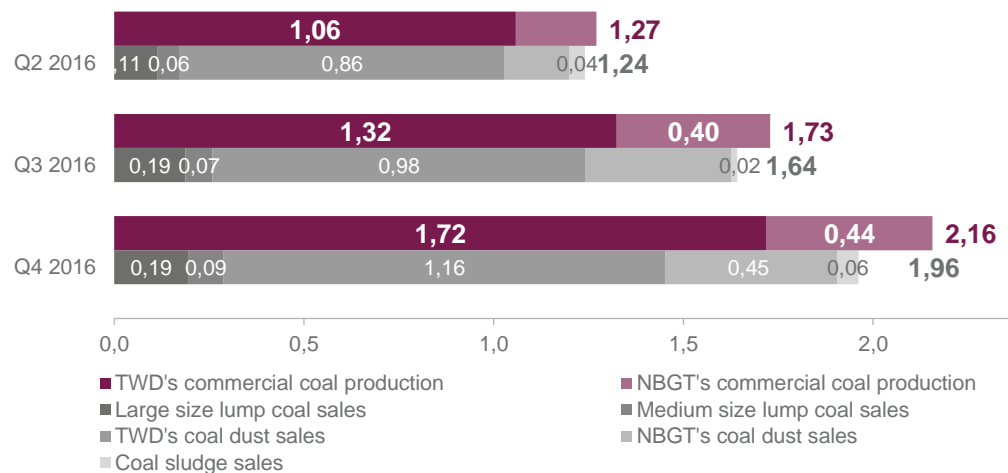
Daily commercial coal production in 2015-2016



Financial data [PLN m]



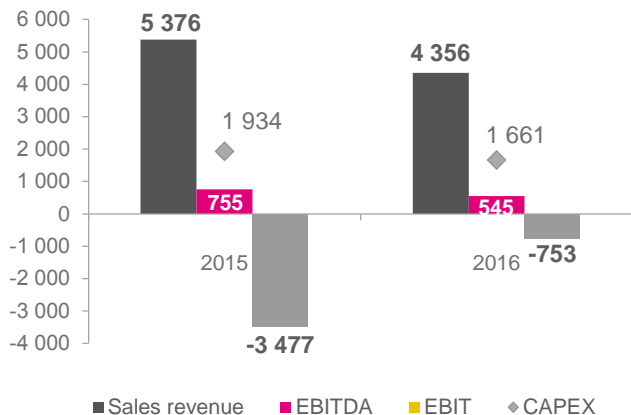
Commercial coal production volume vs sales per product [Mg m]



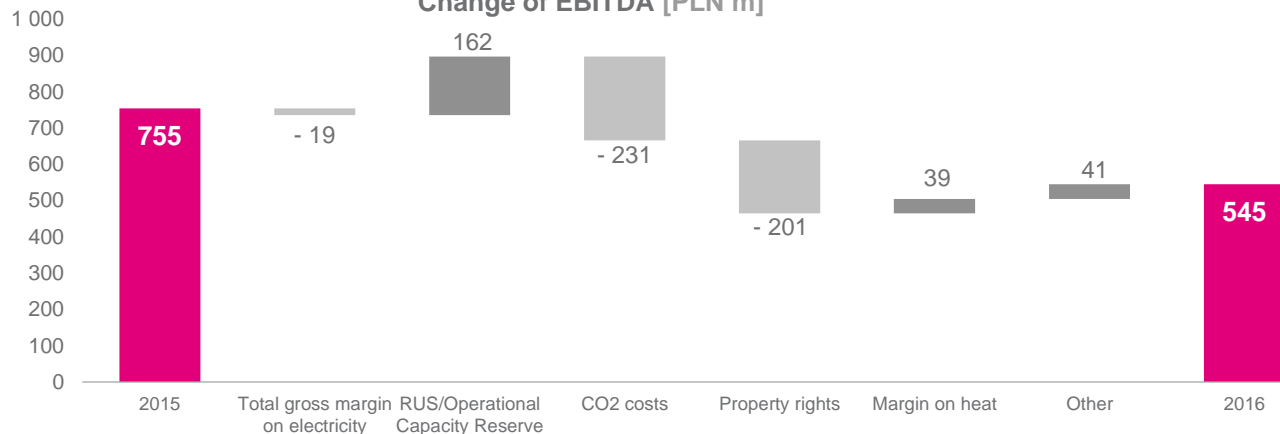
# Generation Segment – FY 2016



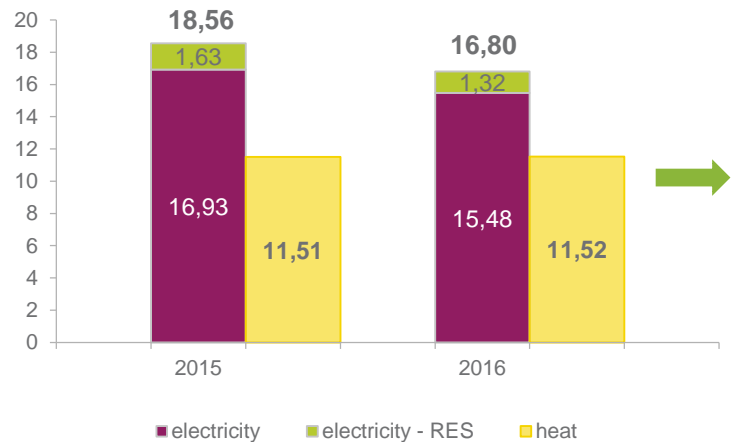
Financial data [PLN m]



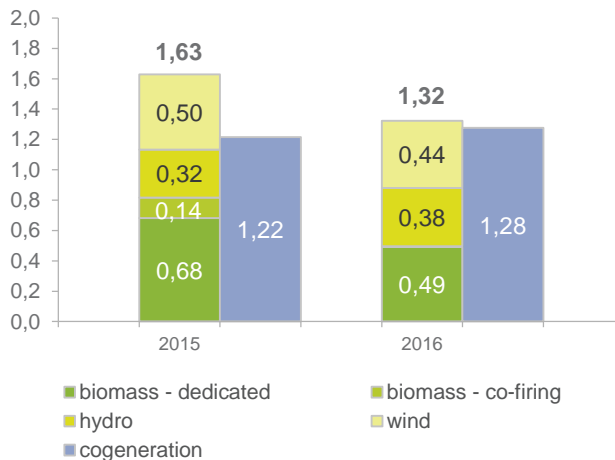
Change of EBITDA [PLN m]



Gross production of electricity [TWh] and heat [PJ]



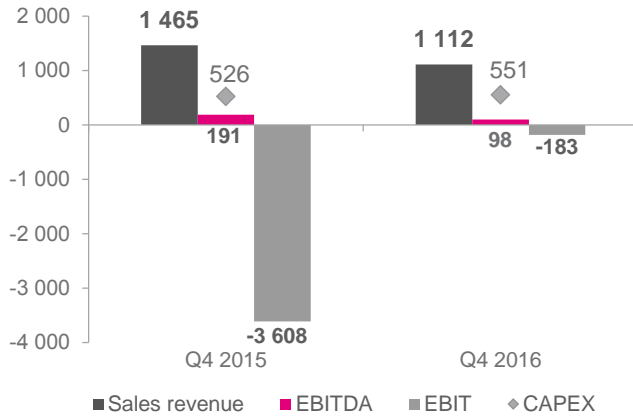
RES and cogeneration production [TWh]



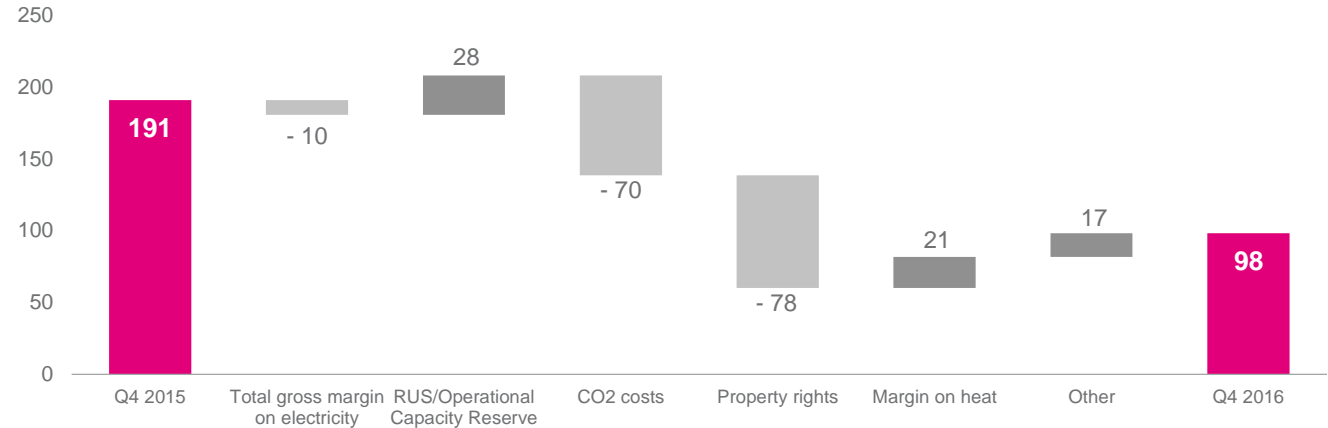
- Increase of the OCR volume and CIR revenue ✓
- 11% hard coal price drop ✓
- Higher costs of CO<sub>2</sub> emission rights purchase -
- Falling RES property rights prices and volume -

# Generation Segment – Q4 2016

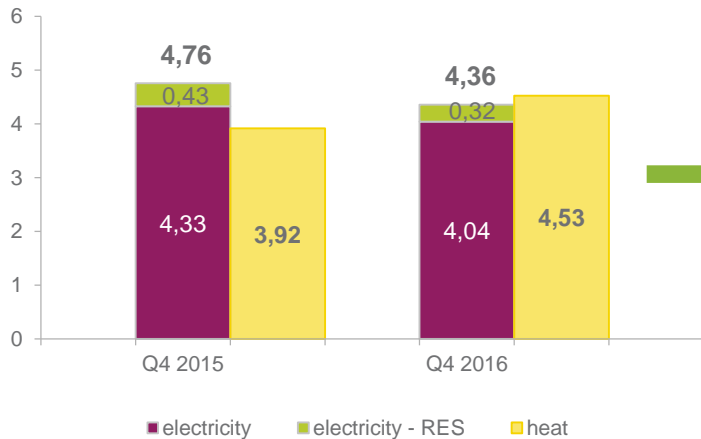
Financial data [PLN m]



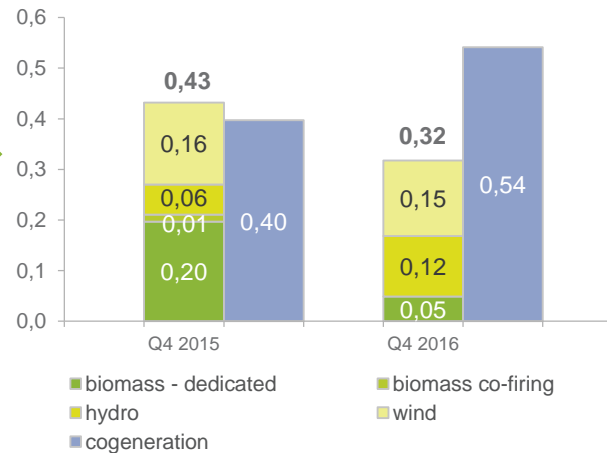
Change of EBITDA [PLN m]



Gross production of electricity [TWh] and heat [PJ]



RES and cogeneration production [TWh]

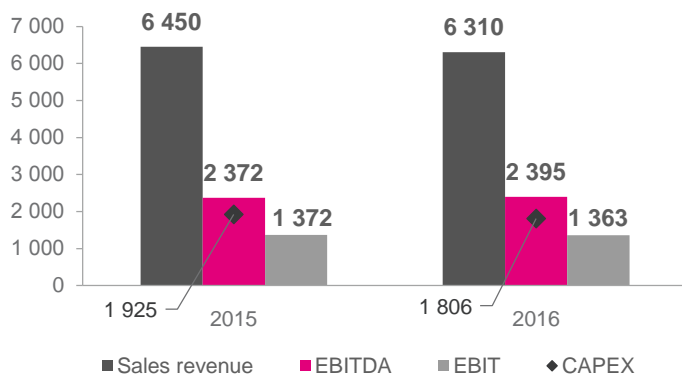


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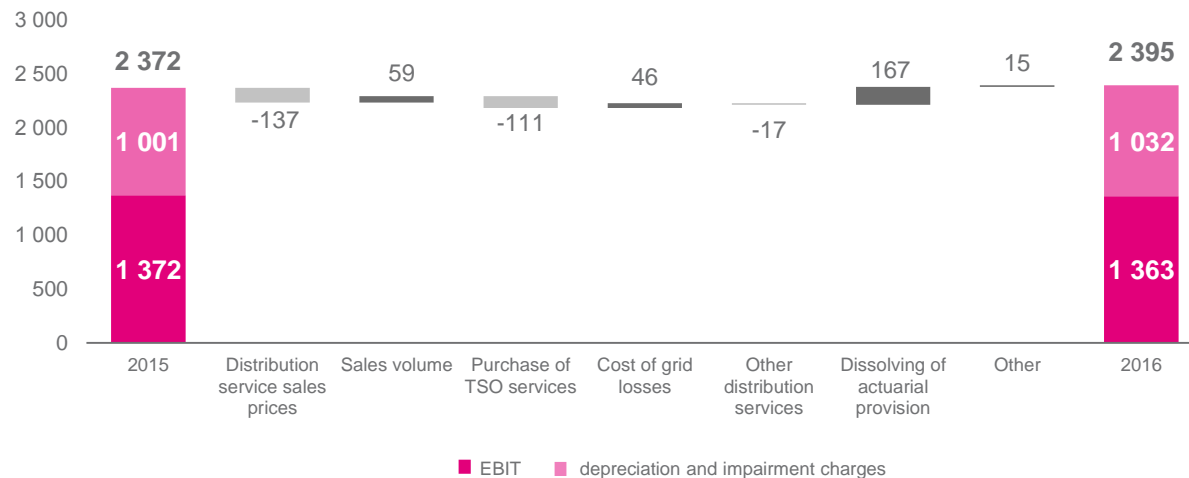


# Distribution segment – FY 2016

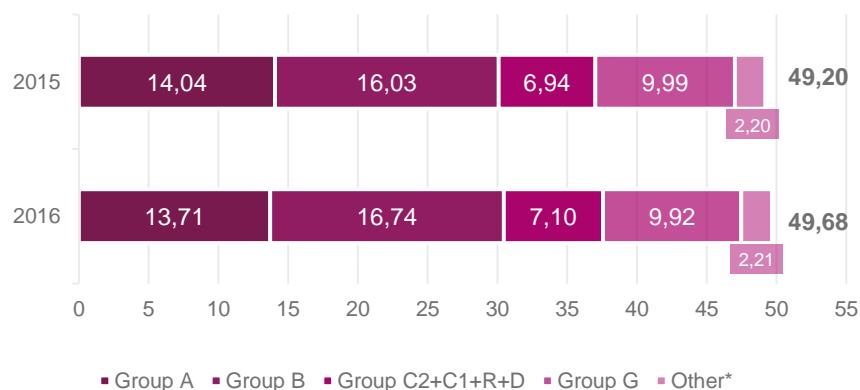
Financial data [PLN m]



Change of EBITDA [PLN m]



Electricity distribution [TWh]



\*neighboring DSO and export

Decline of approved tariff by 3.6 PLN/MWh (2.9%)



480 GWh (1%) higher electricity distribution services sales volume, mainly in the manufacturing industry in correlation to the GDP growth rate



13% increase of the quality fee rate included in the cost of purchasing the transmission services; RES fee in H2 2016

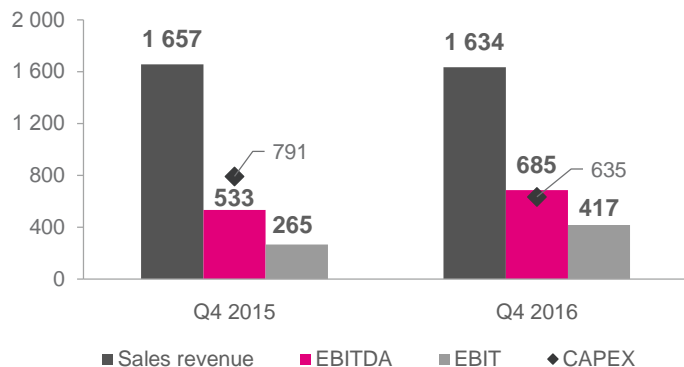


Lower cost of the actuarial provision – unifying of the Company's Collective Bargaining Agreement, lowering of the retirement age

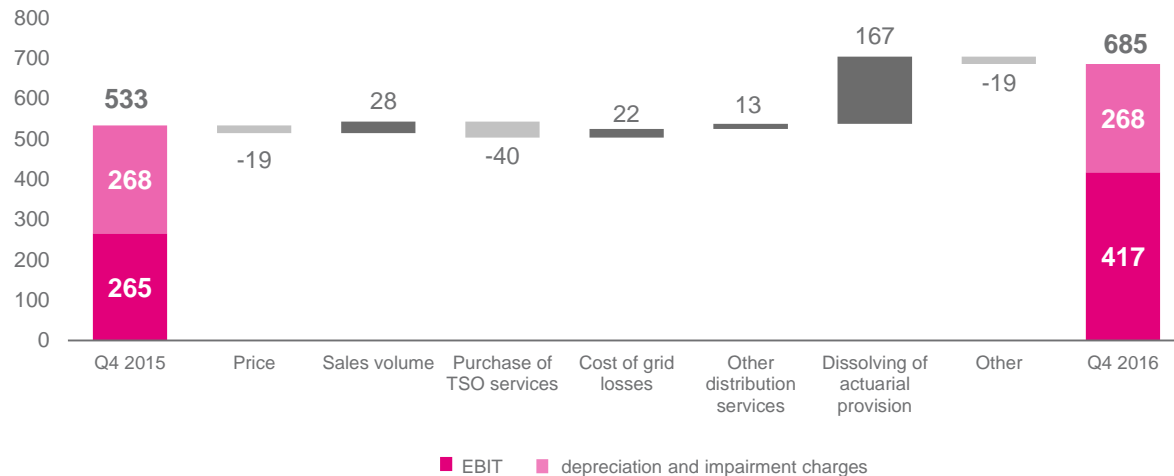


# Distribution segment – Q4 2016

Financial data [PLN m]



Change of EBITDA [PLN m]



Electricity distribution [TWh]



■ Group A ■ Group B ■ Group C2+C1+R+D ■ Group G ■ Other\*

\* neighboring DSO and export

■ Decline of approved tariff by 3.6 PLN/MWh (2.9%)



■ 345 GWh (2.8%) higher electricity distribution services sales volume, mainly in the manufacturing industry in correlation to the GDP growth rate



■ 13% increase of the quality fee rate included in the cost of purchasing the transmission services

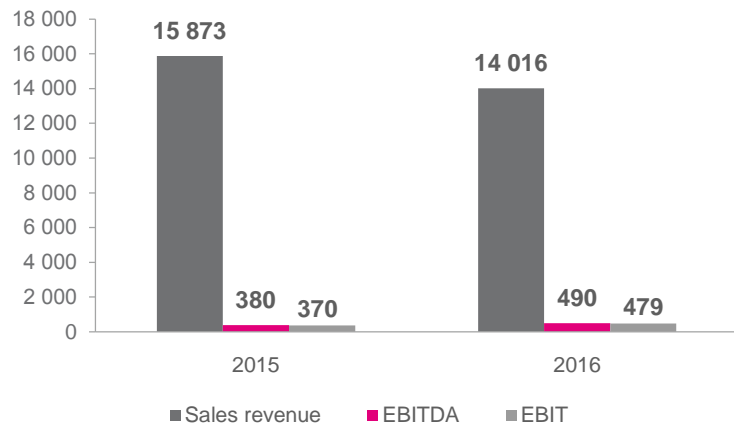


■ Lower cost of the actuarial provision – unifying of the Company's Collective Bargaining Agreement, lowering of the retirement age

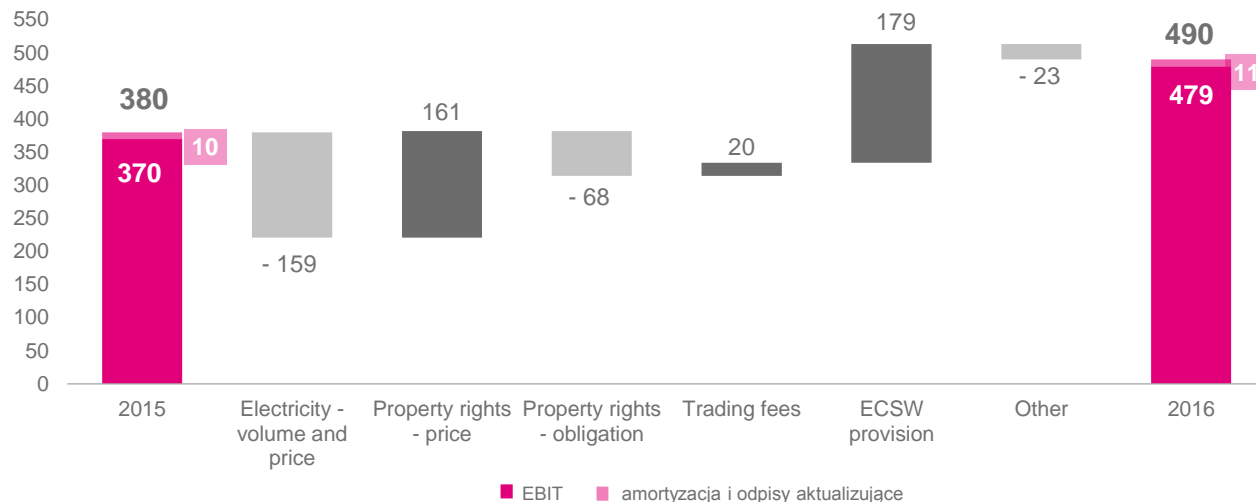


# Supply segment – FY 2016

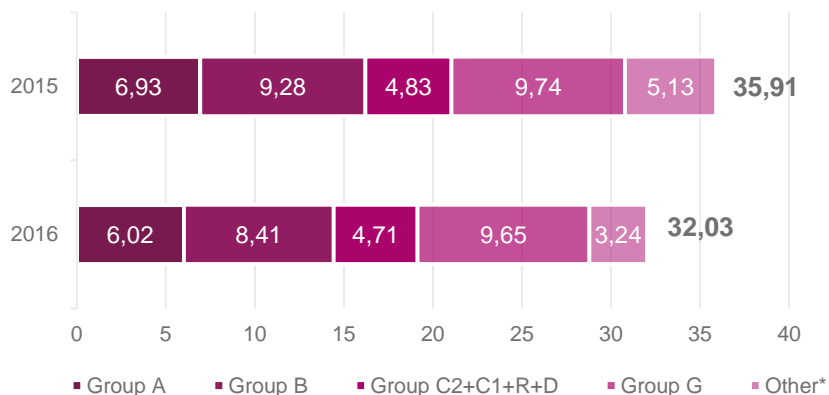
Financial data [PLN m]



Change of EBITDA [PLN m]



Retail electricity supply [TWh]



More aggressive market competition



Increased obligation to redeem property rights: in case of PM OZE from 14% to 15%/14.35% (since VII) and other PMs and introduction of PM OZE-BIO 0.65%



Lower purchase prices of the property rights to be redeemed (mainly PM OZE)



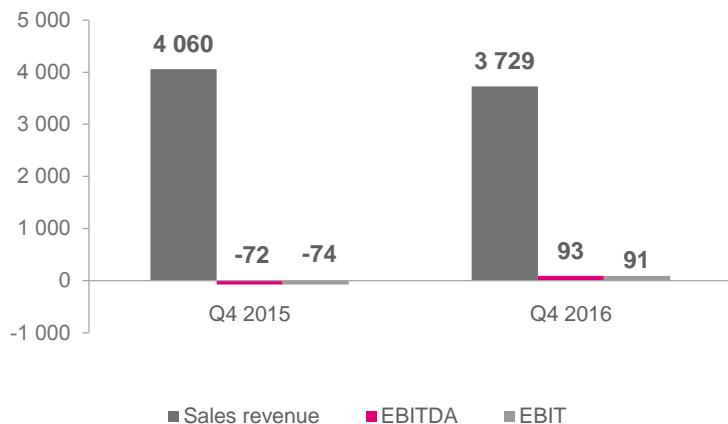
Setting up in 2015 of a provision for the charges related to the ECSW unit construction project



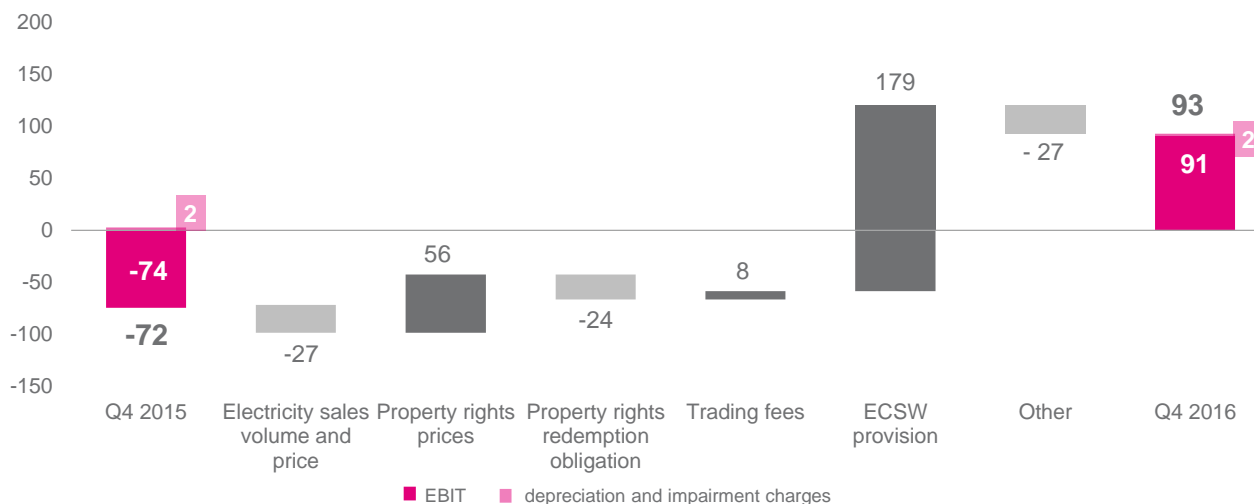
\* includes sales to cover the balancing difference and to the intra-Group end users

# Supply segment – Q4 2016

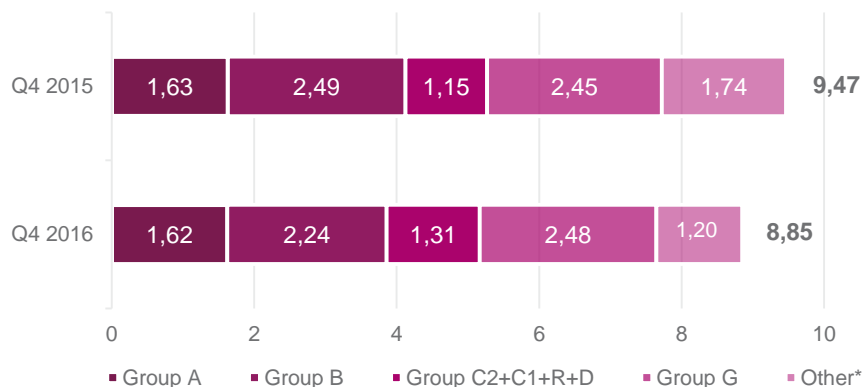
Financial data [PLN m]



Change of EBITDA [PLN m]



Retail electricity supply [TWh]



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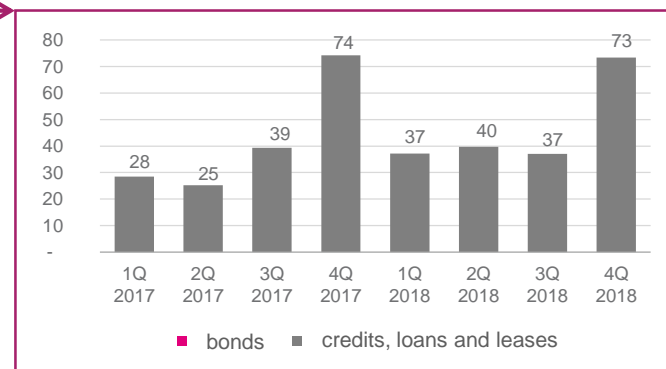
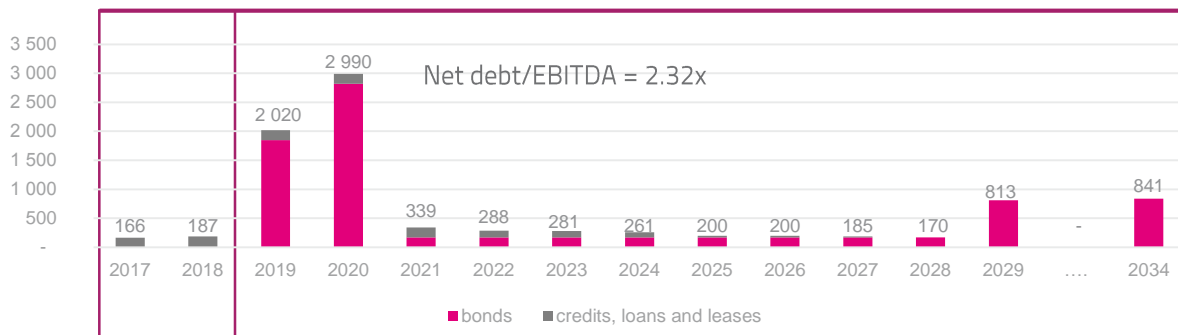
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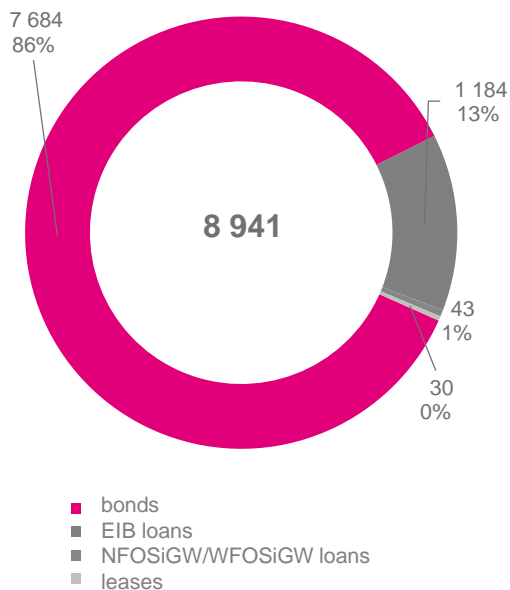
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# Debt and financing

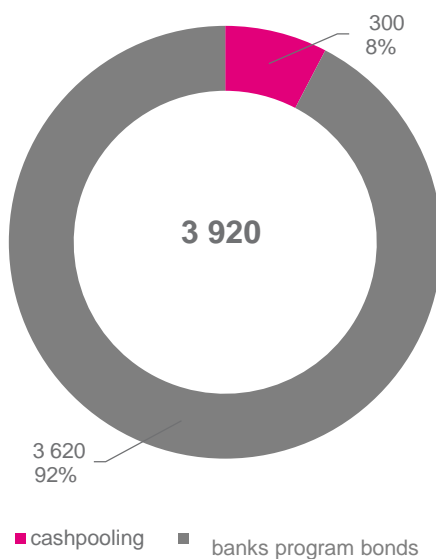
TAURON Group's debt maturity as of 31.12.2016 [PLN m]



TAURON Group's debt structure as of 31.12.2016 [PLN m]

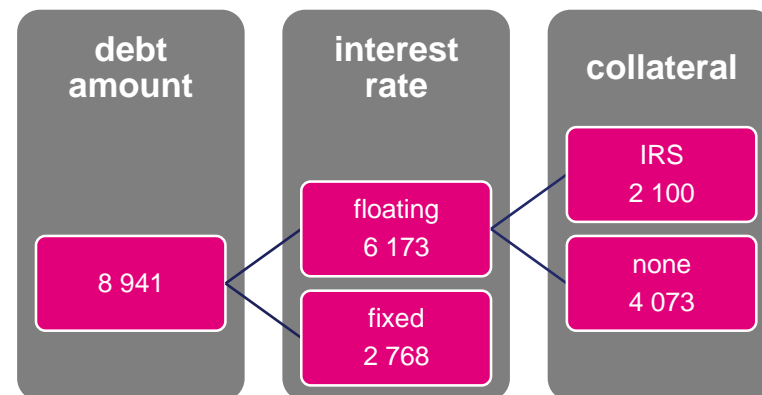


Financing available to TAURON Group as of 31.12.2016 [PLN m]



- debt (nominal value of debt due to investment loans, loans, leases and bonds) as of 31.12.2016 is PLN 8 941m
- weighted average maturity of debt as of 31.12.2016 is 79.82 months
- EUR denominated debt (NSV and EIB bond issue) represents 17.7% of the total debt

Debt structure based on interest rate [PLN m]



## Specifics of the hybrid financing of TAURON Polska Energia S.A.

**Subordinated bonds**  
(in case of winding up or bankruptcy – **priority only ahead of the equity repayment**)

**Long term** (18 years) nature of the financing

Margin step-up mechanism (first *step-up* after 8 years)  
as an incentive to redeem early

*Call* option available to the issuer (after 8 years)

Fixed interest rate during the first 8 years

**Not taken into account as debt in the *net debt/EBITDA* ratio calculation**  
(in accordance with the definitions included in TAURON's financing agreements)








Classification of **50% of the instrument's amount as equity** in the Fitch model  
(positive impact on the rating)

**Option to stop interest payments** at the request of TAURON  
(even **until the maturity date** – option equivalent to the stopping of the dividend payout)

No clauses typical for the debt financing (due to the subordinated nature of the instrument), first of all no clauses that grant the right to call the debt to be immediately repaid (acceleration clauses)

Refund of a portion of interest in case the investment tasks that constitute the goal of the financing tasks have been completed

## CAPEX – key projects' work progress

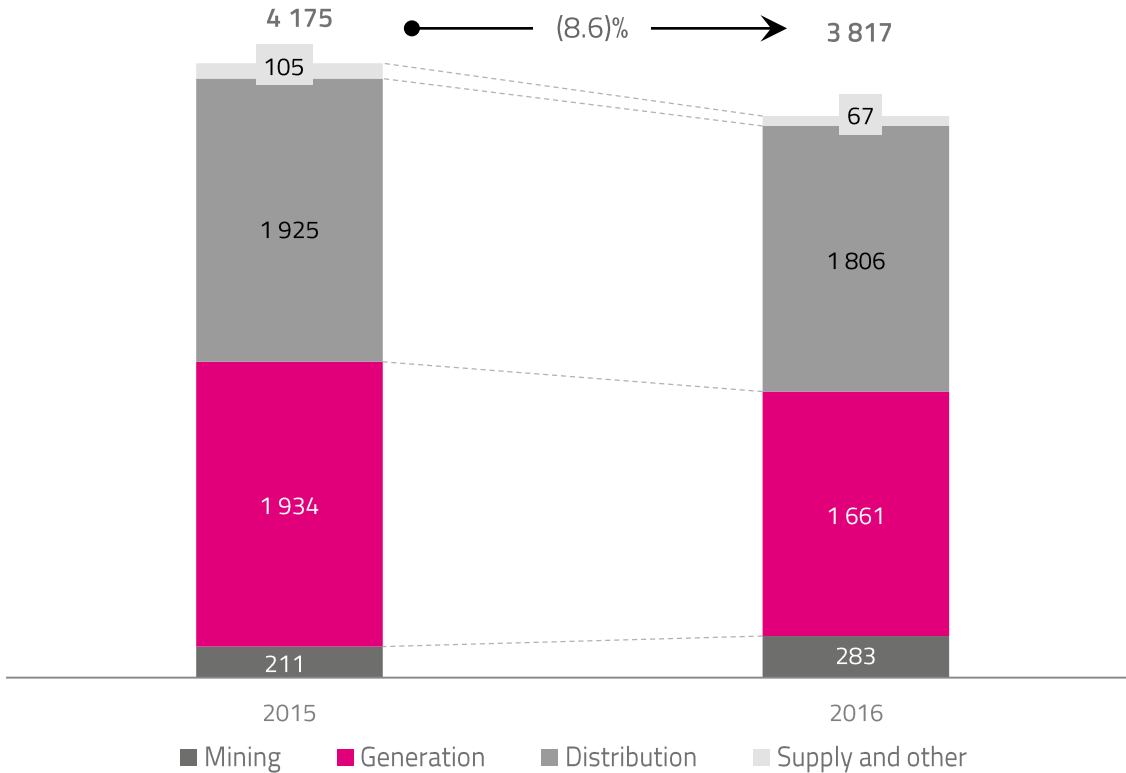
Investment project	Capacity (MW <sub>e</sub> )	Capacity (MW <sub>t</sub> )	Work progress (percentage)		Planned completion date
Construction of the hard coal-fired unit at Jaworzno III Power Plant	910	-	30		2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant*	450	240	85		2019
Construction of the hard coal-fired co-generation unit at ZW Tychy	50	86	100		2016
Jaworzno III Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	100		2016
Construction of the 800m level at Janina coal mine	-	-	49		2020
Construction of Grzegorz shaft at Sobieski coal mine	-	-	20		2023
CAPEX program at Brzeszcze coal mine	-	-	21		2025

\* Completion date will be estimated following the inventory taking and acceptance of the comprehensive project completion concept

# CAPEX – per segment



Capital expenditures per segment [PLN m]  
(excluding equity investments)



## Key investment projects underway in 2016:

### Mining:

- construction of the 800 m level at Janina coal mine (PLN 61m)
- construction of the Grzegorz shaft at Sobieski coal mine (PLN 24m)
- Brzeszcze coal mine CAPEX program (PLN 100m) (including the purchase of the longwall shearer PLN 73m)

### Generation:





- construction of new 910 MW capacity at Jaworzno Power Plant (PLN 1 237m)
- construction of the flue gases NO<sub>x</sub> emission reduction system and upgrades of the 200 MW units at Jaworzno III Power Plant (PLN 11m)
- construction of new 50 MW cogeneration capacity at EC Tychy (PLN 107m)
- construction and upgrade of district heating networks (PLN 57m)
- hydroelectric power plants upgrade (PLN 18m)

### Distribution:

- construction of new connections (PLN 591m)
- grid asset upgrades and replacement (PLN 953m)



# Efficiency improvement program

Segment	Savings realized in 2016	Savings planned in 2016-2018	Progress %	Main initiatives
Mining	PLN 62m	PLN 255m	 24%	<ul style="list-style-type: none"> <li>Employment restructuring, reduction of labor costs and increasing their flexibility, organizational measures</li> <li>Use of electronic auctions in the purchasing process</li> <li>CAPEX plan optimization</li> </ul>
Generation (including RES and Heat)	PLN 255m	PLN 367m	 69%	<ul style="list-style-type: none"> <li>Optimization of upgrades and of other asset maintenance costs</li> <li>Employment restructuring</li> <li>Purchasing efficiency improvement</li> <li>Optimization of the carburizing and de-ashing systems' operation services</li> <li>Maintenance services costs control</li> <li>CAPEX plan optimization</li> </ul>
Distribution	PLN 114m	PLN 390m	 29%	<ul style="list-style-type: none"> <li>Reorganization and employment restructuring</li> <li>Asset maintenance costs control</li> <li>Purchasing efficiency improvement</li> <li>Outsourcing of the storage services</li> <li>Sale of redundant real estate</li> </ul>
Other	PLN 46m	PLN 291m	 16%	<ul style="list-style-type: none"> <li>Employment restructuring,</li> <li>Reduction of the scope of IT services</li> <li>Customer service costs and overhead (administration) costs control</li> <li>Optimization of the costs of promotional and sponsoring activities</li> </ul>
<b>Total</b>	<b>PLN 478m</b>	<b>PLN 1 303m</b>	<b>37%</b>	

In 2016 under the Voluntary Redundancy Program TAURON Group's headcount was reduced by 510 FTEs. Savings resulting from redundancies, decreased by the costs incurred to generate these savings, are included in the amounts presented per segment

Segment	2017 EBITDA prospect versus 2016	Key factors
Distribution	stable	<ul style="list-style-type: none"> <li>RAB to increase by PLN 707m in 2017, to reach PLN 16.1bn</li> <li>rising volume of electricity delivered</li> <li>increased average distribution service rate, effectively for Tauron Dystrybucja by 0.7%</li> <li>WACC at the 2016 level (5.6%)</li> <li>efficiency improvement programs to continue</li> </ul>
Supply	stable	<ul style="list-style-type: none"> <li>rising volume of supply to end users</li> <li>aggressive competition – decreasing margins on electricity supply</li> </ul>
Generation	declining	<ul style="list-style-type: none"> <li>pressure from rising coal prices</li> <li>lower CO<sub>2</sub> emission allowance purchase prices</li> <li>low electricity and green certificates sales prices</li> </ul>
Mining	rising	<ul style="list-style-type: none"> <li>high commercial coal production volume, reaching the ultimate extraction output at Brzeszcze coal mine (approx. 1.7m tons per annum)</li> <li>prospect of rising coal sales prices</li> <li>efficient preparatory works' cost management</li> <li>pressure from rising prices of mining machines and devices</li> </ul>
CAPEX and debt		<ul style="list-style-type: none"> <li>rising CAPEX as a result of the 910 MW unit construction project at Jaworzno III Power Plant underway – the Group's planned 2017 CAPEX &gt; PLN 4bn</li> <li>growing debt level while maintaining the net debt/EBITDA ratio below 3.5x</li> </ul>

Thank you – Q & A



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# Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2015		2016		2016/2015	
	Price (PLN/MWh)	Volume (GWh)	Price (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	167.51	201 870	165.88	191 342	-1.0%	-5.2%
Forward PEAK (Y+Q+M)	215.96	17 866	210.27	23 414	-2.6%	+31.0%
Forward (weighted average)	171.45	219 737	170.72	214 756	-0.4%	-2.3%
SPOT (TGE)	156.40	25 102	160.64	27 590	+2.7%	+9.9%
Total weighted average	<b>169.90</b>	<b>244 839</b>	<b>169.58</b>	<b>242 346</b>	<b>-0.2%</b>	<b>-1.0%</b>

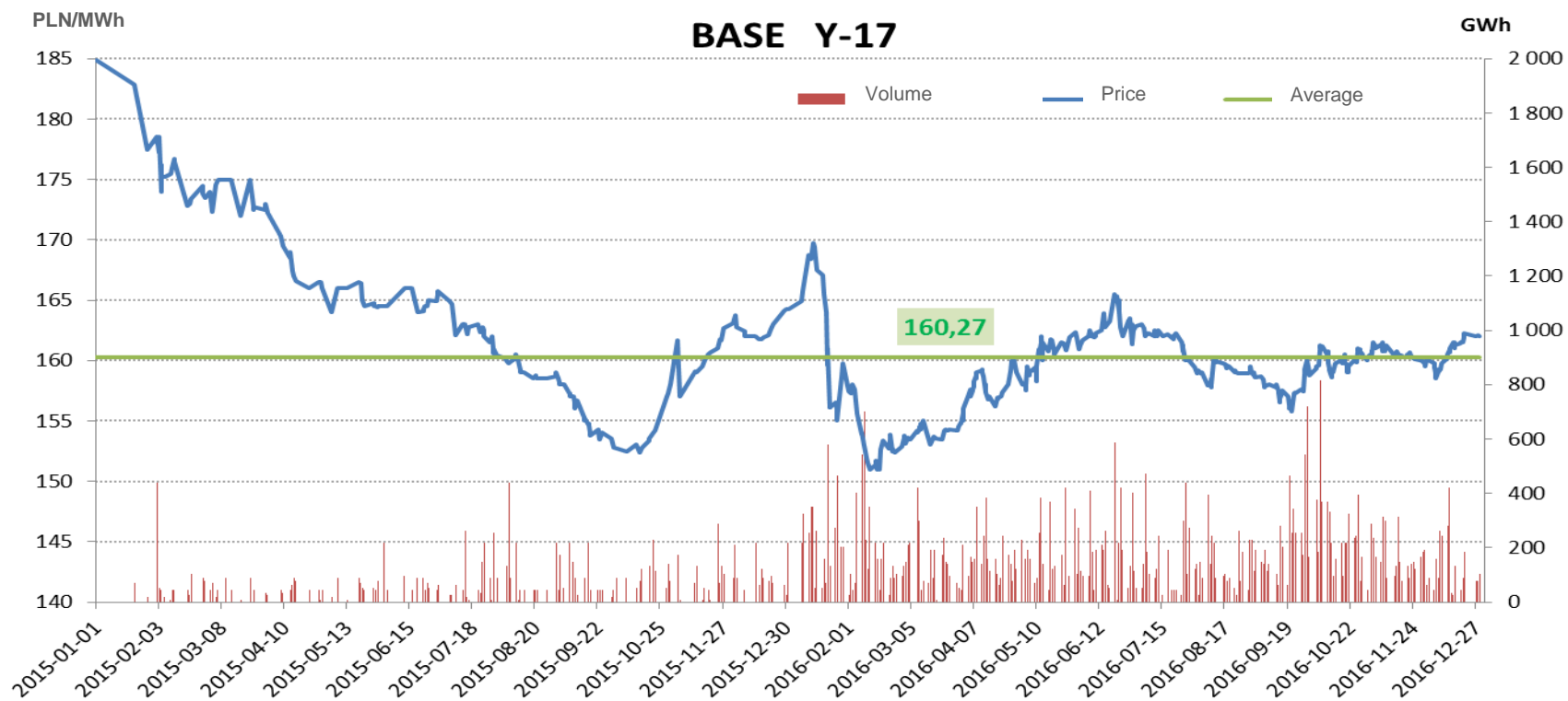
Property rights (PLN/MWh)			
Certificate type	Market prices (2016 average)	Substitution fee and obligation for:	
		2015	2016
RES (PMOZE_A)	73.63	303.03 (14.0%)	300.03 (14.35%)
RES from biogas plants (PMOZE_BIO)	295.52	None	300.03 (0.65%)
Coal cogeneration (PMEC-2016)	10.68	11.00 (23.2%)	11.00 (23.2%)
Gas cogeneration (PMGM-2016)	121.13	121.63 (4.9%)	125.00 (6.0%)
Methane cogeneration (PMMET-2016)	61.73	63.26 (1.3%)	63.00 (1.5%)

CO <sub>2</sub> emission allowances(EUA/t)	
CO <sub>2</sub> market analysts survey* <small>(updated in February 2017)</small>	Price (EUR/t)
2016 average	5.35 EUR/t
2017 average	5.80 EUR/t
2018 average	7.00 EUR/t
2017 average price forecast by TAURON (**updated in February 2017)	<b>5.00 – 6.00 EUR/t</b>

\* Sources: Point Carbon, BNEF, Consus, GDF SUEZ Trading, HSE, Mkonline, Societe Generale, TAURON

\*\* Average price in January - February 2017 + TPE analysts' adjustment

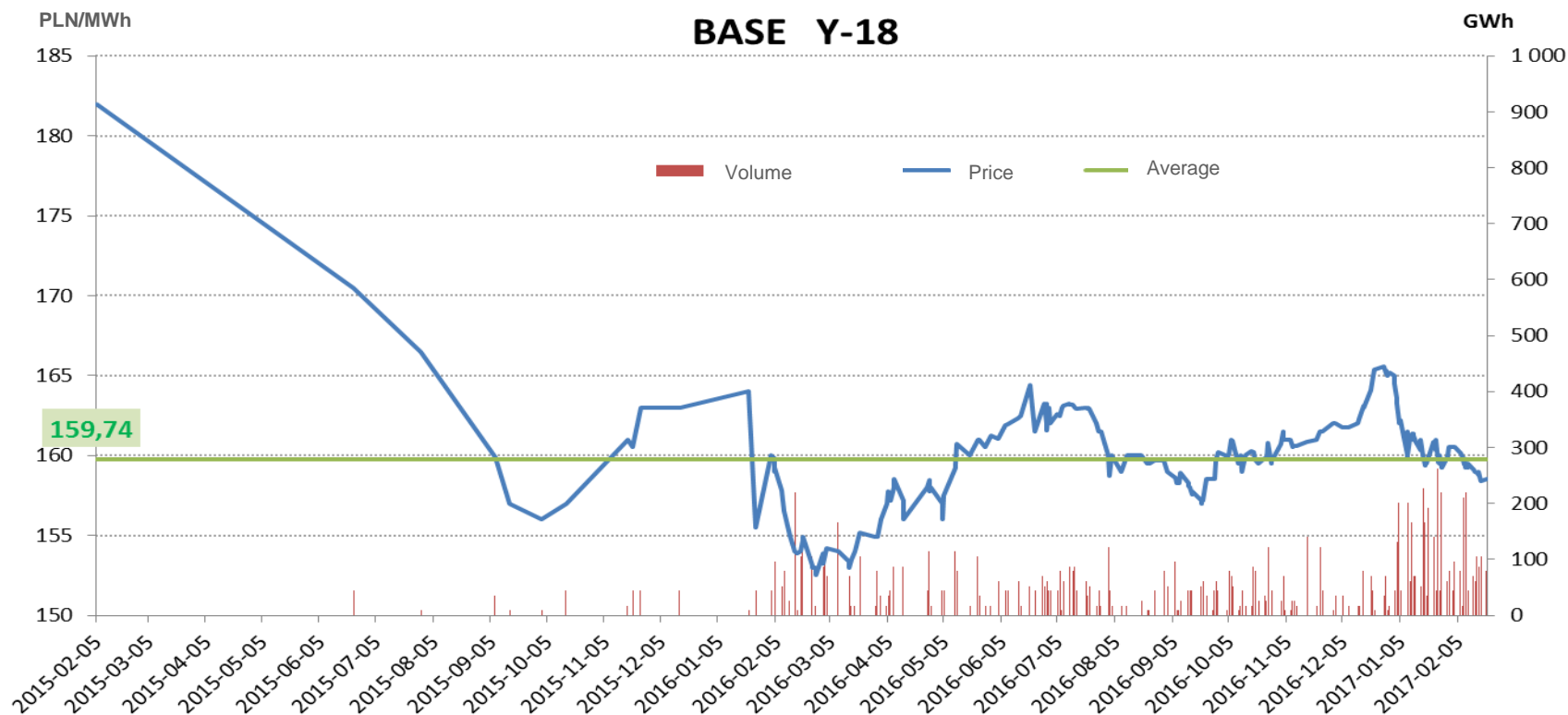
# 2017 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		160.27	76 729
Including	TGE	159.77	51 535
	non TGE	161.29	25 194

Average electricity price that takes into account 2017 one year BASE and PEAK contracts: 164.83 PLN/MWh, total 2017 BASE and PEAK volume: 84 473 GWh

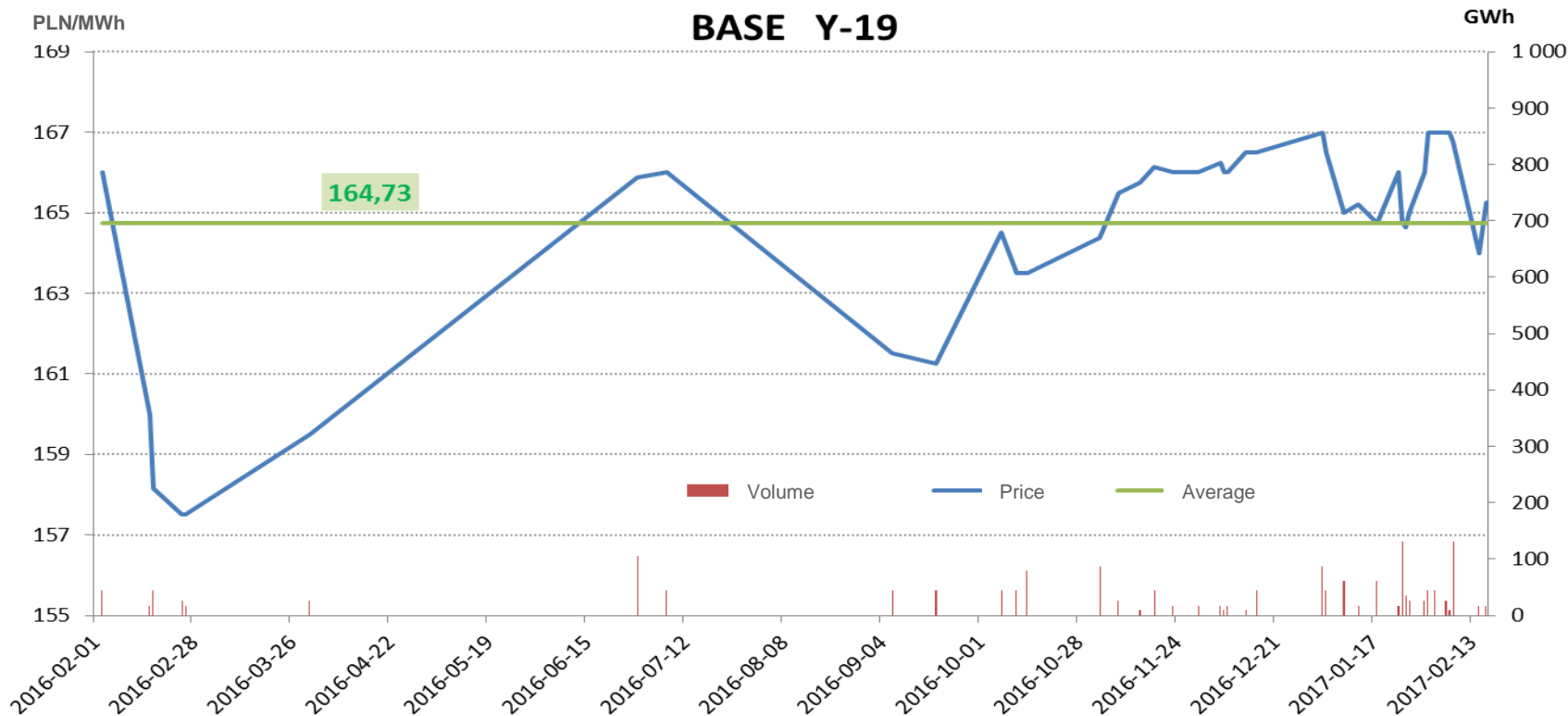
# 2018 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		159.74	14 778
Including	TGE	159.70	9 303
	non TGE	159.81	5 475

Average electricity price that takes into account 2018 one year BASE and PEAK contracts: 163.75 PLN/MWh, total 2018 BASE and PEAK volume: 15 995 GWh

# 2019 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		164.73	1 743
Including	TGE	164.89	1 594
	non TGE	163.09	149

Average electricity price that takes into account 2019 one year BASE and PEAK contracts: 165.44 PLN/MWh, total 2019 BASE and PEAK volume: 1 766 GWh



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Thank you for your attention