



## TAURON Group's Q3 2016

### Financial Results

November 10, 2016

# Q1-Q3 2016 key data



TAURON Group's Q1-Q3 2016 results		
[PLN m]		Q1-Q3 2016 vs Q1-Q3 2015
Sales revenue	13 124	↓ (4)%
EBITDA	2 458	↓ (14)%
Net profit*	274	↓ (75)%
CAPEX	2 450	↓ (12)%
Net debt/EBITDA	2.64x	↑ up 0.67x (vs 30.09.2015)

Q1-Q3 2016 operating data		
		Q1-Q3 2016 vs Q1-Q3 2015
Commercial coal production [t m]	4,21	↑ 22% excluding NBGT 1%
Electricity generation [TWh]	12,45	↓ (10)%
Heat generation [PJ]	7,00	↓ (8)%
Electricity distribution [TWh]	36,82	↑ 0,4%
Electricity supply [TWh]	23,19	↓ (12)%

\*attributable to the shareholders of the parent company j

# Q3 2016 key data



## TAURON Group's Q3 2016 results

[PLN m]		Q3 2016 vs Q3 2015	Q3 2016 vs Q2 2016
Sales revenue	4 181	↓ (4)%	↓ (3)%
EBITDA	804	↓ (14)%	↑ 3%
Net profit*	271	↓ (24)%	↑ up PLN 591m (vs Q2 2016)
CAPEX	998	↓ (1)%	↑ 25%
Net debt/EBITDA	2.64x	↑ up 0.67x (vs 30.09.2015)	↑ up 0.06x (vs 30.06.2016)

## Q3 2016 operating data

		Q3 2016 vs Q3 2015	Q3 2016 vs Q2 2016
Commercial coal production [t m]	1,73	↑ 20% excluding NBGT (8)%	↑ 36% excluding NBGT 25%
Electricity generation [TWh]	4,00	↓ (21)%	↓ (3)%
Heat generation [PJ]	0,57	↓ (24)%	↓ (64)%
Electricity distribution [TWh]	12,05	↓ (0,4)%	↑ 0,1%
Electricity supply [TWh]	7,61	↓ (10)%	↑ 6%

\* attributable to the shareholders of the parent company

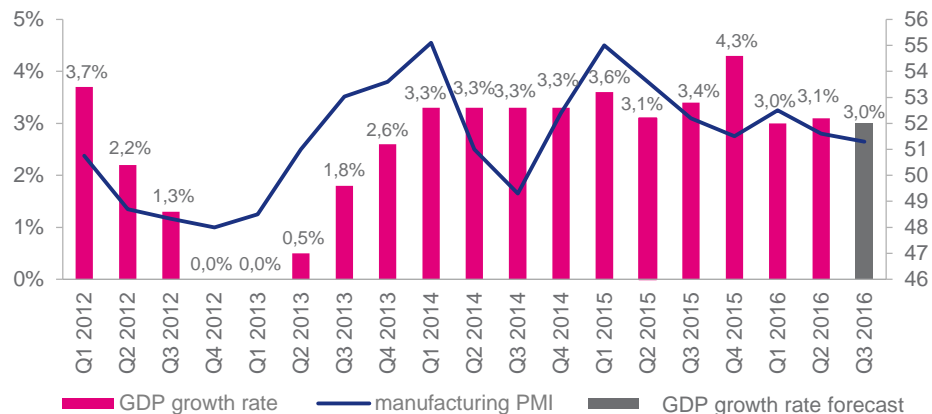
# Q1-Q3 2016 Highlights Summary



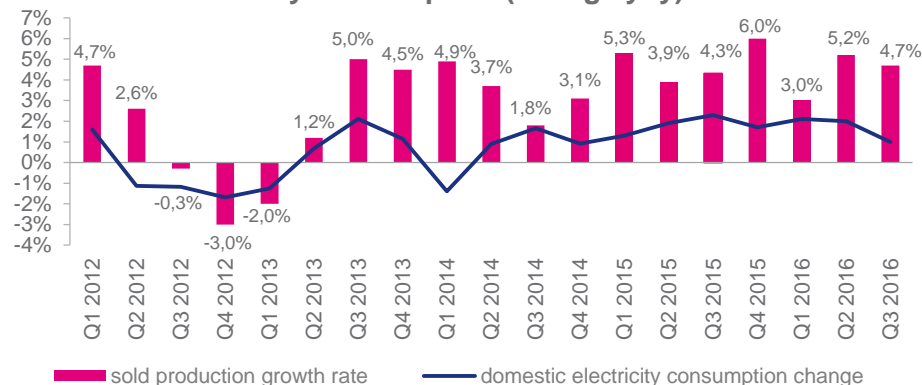
January 29	EC Stalowa Wola terminates the agreement with Abener Energia – the general contractor of the CCGT unit at Stalowa Wola. Termination cause: breach of the schedule and of the material technical provisions of the contract
March 9	Adoption of the 2016-2018 efficiency improvement program with the 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 were signed with bondholders holding 6 937 TPEA1119 series bonds (39.64 percent of the total nominal value of all of this series bonds). The bondholders undertook that during the term of the agreements they would take part in every meeting of bondholders and vote against passing a resolution that would allow the bondholders to demand from the company an early redemption of the bonds (in conjunction with the potential case of the leverage ratio exceeding 3.0x, provided this ratio does not exceed 3.5x)
April 25	Adoption by the Management Board of TAURON Group's new Business Model
April	
June	Launch of two coal faces at Brzeszcze Coal Mine with total coal reserves of approx. 1 million tons
July 26	Decision to book write-offs of impaired wind farms and conventional generation assets for the total net amount of approx. PLN 0.7bn
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

# Macroeconomic and market situation

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



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



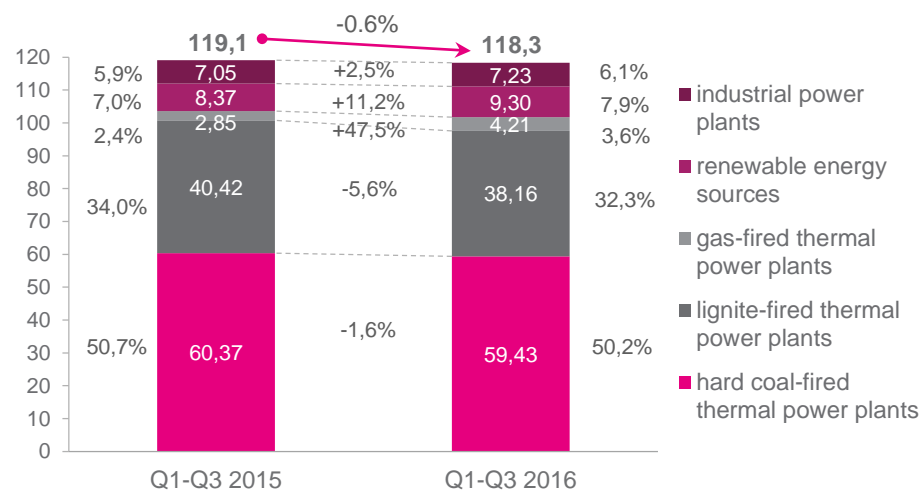
**Electricity prices under one year BASE contracts**

	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	160.24	63 790
Y-18	158.91	7 718
Y-19	162.76	596

**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
- Q1 2016: 167.45 PLN/MWh
- Q2 2016: 171.14 PLN/MWh

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

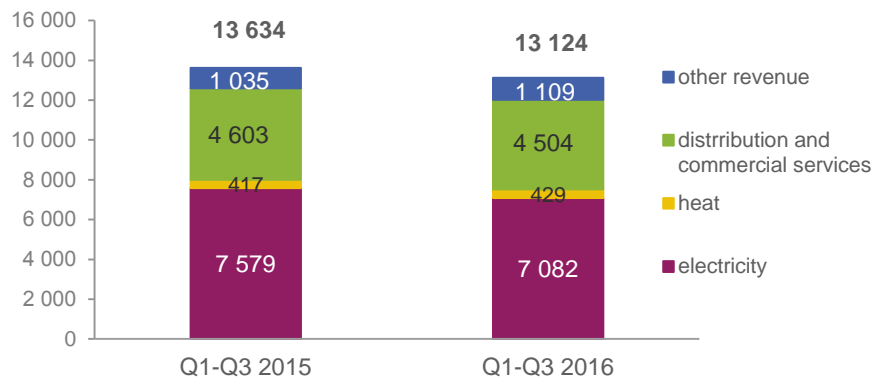


January-September 2016 cumulative accrual data

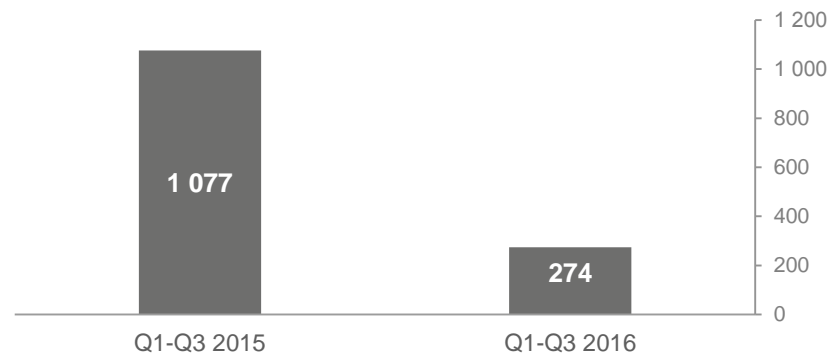
# Q1-Q3 2016 key financial data



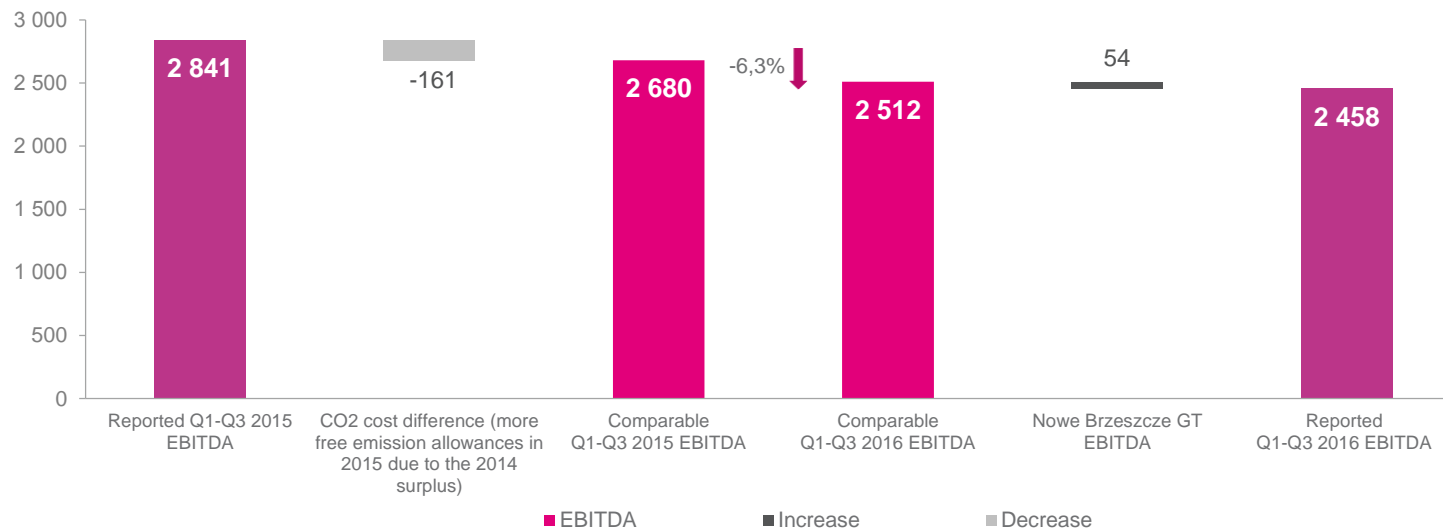
Sales revenue [PLN m]



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

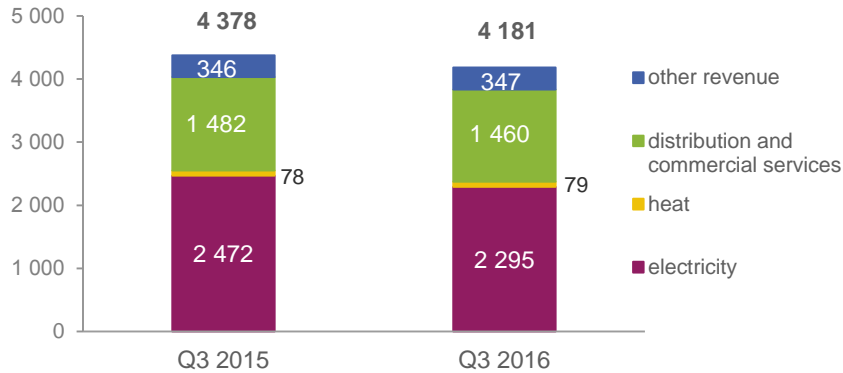


Q1-Q3 2016 vs Q1-Q3 2015 EBITDA [PLN m]

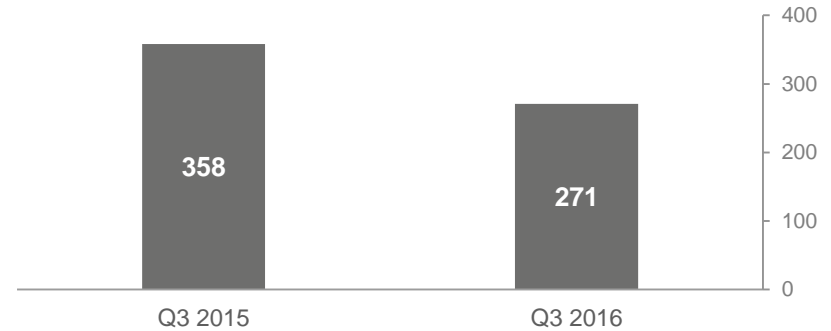


# Q3 2016 key financial data

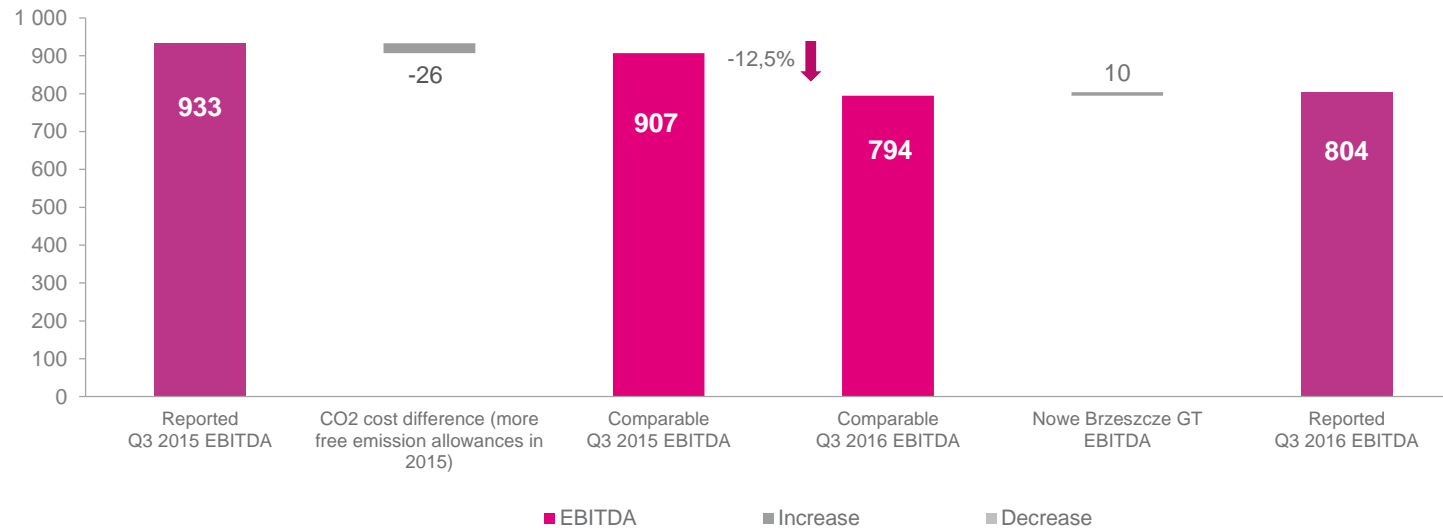
Sales revenue [PLN m]



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

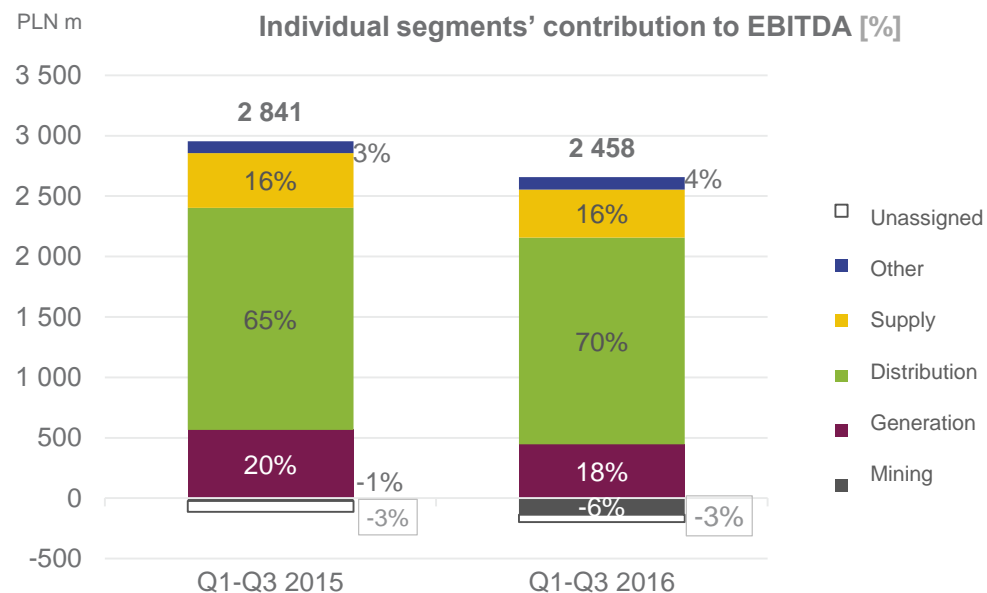


Q3 2016 vs Q3 2015 EBITDA [PLN m]



# Q1-Q3 2016 key segments results

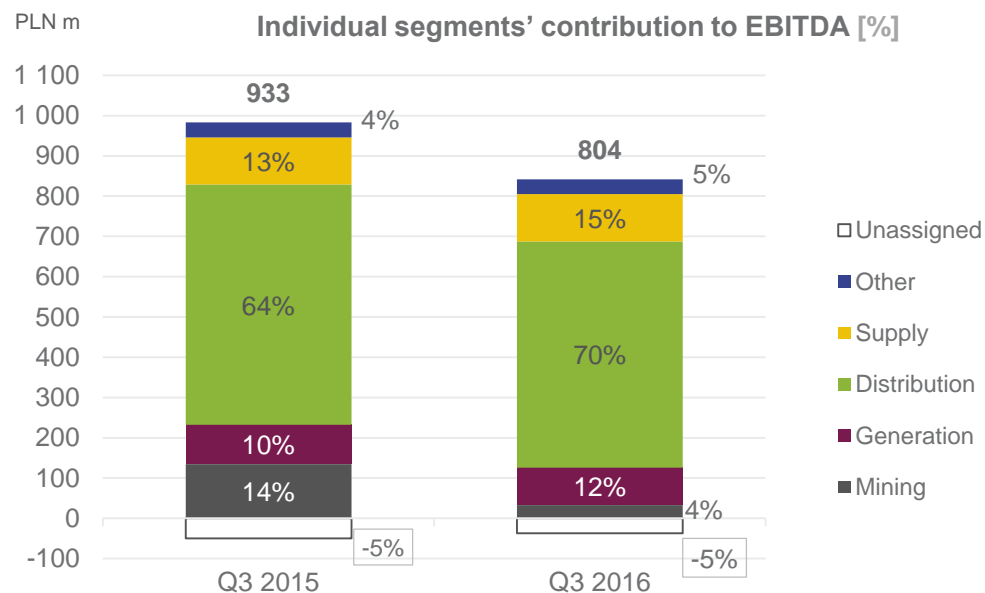
[PLN m]	Distribution	Supply	Generation	Mining
Segment's revenue	4 676	10 287	3 244	888
EBITDA	1 710	397	447	(137)
EBIT	947	389	(570)	(229)
CAPEX	1 171	1	1 110	132



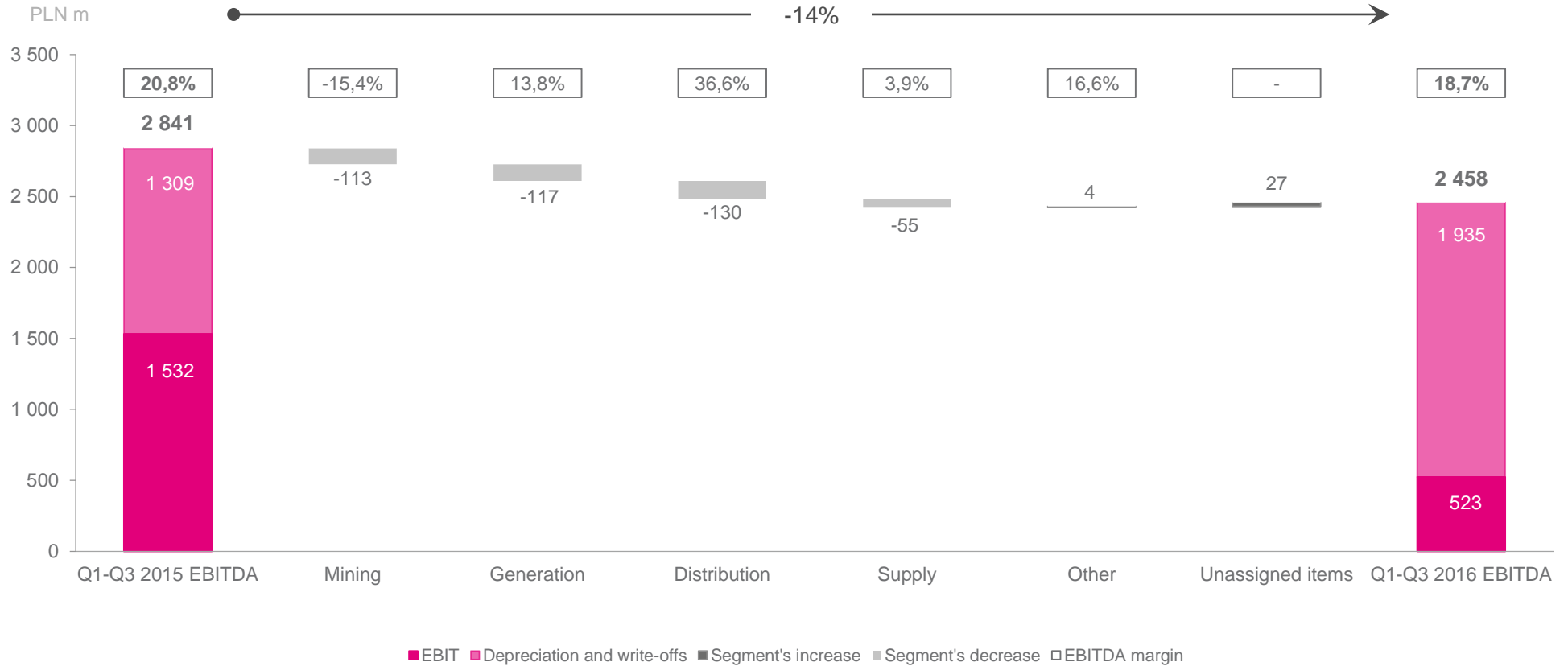


# Q3 2016 key segments results

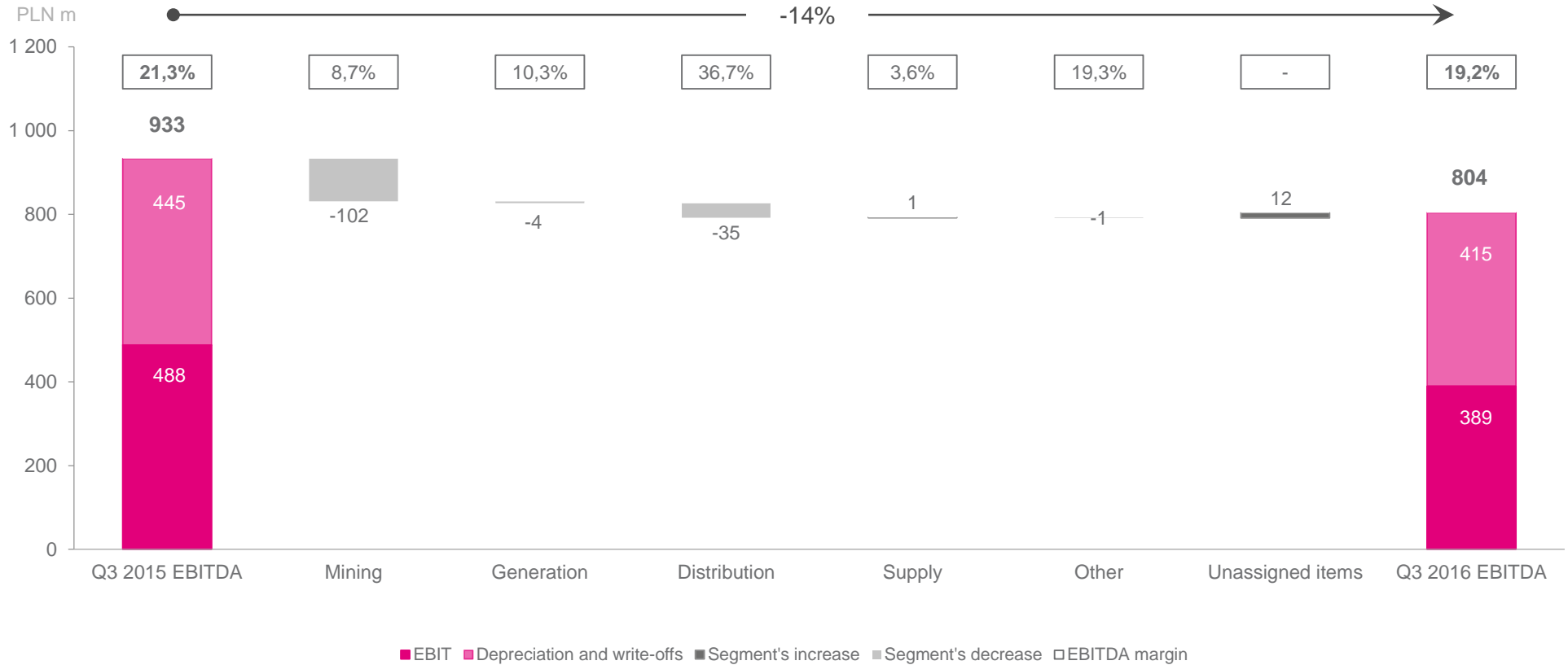
[PLN m]	Distribution	Supply	Generation	Mining
Segment's revenue	1 532	3 300	901	375
EBITDA	562	117	93	33
EBIT	303	115	(12)	2
CAPEX	427	0.4	510	42



# Q1-Q3 2016 EBITDA

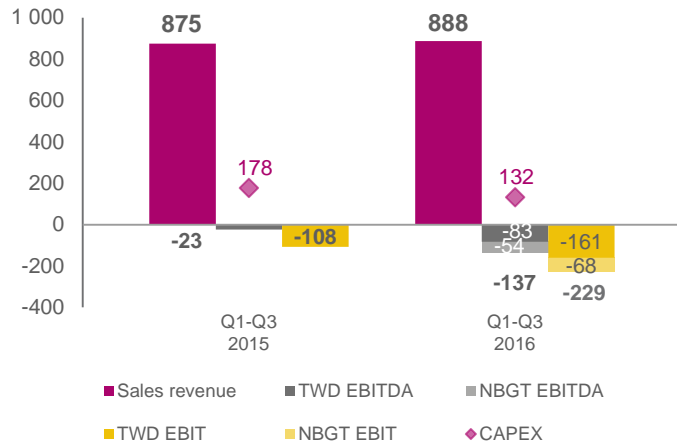


# Q3 2016 EBITDA

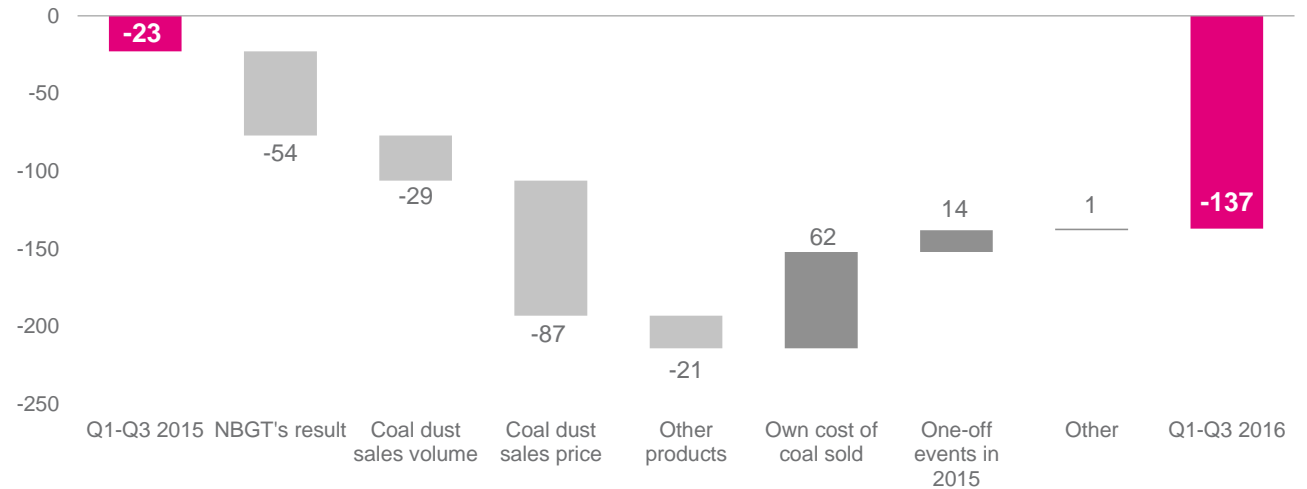


# Mining – Q1-Q3 2016

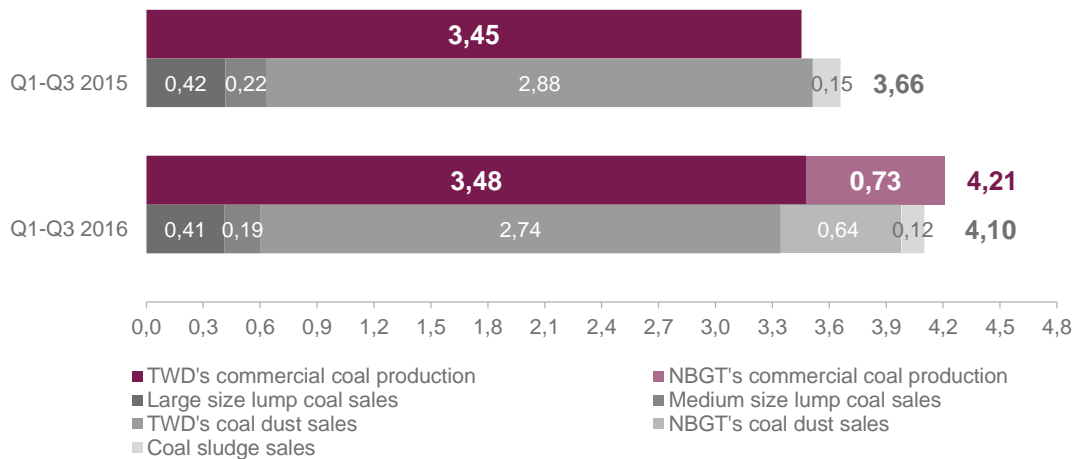
Financial data [PLN m]



Change of EBITDA [PLN m]



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

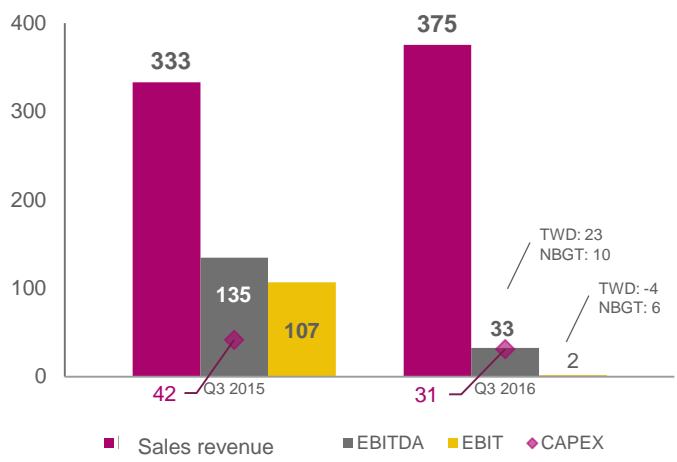


- 1 14.8% decline of coal dust prices -
- 2 4.8% drop of coal dust sales volume -
- 3 Lower headcount\* (down 552 FTEs on average) ✓

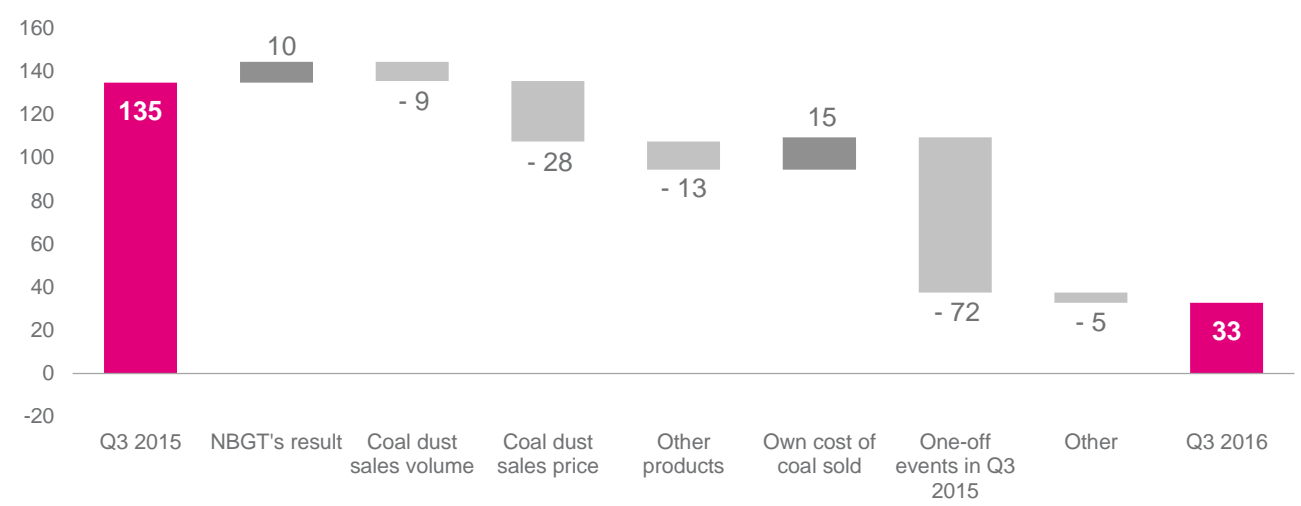
\*excluding NBGT

# Mining – Q3 2016

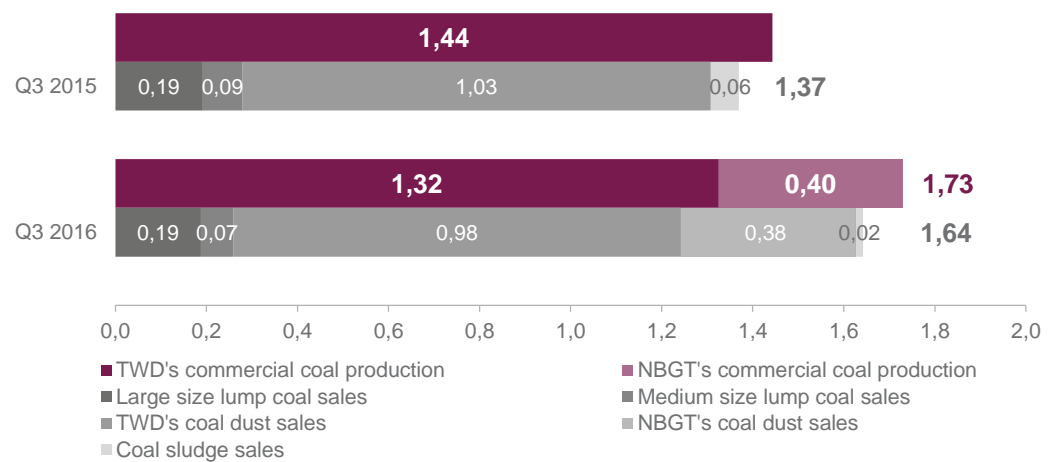
Financial data [PLN m]



Change of EBITDA [PLN m]



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



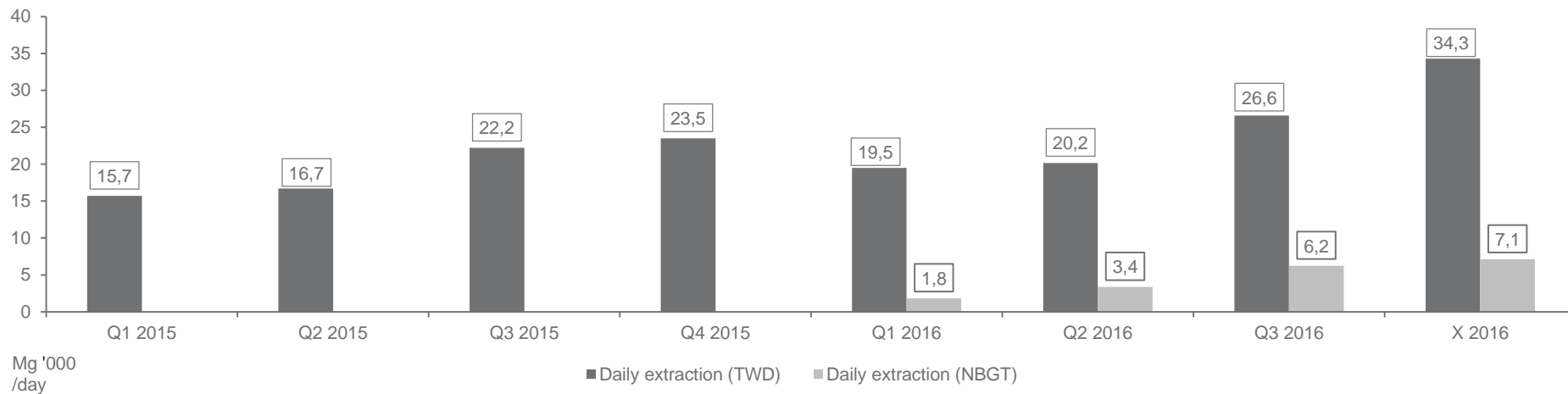
- 1 13.7% decline of coal dust prices -
- 2 4.4% drop of coal dust sales volume -
- 3 Lower headcount\* (down 527 FTEs on average) ✓

\*excluding NBGT

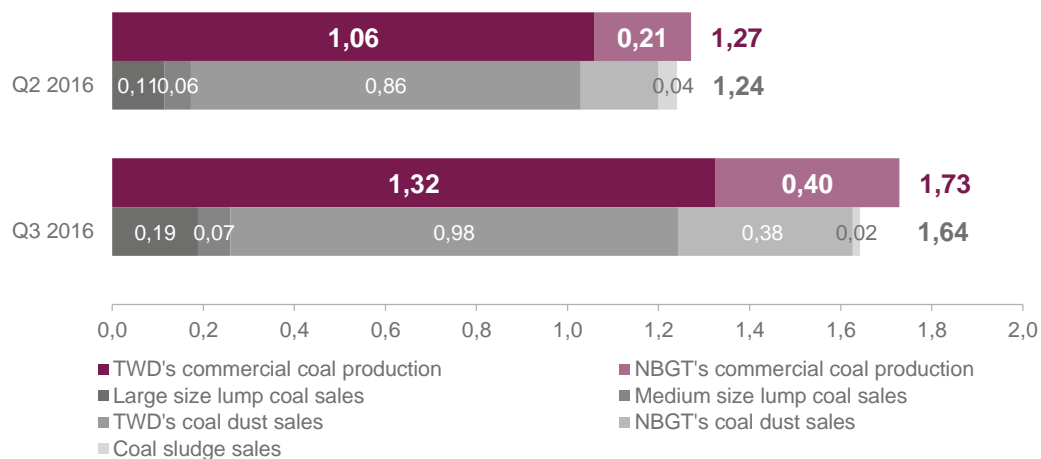
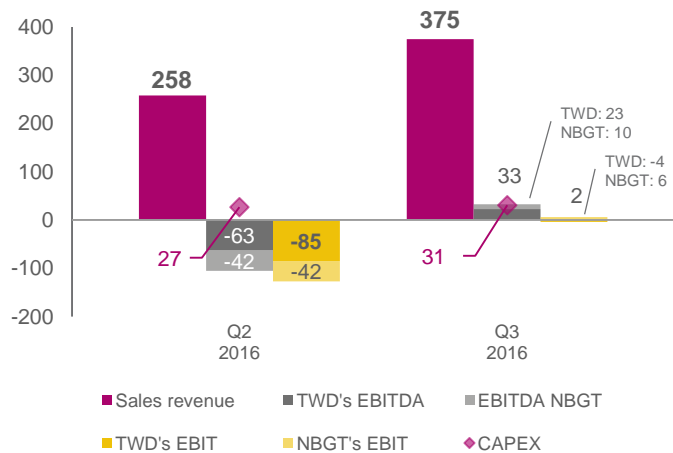
# Mining – Q3 2016



Daily commercial coal production in 2015-2016

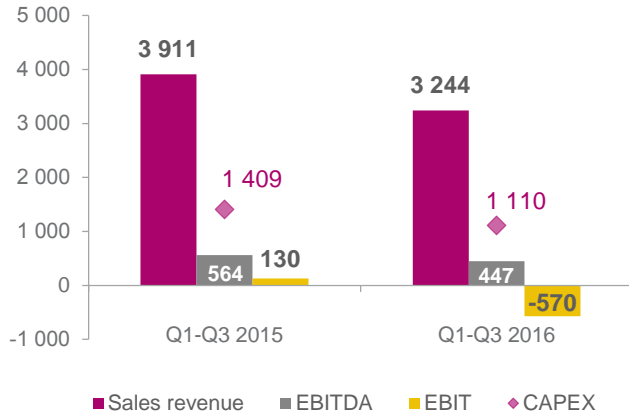


Commercial coal production volume vs sales per product [Mg m]

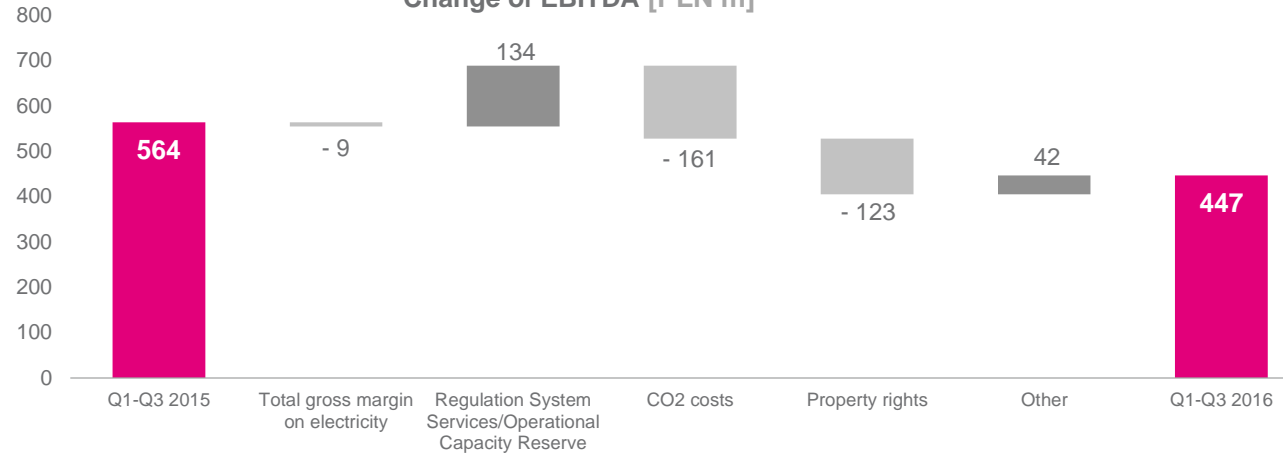


# Generation – Q1-Q3 2016

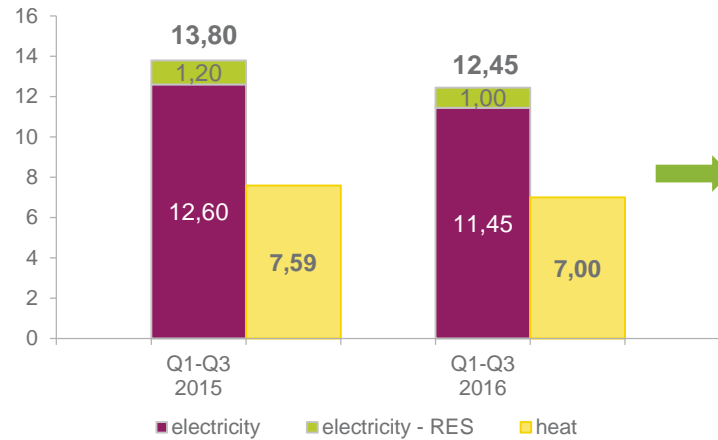
Financial data [PLN m]



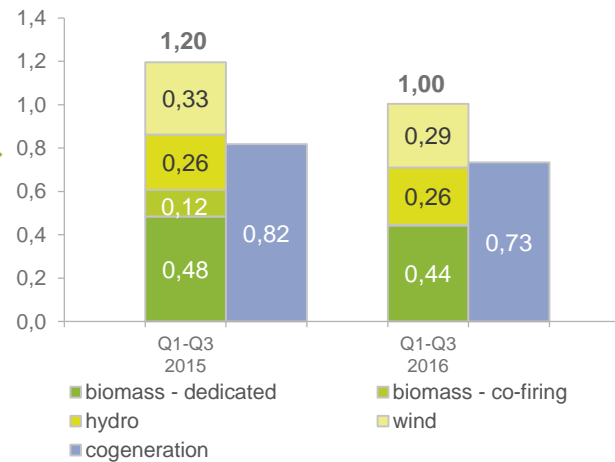
Change of EBITDA [PLN m]



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



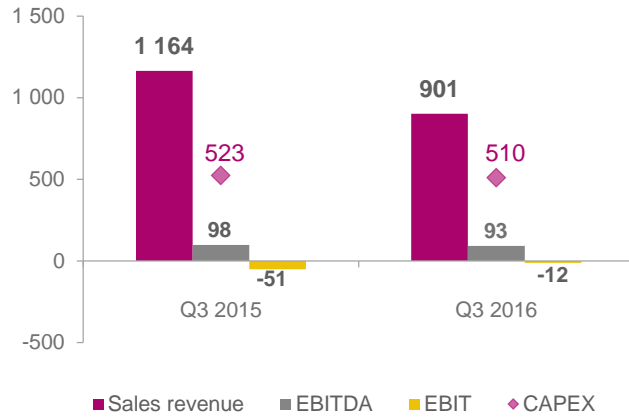
RES and cogeneration production [TWh]



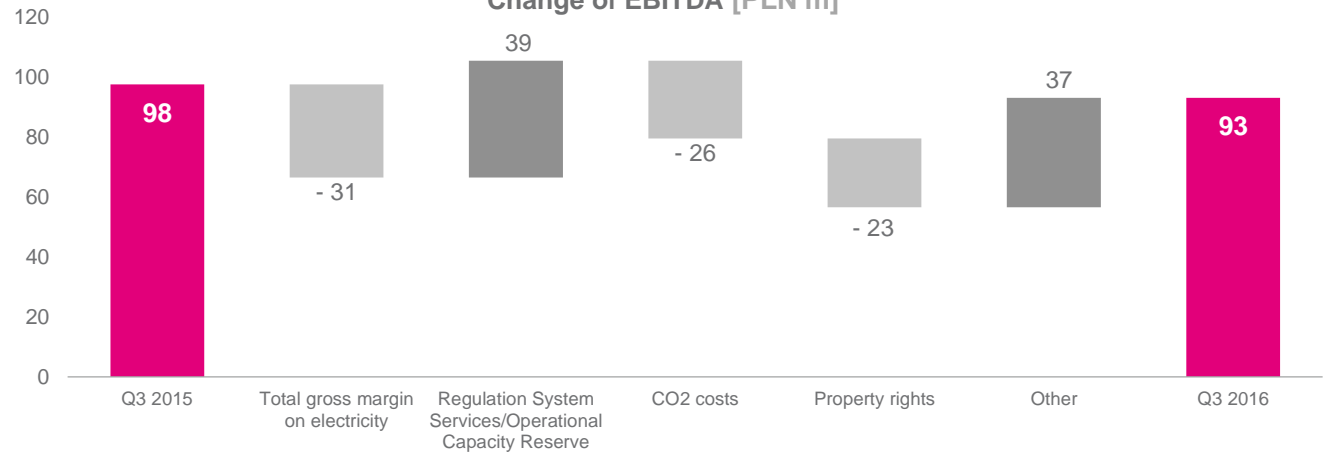
- |   |  |   |
|---|--|---|
| 1 | Increase of the OCR volume and CIR revenue               | ✓ |
| 2 | 11% hard coal price drop                                 | ✓ |
| 3 | Higher costs of CO <sub>2</sub> emission rights purchase | ✗ |
| 4 | Falling RES property rights prices and volume            | ✗ |

# Generation – Q3 2016

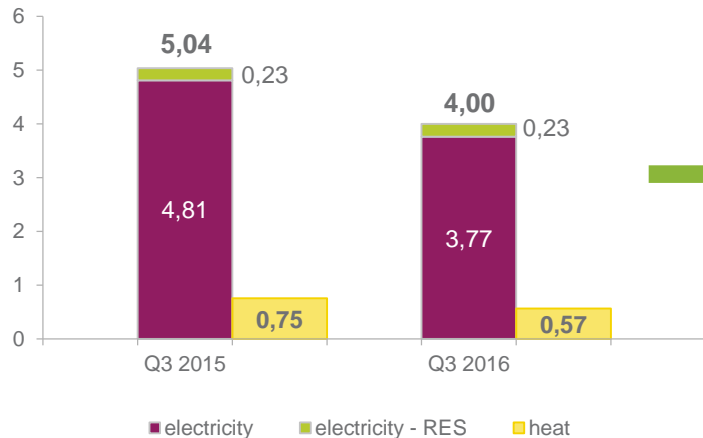
Financial data [PLN m]



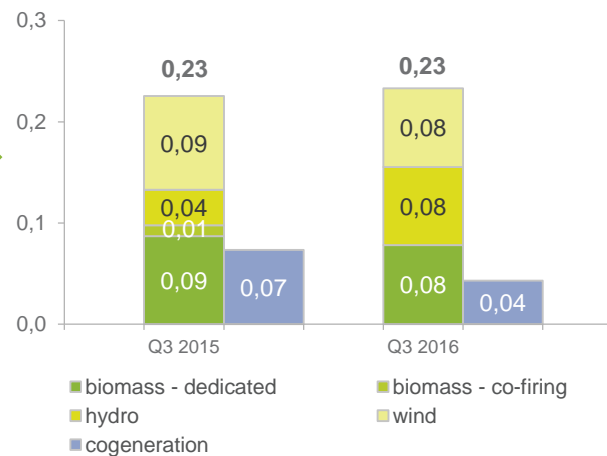
Change of EBITDA [PLN m]



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



RES and cogeneration production [TWh]

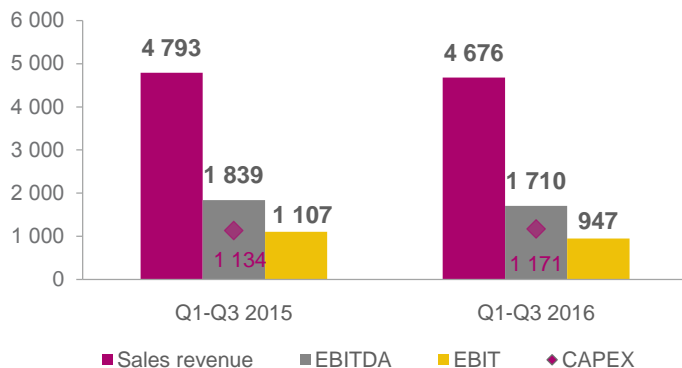


- |   |  |   |
|---|--|---|
| 1 | Increase of the OCR volume and CIR revenue               | ✓ |
| 2 | 13% hard coal price drop                                 | ✓ |
| 3 | Higher costs of CO <sub>2</sub> emission rights purchase | - |
| 4 | Falling RES property rights prices and volume            | - |

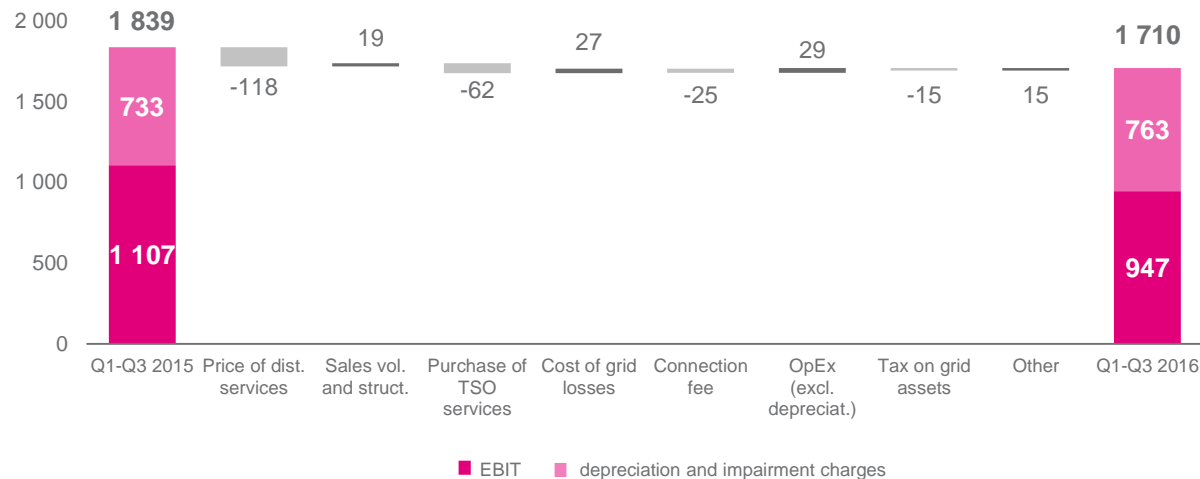


# Distribution – Q1-Q3 2016

Financial data [PLN m]

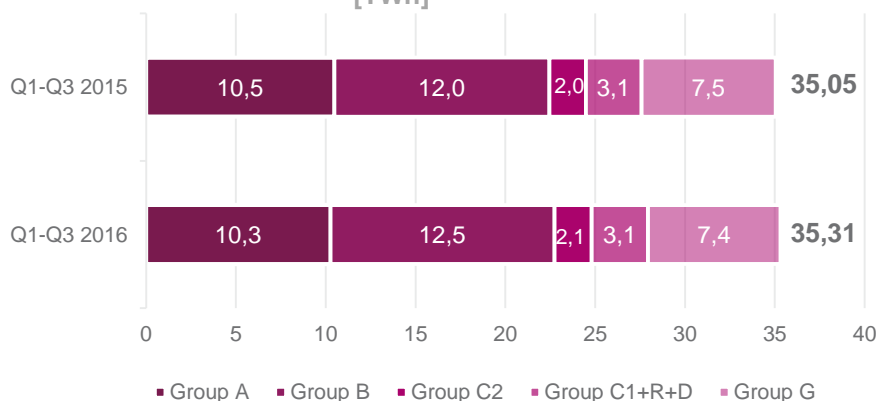


Change of EBITDA [PLN m]



Electricity distribution to end users

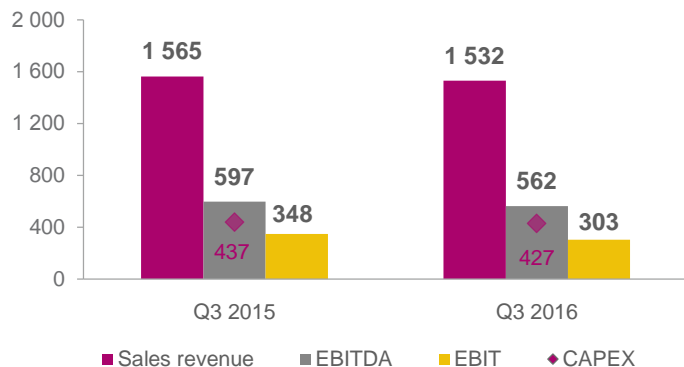
[TWh]



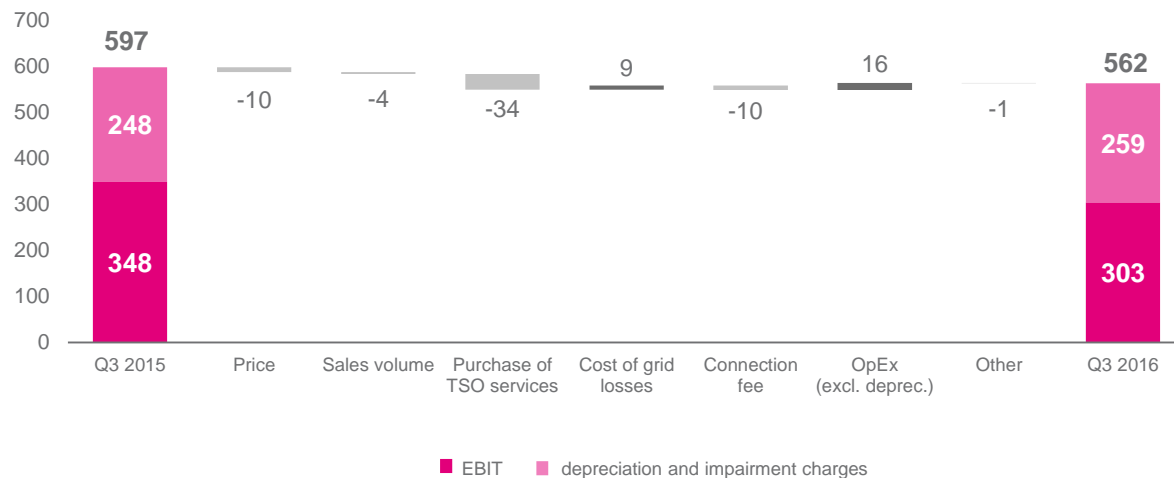
- 1 Decline of approved tariff by 3.6 PLN/MWh (2.9%) -
- 2 264 GWh (0.8%) higher electricity distribution services sales volume, mainly in the manufacturing industry in correlation to the GDP growth rate ✓
- 3 13% increase of the quality fee rate included in the cost of purchasing the transmission services -
- 4 Balancing difference optimization – balancing price decline (by 12%) and grid losses factor drop (by 0.18 pp) ✓

# Distribution – Q3 2016

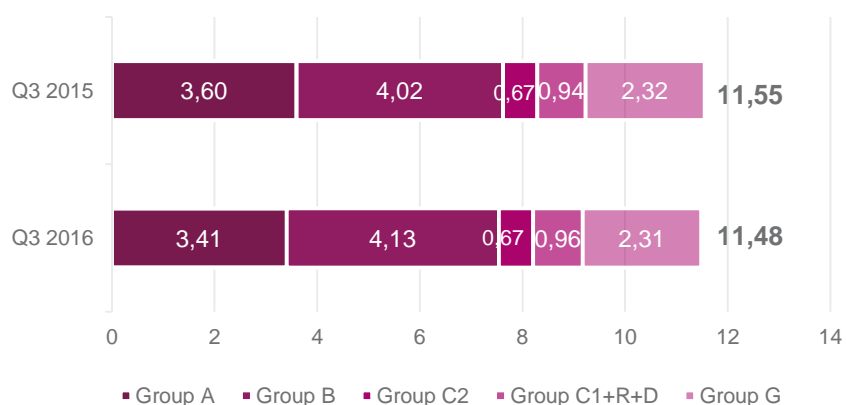
Financial data [PLN m]



Change of EBITDA [PLN m]



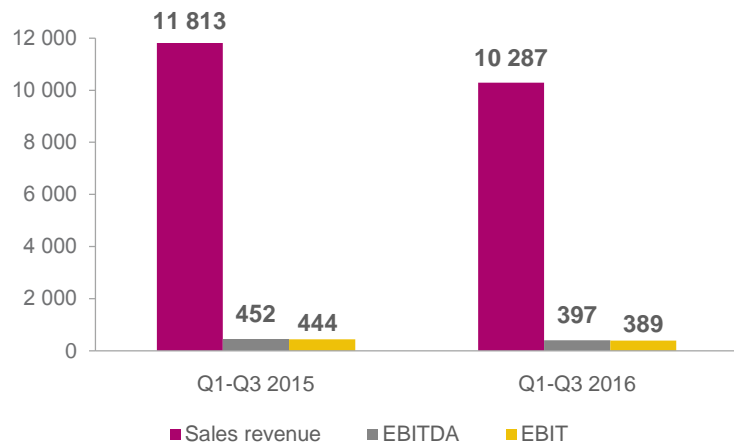
Electricity distribution to end users [TWh]



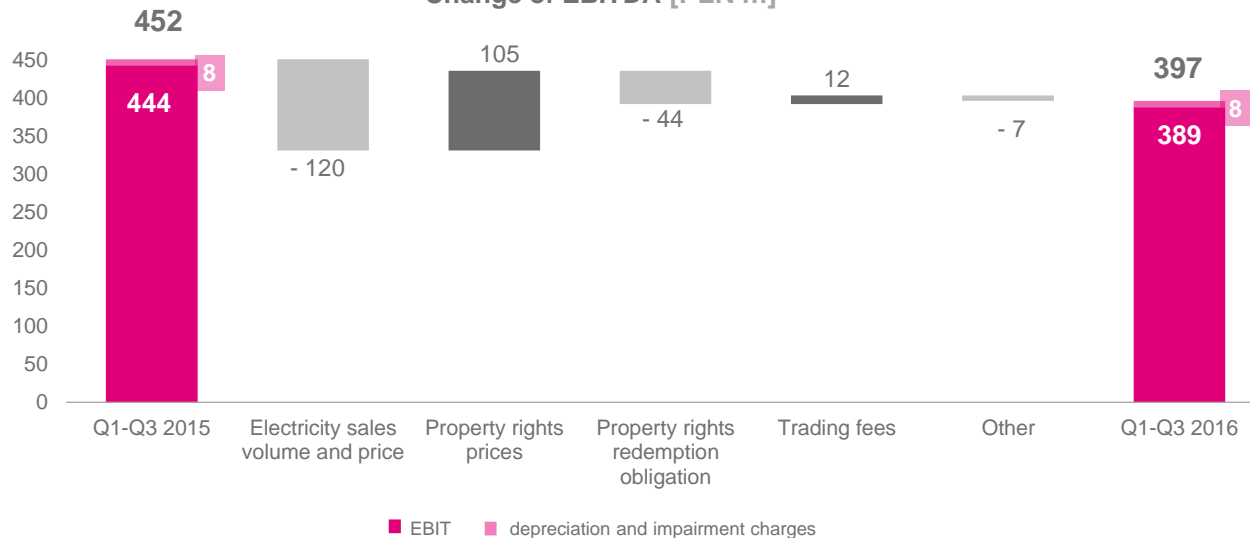
- 1 Decline of approved tariff by 3.6 PLN/MWh (2.9%) on average -
- 2 13% increase of the quality fee rate included in the cost of purchasing the transmission services -
- 3 Lower costs of wages and benefits due to the lower headcount and lower actuarial provisions (+PLN 10m); Lower costs of the support function (+PLN 5m) ✓

# Supply – Q1-Q3 2016

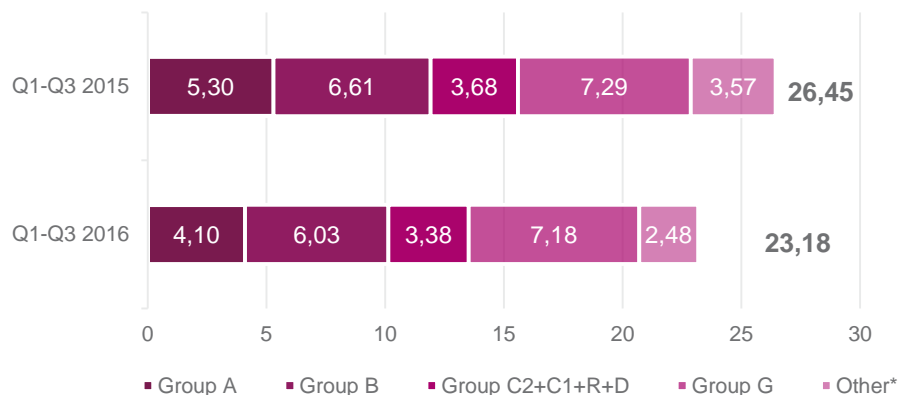
Financial data [PLN m]



Change of EBITDA [PLN m]



Retail electricity supply [TWh]

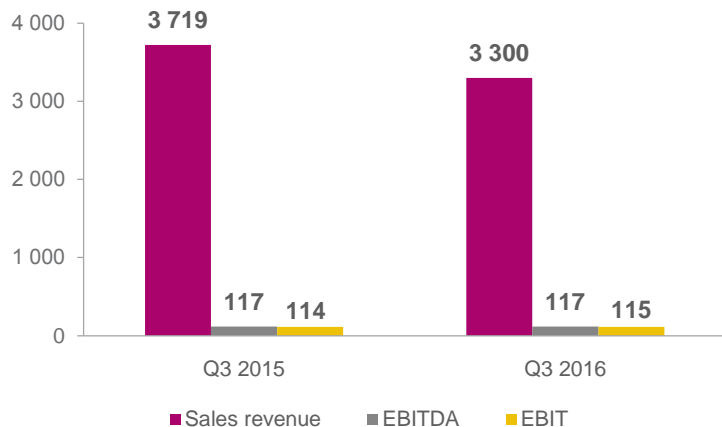


- 1 Total average electricity sales price rose (1.7%) while the growth rate of electricity purchase prices was slower (1.0%). Increase of the average electricity sales price was achieved due to the higher wholesale prices (6.3%) while retail prices dropped (1.2%) ✓
- 2 Falling retail electricity supply volumes mainly to large business customers and to the SMEs -
- 3 Rising obligation to redeem property rights: in case of PM OZE from 14% to 15% and from July a change to 14.35% and introduction of PMOZE-BIO of 0.65%, in case of PM GM from 4.9% to 6.0%, in case of PM MET from 1.3% to 1.5% -
- 4 Lower purchase prices of the "green" property rights to be redeemed (by approx. 26%) ✓

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

# Supply – Q3 2016

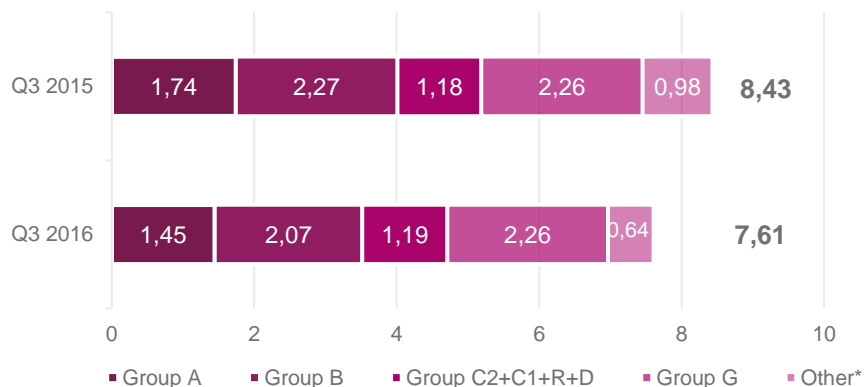
Financial data [PLN m]



Change of EBITDA [PLN m]



Retail electricity supply [TWh]

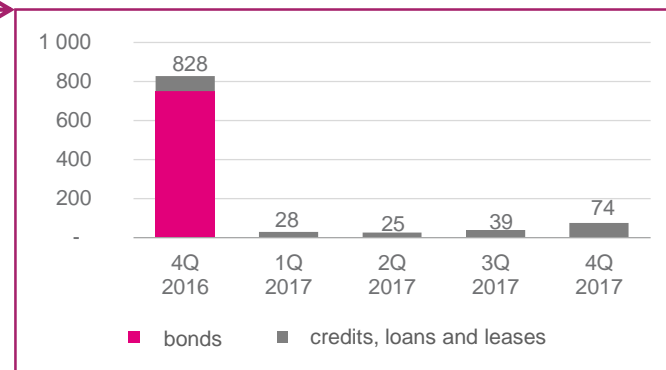
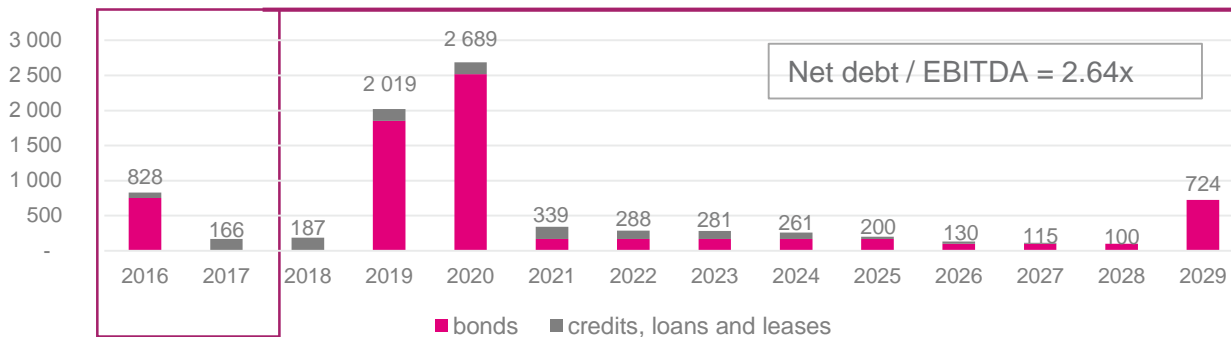


- 1 Total average electricity sales price rose (0.6%) while electricity purchase prices declined (1.0%). Increase of the average electricity sales price was achieved due to the higher wholesale prices (2.2%) while retail prices dropped (0.8%) ✓
- 2 Falling retail electricity supply volumes mainly to large business customers -
- 3 Rising obligation to redeem property rights: in case of PM OZE from 14% to 15% and from July a change to 14.35% and introduction of PMOZE-BIO of 0.65%, in case of PM GM from 4.9% to 6.0%, in case of PM MET from 1.3% to 1.5% -
- 4 Lower purchase prices of the "green" property rights to be redeemed (by approx. 24%) ✓

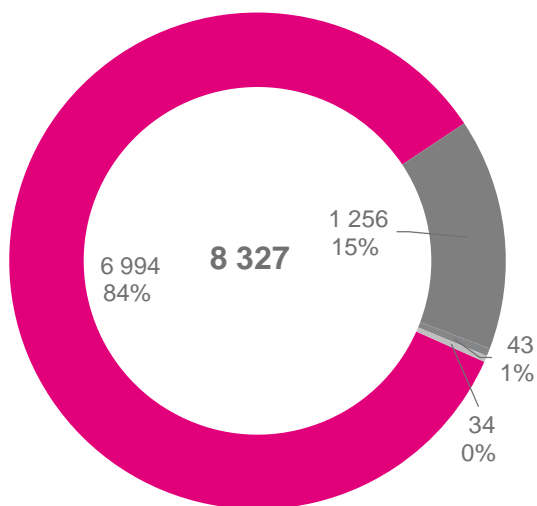
\* includes sales to cover the balancing difference and to the intra-Group end users

# Debt and financing

TAURON Group's debt maturity as of 30.09.2016 [PLN m]

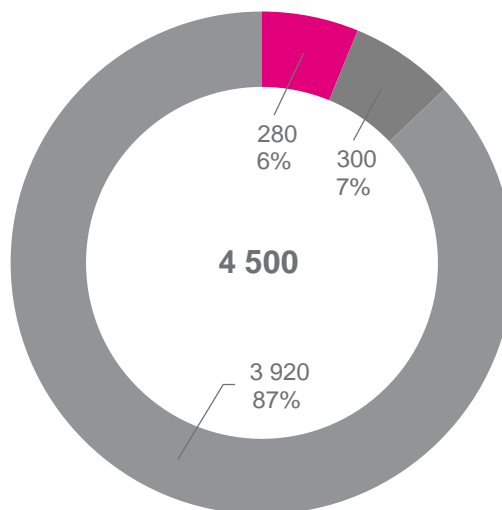


TAURON Group's debt structure as of 30.09.2016 [PLN m]



- bonds
- EIB loans
- NFOSiGW/WFOSiGW loans
- leases

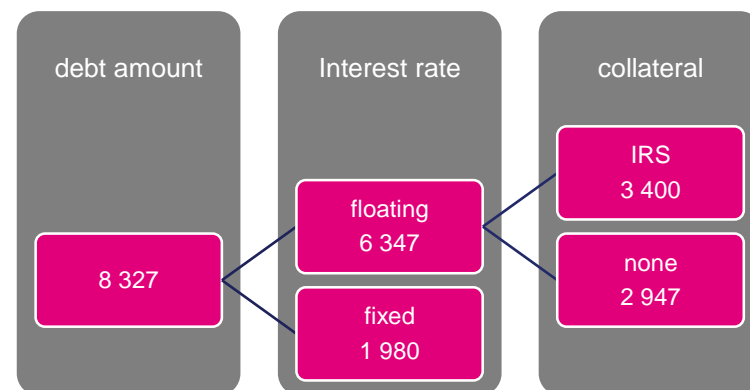
Financing available to TAURON Group as of 30.09.2016 [PLN m]










- BGK program bonds
- cashpooling
- banks program bonds

- debt (nominal value of debt due to investment loans, loans, leases and bonds) as of 30.09.2016 is PLN 8 327m
- weighted average maturity of debt as of 30.09.2016 is 60 months
- EUR denominated debt (NSV bond issue) represents 8.7% of the total debt

Debt structure based on interest rate [PLN m]:



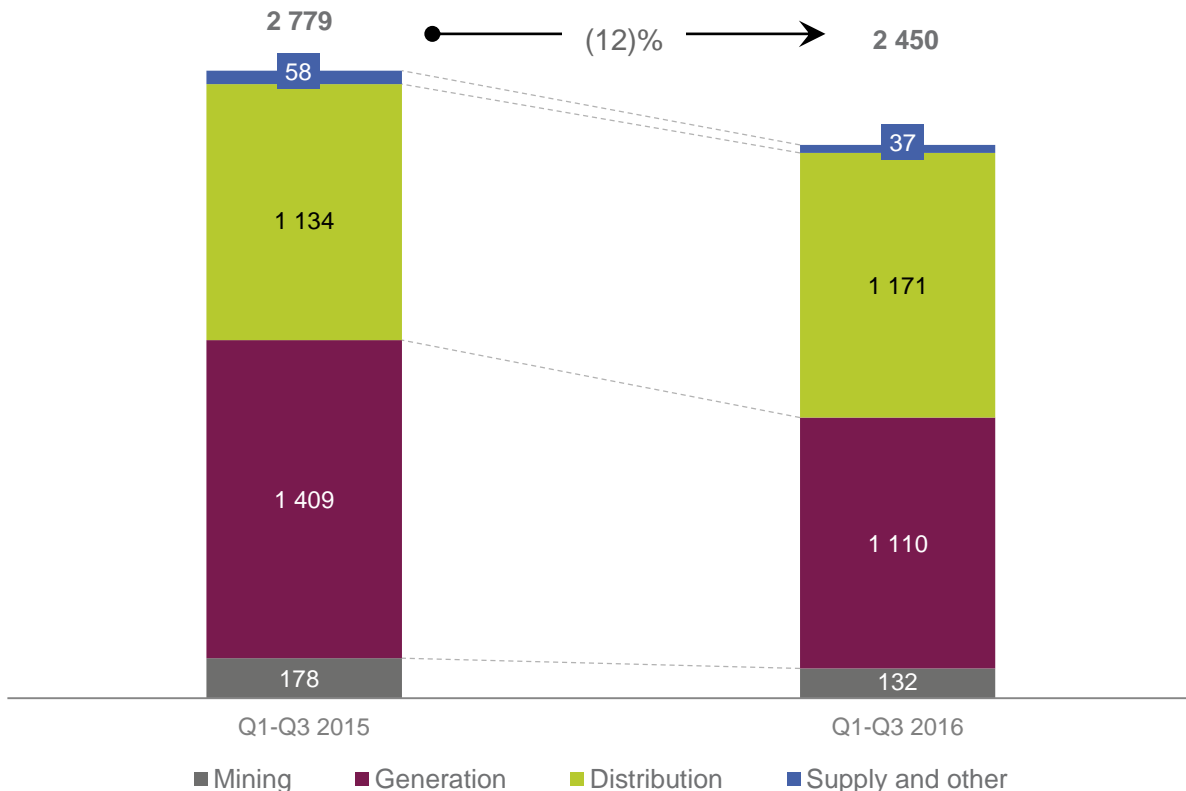
# CAPEX – key projects' work progress

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	-	27	 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	-	-	96	 2016
Construction of the 800m level at Janina coal mine	-	-	45	 2020
Construction of Grzegorz shaft at Sobieski coal mine	-	-	20	 2023
CAPEX program at Brzeszcze coal mine	-	-	2	 2026

\* 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]



## Key investment projects underway in Q1-3 2016:

### Mining:

- construction of the 800 m level at Janina coal mine (PLN 44m)
- construction of the Grzegorz shaft at Sobieski coal mine (PLN 21m)
- Nowe Brzeszcze Grupa TAURON (PLN 9m)

### Generation:

- construction of new 910 MW capacity at Jaworzno Power Plant (PLN 787m), 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 10m)
- construction of new 50 MW cogeneration capacity at EC Tychy (PLN 107m)
- construction and upgrade of district heating networks (PLN 42m)
- hydroelectric power plants upgrade (PLN 10m)

### Distribution:

- construction of new connections (PLN 411m)
- grid assets upgrades and replacement (PLN 619m)

# New capacity construction at Jaworzno III Power Plant (910 MW)

**The project, which is TAURON Group's largest investment project, is entering another – technological – stage of implementation**



**Work progress: 27%**

Boiler structure works are in the final stage and their completion will enable commencing the assembly of the technological part. The process of prefabrication and preparing the boiler's heat absorbing surface is underway in parallel.

The process of constructing the cooling tower's cladding is in progress – 75% complete. Major components' (generator, turbine) deliveries are underway and the turbine set's upper foundation plate has been completed. With respect to the auxiliary and accompanying systems the implementation of the key unit carburizing and de-ashing projects is underway.

In order to ensure the highest quality and standards of the works performed the project management structure was changed and expanded (among others by providing dedicated formal and legal support), overall project supervision was strengthened and continuous, ongoing project risks monitoring was introduced.

In accordance with TAURON Group's Strategy the process of spinning off the 910 MW unit's construction project out of TAURON Wytwarzanie S.A. was commenced. For this purpose the legal due diligence related to the spin-off process and the review of the investment project's financial model are underway. At the same time works are in progress on agreeing the content of the project's financing agreement under the new formula (term sheet).



# CCGT unit construction at Stalowa Wola Combined Heat and Power Plant

## On October 27, 2016 TAURON Polska Energia and PGNiG agreed the conditions of completing the Project



Work progress: 85%

The documents signed by the companies, including:

- restructuring agreement
- amendments to the gas supply and power take-off contracts
- standstill agreement with the financing banks

align the existing commercial agreements to the unit's expected commissioning date and to the current market environment, and also guarantee the sponsors (TAURON and PGNiG) freedom in shaping the manner of completing and further financing the project. They constitute some of the key elements that enable completing the investment project and achieving the project's profitability.

The current project completion plans assume that the investment project will be continued with the use of a specialized company supporting the project's coordination under the so-called EPCM (*Engineering, Procurement and Construction Management*) formula. The entire scope of works remaining to be completed will be divided into technology islands for which separate contractors will be selected. Currently preparations are underway to announce the proceeding aimed at selecting the EPCM service provider.

According to the current estimates the completion of the CCGT unit's construction in Stalowa Wola will cost approx. PLN 400m and the unit should be commissioned in 2019.

# CCGT unit construction at Stalowa Wola Combined Heat and Power Plant



## Restructuring agreement shall, among others:

- reflect the will of the Project's sponsors (TAURON, PGNiG) to continue the construction of the CCGT unit, introduce changes to the Gas Supply Agreement and Power Take-off Agreement and change the Project's financing formula while maintaining the involvement of the financing institutions,
- define the conditions of settling the liquidated damages that can be assessed by PGNiG under the existing Gas Supply Agreement and the Project's financial restructuring issues,
- define the direction of changes to the basic commercial transactions of ECSW, i.e. to the manner of purchasing gas fuel and selling the electricity generated.

## Changes to the power take-off and gas supply contracts shall, among others:

- envisage in particular making the pricing formulas market based,
- define changes with respect to the amounts, deadlines and methodology to be applied to assess liquidated damages due to the untaken gas in connection with the Project's completion delay.

## Standstill agreement concluded with the financing banks (European Investment Bank, European Bank for Reconstruction and Development, Bank Polska Kasa Opieki) shall, among others:

- guarantee that the institutions currently financing ECSW will refrain from demanding immediate repayment of the loans extended to ECSW and satisfying their claims from the collaterals set up,
- give the Sponsors and ECSW time until March 31, 2017 to negotiate and sign the new documentation that would enable the restructuring of the Project's financing,
- define a case of a potential earlier repayment of the individual banks' dues.

# Selected asset management initiatives







In accordance with the new business model and the adopted Strategy of TAURON Group a new asset and investment project management approach is being implemented and, as a result, the following initiatives have, among others, been launched:

Initiative	Assumptions	Effects																																										
1.	<p>Upgrading the existing 200 MW units in order to prepare them for the auction system (Program 200+)</p> <ul style="list-style-type: none"> <li>Precondition for joining the program is the refund of fixed costs and upgrade outlays incurred, e.g. through capacity market mechanisms</li> <li>Expected implementation of the program in the 2020-2021 time frame</li> <li>Adaptation to the market requirements by increasing the flexibility of the 200 MW units operation</li> <li>Optimizing the overhaul and upgrade plans; dividing the units into 3 groups: units to be upgraded (adapted to the BAT conclusions), load following units (not required to be adapted to the BAT conclusions), peaking units (not required to be adapted to the BAT conclusions)</li> </ul>	<ol style="list-style-type: none"> <li>Optimization of the capital expenditures and maintenance outlays</li> <li>Adaptation to the requirements of the electricity market and TSO</li> </ol>																																										
2.	<p>Burning of coal sludge arising from hard coal rinsing and cleaning at TAURON Group's generation units</p> <table border="1" data-bbox="513 1025 1452 1235"> <thead> <tr> <th>Unit/ '000 tons per annum</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Jaworzno II - Unit 2</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Jaworzno II - Unit 3</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Siersza - Unit 1</td> <td>201</td> <td>135</td> <td>435</td> <td>435</td> <td>435</td> <td>435</td> </tr> <tr> <td>Siersza - Unit 2</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>ZW Katowice - BCF-135</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>* Consumption until 24.10.2016</p>	Unit/ '000 tons per annum	2015	2016	2017	2018	2019	2020	Jaworzno II - Unit 2							Jaworzno II - Unit 3							Siersza - Unit 1	201	135	435	435	435	435	Siersza - Unit 2							ZW Katowice - BCF-135							<ol style="list-style-type: none"> <li>Reduction of the variable electricity generation cost at the following power plants: Jaworzno II, Siersza and ZW Katowice</li> <li>Reduction of direct depositing in the environment of the coal sludge arising from hard coal rinsing and cleaning</li> </ol>
Unit/ '000 tons per annum	2015	2016	2017	2018	2019	2020																																						
Jaworzno II - Unit 2																																												
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Siersza - Unit 1	201	135	435	435	435	435																																						
Siersza - Unit 2																																												
ZW Katowice - BCF-135																																												

# Selected asset management initiatives

Initiative		Assumptions	Effects				
1.	Low Emission Elimination Program	<ul style="list-style-type: none"> <li>Program assumes increasing sales by connecting new customers in the amount of 183 MW<sub>t</sub></li> <li>Scope of works includes, among others, constructing new segments of the heating network, installing connections in 8 cities of the Silesia and Dąbrowa conurbation (Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec, Świętochłowice)</li> <li>Financing using own funds as well as planning to obtain subsidies from an external fund under the Operational Program Infrastructure and Environment 2014-2020</li> <li>Currently the investment project preparation stage is underway (including, among others, business, economic and technical analyses, program's schedule, business plan)</li> <li>It is planned that by <b>31.12.2016</b> applications for the Program's financing will be submitted to WFOŚiGW</li> </ul> <hr/> <table> <tr> <td>Planned completion</td> <td>September 8, 2023</td> </tr> <tr> <td>Planned budget</td> <td>PLN 248m</td> </tr> </table> <hr/>	Planned completion	September 8, 2023	Planned budget	PLN 248m	<ol style="list-style-type: none"> <li><b>Rising TC's (Tauron Heat) revenue</b></li> <li><b>Strengthening of TC's position on the local market by expanding the heat market served</b></li> <li><b>Achieving a significant environmental effect</b></li> </ol>
Planned completion	September 8, 2023						
Planned budget	PLN 248m						

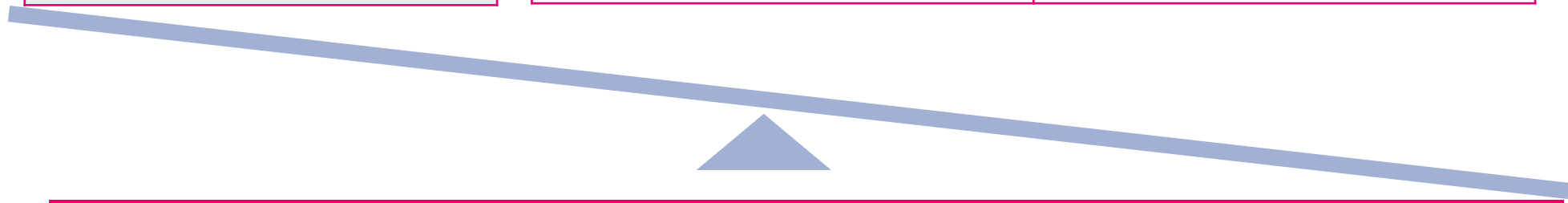
# Efficiency improvement program

Segment	Savings realized in Q1-3 2016	Savings planned in 2016-2018	Progress %	Main initiatives
Mining	PLN 77m	PLN 255m	 30%	<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 129m	PLN 367m	 35%	<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 65m	PLN 390m	 17%	<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 39m	PLN 291m	 14%	<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 310m</b>	<b>PLN 1 303m</b>	<b>24%</b>	

In Q1-3 2016 under the Voluntary Redundancy Program TAURON Group's headcount was reduced by 379 FTEs. Savings resulting from redundancies, decreased by the costs incurred to generate these savings, are included in the amounts presented per segment

# Summary of actions/initiatives in Q1-Q3 2016 vs negative market factors

Negative factors	Actions and initiatives	
Declining coal prices, competitive pressures	Preparing TAURON Group's 2016-2025 Strategy	Customer orientation – comprehensive product and service offering
Reduction of the PM OZE support for the co-firing (adjustment factor 0.5)	PRO values – change of the organizational culture	Deploying a new business model – process based approach
Rising CO <sub>2</sub> costs	Implementing another Efficiency Improvement Programs worth PLN 1.3bn	Concluding agreements related to Stalowa Wola Combined Heat and Power Plant
Drop of WACC for Distribution	Strategic initiatives worth PLN 1.9bn	Reducing the planned 2016-2025 capex by PLN 2.2bn
Removal of the PM OZE support for the hydroelectric power plants with capacity above 5 Mwe	Strong growth of coal extraction output at Brzeszcze Coal Mine – Mining segment achieving positive EBITDA in Q3 2016	PLN 310m in savings realized in 2016 under the Efficiency Improvement Program
Aggressive competition on the electricity supply market		



# Main challenges facing TAURON Group



Financing/debt level	Stalowa Wola CHP	Mining segment
<p><b>Goal:</b></p> <ul style="list-style-type: none"> <li>▪ Obtaining the financing for the projects implemented</li> <li>▪ Extending the debt maturity</li> <li>▪ Net debt/EBITDA&lt;3.5x</li> </ul>	<p><b>Goal:</b></p> <ul style="list-style-type: none"> <li>▪ Completion and commissioning of the project: 2019</li> <li>▪ Profitable operations of ECSW</li> </ul>	<p><b>Goal:</b></p> <ul style="list-style-type: none"> <li>▪ Substantial increase of the extracted coal volume (approx. 7.1 million tons in total starting from 2017)</li> <li>▪ Productivity growth to approx. 1 000 tons/FTE starting from 2017</li> <li>▪ NBGT achieving the target yearly output, i.e. 1.7 million tons/year</li> <li>▪ Achieving, starting from 2017, sustainable profitability of the mining segment at the EBITDA, EBIT and net profit level</li> </ul>
<p><b>Actions/tools:</b></p> <ul style="list-style-type: none"> <li>▪ Debt rollover on new, more favorable terms</li> <li>▪ Hybrid bonds issue</li> <li>▪ NSV registered bonds issue</li> </ul>	<p><b>Actions/tools</b></p> <ul style="list-style-type: none"> <li>▪ Project's inventory taking completed</li> <li>▪ Standstill agreement with EBI, EBOiR, Pekao SA signed</li> <li>▪ Bank guarantees for the banks financing the project submitted</li> <li>▪ Negotiations with PGNiG on changes to the provisions in the power take-off agreement and the gas supply agreement (making pricing formulas market based)</li> <li>▪ Planned change to the Project's financing formula while maintaining the financing institutions' involvement</li> </ul>	<p><b>Actions/tools:</b></p> <ul style="list-style-type: none"> <li>▪ Investments in NBGT leading to the growth of the coal extraction output (coal face reinforcements, infrastructure purchase, etc.), total planned 2016-2018 capex: PLN 250m</li> <li>▪ Construction of the 800 m level at Janina Coal Mine and the Grzegorz shaft at Sobieski Coal Mine</li> <li>▪ Optimizing the use of resources, synergies</li> </ul>

# Thank you – Q & A



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# Electricity market price trends

Energia elektryczna						
Platforms: TGE, TFS, GFI, GPW-POEE	2015		2016 (until October 20, 2016)		2016/2015 (until October 20, 2016)	
	Price (PLN/MWh)	Volume (GWh)	Cena (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	167.51	201 870	<b>165.91</b>	<b>189 852</b>	<b>-1.0%</b>	<b>-6.0%</b>
Forward PEAK (Y+Q+M)	215.96	17 866	210.25	23 231	-2.6%	+30.0%
Forward (weighted average)	171.45	219 737	170.75	213 083	-0.4%	-3.0%
SPOT (TGE)	156.40	25 102	161.15 (forecast)	26 000	+3.0%	+3.6%
Total weighted average	169.90	244 839	<b>169.70</b>	239 083	-0.1%	-2.4%

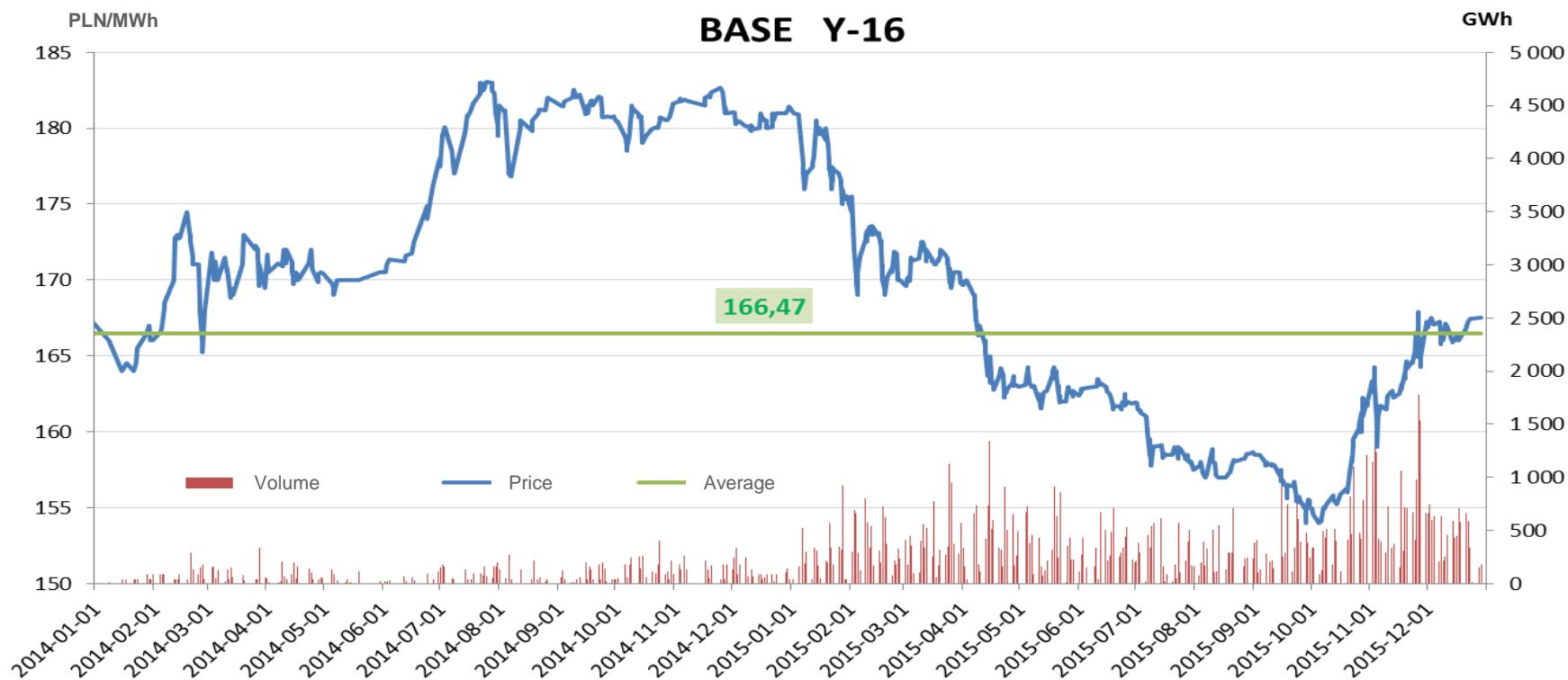
Property rights (PLN/MWh)			
Certificate type	Market prices (Q3-2016 average)	Substitution fee and obligation for:	
		2015	2016
RES (PMOZE_A)	48.73	303.03 (14.0%)	300.03 (14.35%)
RES from biogas plants (PMOZE_BIO)	277.67	none	300.03 (0.65%)
Coal cogeneration (PMEC-2015)	10.63	11.00 (23.2%)	11.00 (23.2%)
Gas cogeneration (PMGM-2015)	120.54	121.63 (4.9%)	125.00 (6.0%)
Methane cogeneration (PMMET-2015)	61.60	63.26 (1.3%)	63.00 (1.5%)

CO <sub>2</sub> emission allowances(EUA/t)	
CO <sub>2</sub> market analysts survey* (updated in October 2016)	Cena (EUR/t)
2016 average	6.02 EUR/t
2017 average	6.78 EUR/t
2018 average	7.10 EUR/t
2016 average price forecast by TAURON (**updated in October 2016)	<b>5.70 – 6.00 EUR/t</b>

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

\*\* Average price in January - October 2016 + TPE analysts' adjustment

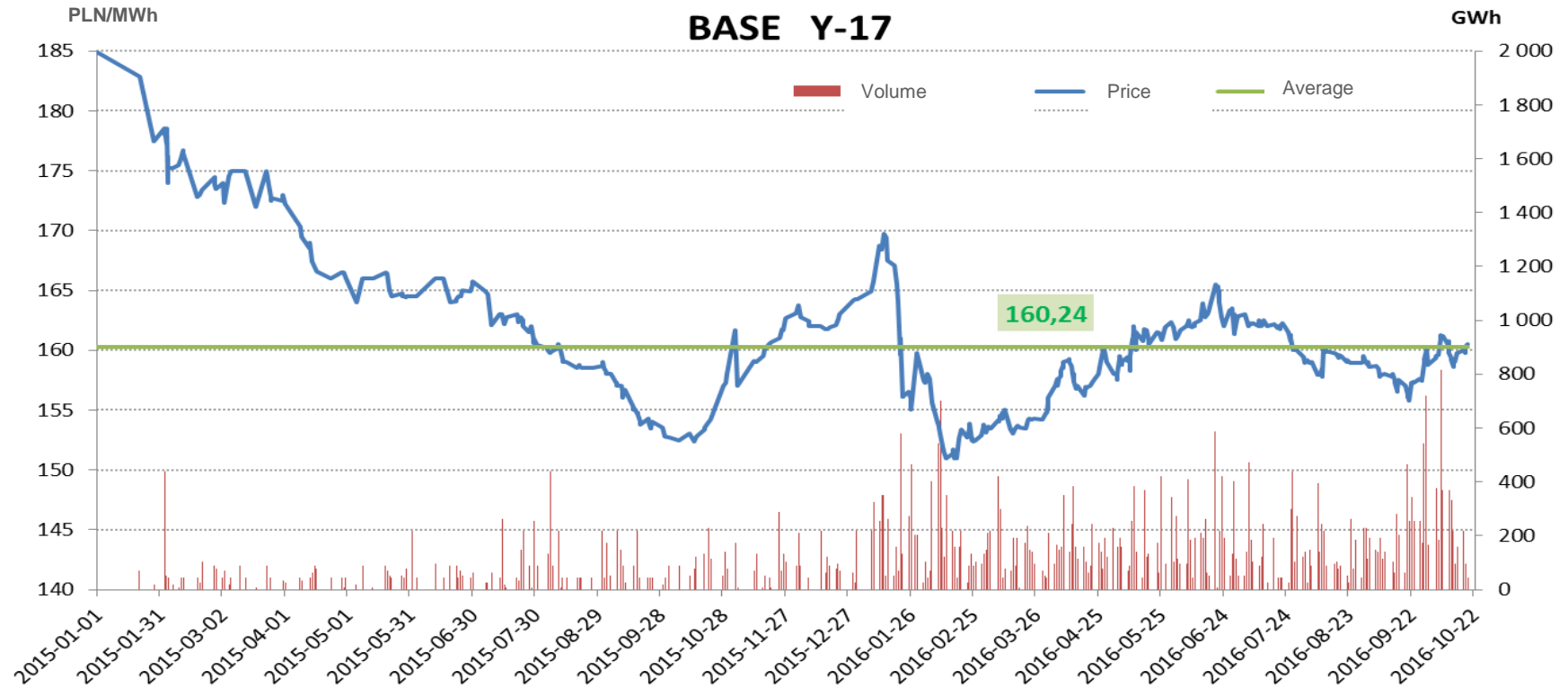
# 2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		166.47	147 923
including	TGE	166.12	115 729
	non TGE	167.70	32 193

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: 171.06 PLN/MWh, total 2016 BASE and PEAK volume: 164 728 GWh

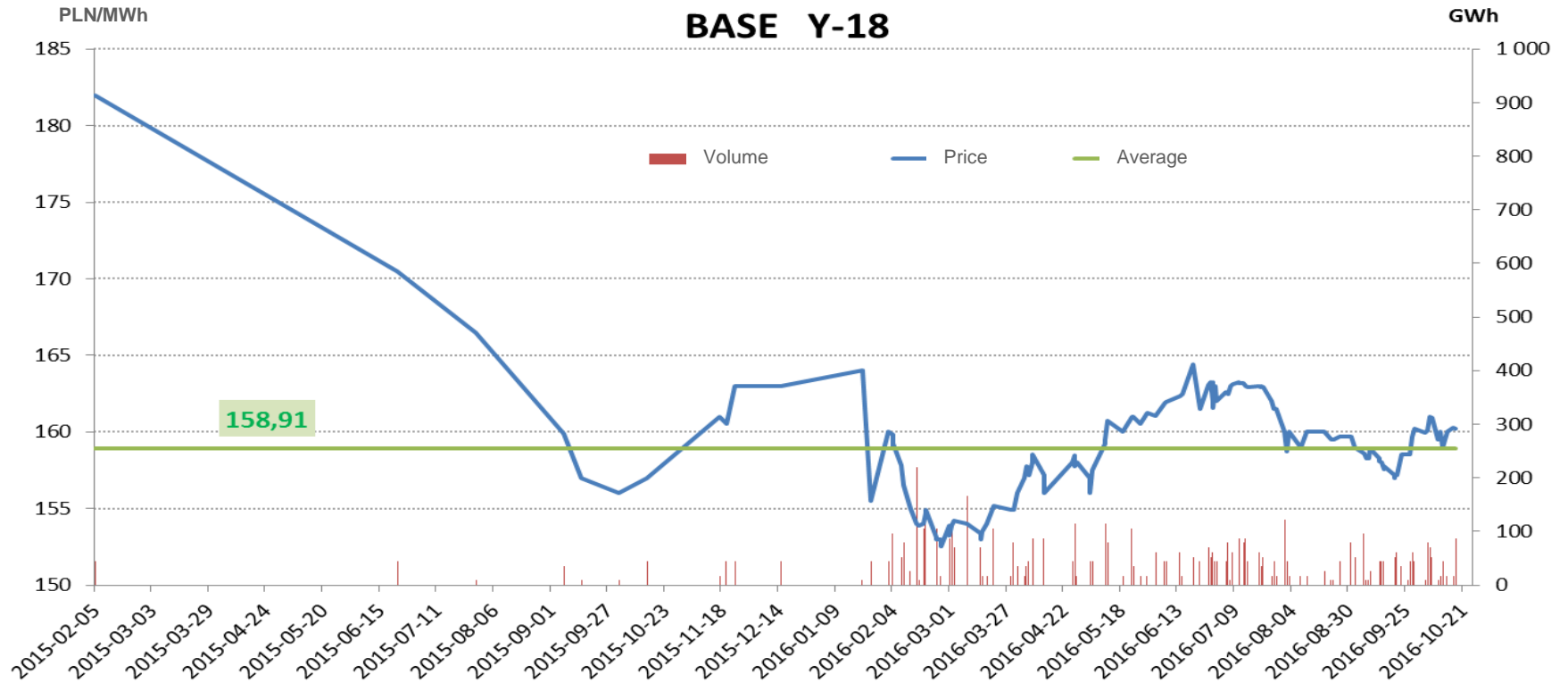
# 2017 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		160.24	63 790
including	TGE	159.66	43 800
	non TGE	161.52	19 990

Average electricity price that takes into account 2017 one year BASE and PEAK contracts: 164.07 PLN/MWh, total 2017 BASE and PEAK volume: 69 103 GWh

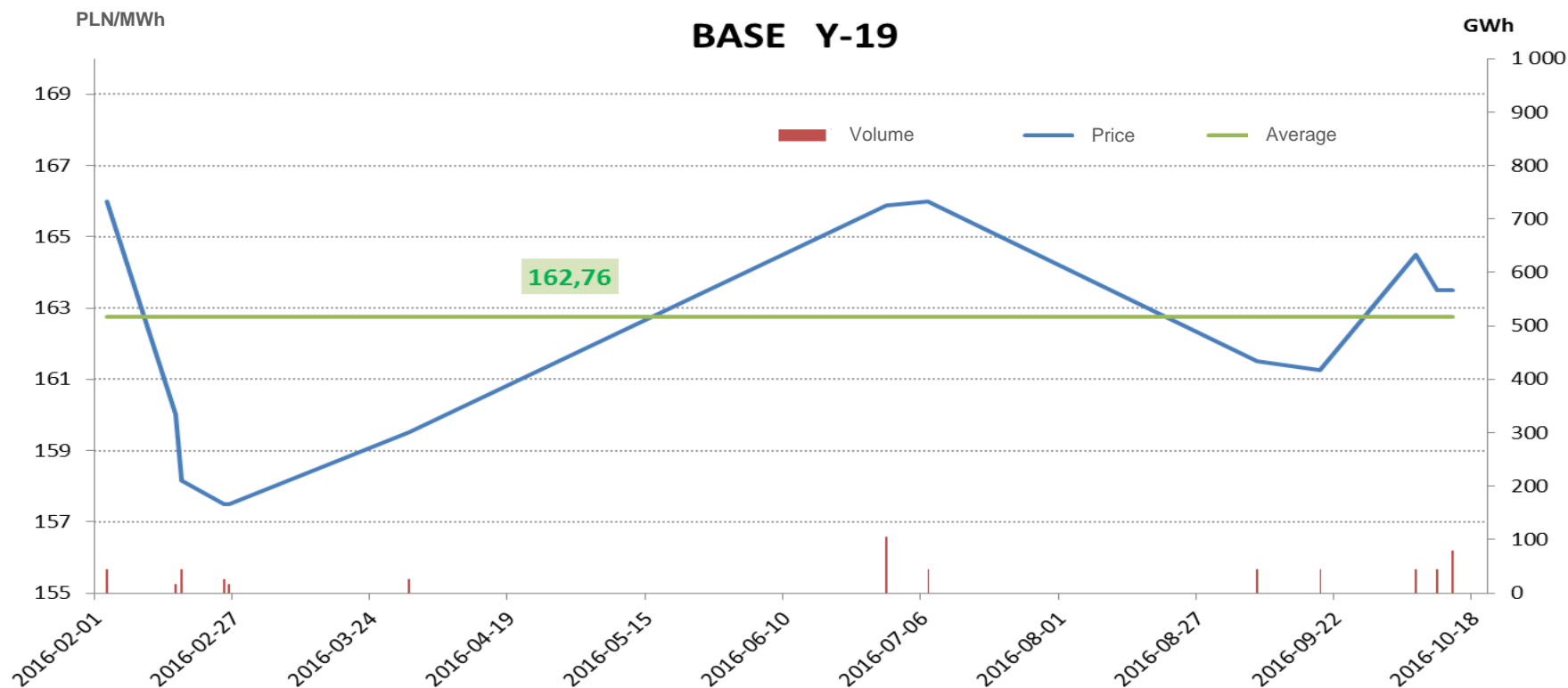
# 2018 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		158.91	7 718
including	TGE	158.82	4 625
	non TGE	159.05	3 092

Average electricity price that takes into account 2018 one year BASE and PEAK contracts: 161.45 PLN/MWh, total 2018 BASE and PEAK volume: 8 092 GWh

# 2019 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		162.76	596
Including	TGE	162.93	508
	non TGE	161.75	88

Average electricity price that takes into account 2019 one year BASE and PEAK contracts: 162.76 PLN/MWh, total 2019 BASE and PEAK volume: 596 GWh

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Thank you for your attention