



TAURON Group's H1 2017

Financial Results

August 18, 2017

H1 2017 key data



TAURON Group's H1 2017 results			
[PLN m]		H1 2017 vs H1 2016	
Sales revenue	8 755	↓	(1)%
EBITDA	2 094	↑	26%
Net profit*	1 004	↑	-
CAPEX	1 495		3%
Net debt/EBITDA	2.17x		down 0.15 (vs 31.12.2016)
			down 0.41 (vs 30.06.2016)
H1 2017 operating data			
		H1 2017 vs H1 2016	
Commercial coal production [t m]	3.32	↑	34%
Electricity generation [TWh]	9.46	↑	12%
Heat generation [PJ]	7.09	↑	10%
Electricity distribution [TWh]	25.70	↑	4%
Electricity retail supply [TWh]	17.21	↑	10%

* attributable to the shareholders of the parent company

Q2 2017 key data

TAURON Group's Q2 2017 results			
[PLN m]		Q2 2017 vs Q2 2016	
Sales revenue	4 166	↓	(3)%
EBITDA	909	↑	15%
Net profit*	364	↑	-
CAPEX	859		8%
Net debt/EBITDA	2.17x		down 0,15 (vs 31.12.2016)
			down 0.41 (vs 30.06.2016)
Q2 2017 operating data			
		Q2 2017 vs Q2 2016	
Commercial coal production [t m]	1.81	↑	43%
Electricity generation [TWh]	4.56	↑	10%
Heat generation [PJ]	1.80	↑	13%
Electricity distribution [TWh]	12.40	↑	3%
Electricity retail supply [TWh]	8.08	↑	12%

* attributable to the shareholders of the parent company

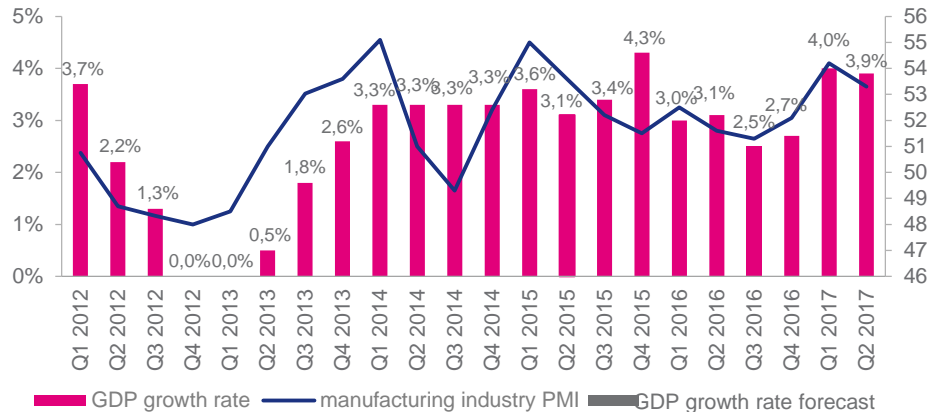
Highlights Summary



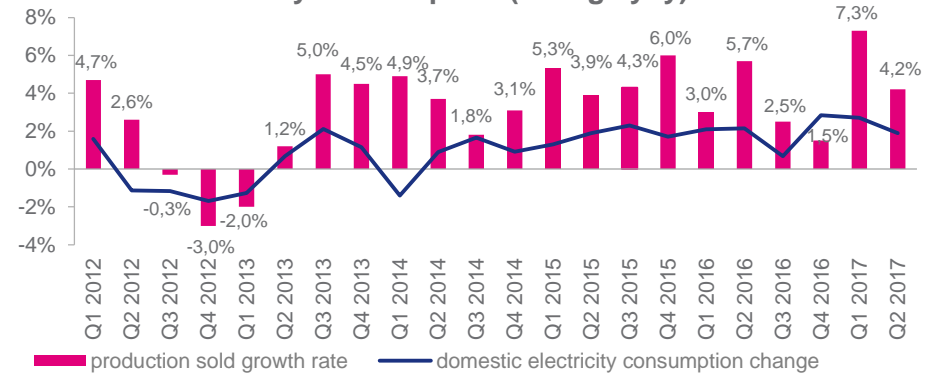
February 28	TAURON Sprzedaż (TAURON Supply) terminates long term green certificates purchase agreements
March 1	Amendment is signed with RAFAKO-MOSTOSTAL WARSZAWA consortium to the agreement on the construction of the 910 MW generation unit at Jaworzno III Power Plant – the unit's completion deadline is extended by 8 months, the agreement value increases by PLN 71m
March 31	Agreement and amendments related to the conditions of continuing the "Construction of the CCGT unit at Stalowa Wola" project come into force. Repayment of the PLN 581m debt to the institutions (EIB, EBRD, Pekao S.A.) financing ECSW (Stalowa Wola Combined Heat and Power Plant)
April 20	Letter of Intent is signed with Grupa Azoty S.A. defining the general principles of cooperation related to the coal gasification project. Project's estimated value: EUR 400m to 600m
June 1	Signing of the agreement with the Polish Development Fund (Polski Fundusz Rozwoju - PFR) defining the preliminary terms of participation in the 910 MW power generation unit's construction project at Jaworzno Power Plant (Elektrownia Jaworzno). Under the agreement the Fund expressed initial interest in investing PLN 880 million in the project.
June 23	Acquiring from the 2014-2020 Infrastructure and Environment Operational Program of the financing for the projects involving upgrading of the power grid substations and developing smart distribution systems and power grids. Subsidy amount: PLN 41m
July 5	Eurobond issue worth EUR 500m with a 10 year maturity from issue date. Coupon: 2.375 percent per annum. Eurobond listed on the London Stock Exchange. Eurobond rating granted by Fitch Ratings: BBB

Macroeconomic and market situation

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



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



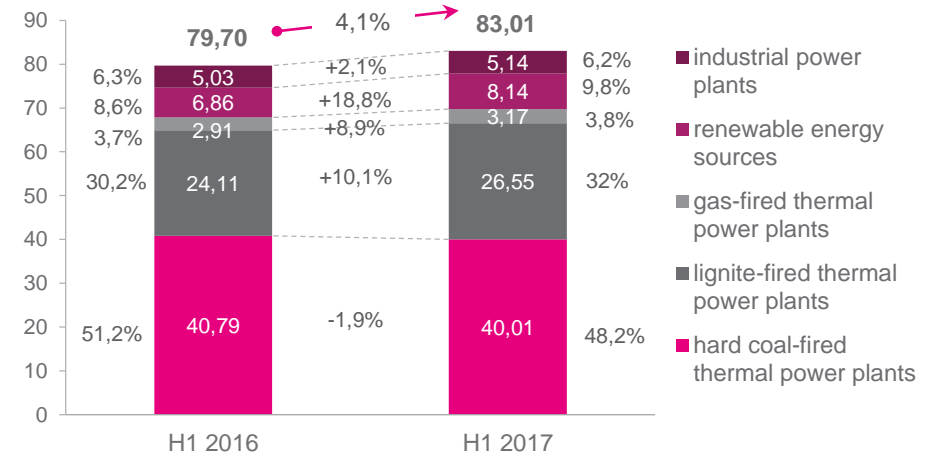
Electricity prices under one year BASE contracts

	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	160,93	31 396
Y-19	165,14	4 170
Y-20	172,11	360

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: 169.70 PLN/MWh
- 2017: 163.22 PLN/MWh* estimate

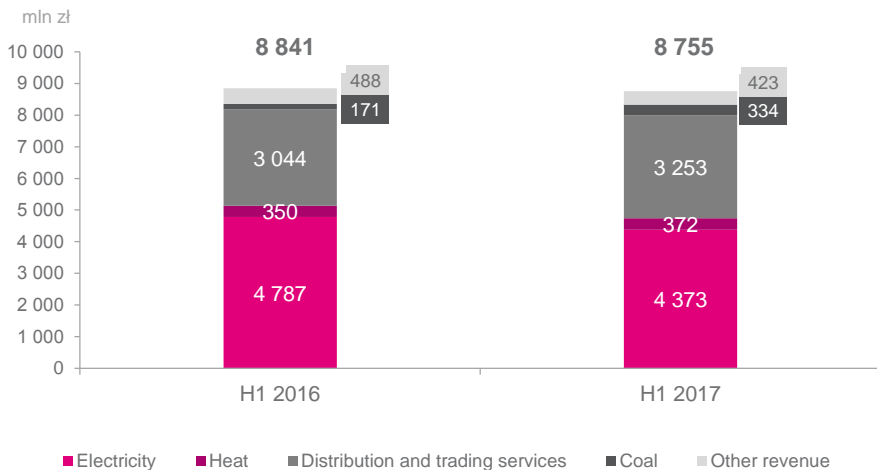
Structure of electricity generation in Poland*** [TWh]



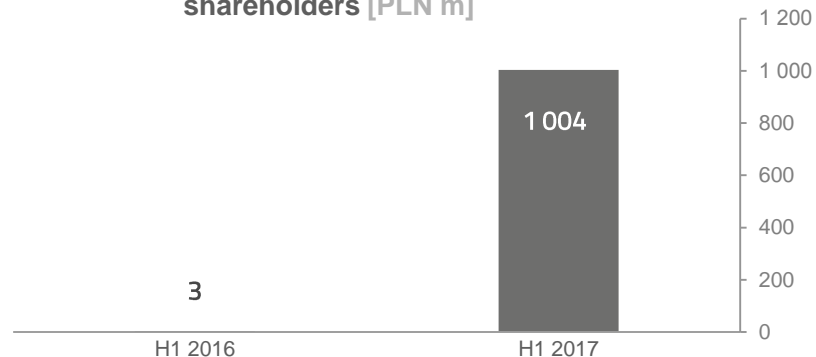
H1 2017 key financial data



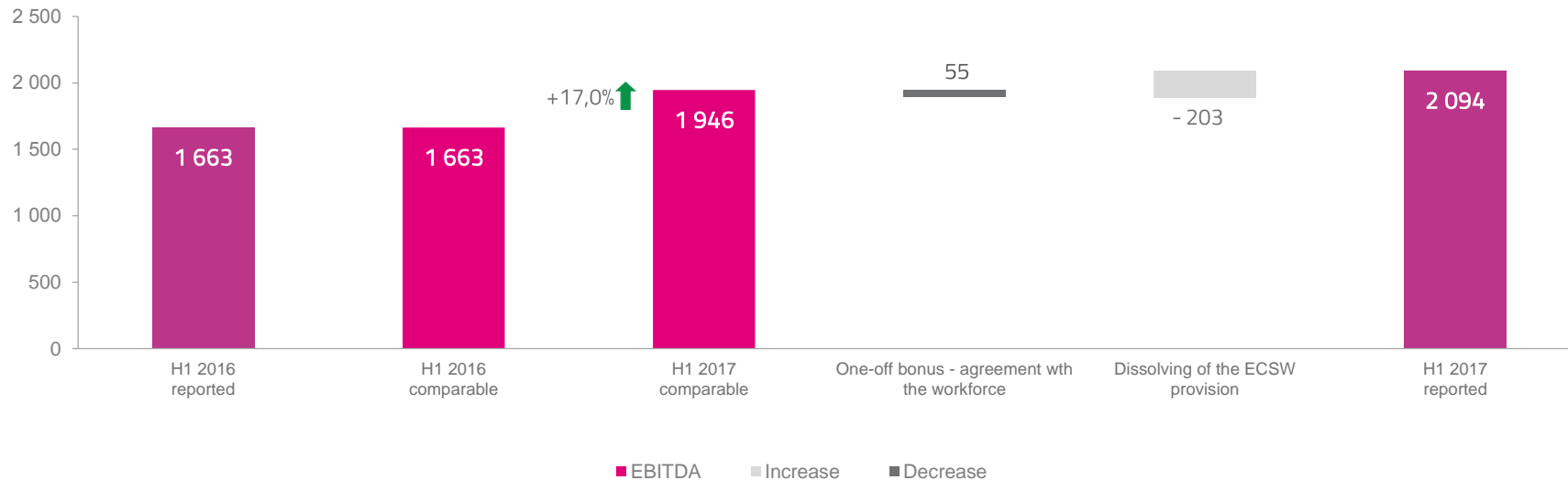
Sales revenue [PLN m]



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



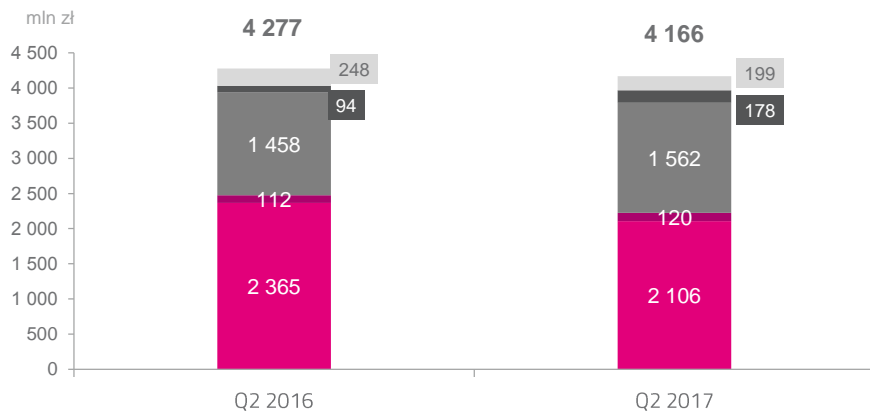
H1 2017 vs H1 2016 EBITDA [PLN m]



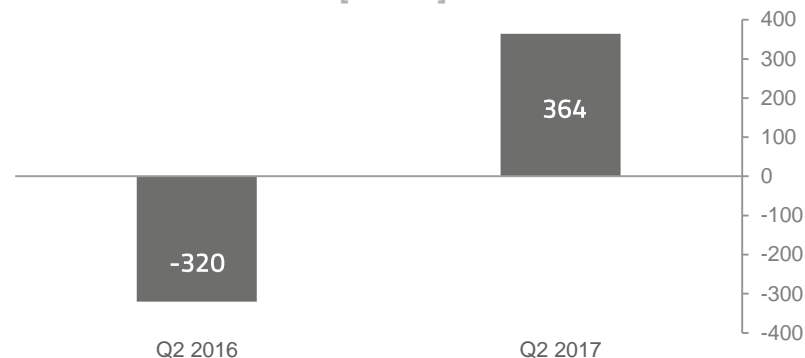
Q2 2017 key financial data



Sales revenue [PLN m]

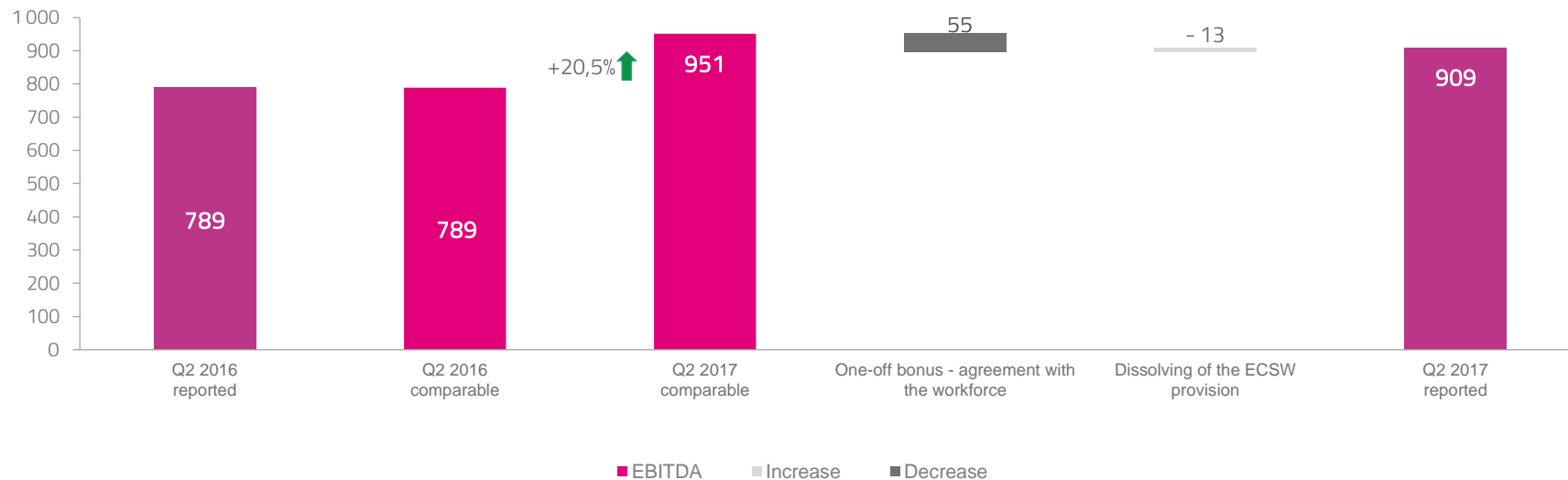


Net profit attributable to the parent company's shareholders [PLN m]



■ Electricity ■ Heat ■ Distribution and trading services ■ Coal ■ Other revenue

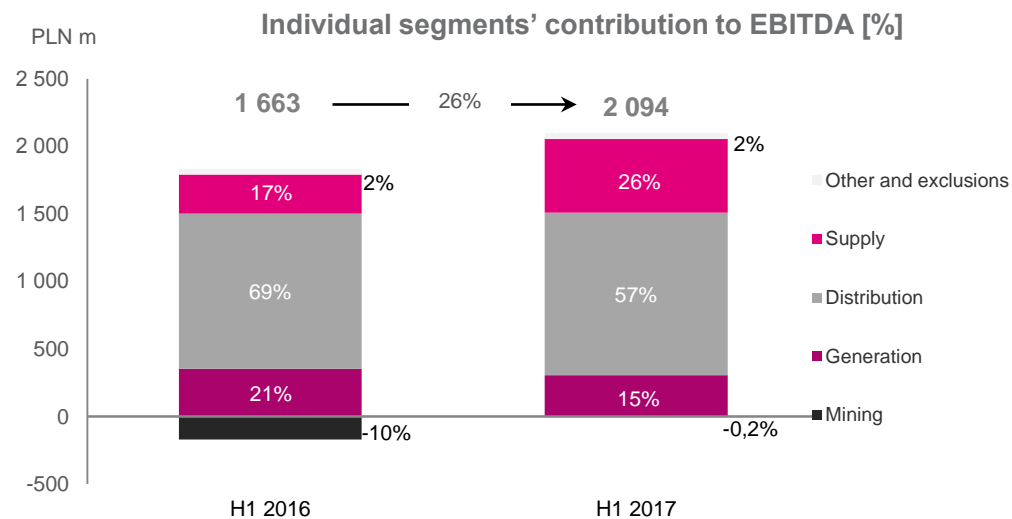
Q2 2017 vs Q2 2016 EBITDA [PLN m]



■ EBITDA ■ Increase ■ Decrease

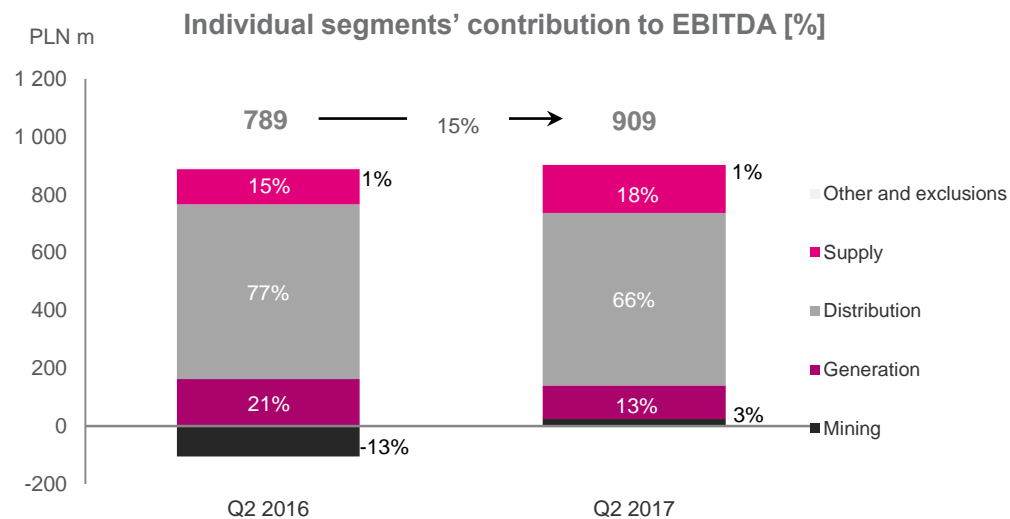
H1 2017 key segments results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	782	2 282	3 368	6 677	(4 353)
EBITDA	(5)	306	1 203	545	44
EBIT	(66)	80	677	540	5
CAPEX	56	814	605	0,6	20

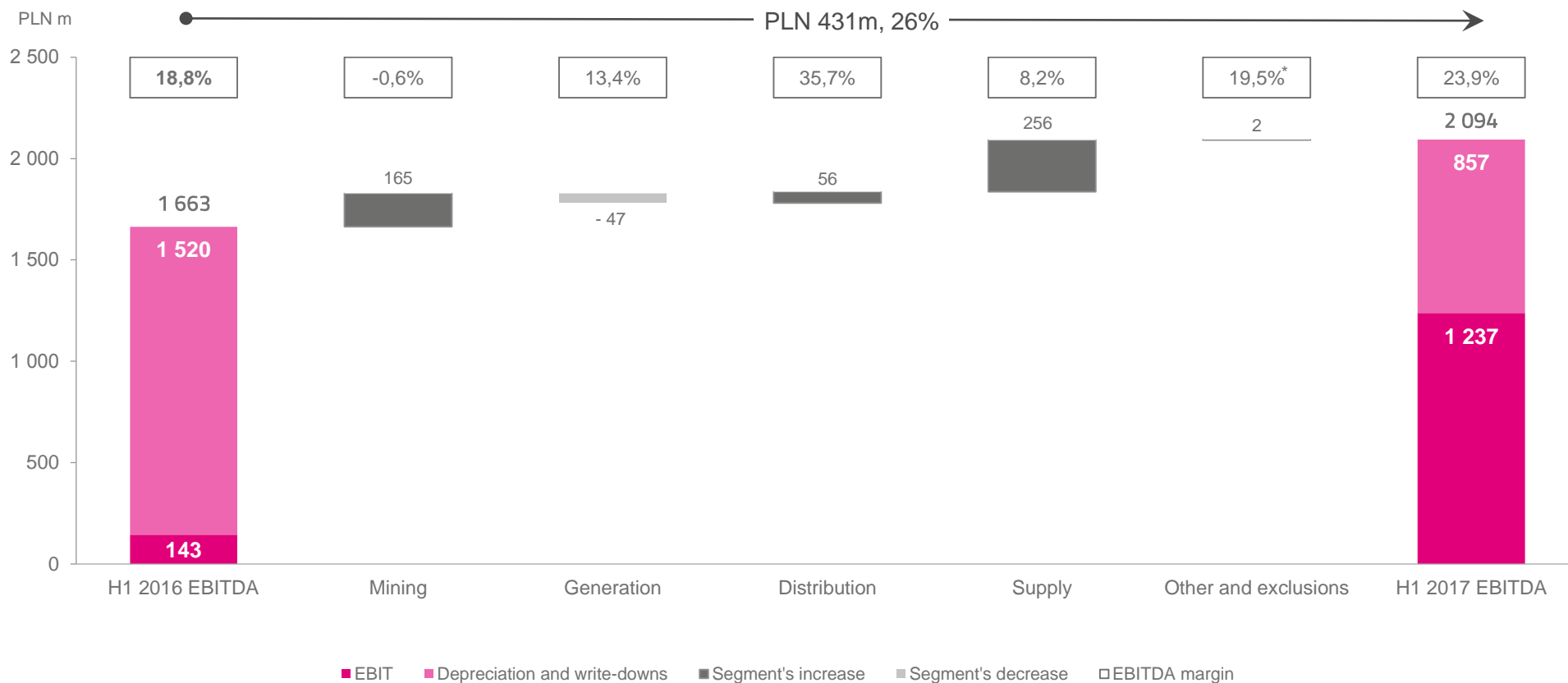


Q2 2017 key segments results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	398	1 063	1 635	3 060	(1 989)
EBITDA	25	116	596	165	6
EBIT	(6)	(12)	332	163	(13)
CAPEX	27	479	343	0,3	10

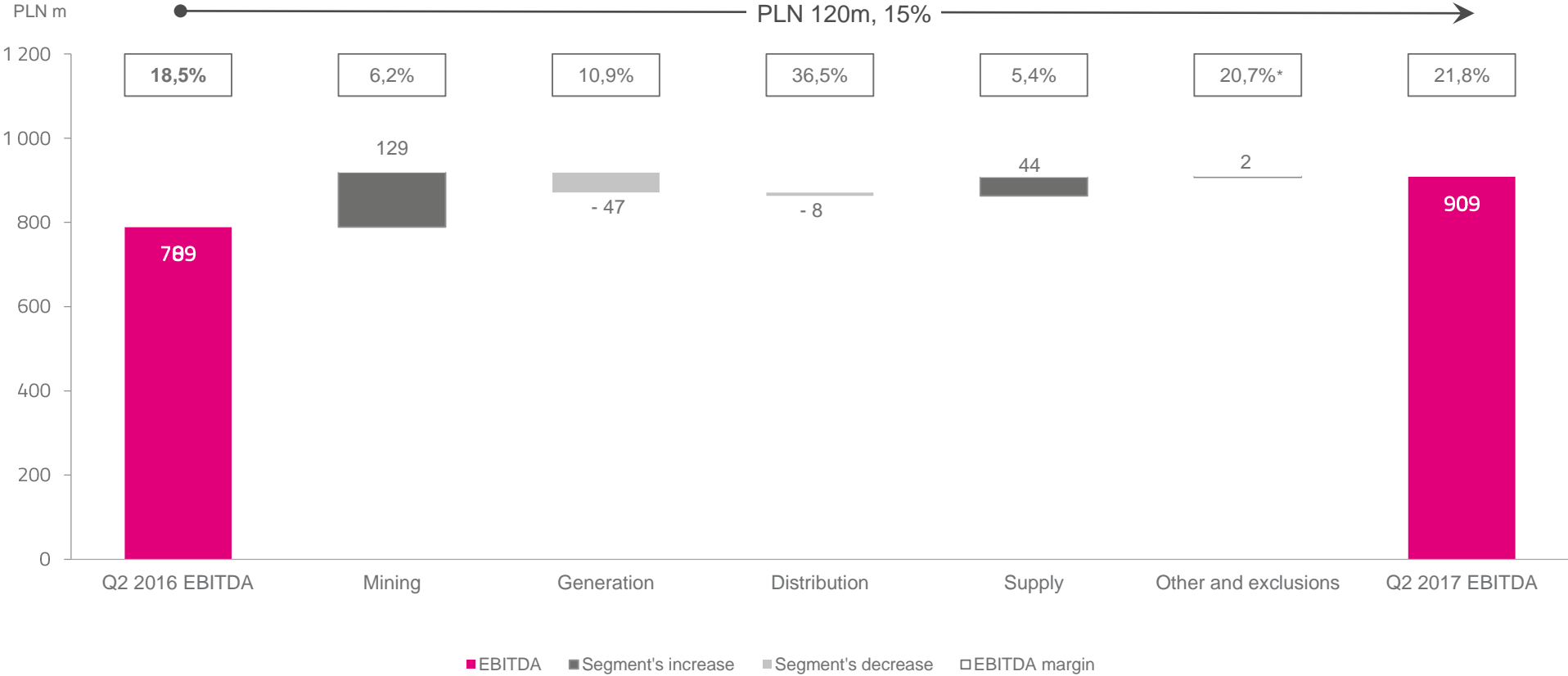


H1 2017 EBITDA



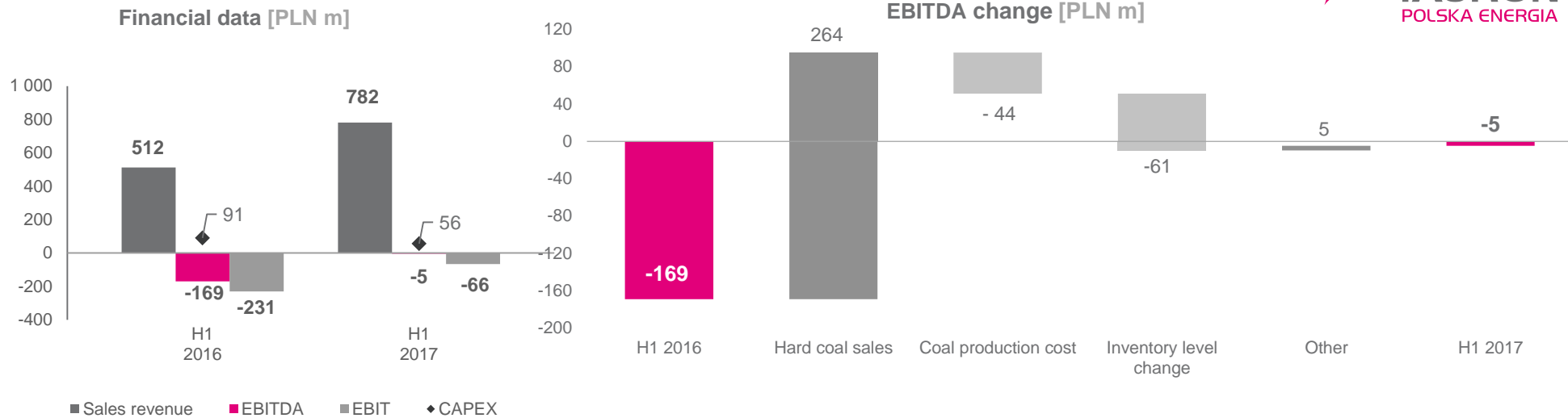
*Other segment's EBITDA margin

Q2 2017 EBITDA

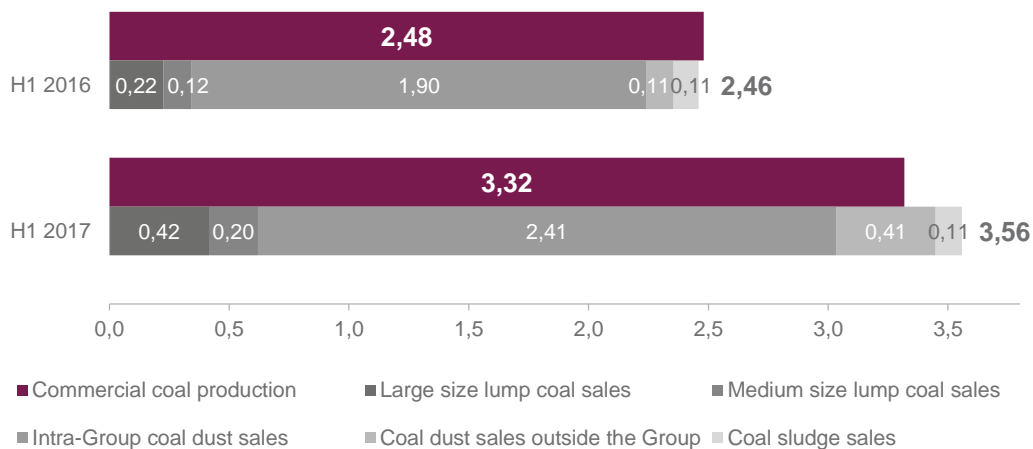


*Other segment's EBITDA margin

Mining segment – H1 2017



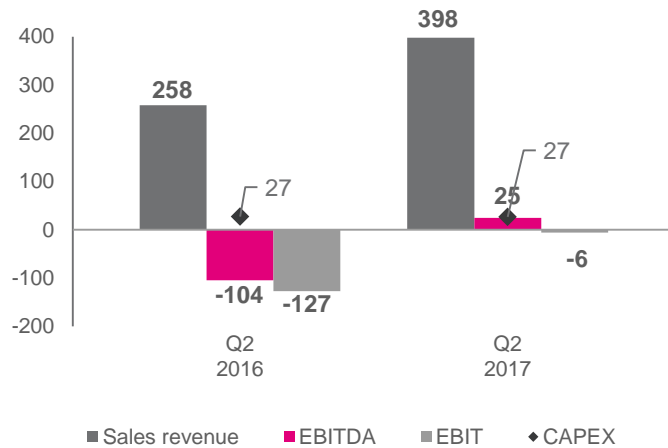
Commercial coal production volume vs sales per product [Mg m]



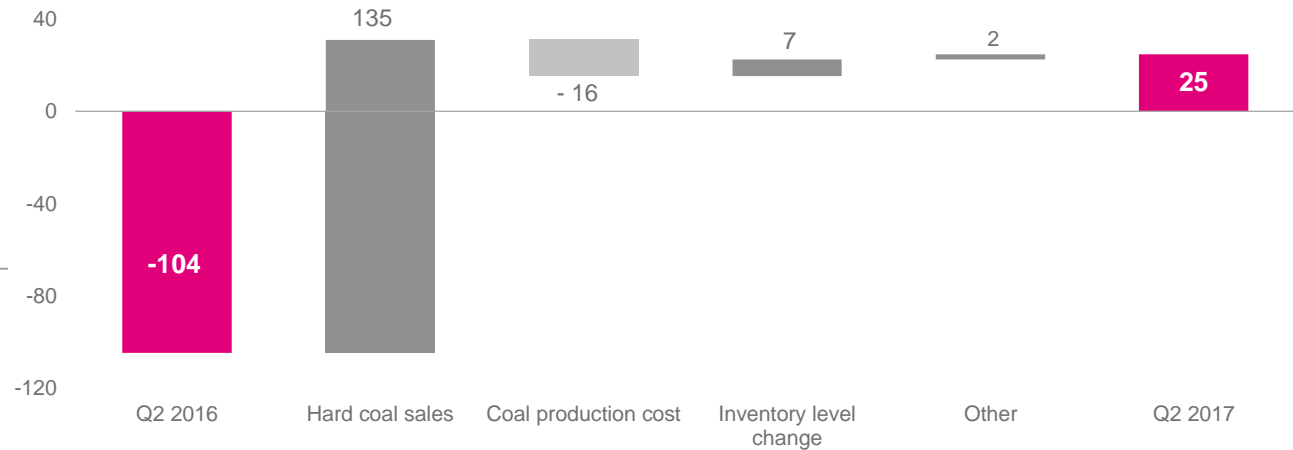
- 33.7% production volume increase ✓
- 44.7% sales volume increase ✓
- 24.5% mining cash cost decrease ✓
- Lower headcount (down 258 FTEs on average) ✓

Mining segment – Q2 2017

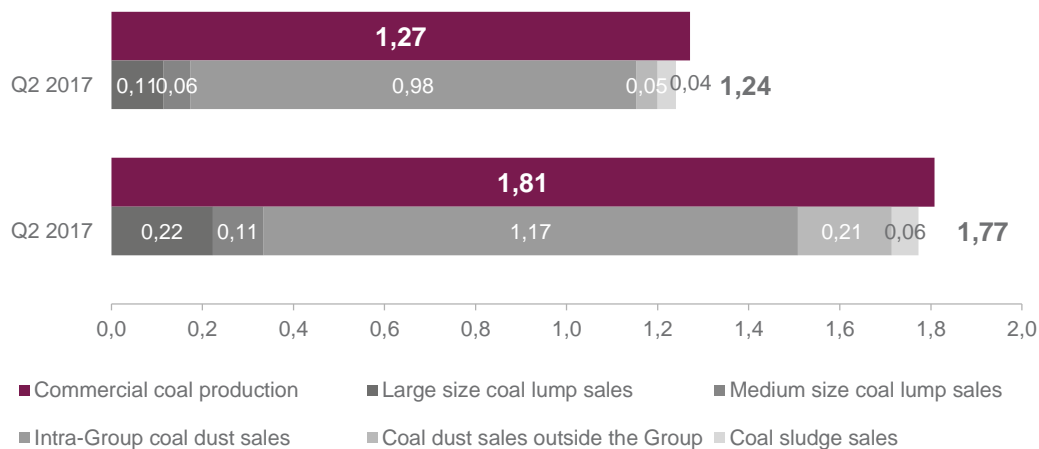
Financial data [PLN m]



EBITDA change [PLN m]



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



• 42.2% production volume increase



• 43.0% sales volume increase



• 32.2% mining cash cost decrease

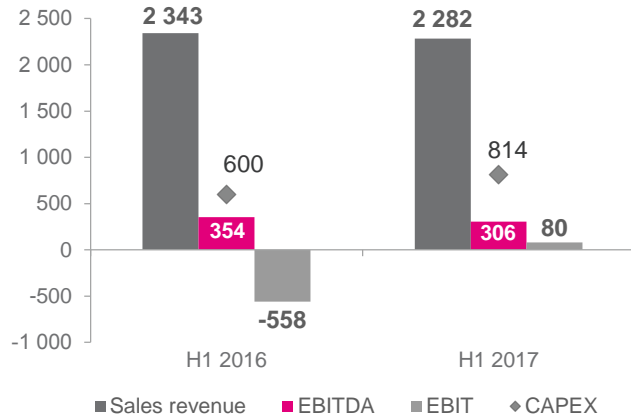


• Lower headcount (down 237 FTEs on average)

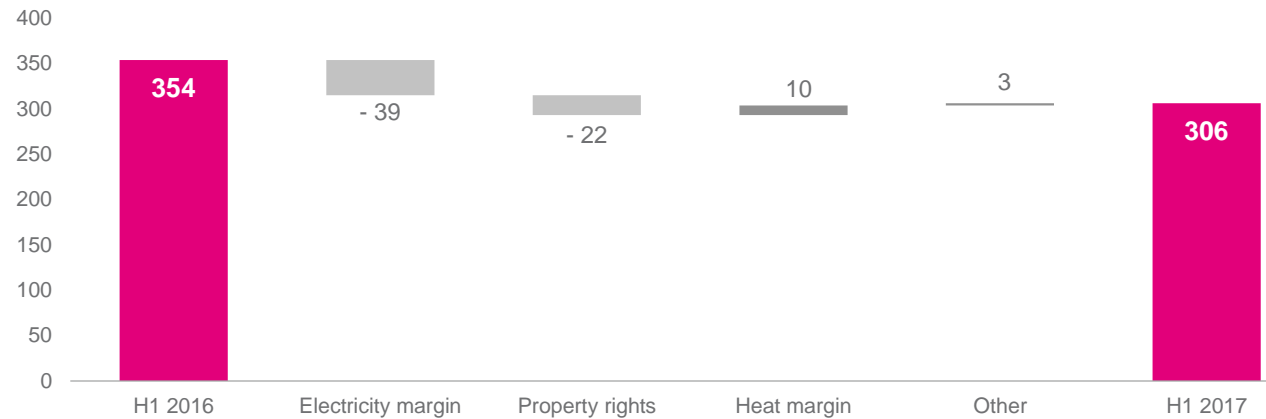


Generation segment – H1 2017

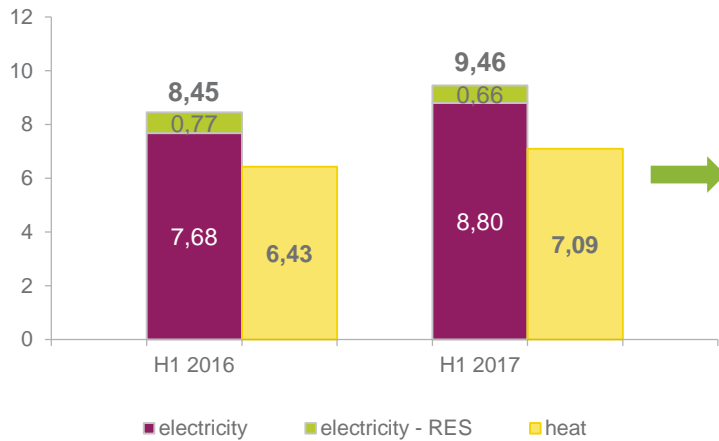
Financial data [PLN m]



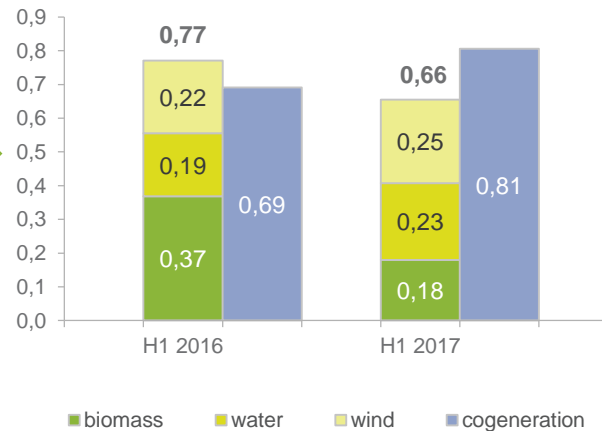
EBITDA change [PLN m]



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



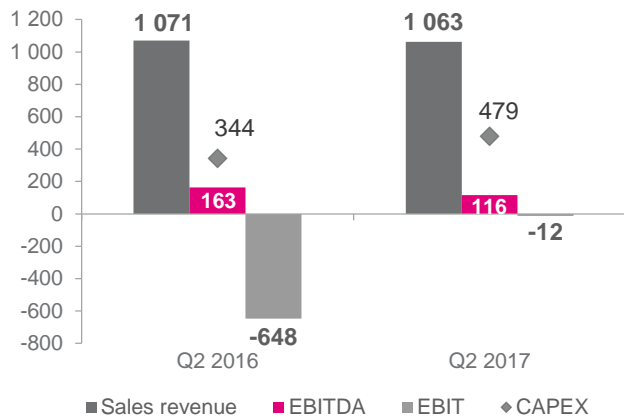
RES and cogeneration production [TWh]



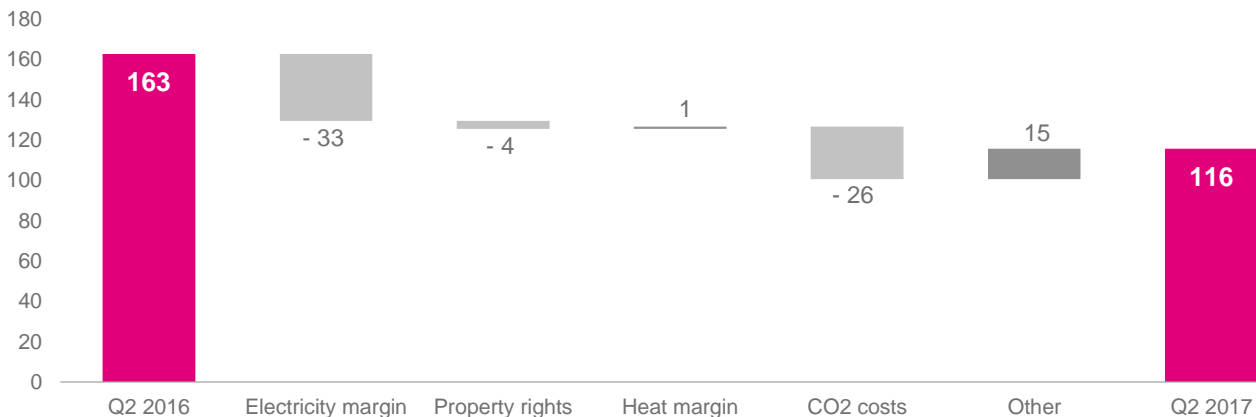
- Electricity and heat sales volumes increase ✓
- CO2 prices decrease ✓
- Electricity prices decrease -
- RES property rights (PM OZE) prices decrease -

Generation segment – Q2 2017

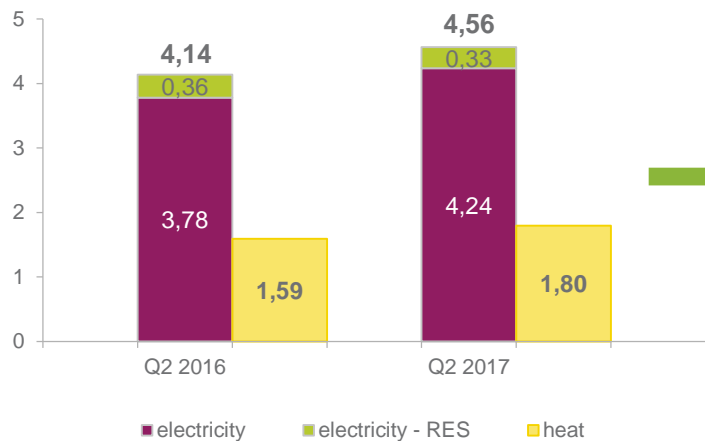
Financial data [PLN m]



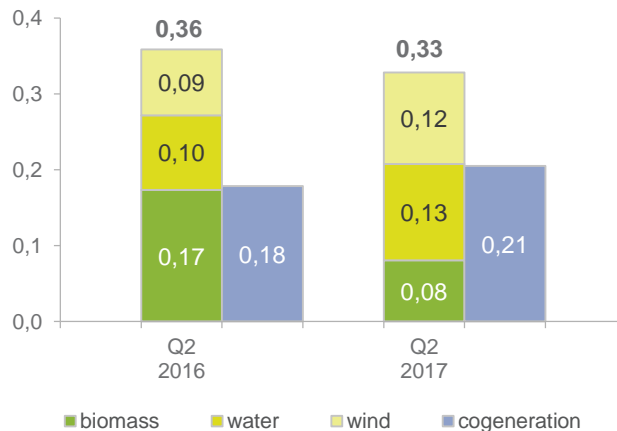
EBITDA change [PLN m]



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



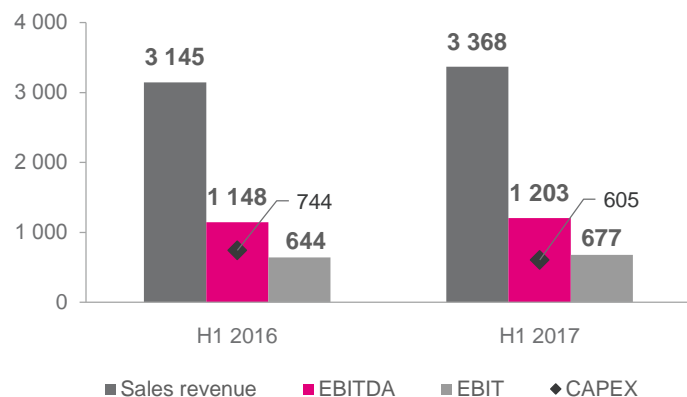
RES and cogeneration production [TWh]



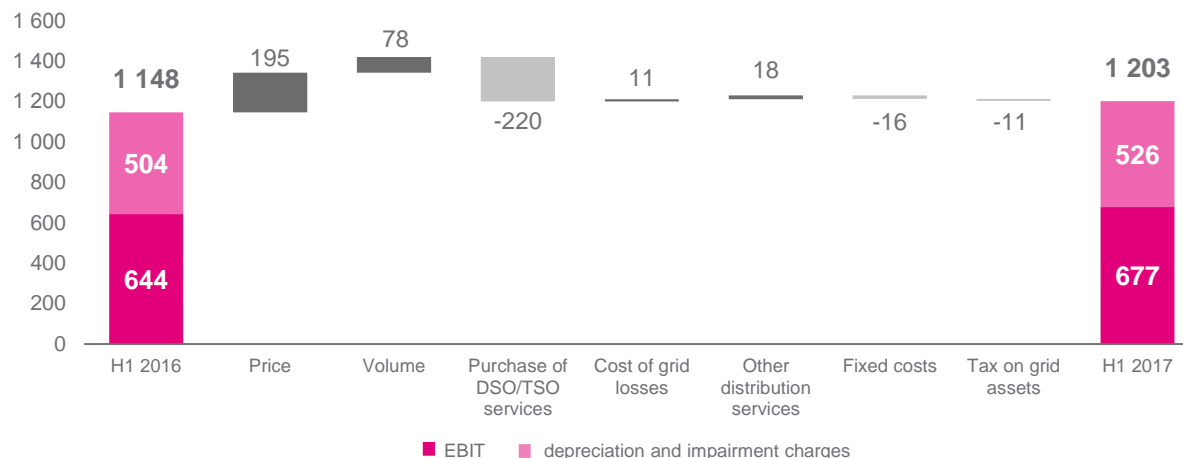
- Electricity and heat sales volumes increase ✓
- Lower number of free CO2 allowances -
- Electricity prices decrease -
- RES property rights (PM OZE) prices decrease -

Distribution segment – H1 2017

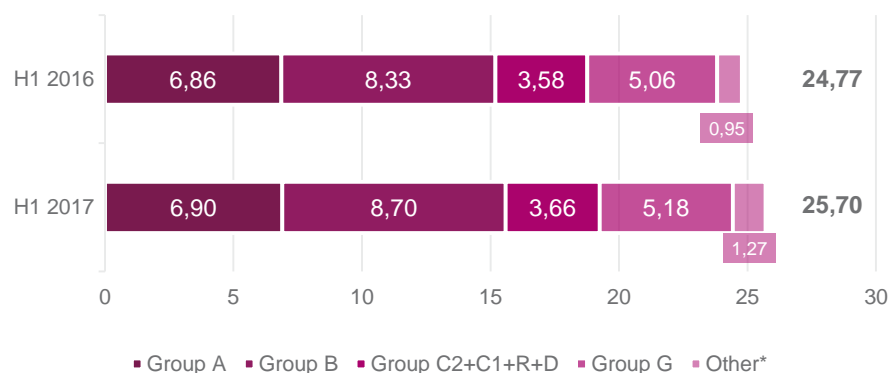
Financial data [PLN m]



EBITDA change [PLN m]



Electricity distribution [TWh]



*neighboring DSO and exports

• Increase of approved tariff by 7.2 PLN/MWh (6%) ✓

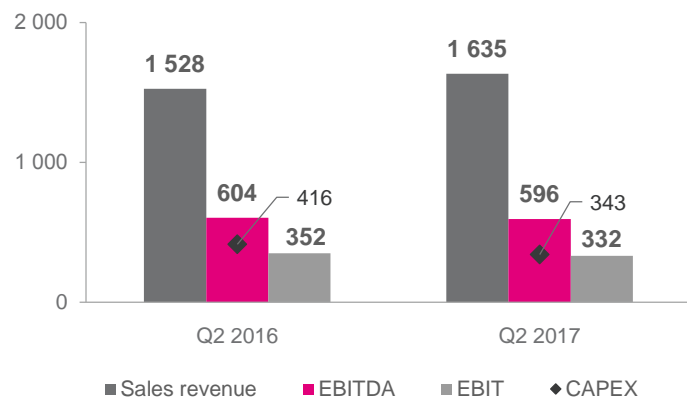
• Higher electricity distribution services sales volume by 926 GWh (3.7%), mainly in manufacturing in correlation to the GDP growth rate ✓

• 70% increase of the transition fee rate included in the cost of purchasing the transmission services and the RES fee (none in H1 2016) -

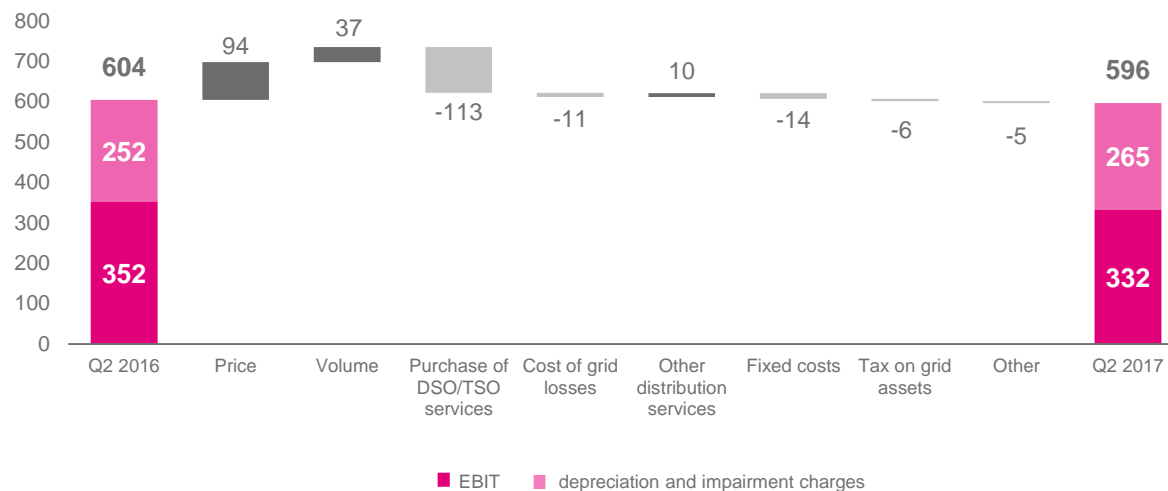
• Increase of revenue from the connection fees as a result of completing a part of the investment project ahead of schedule ✓

Distribution segment – Q2 2017

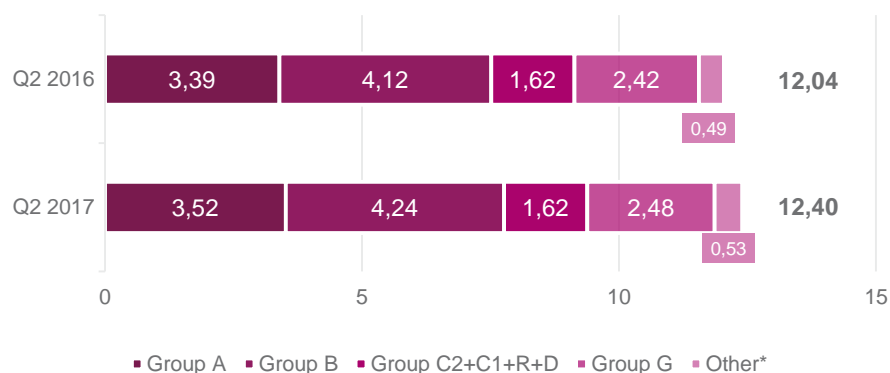
Financial data [PLN m]



EBITDA change [PLN m]



Electricity distribution [TWh]



*neighboring DSO and exports

• Increase of approved tariff by 7.2 PLN/MWh (6%)



• Higher electricity distribution services sales volume by 354 GWh (2.9%), mainly in manufacturing in correlation to the GDP growth rate (MV grid) and as a result of reducing own generation (HV grid)



• 71% increase of the transition fee rate included in the cost of purchasing the transmission services and the RES fee (none in Q2 2016)



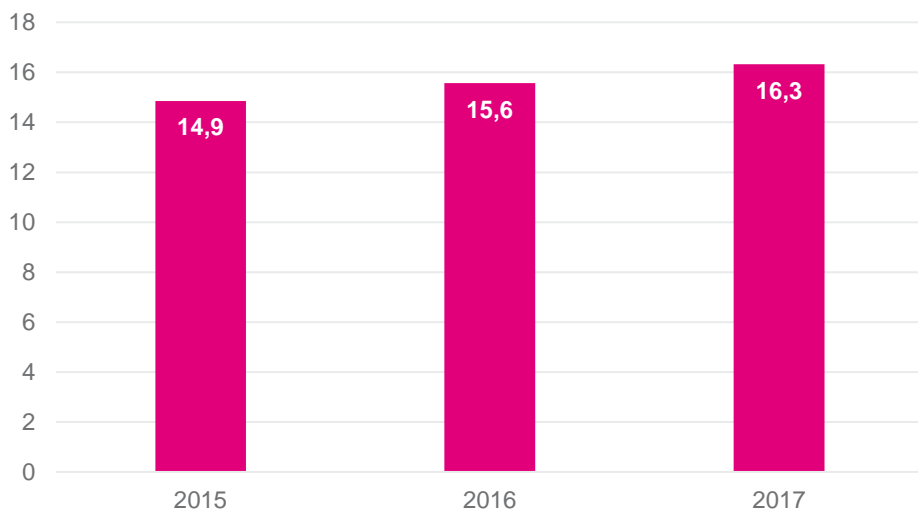
• Rising labor costs and costs of tax on grid assets



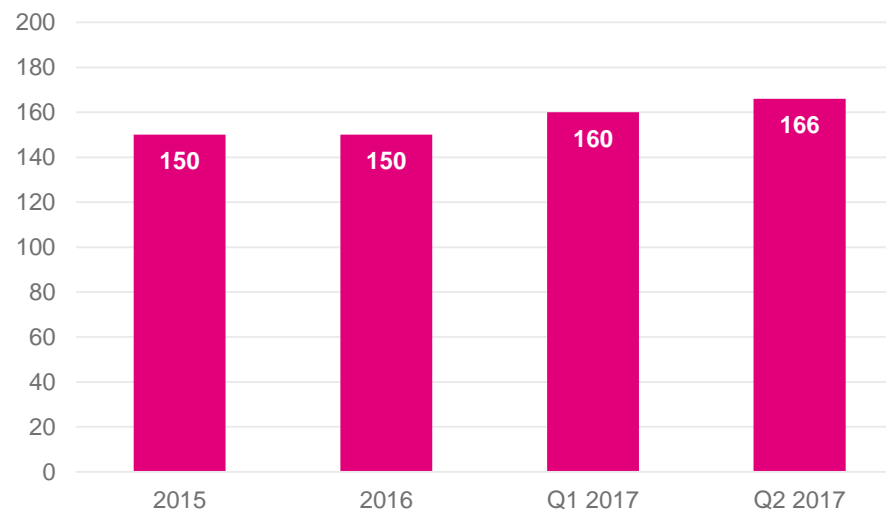
Distribution segment – key parameters



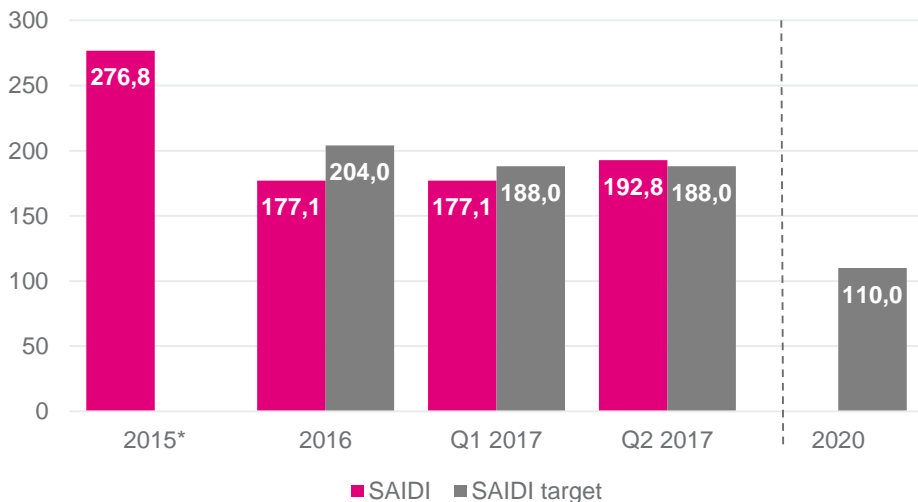
Regulatory Asset Base [PLN bn]



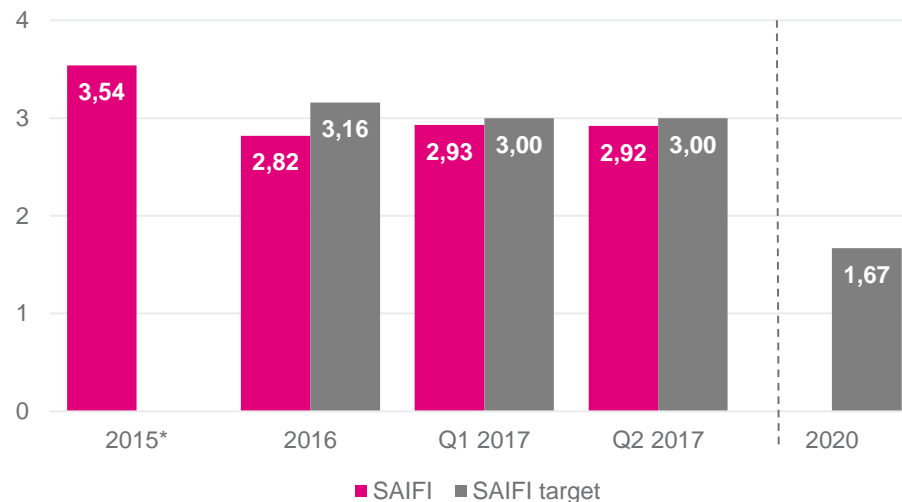
Customer connection time [in days]



SAIDI [min.]



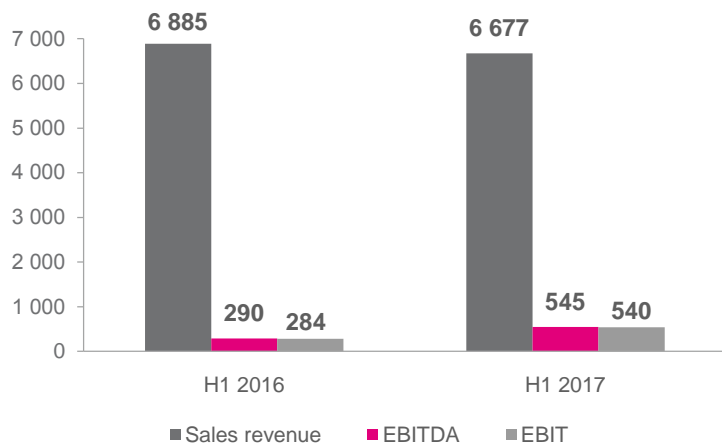
SAIFI [number]



* Method used to calculate the indicators in 2015 was different than the method used under the quality based regulation – the calculation in 2015 took into account the low voltage distribution grid outages,

Supply segment – H1 2017

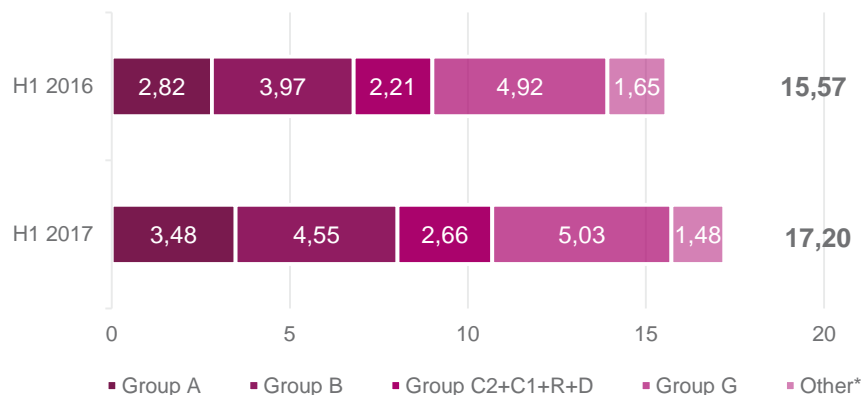
Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity supply [TWh]



• Increase of the supply volume in the business segment



• Increased obligation to redeem property rights: in case of PM OZE from 15% to 15.4% and for other PMs and introduction of PM OZE-BIO 0.6%



• Decline of market prices of property rights purchased to be redeemed (mainly PM OZE)



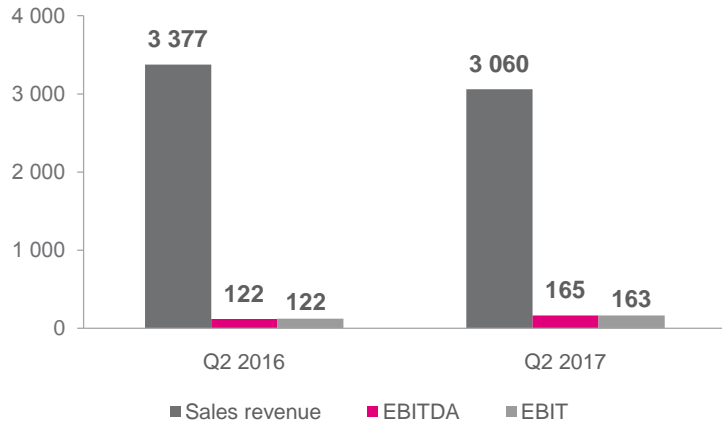
• Positive impact in H1 2017 due to dissolving the provision related to the CCGT unit 's construction project in Stalowa Wola



*includes sales to cover the balancing difference and to the intra-Group final consumers

Supply segment – Q2 2017

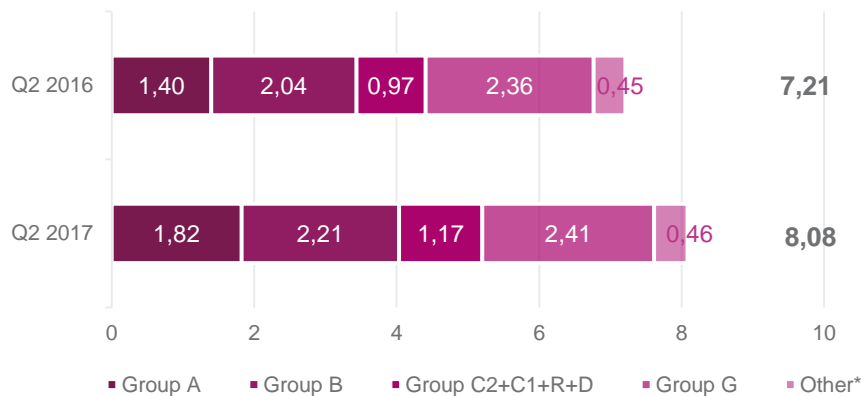
Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity supply [TWh]



• Increase of the supply volume in the business segment

✓

• Increased obligation to redeem property rights: in case of PM OZE from 15% to 15.4% and for other PMs and introduction of PM OZE-BIO 0.6%

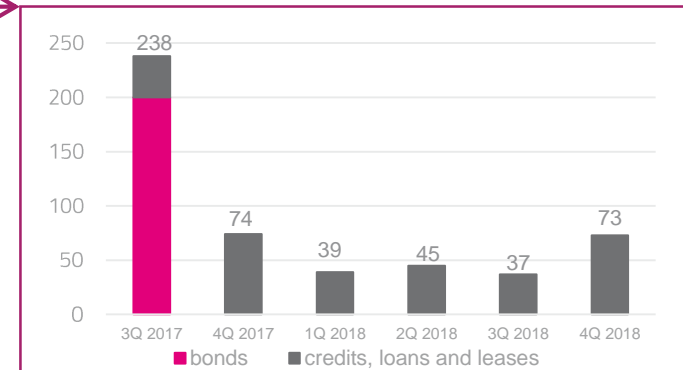
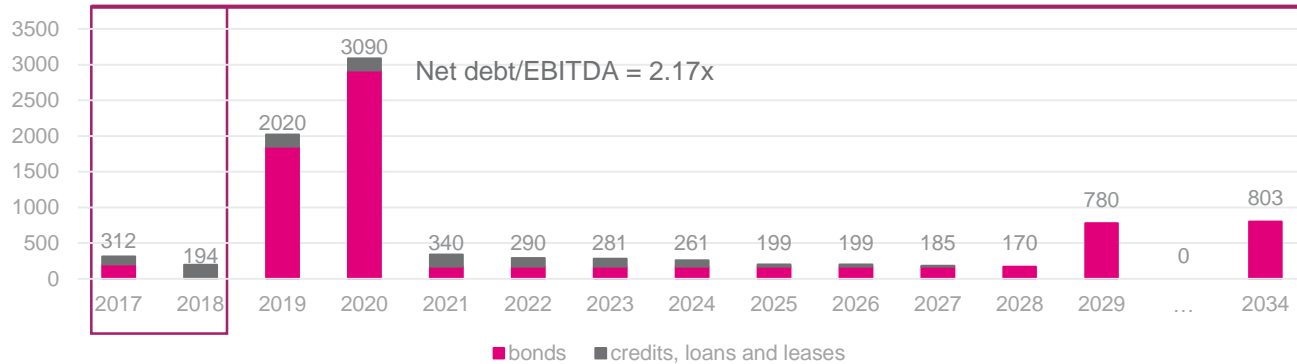
–

• Decline of market prices of property rights purchased to be redeemed prices (mainly PM OZE)

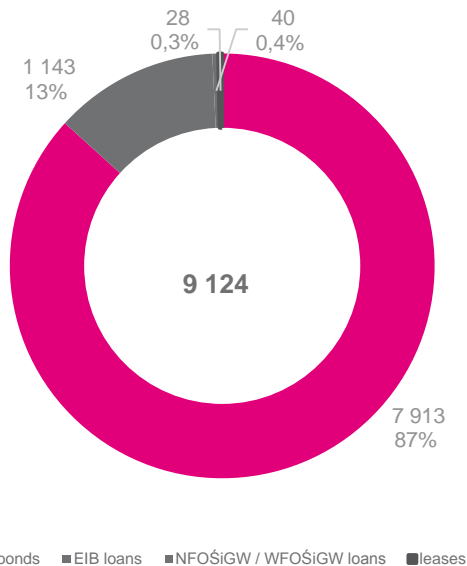
✓

Debt and financing

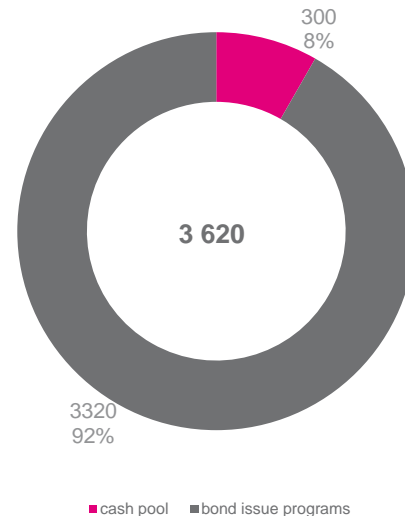
TAURON Group's debt maturity as of 30.06.2017 [PLN m]



TAURON Group's debt structure as of 30.06.2017 [PLN m]

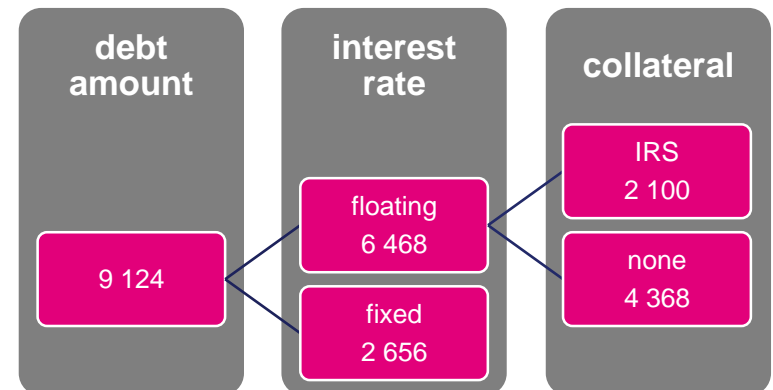


Financing available to TAURON Group as of 30.06.2017 [PLN m]



- debt (nominal value of debt due to investment loans, loans, leases and bonds) as of 30.06.2017 is PLN 9 342m
- weighted average maturity of debt as of 30.06.2017 is 71 months
- EUR denominated debt (NSV and EIB bond issues) represents 16.6% of the total debt

Debt structure based on interest rate [PLN m]:



Key parameters of the issue

Issue amount: **EUR 500m**

Issue date: **July 5, 2017**

Maturity: **10 years from the issue date**, i.e. July 5, 2027

Issue price: **99.438 percent**

Coupon: **2.375 percent p.a.**

Yield: **2,439 percent p.a.**

Market: **London Stock Exchange**

Issue rating granted by Fitch: **BBB**

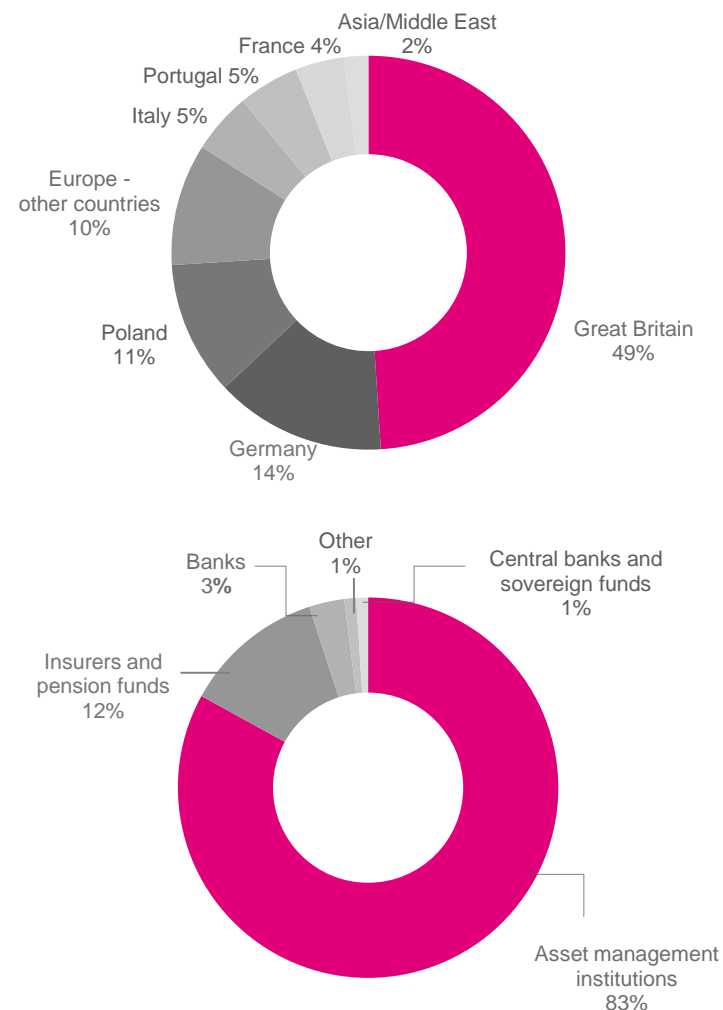
Use of the proceeds from the issue

- Refinancing the costs of purchase and construction of wind farms
- Financing capex in the distribution line of business
- General corporate expenses (excluding coal projects)

Issue process

- As part of the June roadshow meetings and conference calls were held with more than **80 investors**
- TAURON's representatives visited: Amsterdam, Frankfurt, Munich, London, Paris and Warsaw
- Total demand for bonds topped **EUR 1.4bn** as bids were submitted by more than **100 investors**

Bondholders

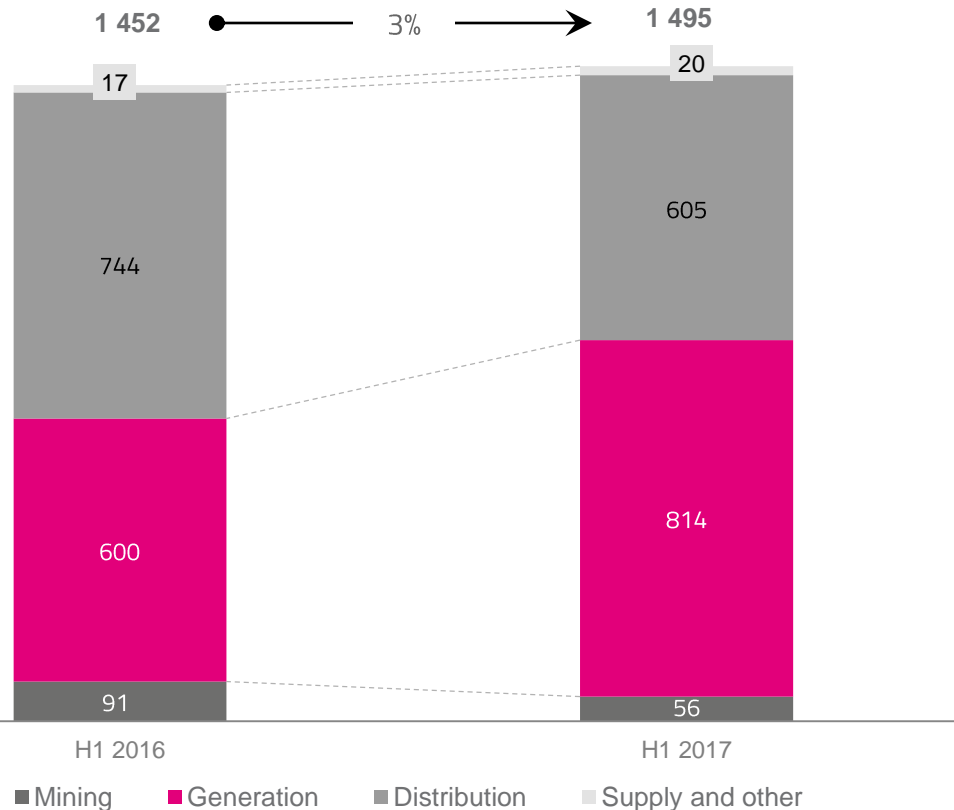


CAPEX – key projects' work progress

Investment project	Capacity (MW _e)	Capacity (MW _t)	Work progress (percentage)		Planned completion date
Construction of the hard coal-fired unit at Jaworzno III Power Plant	910	-	39		2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant*	450	240	86		2019
Construction of the 800m level at Janina coal mine	-	-	53		2020
Construction of Grzegorz shaft at Sobieski coal mine	-	-	20		2023
CAPEX program at Brzeszcze coal mine	-	-	23		2025

CAPEX – per segment

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



* Including the financial costs in H1 2016: PLN 48m, in H1 2017: PLN 45m

Key investment projects underway in H1 2017:

Mining:

- construction of the 800 m level at Janina coal mine (PLN 20m)
- construction of the Grzegorz shaft at Sobieski coal mine (PLN 6m)
- Brzeszcze coal mine CAPEX program (PLN 10m)





Generation:

- construction of new 910 MW capacity at Jaworzno Power Plant (PLN 702m)
- maintenance and expansion of district heating networks (PLN 8m)
- connections of new facilities (PLN 6m)

Distribution:






- construction of new connections (PLN 244m)
- grid asset upgrades (refurbishing) and replacement (PLN 296m)

Efficiency Improvement Program

Segment	Financial effects realized in 2016 – Q2 2017	Financial effects planned in 2016-2018	Progress %	Main initiatives
Mining	PLN 118m	PLN 255m	 46	<ul style="list-style-type: none"> Employment restructuring, reduction of labor costs and increasing their flexibility, organizational measures Use of electronic auctions in the purchasing process CAPEX plan optimization
Generation (including RES and Heat)	PLN 306m	PLN 367m	 83	<ul style="list-style-type: none"> Optimization of upgrades and of other asset maintenance costs Employment restructuring Purchasing efficiency improvement Optimization of the carburizing and de-ashing systems' operation services Maintenance services costs control CAPEX plan optimization
Distribution	PLN 228m	PLN 390m	 58	<ul style="list-style-type: none"> Reorganization and employment restructuring Asset maintenance costs control Purchasing efficiency improvement Outsourcing of the storage services Sale of redundant real estate
Other	PLN 100m	PLN 291m	 34	<ul style="list-style-type: none"> Employment restructuring, Reduction of the scope of IT services Customer service costs and overhead (administration) costs control Optimization of the costs of promotional and sponsoring activities
Total	PLN 752m	PLN 1 303m	58	

- In 2016 and H1 2017 under the Voluntary Redundancy Program, being part of the Efficiency Improvement Program, TAURON Group's headcount was reduced by 857 FTEs. Savings resulting from redundancies, decreased by the costs incurred to generate these savings, are included in the amounts presented per segment

Strategic Initiatives Implementation

Segment	Financial effects realized in Q1 - Q2 2017	Financial effects planned in 2017 - 2020	Progress %	Main initiatives
Mining	PLN 11m	PLN 151m	 7	<ul style="list-style-type: none"> Tri-product enrichment Expansion of coal packaging CAPEX optimization Production costs optimization
Generation (including RES and Heat)	PLN 135m	PLN 1 348m	 10	<ul style="list-style-type: none"> Increasing margin on electricity sales Market development and the Low Emission Elimination Program Production assets optimization and sale of redundant non-production assets Reduction of costs, capex and overhaul expenditures Employment optimization
Distribution	PLN 100m	PLN 336m	 30	<ul style="list-style-type: none"> Capex reduction Implementation of the Single Distribution Program
Supply	PLN 20m	PLN 111m	 18	<ul style="list-style-type: none"> Increasing the sales potential Reinforcing expansion and optimizing margins Standardization and improvement of the post-sales processes' cost efficiency Developing products and contact channels
Łagisza CCGT unit	PLN 214m	PLN 1 468m	 15	<ul style="list-style-type: none"> Stopping of the project at Łagisza Power Plant
Total	PLN 480m	PLN 3 414m	14	

- Financial effects worth PLN 0.7 bln were planned in TAURON Group's Strategy in 2017 as a result of implementing the Strategic Initiatives. The plan was 68 percent realized in H1 2017.

Thank you – Q & A



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Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2016		2017 (data for Jan-Jul 17)		2017/2016	
	Price (PLN/MWh)	Volume (GWh)	Price (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	165.88	191 342	159.96	100 350	-3.6%	-37.1%
Forward PEAK (Y+Q+M)	210.27	23 414	208.94	10 518	-0.6%	-20.9%
Forward (weighted average)	170.72	214 756	164.61	110 869	-3.6%	-35.3%
SPOT (TGE)	160.64	27 590	152.50	14 389	-1.5%	+1.5%
Total weighted average	169.58	242 346	163.22	125 257	-3.6%	-31.1%

Property rights (PLN/MWh)			
Certificate type	Market prices (2017 average)	Substitution fee and obligation for:	
		2016	2017
OZE (PMOZE_A)	30.92	300.03 (14.35%)	300.03 (15.4%)
RES from biogas plants (PMOZE_BIO)	361.81	300.03 (0.65%)	300.03 (0.6%)
Coal cogeneration (PMEC-2016)	10.59	11.00 (23.2%)	10.00 (23.2%)
Gas cogeneration (PMGM-2016)	123.31	125.00 (6.0%)	120.00 (7.0%)
Methane cogeneration (PMMET-2016)	62.19	63.00 (1.5%)	56.00 (1.8%)

CO2 emission allowances(EUA/t)	
CO2 market analysts survey* (updated in July 2017)	Price (EUR/t)
2017 average	5.28 EUR/t
2018 average	6.01 EUR/t
2018 average	8.54 EUR/t
2017 average price forecast by TAURON (**updated in July 2017)	5.00 – 5.50 EUR/t

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

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

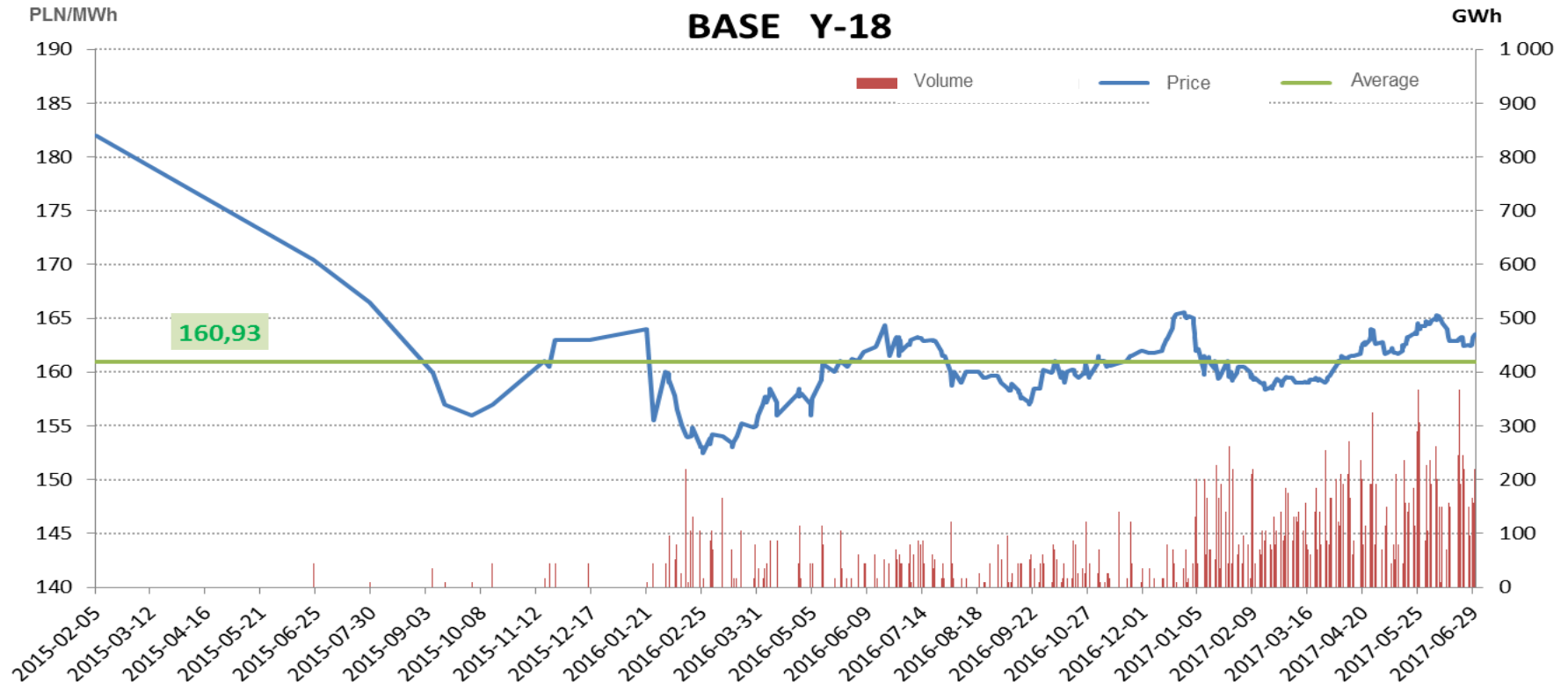
2017 BASE contracts



		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

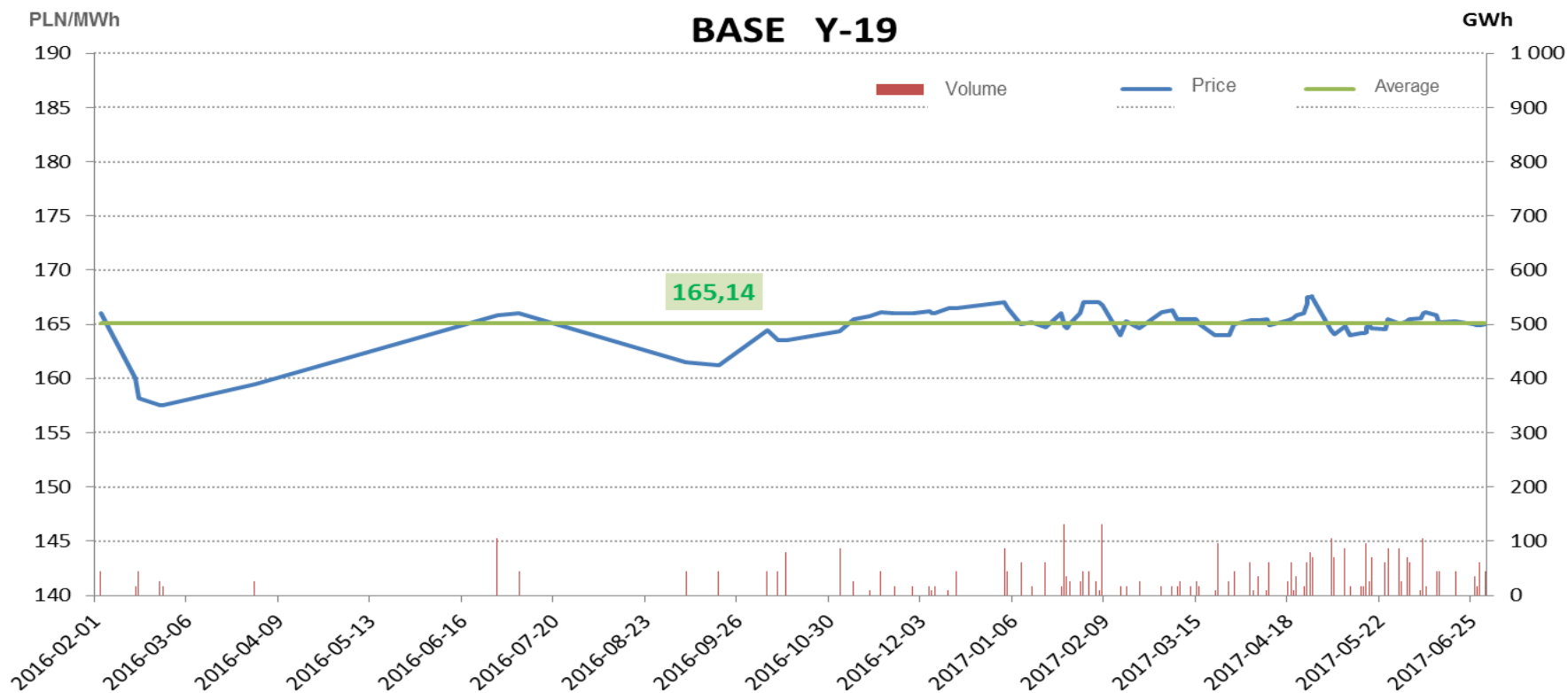
2018 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		160.93	31 396
including	TGE	161.08	22 829
	non TGE	160.55	8 567

Average electricity price that takes into account 2018 one year BASE and PEAK contracts: 165.05 PLN/MWh, total 2019 BASE and PEAK volume: 34 246 GWh

2019 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		165.14	4 170
including	GE	165.11	3 705
	non TGE	165.34	464

Average electricity price that takes into account 2019 one year BASE and PEAK contracts: 168.50 PLN/MWh, total 2019 BASE and PEAK volume: 4 448 GWh

Analysts covering TAURON



Institution	Analyst
Dom Maklerski mBanku	Kamil Kliszc
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Dom Maklerski BZ WBK	Paweł Puchalski
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Thank you for your attention