



TAURON Group's Q3 2017

Financial Results

November 9, 2017

Q1-3 2017 key data



TAURON Group's Q1-3 2017 results			
[PLN m]		Q1-Q3 2017 vs Q1-Q3 2016	
Sales revenue	12 871	↓	(1)%
EBITDA	2 877	↑	17%
Net profit*	1 192	↑	334%
CAPEX	2 217		(9)%
Net debt/EBITDA	2.11x		down 0.21 (vs 31.12.2016)
			down 0.53 (vs 30.09.2016)
Q1-3 2017 operating data			
		Q1-Q3 2017 vs Q1-Q3 2016	
Commercial coal production [t m]	4.68	↑	11%
Electricity generation [TWh]	14.03	↑	13%
Heat generation [PJ]	7.91	↑	13%
Electricity distribution [TWh]	38.31	↑	4%
Electricity retail supply [TWh]	25.56	↑	10%

* attributable to the shareholders of the parent company

Q3 2017 key data

TAURON Group's Q3 2017 results			
[PLN m]		Q3 2017 vs Q3 2016	
Sales revenue	4 116	↓	(1)%
EBITDA	783	↓	(2)%
Net profit*	188	↓	(31)%
CAPEX	722		(28)%
Net debt/EBITDA	2.11x		down 0.21 (vs 31.12.2016)
			down 0.53 (vs 30.09.2016)
Q3 2017 operating data			
		Q3 2017 vs Q3 2016	
Commercial coal production [t m]	1.36	↓	(21)%
Electricity generation [TWh]	4.57	↑	14%
Heat generation [PJ]	0.82	↑	44%
Electricity distribution [TWh]	12.61	↑	5%
Electricity retail supply [TWh]	8.35	↑	10%

* attributable to the shareholders of the parent company

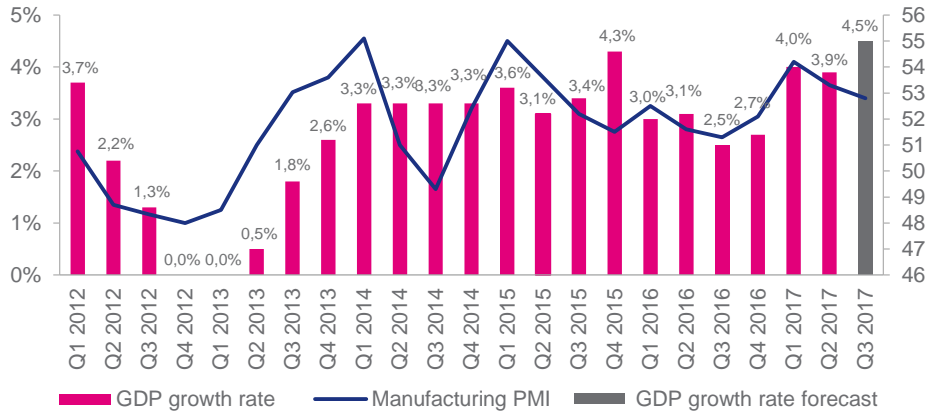
Highlights Summary



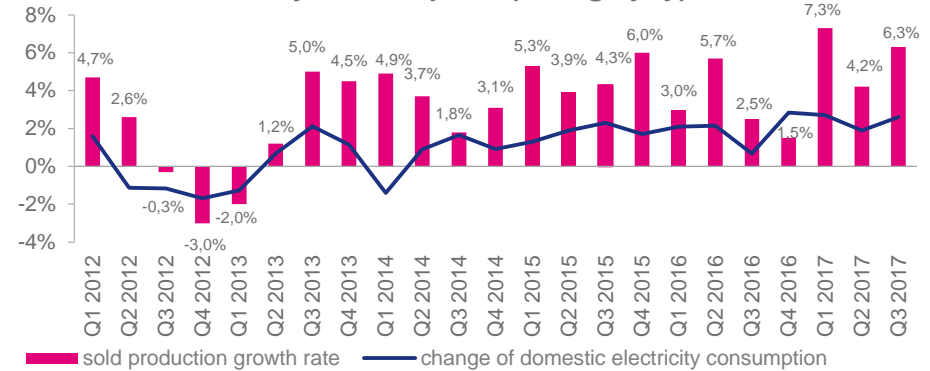
February 28	TAURON Sprzedaż (TAURON Supply) terminates long term green certificates purchase agreements
March 1	Amendment is signed with RAFAKO-MOSTOSTAL WARSZAWA consortium to the agreement on the construction of the 910 MW generation unit at Jaworzno III Power Plant – the unit’s completion deadline 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.
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
September 6	Signing of the agreement with Bank Gospodarstwa Krajowego on setting up a 12-year hybrid bond issue worth PLN 400m
October 17	Signing by Elektrociepłownia Stalowa Wola (Stalowa Wola Combined Heat and Power Plant) of the EPCM (Engineering-Procurement-Construction-Management) agreement with the consortium of Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. and Energoprojekt-Katowice S.A. on the design, engineering and consulting works as well as supervision over the works required to complete 450 MWe/240 MWt CCGT unit

Macroeconomic and market situation

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



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



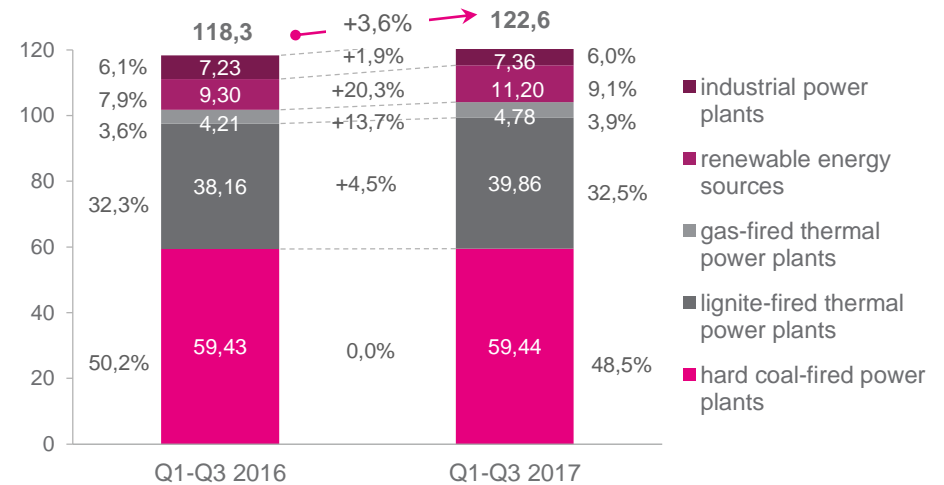
Electricity prices under one year BASE contracts

	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	163.63	52 429
Y-19	166.18	5 940
Y-20	173.01	527

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: 163.86 PLN/MWh* estimate

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

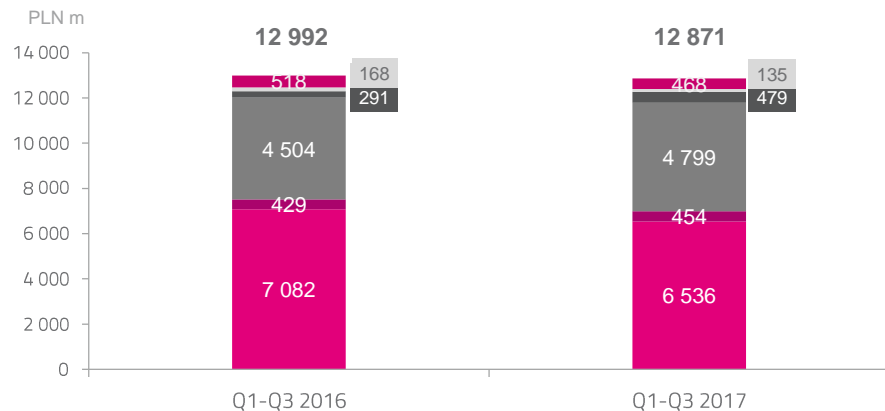


From January to September 2017 on accrual basis

Q1-3 2017 key financial data

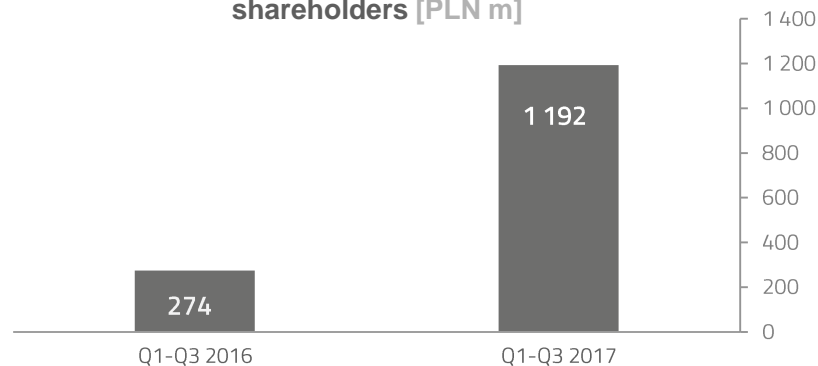


Sales revenue [PLN m]

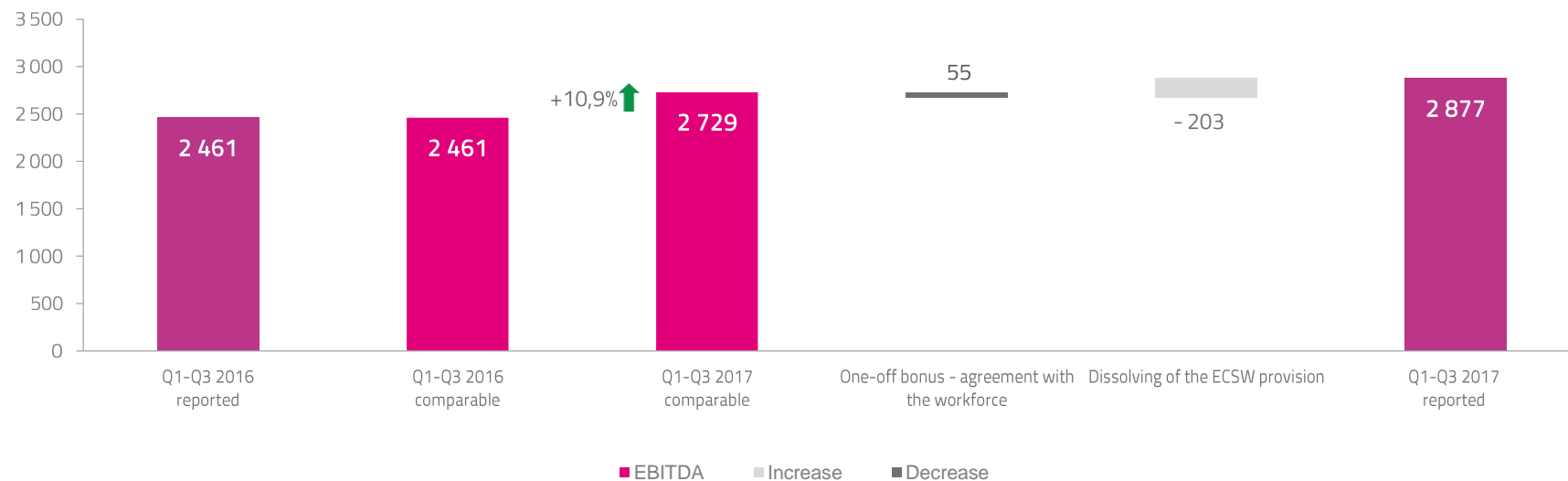


■ Electricity ■ Heat ■ Distribution and trading services ■ Coal ■ Gas ■ Other revenue

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



Q1-Q3 2017 EBITDA vs Q1-Q3 2016 EBITDA [PLN m]

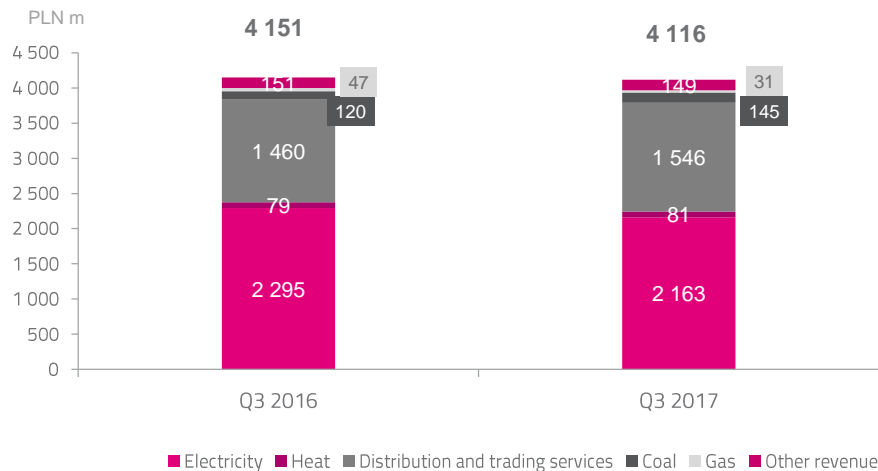


■ EBITDA ■ Increase ■ Decrease

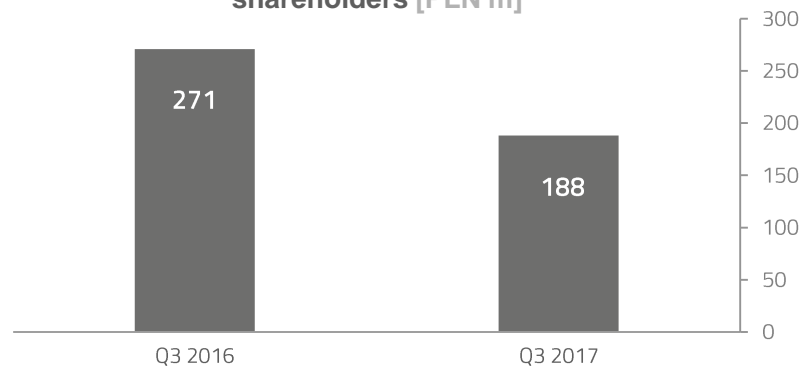
Q1 2017 key financial data



Sales revenue [PLN m]

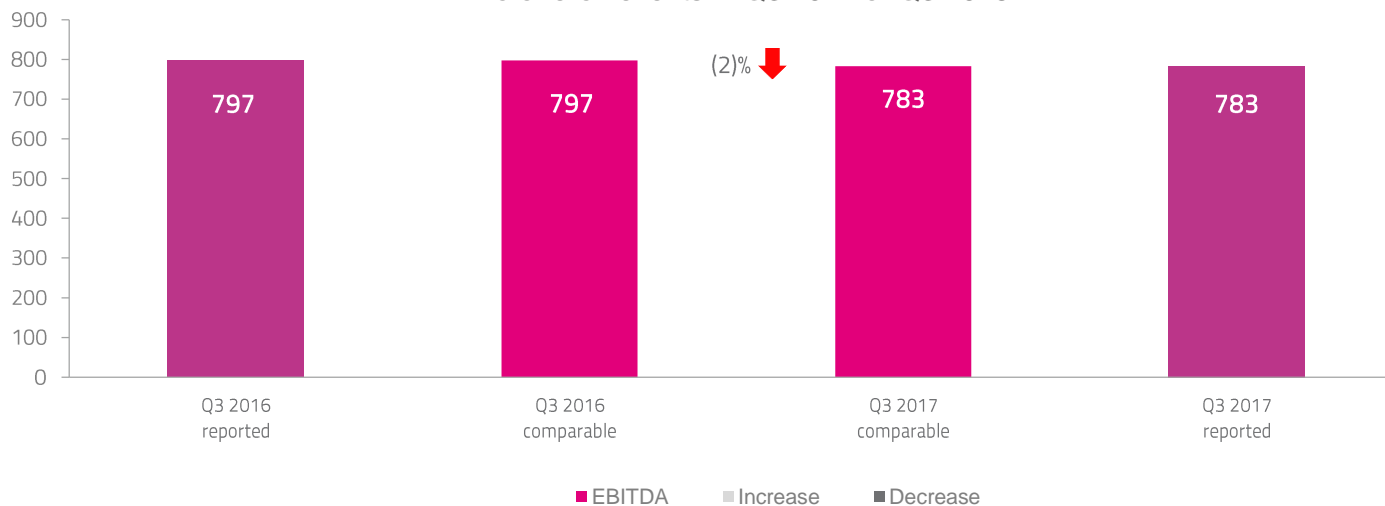


Net profit attributable to the parent company's shareholders [PLN m]



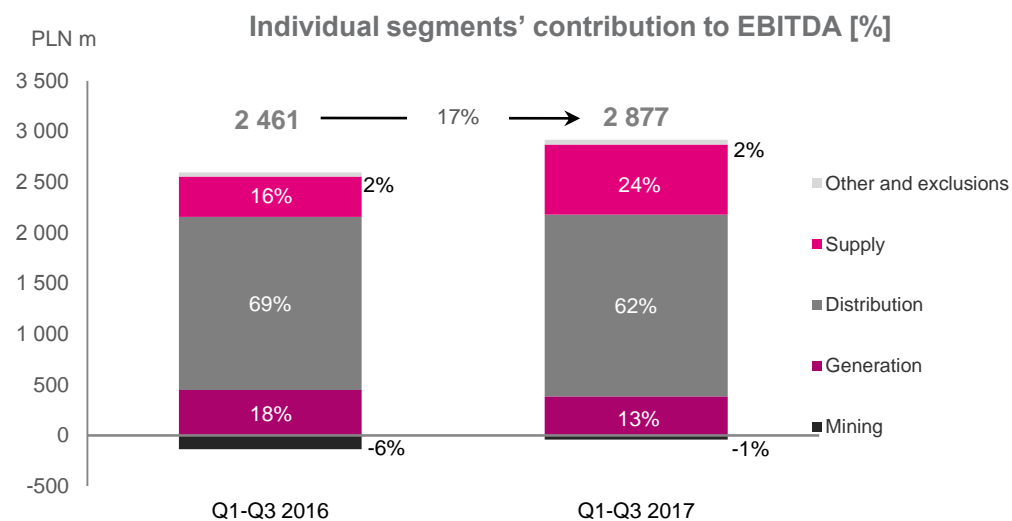
Q3 2017 EBITDA vs Q3 2016 EBITDA [PLN m]

No one-off events in Q3 2017 or Q3 2016



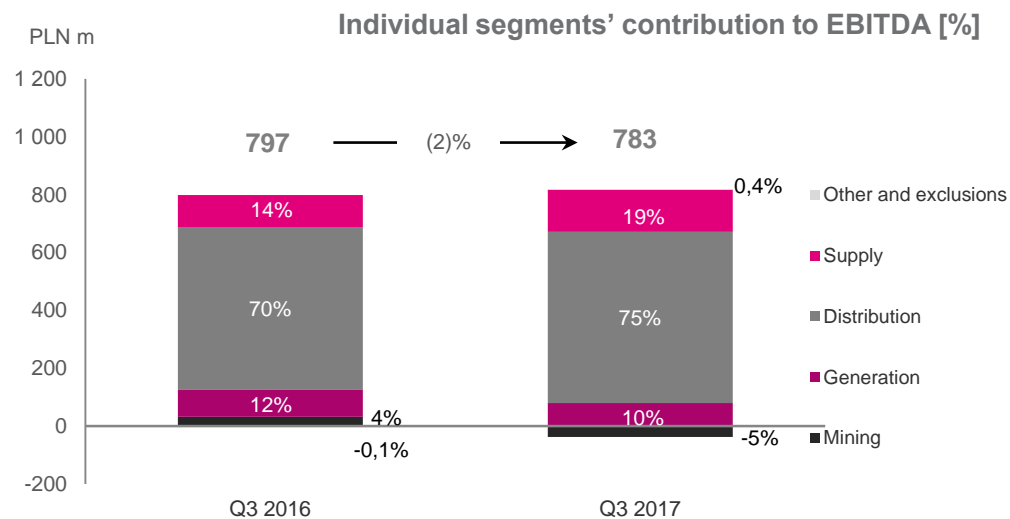
Q1-3 2017 key segments results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	1 118	3 325	4 987	9 807	(6 366)
EBITDA	(42)	386	1 795	691	47
EBIT	(135)	44	999	684	(12)
CAPEX	89	1 123	973	0,6	33



Q3 2017 key segments results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	337	1 043	1 619	3 130	(2 013)
EBITDA	(37)	80	591	146	3
EBIT	(69)	(36)	321	144	(17)
CAPEX	33	309	368	0.01	12

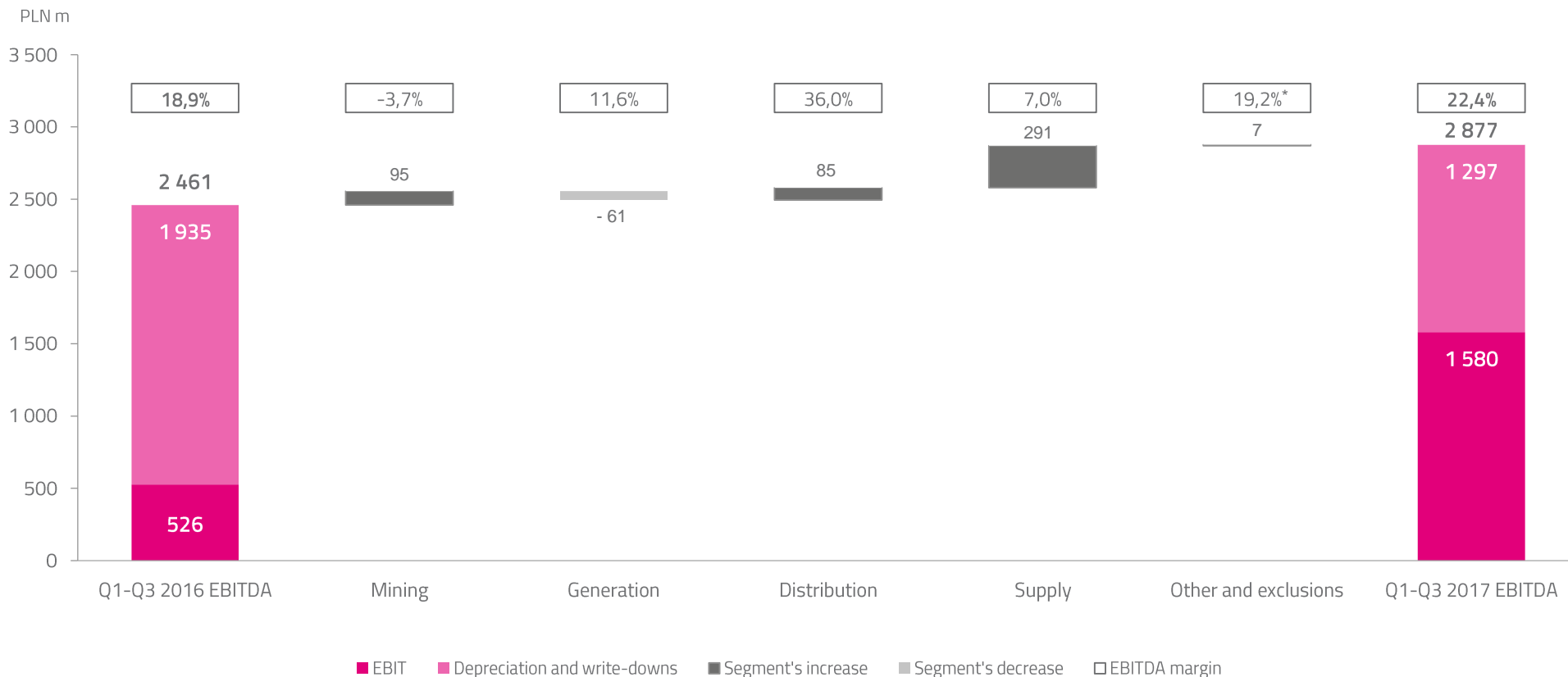


* Items not included in the segments presented

Q1-3 2017 EBITDA

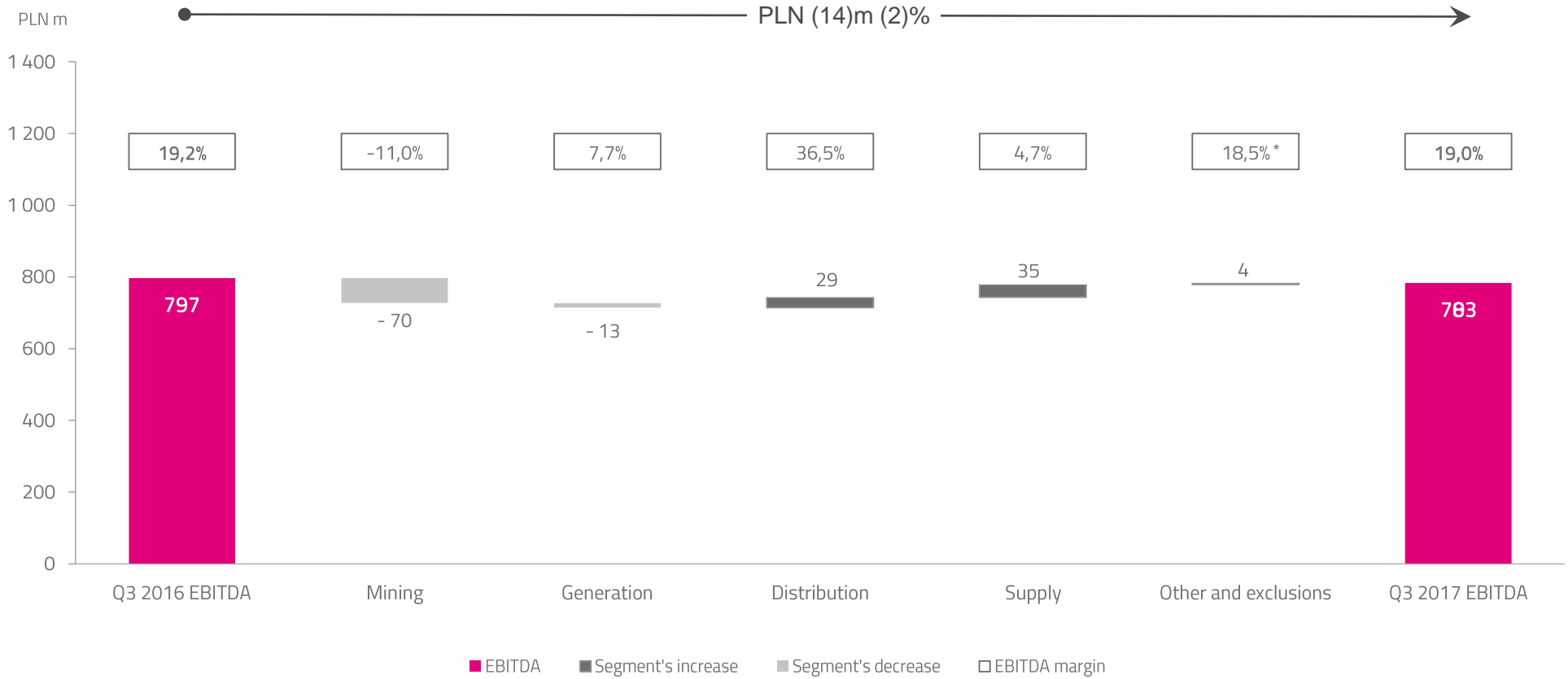


PLN 417m, 17%



*Other operations segment's EBITDA margin

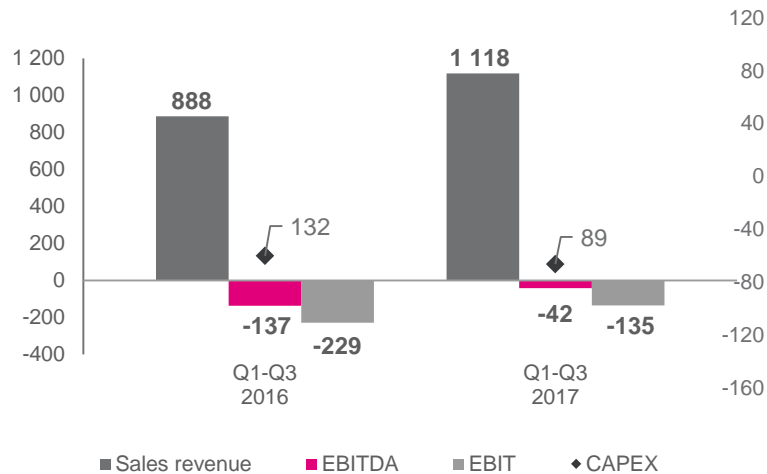
Q3 2017 EBITDA



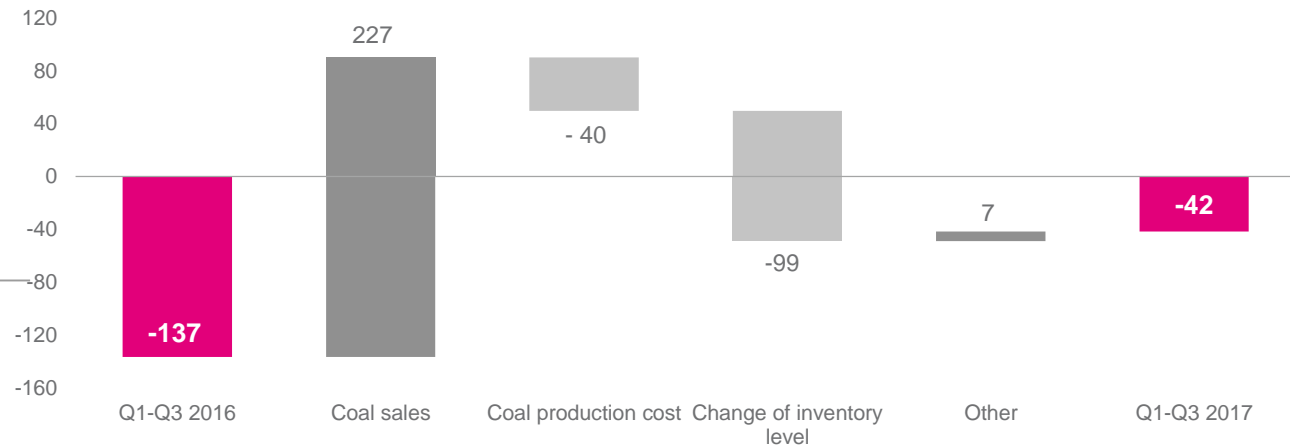
*Other operations segment's EBITDA margin

Mining segment – Q1-3 2017

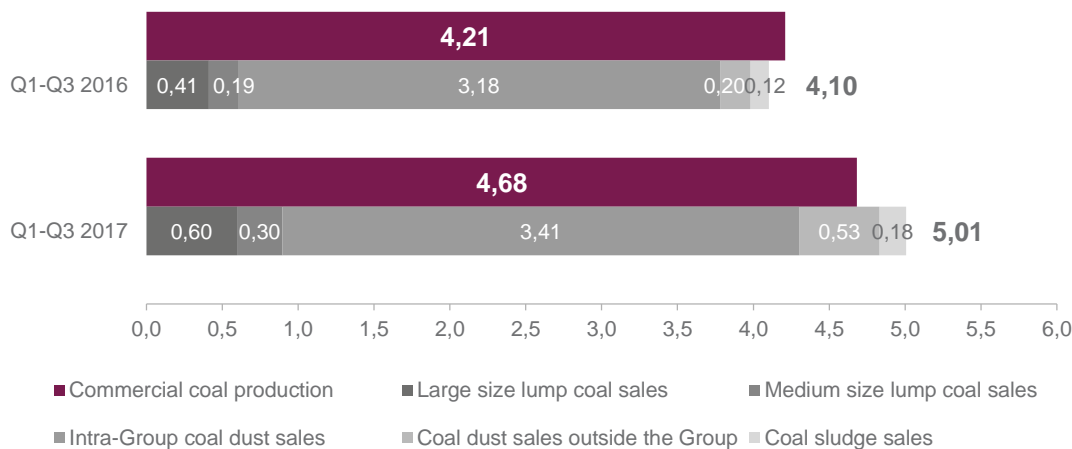
Financial data [PLN m]



EBITDA change [PLN m]



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

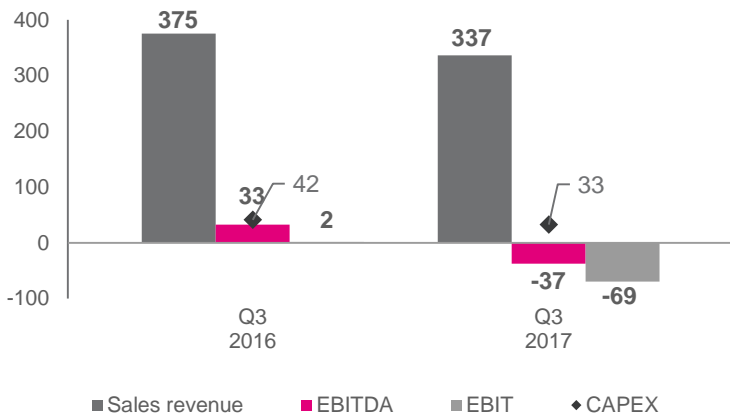


- 11.2% production volume increase ✓
- 22.1% sales volume increase ✓
- 3.0% mining cash cost* drop from 191 PLN/Mg to 186 PLN/Mg ✓
- Lower headcount (down 244 FTEs on average) ✓

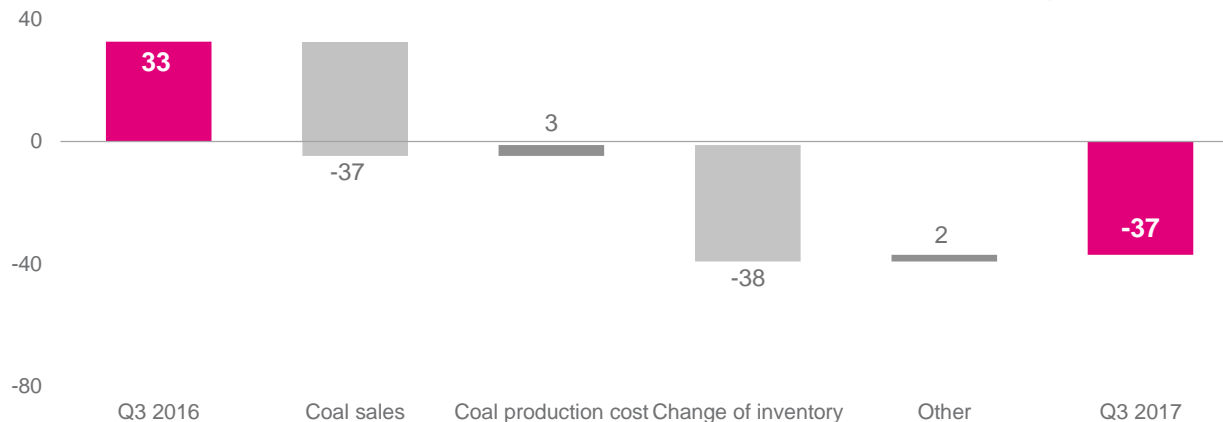
* Total cost excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the Company's cash flow

Mining segment – Q3 2017

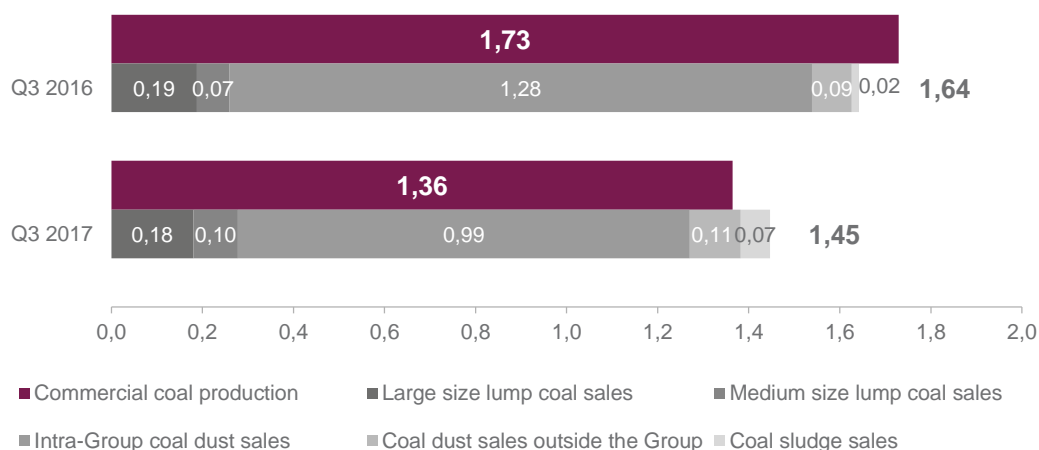
Financial data [PLN m]



EBITDA change [PLN m]



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



• 21.1% production volume decrease



• 11.9% sales volume decrease



• 56.8% mining cash cost* rise from 143 PLN/Mg to 224 PLN/Mg



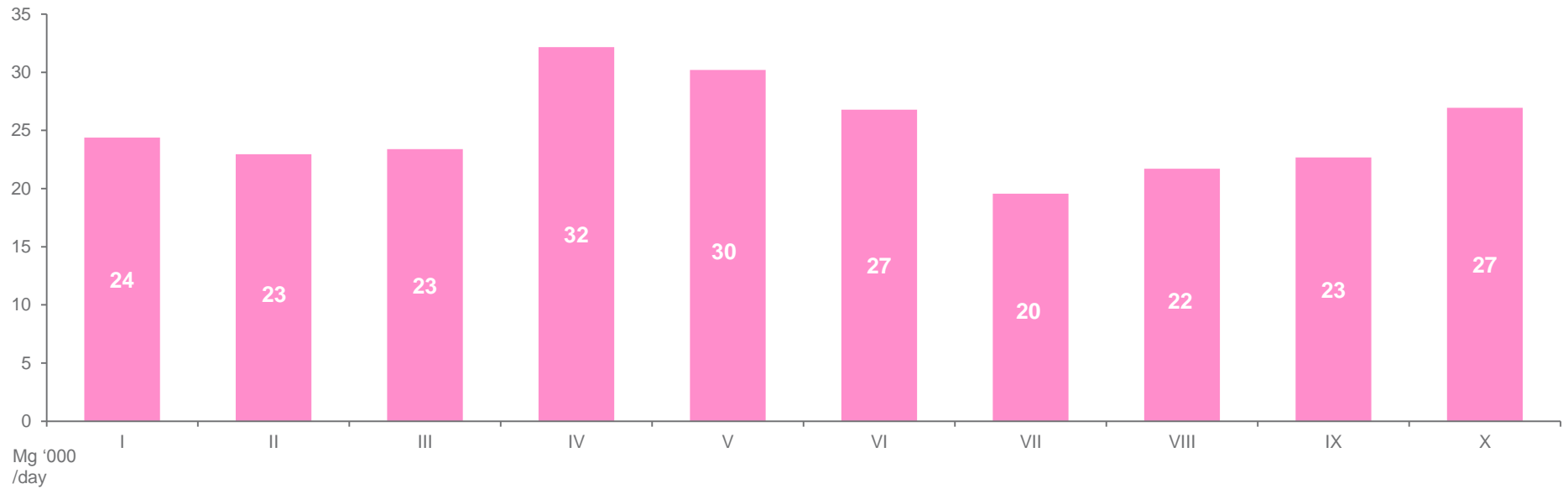
• Lower headcount (down 213 FTEs on average)



* Total cost excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the Company's cash flow

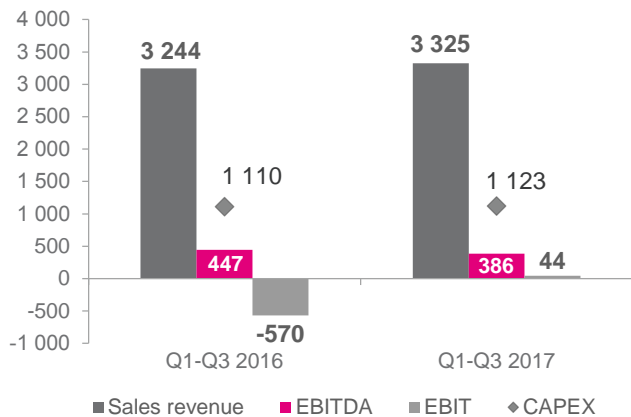
Mining segment – daily commercial coal production

Daily commercial coal production in 2017

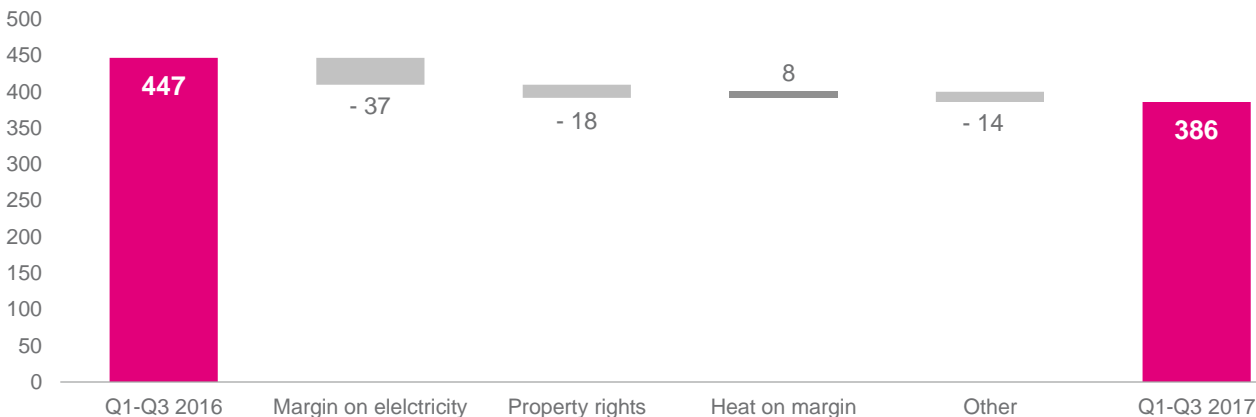


Generation segment – Q1-3 2017

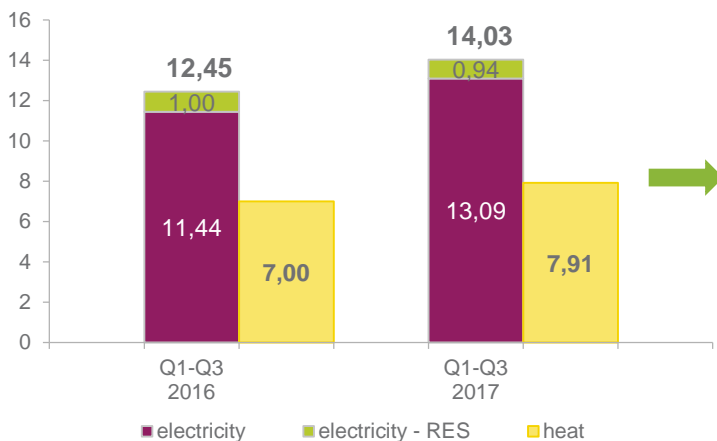
Financial data [PLN m]



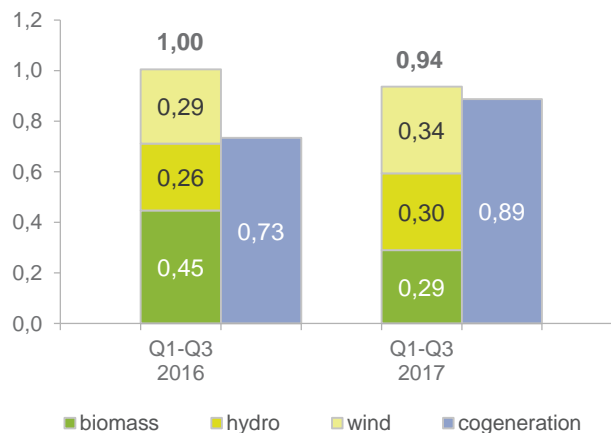
EBITDA change [PLN m]



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



RES and cogeneration production [TWh]



• Electricity and heat sales volumes increases



• CO2 prices decline



• Electricity prices decline

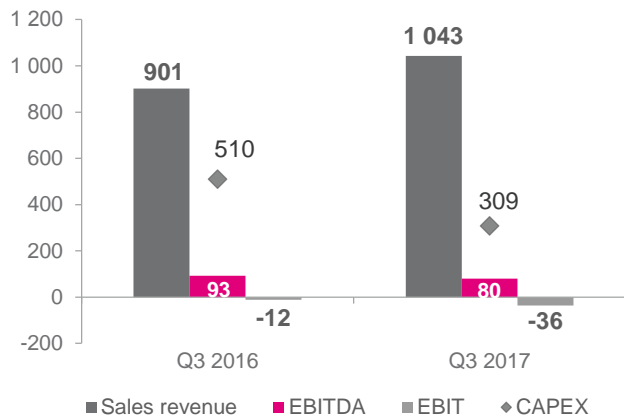


• RES property rights (PM OZE) prices decline

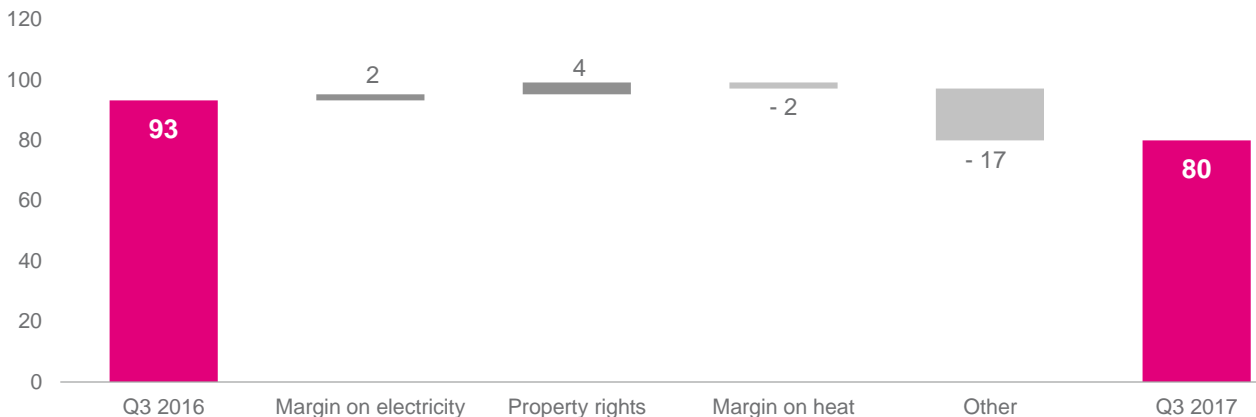


Generation segment – Q3 2017

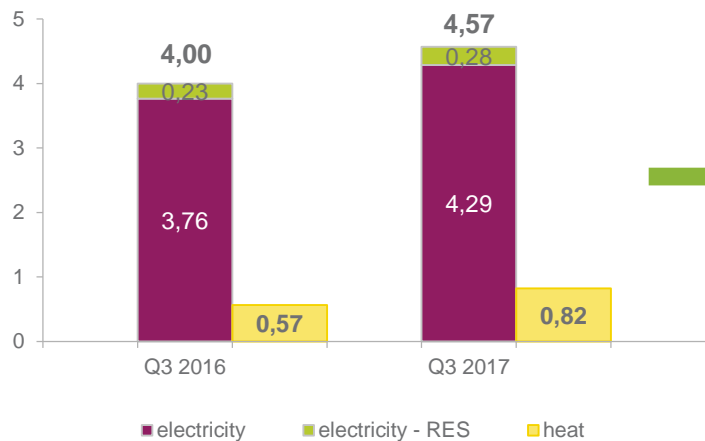
Financial data [PLN m]



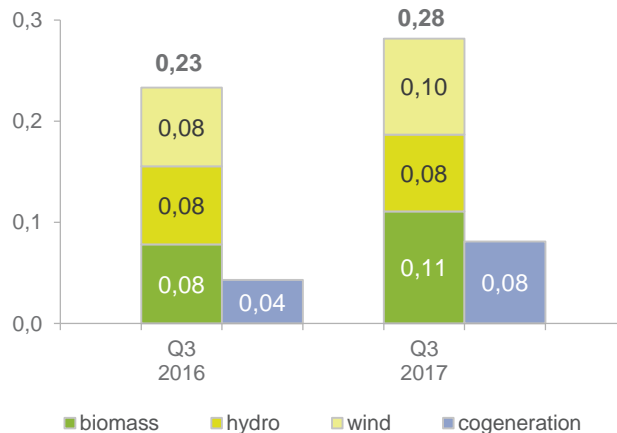
EBITDA change [PLN m]



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



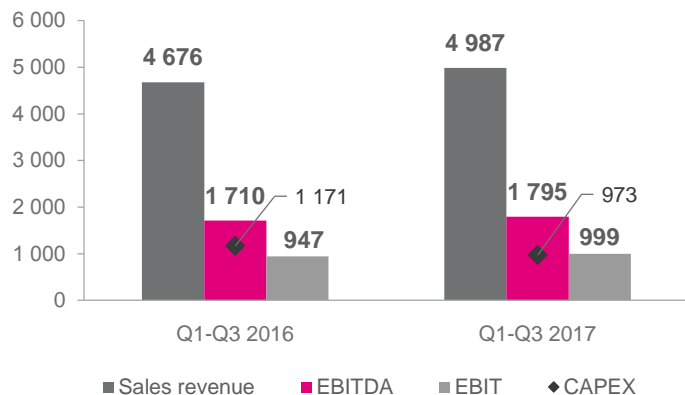
RES and cogeneration production [TWh]



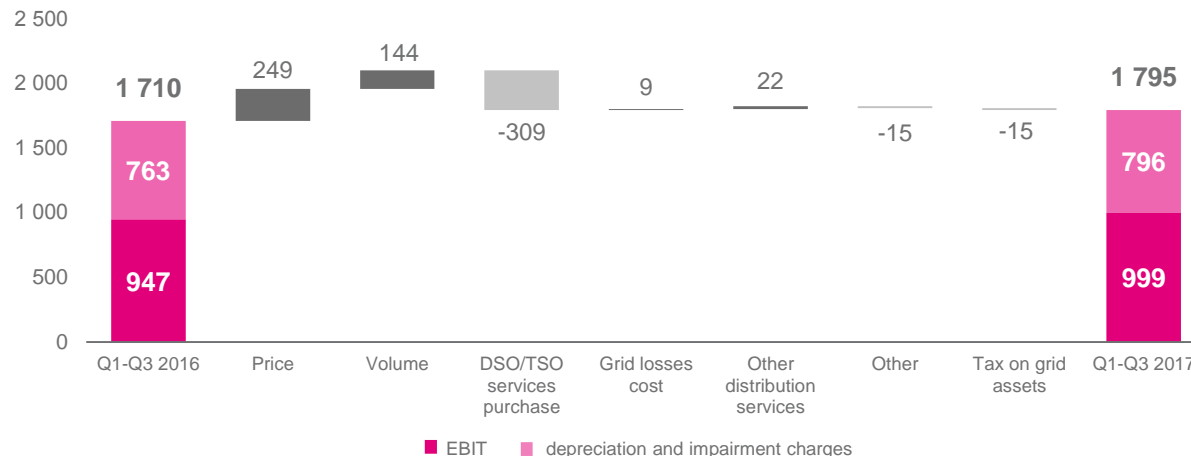
- Electricity and heat sales volumes increases ✓
- Lower number of free CO2 allowances -
- Electricity prices decline -
- Higher costs of generating units' overhauls and of the real estate tax on wind farms -

Distribution segment – Q1-3 2017

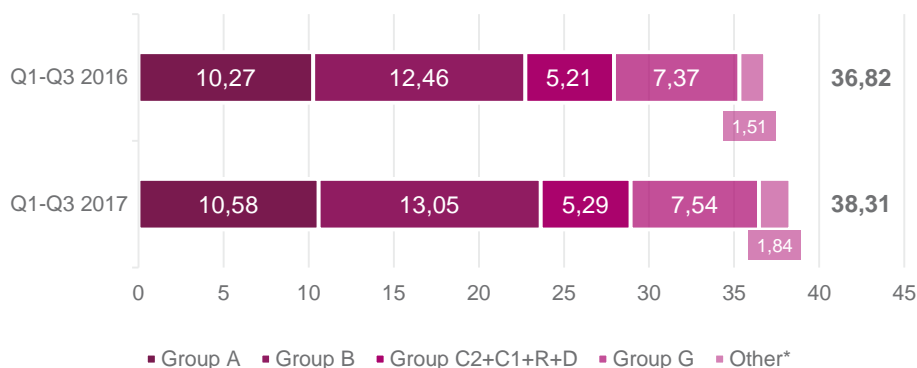
Financial data [PLN m]



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 1 486 GWh (4%), mainly in manufacturing industry in correlation to the GDP growth rate



• 69% increase of the transition fee rate included in the cost of purchasing transmission services and of the RES fee (none in H1 2016)

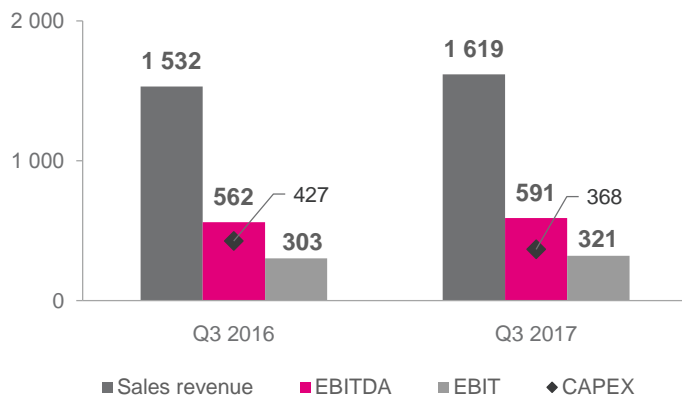


• Increase of revenue from connection fees as a result of completing some investment projects ahead of schedule

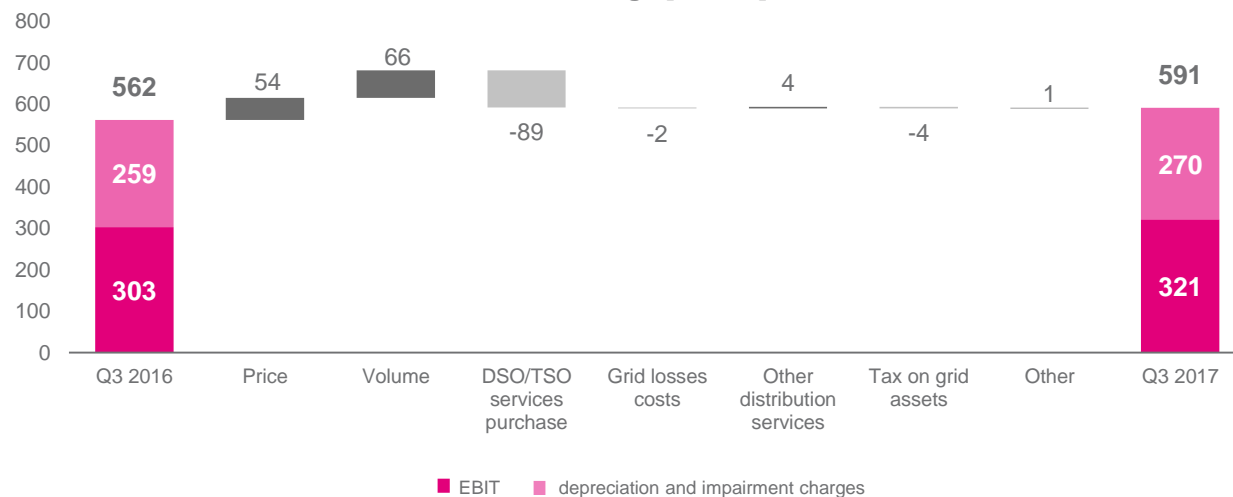


Distribution segment – Q3 2017

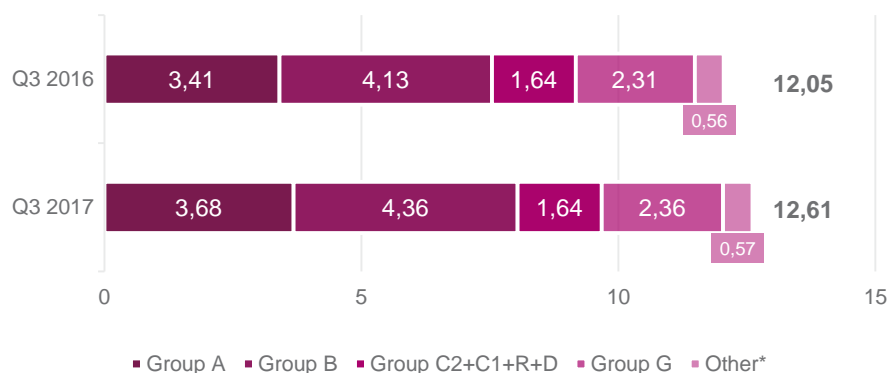
Financial data [PLN m]



EBITDA change [PLN m]



Electricity distribution [TWh]



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

*neighboring DSO and exports

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



• Higher electricity distribution services sales volume by 560 GWh (4,6%), mainly in manufacturing industry in correlation to the GDP growth rate (MV grid) and as a result of curtailing own generation (HV grid)



• 68% increase of the transition fee rate included in the cost of purchasing transmission services and of the RES fee (none in Q3 2016.)

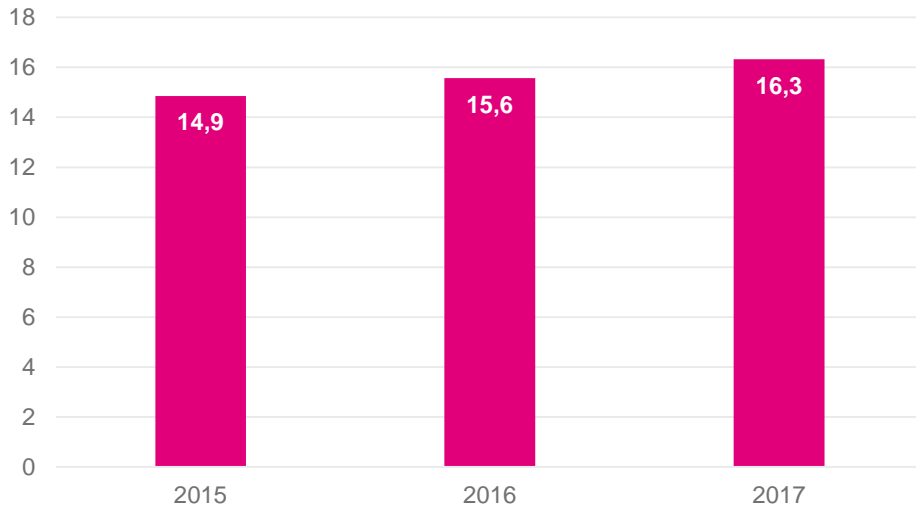


• Decline of the costs of external services and labor costs

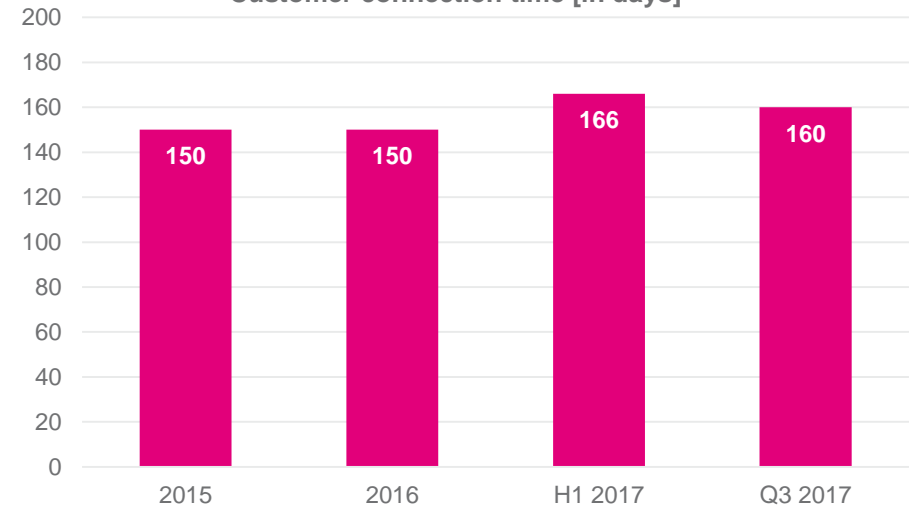


Distribution segment – key parameters

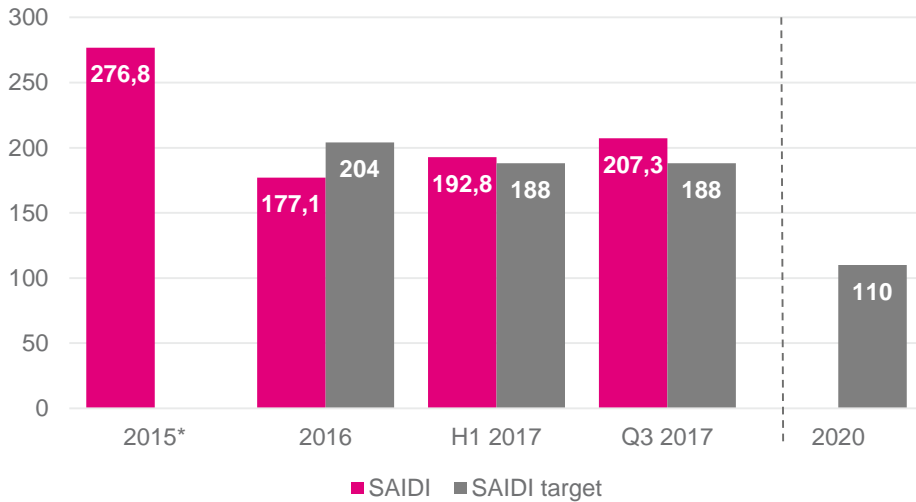
Regulatory Asset Base [PLN bn]



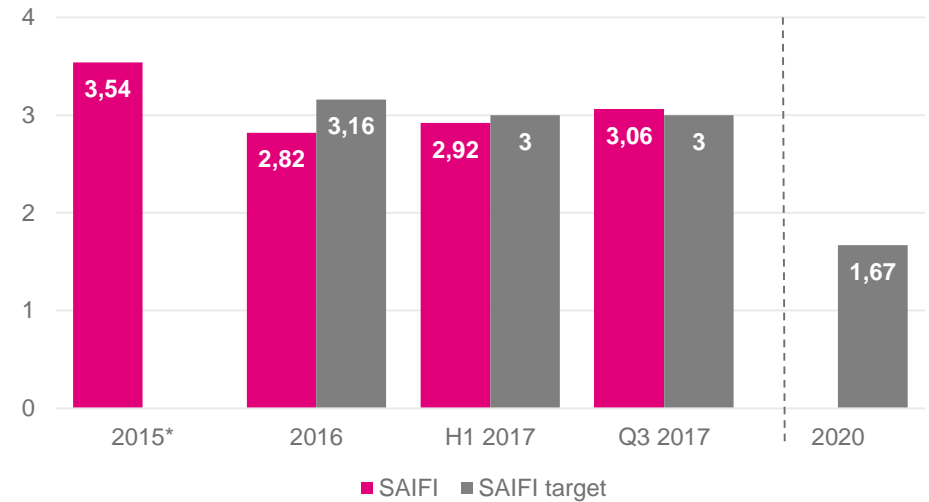
Customer connection time [in days]



SAIDI [min]



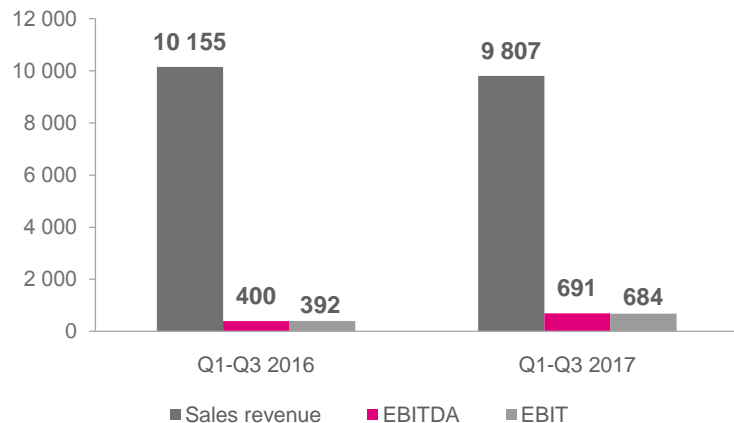
SAIFI [number]



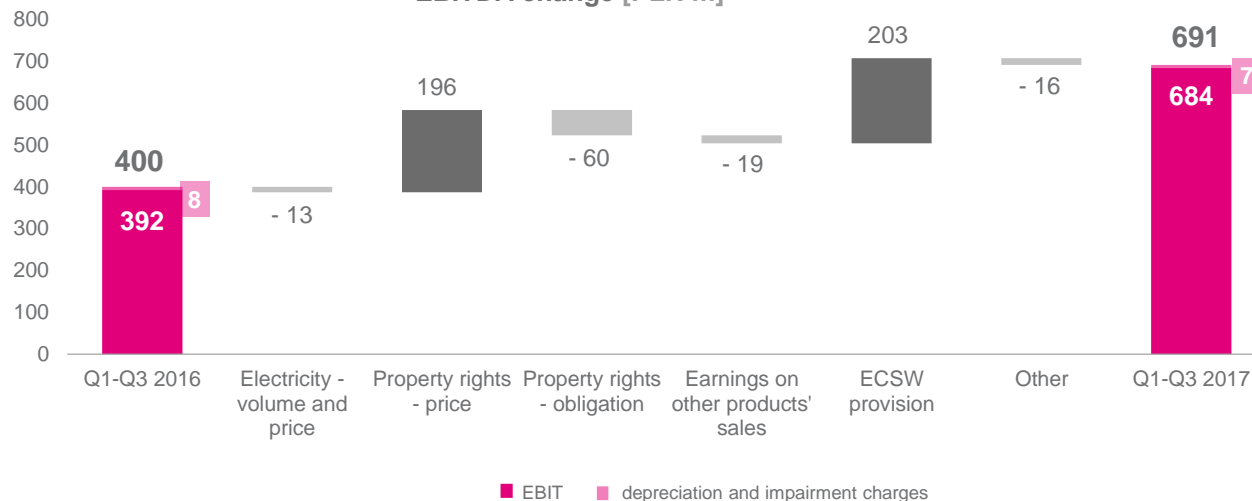
* Method used to calculate the indicators in 2015 was different than the method used under the quality based regulation – the calculation in 2015 took into account the low voltage distribution grid outages.

Supply segment – Q1-3 2017

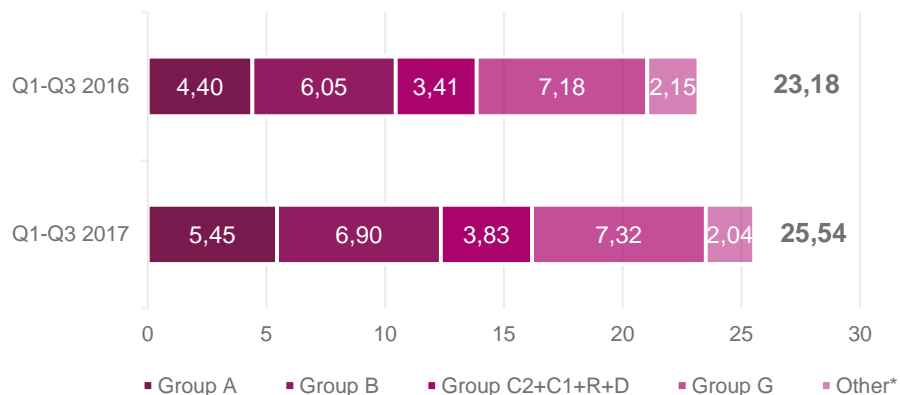
Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity sales [TWh]



• Increase of the supply volume in the business segment



• Increased obligation to redeem property rights: for PM OZE from 15% to 15.4% (H1) and from 14.35% to 15.4% (Q3), for PM OZE-BIO 0.65% (H1) and from 0.65% to 0.6 (Q3), for PMGM from 6% to 7% and for PMMET from 1.5% to 1.8%



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



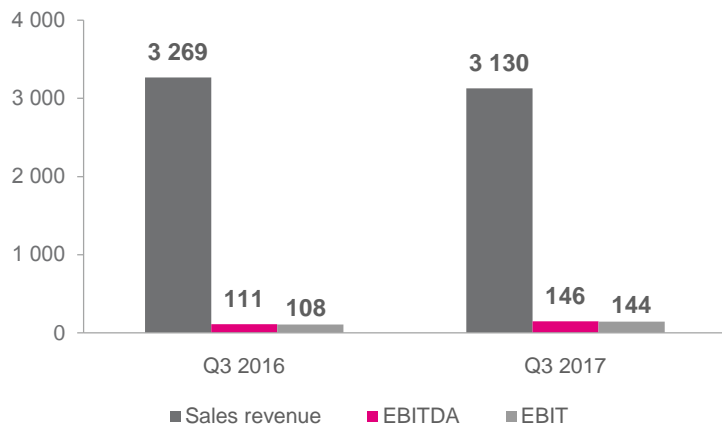
• Positive impact in 2017 due to the dissolving of the provision related to the CCGT unit's construction project in Stalowa Wola



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

Supply segment – Q3 2017

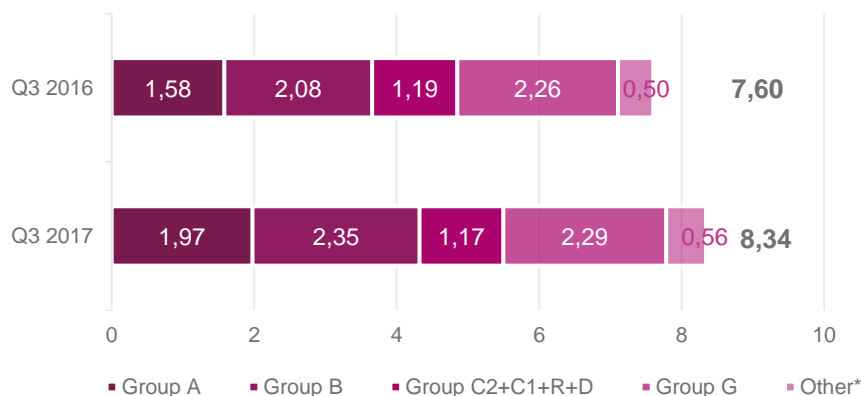
Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity sales [TWh]



• Increase of the supply volume in the business segment

✓

• Increased obligation to redeem property rights: for PM OZE from 14.35% to 15.4%, for PM OZE-BIO from 0.65% to 0.6%, for PMGM from 6% to 7% and for PMMET from 1.5% to 1.8%

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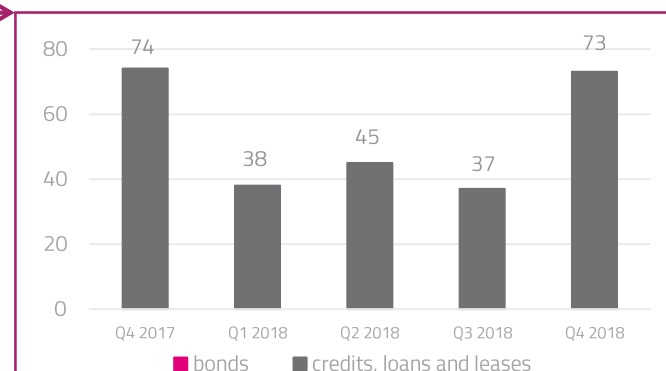
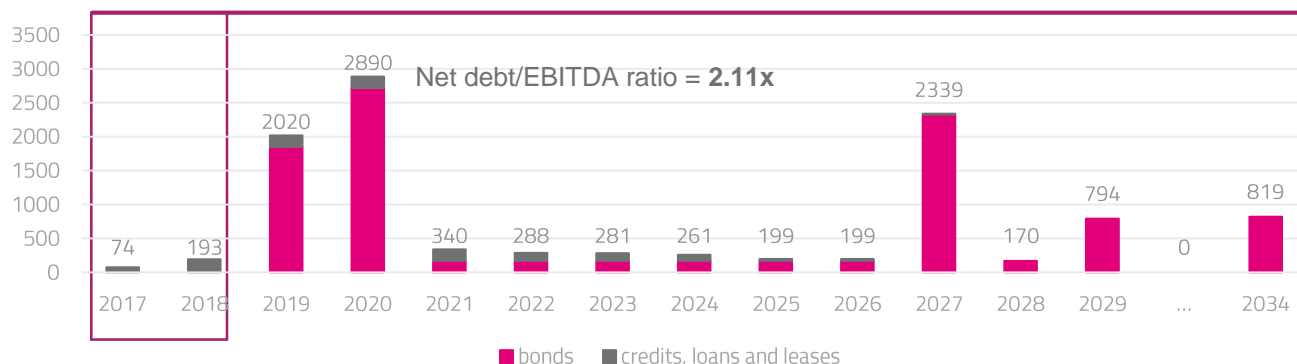
▪ Decline of the market prices of PM OZE purchased to be redeemed and the termination of the long term PMOZE contracts

✓

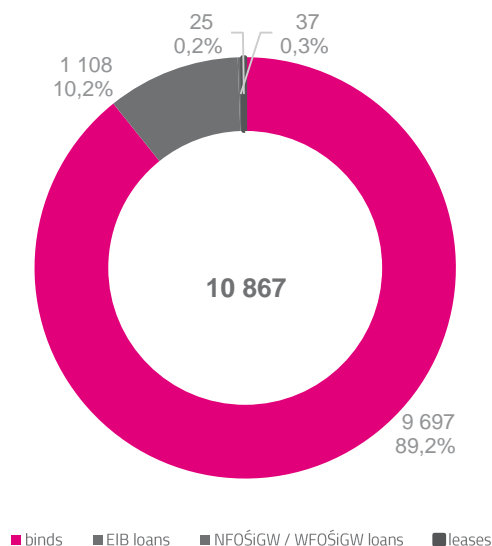
*includes sales to cover the balancing difference and to the intra-Group final consumers

Debt and financing

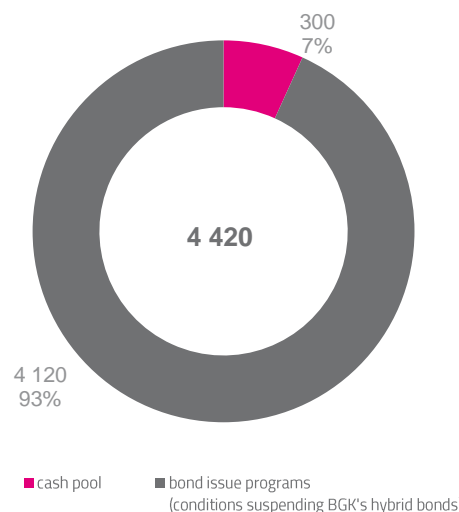
TAURON Group's debt maturity as of 30.09.2017 [PLN m]



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

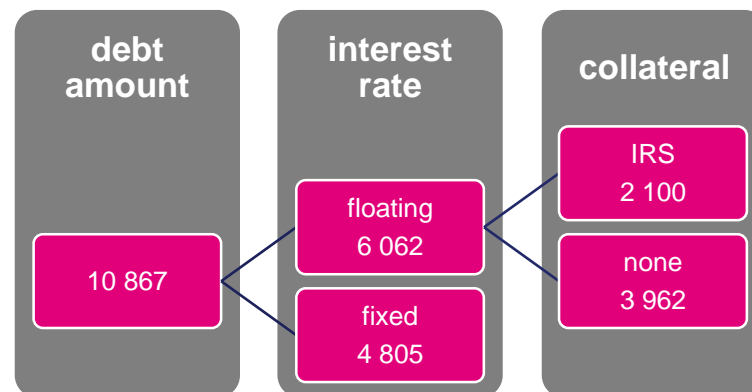


Financing available to TAURON Group as of 30.09.2017 [PLN m]



- financial debt (nominal value of debt due to credits, loans, leases and bonds) as of 30.09.2017 is PLN 10 867m
- weighted average maturity of debt as of 30.09.2017 is 81 months
- EUR denominated debt (eurobond issue, NSV and EIB bond issues) represents 34% of the total debt

Debt structure based on interest rate [PLN m]:

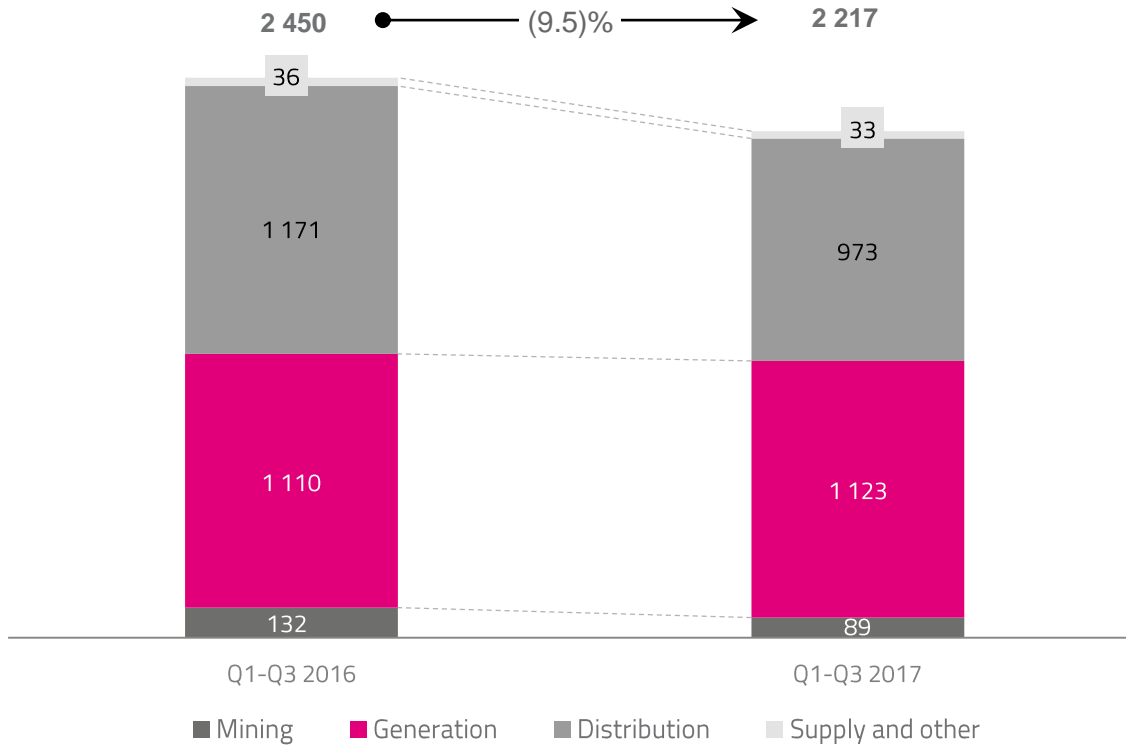


CAPEX – key projects' work progress

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	-	45		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	-	-	25		2025

CAPEX – by segments

Capital expenditures by segments [PLN m]
(excluding equity investments)



* including the financial costs in Q1-3 2016: PLN 68m, Q1-3 2017: PLN 70m

Key investment projects underway in Q1-3 2017:

Mining:

- construction of the 800 m level at Janina coal mine (PLN 24m)
- construction of the Grzegorz shaft at Sobieski coal mine (PLN 9m)
- Brzeszcze coal mine CAPEX program (PLN 14m)





Generation:

- construction of new 910 MW capacity at Jaworzno Power Plant (PLN 957m)
- maintenance and expansion of district heating networks (PLN 12m)
- connections of new facilities (PLN 10m)

Distribution:

- construction of new connections (PLN 397m)
- grid asset upgrades (refurbishing) and replacement (PLN 463m)

Efficiency Improvement Program

Segment	Financial effects realized in 2016 – Q3 2017	Financial effects planned in 2016-2018	Progress %	Main initiatives
Mining	PLN 133m	PLN 255m	 52 percent	<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 348m	PLN 367m	 95 percent	<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 294m	PLN 390m	 75 percent	<ul style="list-style-type: none"> Reorganization and restructuring of employment Asset maintenance costs control Purchasing efficiency improvement Reorganization of storage services Sale of redundant real estate
Other	PLN 131m	PLN 291m	 45 percent	<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 906m	PLN 1 303m	70 percent	

- In the 2016-Q3 2017 time frame under the Voluntary Redundancy Programs, being part of the Efficiency Improvement Program, TAURON Group's headcount was reduced by 953 FTEs. Savings resulting from redundancies, decreased by the costs incurred to generate these savings, are included in the amounts presented by segments

Thank you – Q & A



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Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2016		2017 (data for Jan-Sep 17)		2017/2016	
	Price (PLN/MWh)	Volume (GWh)	Price (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	165.88	191 342	160.07	104 299	-3.5%	-35.0%
Forward PEAK (Y+Q+M)	210.27	23 414	208.79	11 273	-0.7%	-17.7%
Forward (weighted average)	170.72	214 756	164.82	115 572	-3.5%	-33.1%
SPOT (TGE)	160.64	27 590	161.21	28 000	-0.3%	+1.5%
Total weighted average	169.58	242 346	164.07	171 615	-3.2%	-29.2%

Property rights (PLN/MWh)			
Certificate type	Market prices (2017 average)	Substitution fee and obligation for:	
		2016	2017
OZE (PMOZE_A)	36.34	300.03 (14.35%)	300.03 (15.4%)
RES from biogas plants (PMOZE_BIO)	339.55	300.03 (0.65%)	300.03 (0.6%)
Coal cogeneration (PMEC-2016)	9.70	11.00 (23.2%)	10.00 (23.2%)
Gas cogeneration (PMGM-2016)	116.10	125.00 (6.0%)	120.00 (7.0%)
Methane cogeneration (PMMET-2016)	54.56	63.00 (1.5%)	56.00 (1.8%)

CO ₂ emission allowances (EUA/t)	
CO ₂ market analysts survey* (updated in July 2017)	Price (EUR/t)
2017 average	5.43 EUR/t
2018 average	7.00 EUR/t
2019 average	8.17 EUR/t
2017 average price forecast by TAURON (**updated in October 2017)	5.00 – 5.50 EUR/t

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

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

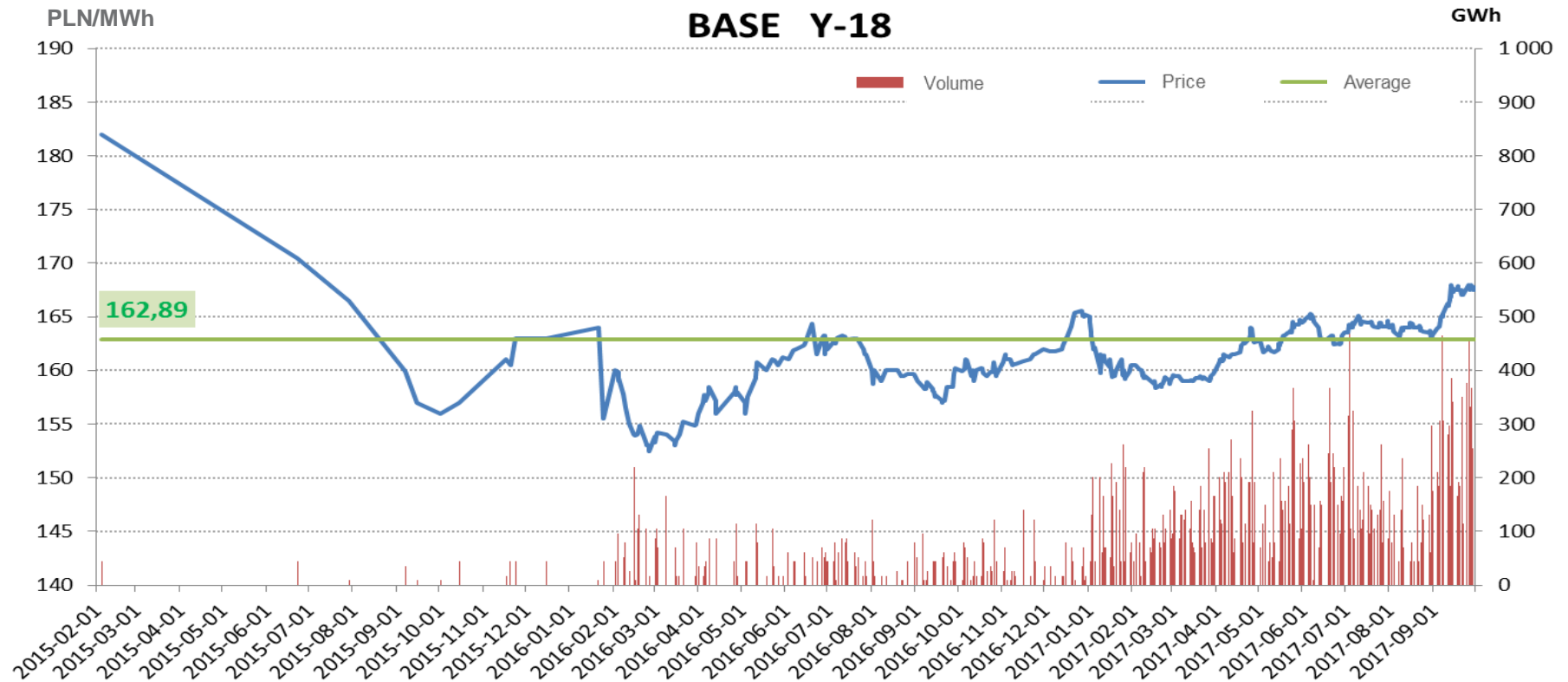
2017 BASE contracts



		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

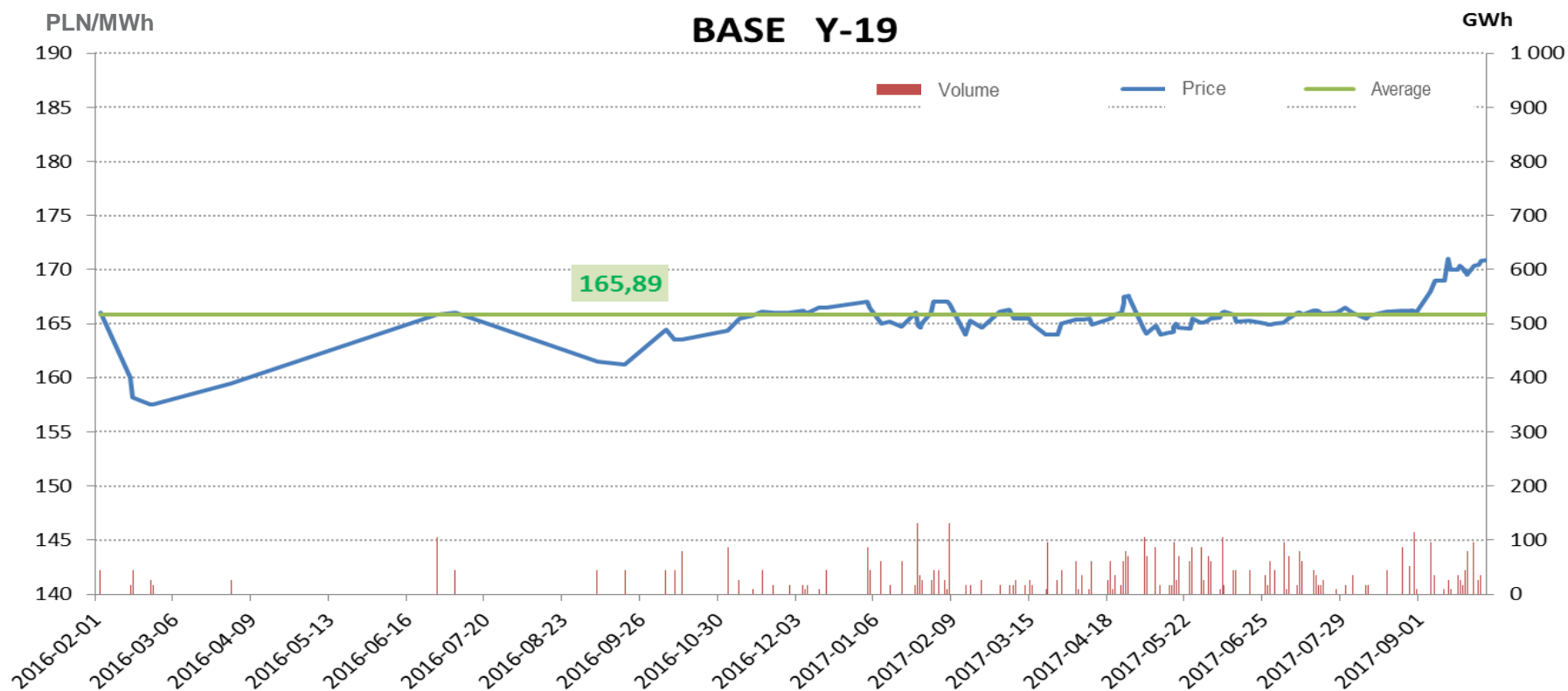
2018 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		162.89	49 170
including	TGE	163.18	37 493
	non TGE	161.96	11 677

Average electricity price that takes into account 2018 one year BASE and PEAK contracts: 167.56 PLN/MWh, total 2018 BASE and PEAK volume: 54 469 GWh

2019 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		165.89	5 773
including	TGE	165.91	5 282
	non TGE	165.59	491

Average electricity price that takes into account 2019 one year BASE and PEAK contracts: 169.36 PLN/MWh, total 2017 BASE and PEAK volume: 6 183 GWh

Analysts covering TAURON



Institution	Analyst
Dom Maklerski mBanku	Kamil Kliszc
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Thank you for your attention