



**TAURON Group's
FY 2018
Financial Results**

April 4, 2019

Agenda



Filip Grzegorzczak
CEO

- Key financial and operating data
- Investment projects and CAPEX
- Efficiency Improvement Program
- Strategic Initiatives



Marek Wadowski
CFO

- Macroeconomic and market situation
- Financial data and the results of the individual segments
- Debt and financing
- 2019 outlook

FY 2018 key data



Financial results

[PLN m]	2018 vs 2017	
Sales revenue	18 122	4%
EBITDA	3 375	(7)%
Net profit*	205	(85)%
CAPEX	3 672	6%
Net debt/EBITDA	2.54x	up 0.30 <small>(vs 31.12.2017)</small>

Operating data

	2018 vs 2017	
Electricity distribution [TWh]	51.97	1%
Electricity generation [TWh]	16.21	(12)%
Heat production [PJ]	11.29	(7)%
Retail electricity supply [TWh]	34.52	(1)%
Commercial coal production [ton m]	5.01	(22)%

* Attributable to the shareholders of the parent company

Q4 2018 key data



Financial results		
[PLN m]	Q4 2018 vs Q4 2017	
Sales revenue	4 820	6%
EBITDA	403	(40)%
Net profit*	(648)	-
CAPEX	1 347	7%
Net debt/EBITDA	2.54x	up 0.30 <small>(vs 31.12.2017)</small>

Operating data		
	Q4 2018 vs Q4 2017	
Electricity distribution [TWh]	13.13	0.5%
Electricity generation [TWh]	4.30	(2)%
Heat production [PJ]	3.86	(10)%
Retail electricity supply [TWh]	9.15	(2)%
Commercial coal production [ton m]	1.40	(21)%

* Attributable to the shareholders of the parent company

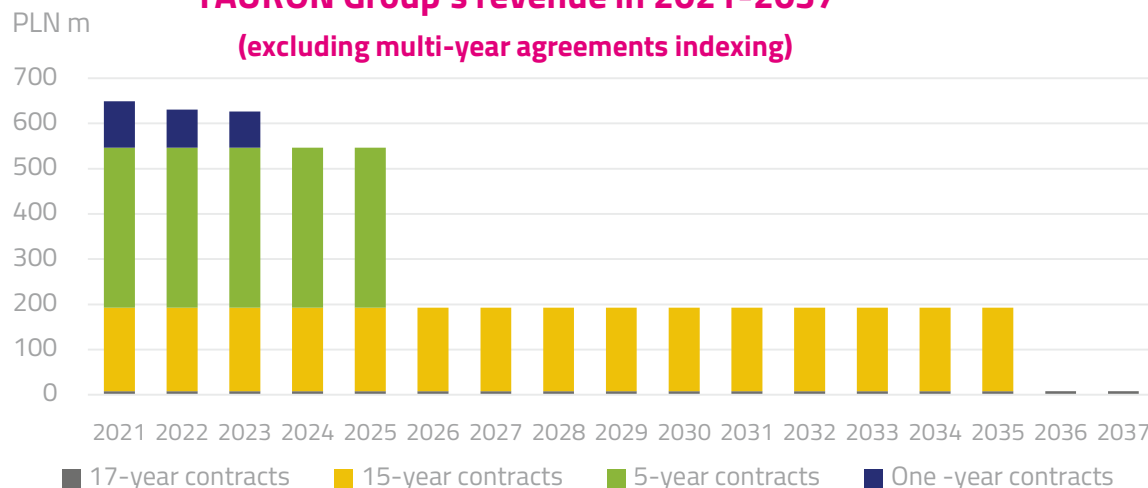
Highlights Summary



March 8	Obtaining of the new financing to complete the construction of the CCGT unit at Stalowa Wola
March 9	Extending the period of availability of funds under the Bond Issue Program until 2022
March 28	Signing of the agreements on the terms of engagement of the Polish Development Fund (PFR) in the 910 MW unit construction project in Jaworzno. PFR's engagement: up to PLN 880 million
June 13	TAURON and PFR establish Poland's first Corporate Venture Capital fund for developing innovations
October 2	Commencement of the negotiations on acquiring wind farms with the total capacity of approximately 200 MW, located in the north of Poland, owned by in.ventus group
October 4	Commencement of the commissioning of the 910 MW power generating unit in Jaworzno
November-December	Participation in three capacity market auctions with the delivery in 2021-2023. TAURON Group's total revenue from the auctions will reach more than PLN 4.8 billion by 2037
December 13 December 19	Signing with the European Investment Bank of the hybrid financing agreements for the total amount of PLN 750 million and of the loan agreement with Bank Gospodarstwa Krajowego worth PLN 1 billion
December	Launch of carsharing service and electric vehicles charging infrastructure in Katowice

Results of the capacity market main auctions with the delivery in 2021-2023

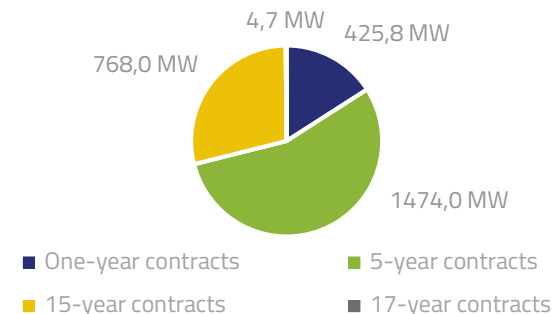
TAURON Group's revenue in 2021-2037
(excluding multi-year agreements indexing)



Structure of the capacity contracts concluded by TAURON at the main auctions

	2021	2022	2023
Auction's closing price [PLN/kW/year]	240.32	198.00	202.99
Total capacity under one year contracts [MW]	425.8	422.2	393.2
Total capacity under multi-year contracts [MW]	2 246.7	-	-

Auction with the delivery in 2021



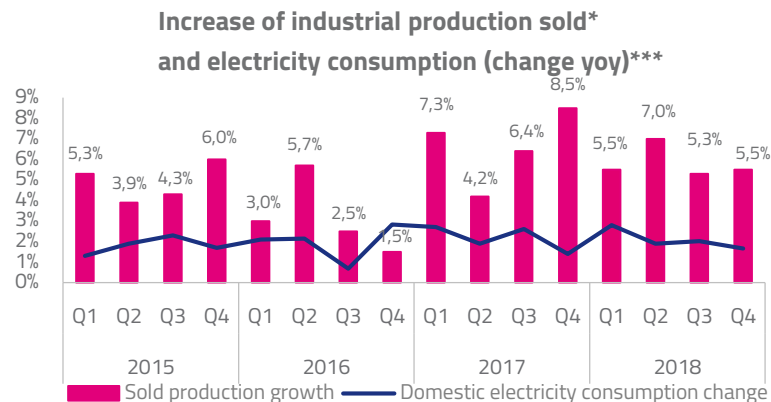
Auction with the delivery in 2022



Auction with the delivery in 2023



Macroeconomic and market situation



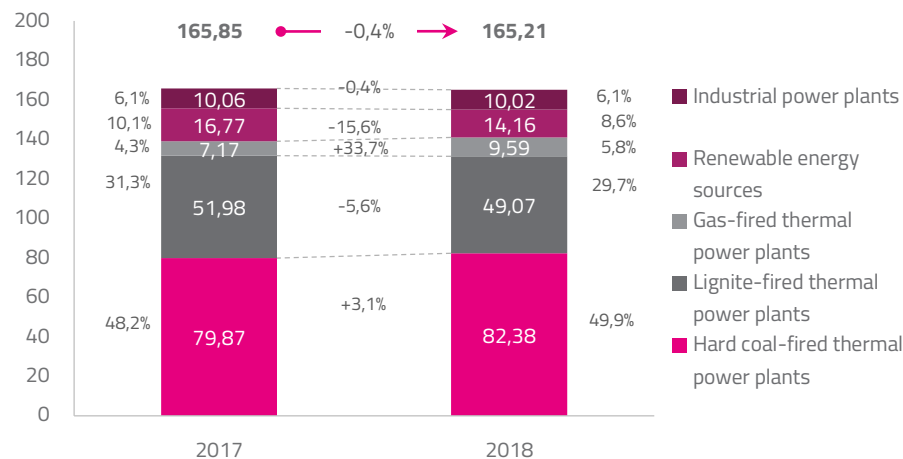
Electricity prices under one-year BASE contracts

	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	165.98	65 227
Y-19	237.44	133 170
Y-20	261.02	30 270
Y-21	264.62	2 137

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

- 2014: 163.58 PLN/MWh
- 2015: 169.99 PLN/MWh
- 2016: 169.70 PLN/MWh
- 2017: 163.70 PLN/MWh
- 2018: 194.30 PLN/MWh

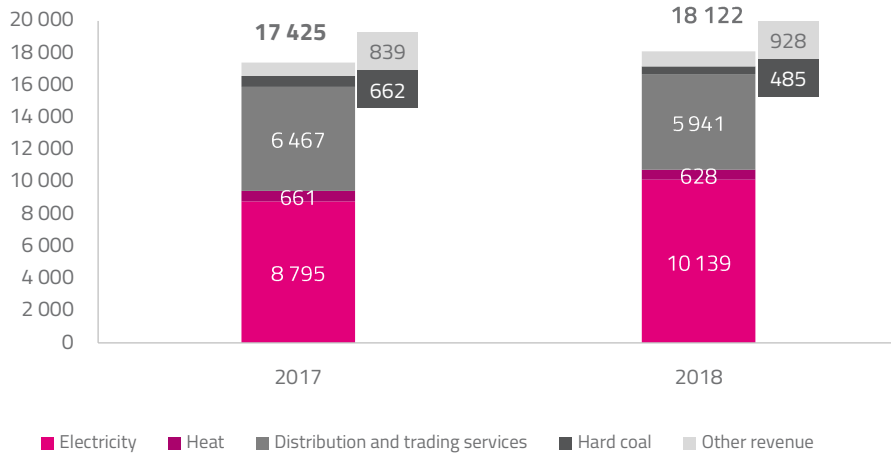
Structure of electricity production in Poland*** [TWh]



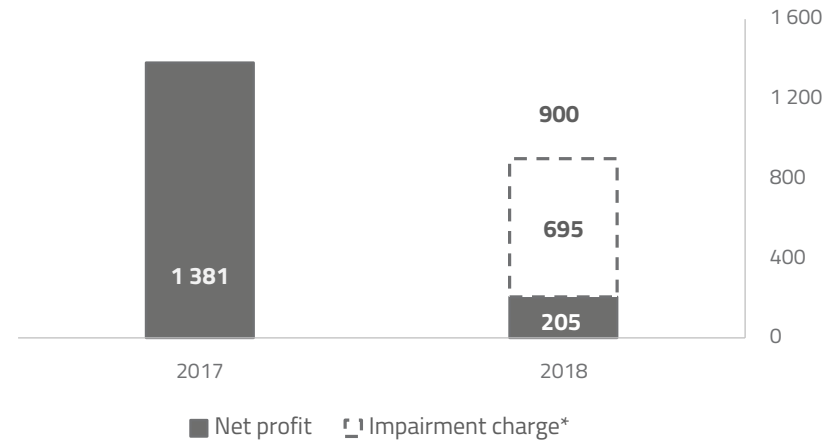
FY 2018 financial data



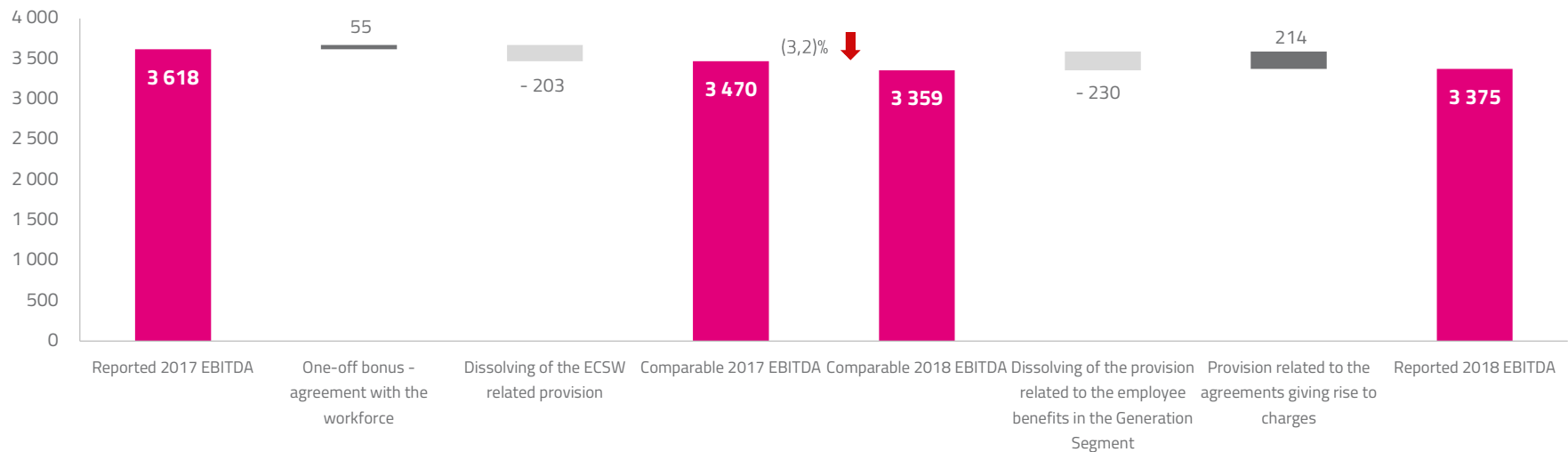
Sales revenue [PLN m]



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



2018 EBITDA vs 2017 EBITDA [PLN m]

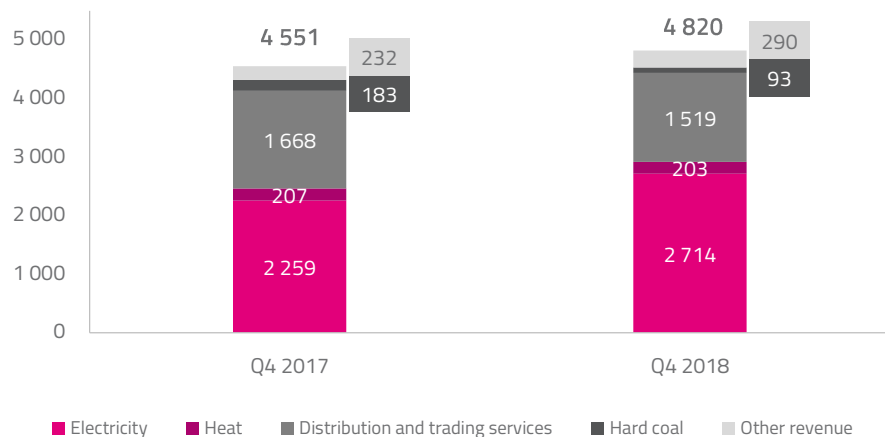


* Impairment charge after taking into account the impact of the deferred tax

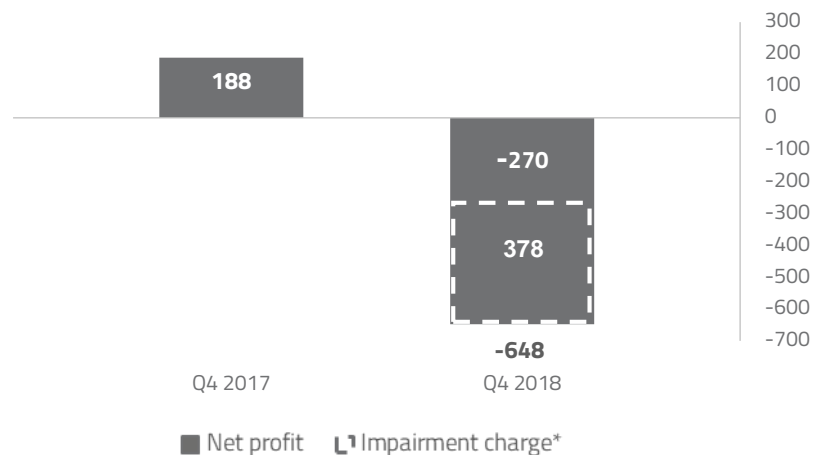
Q4 2018 financial data



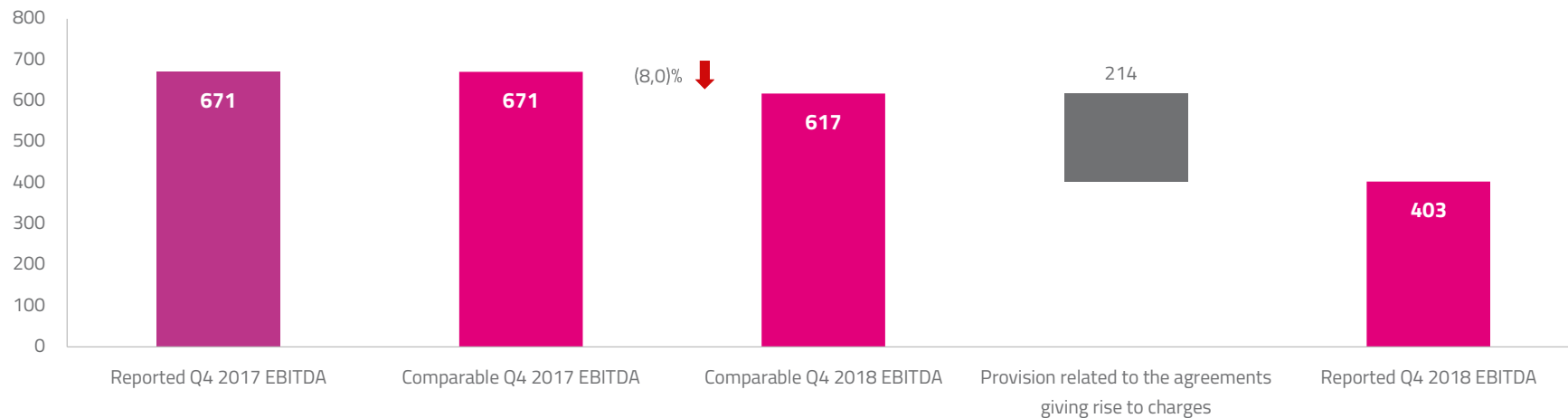
Sales revenue [PLN m]



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



Q4 2018 EBITDA vs Q4 2017 EBITDA [PLN m]

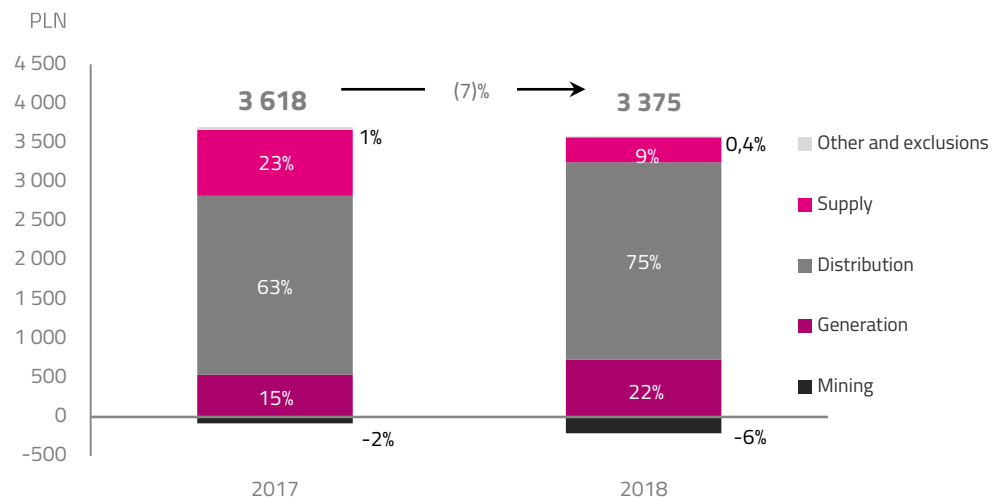


* Impairment charge after taking into account the impact of the deferred tax

Individual segments' FY 2018 results

[PLN m]	Distribution	Generation	Supply	Mining	Other and exclusions*
Revenue	6 158	4 638	14 074	1 266	(8 015)
EBITDA	2 517	731	321	(207)	13
EBIT	1 417	197	306	(1 053)	(76)
CAPEX	2 044	1 300	7	247	73

Individual segments' contribution to EBITDA [%]

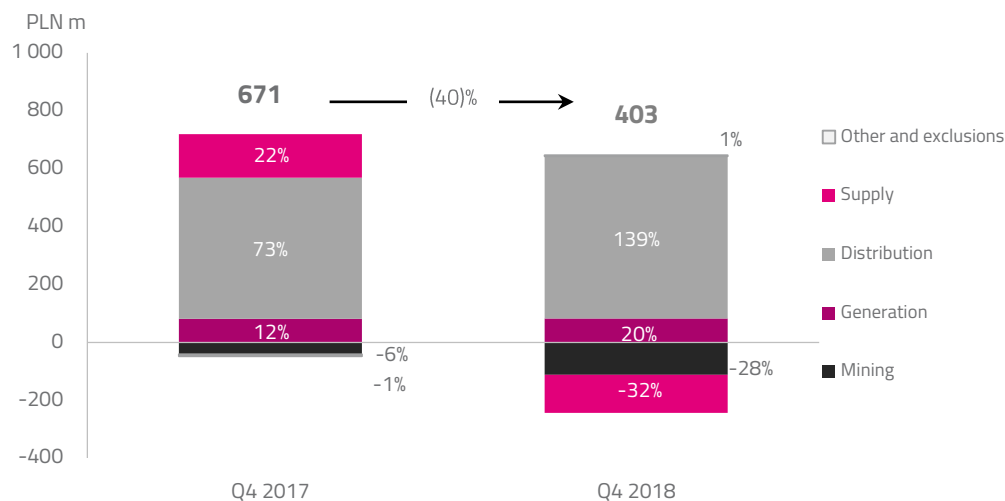


* Items not included in the segments presented

Individual segments' Q4 2018 results

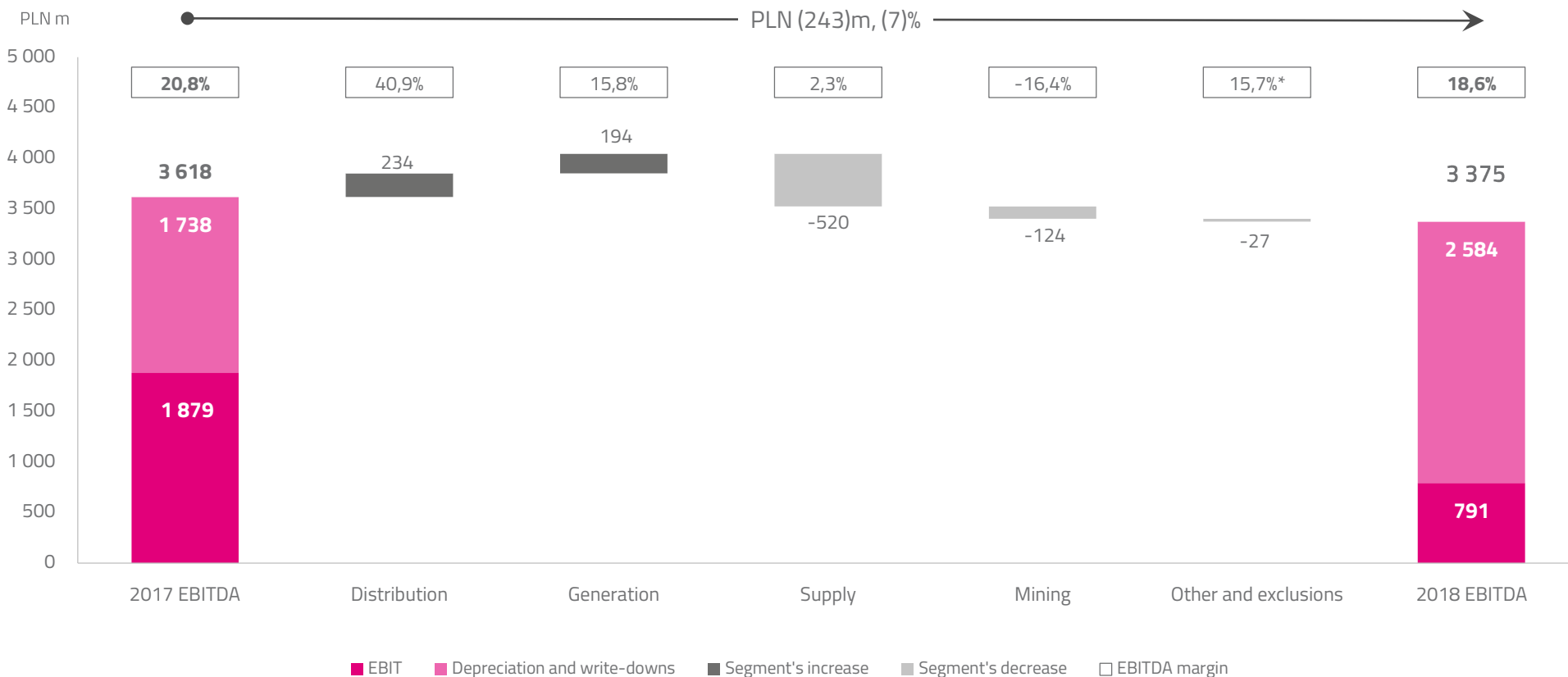
[PLN m]	Distribution	Generation	Supply	Mining	Other and exclusions*
Revenue	1 590	1 370	4 246	315	(2 700)
EBITDA	561	82	(131)	(113)	3
EBIT	274	(494)	(139)	(137)	(18)
CAPEX	835	390	1	87	33

Individual segments' contribution to EBITDA [%]



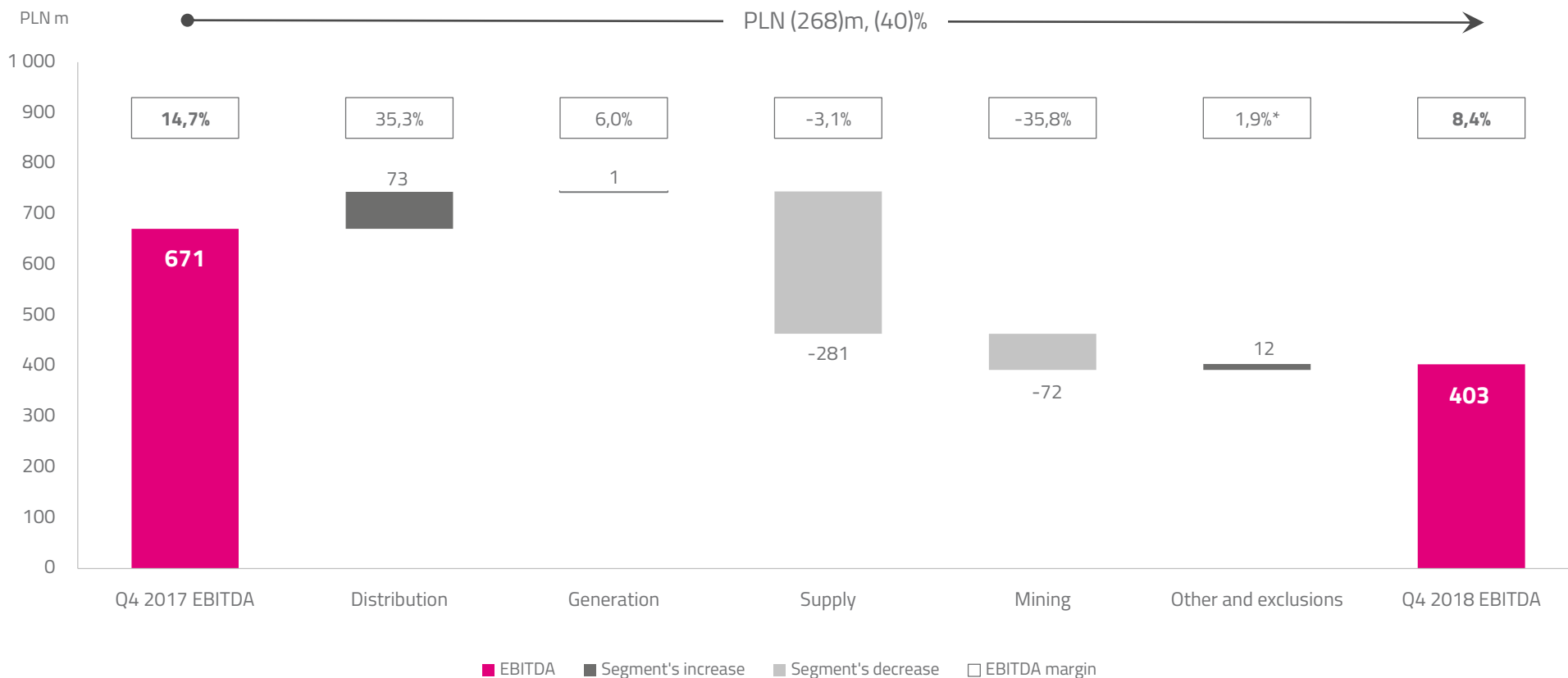
* Items not included in the segments presented

FY 2018 EBITDA



*Other segment's EBITDA margin

Q4 2018 EBITDA



* Other segment's EBITDA margin

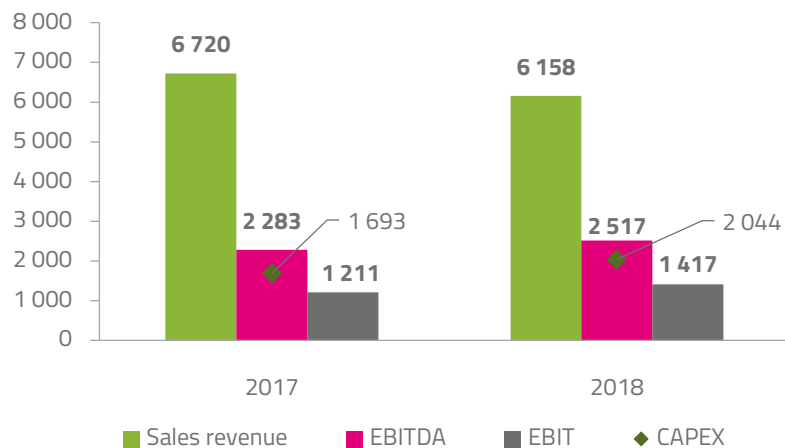


Distribution Segment

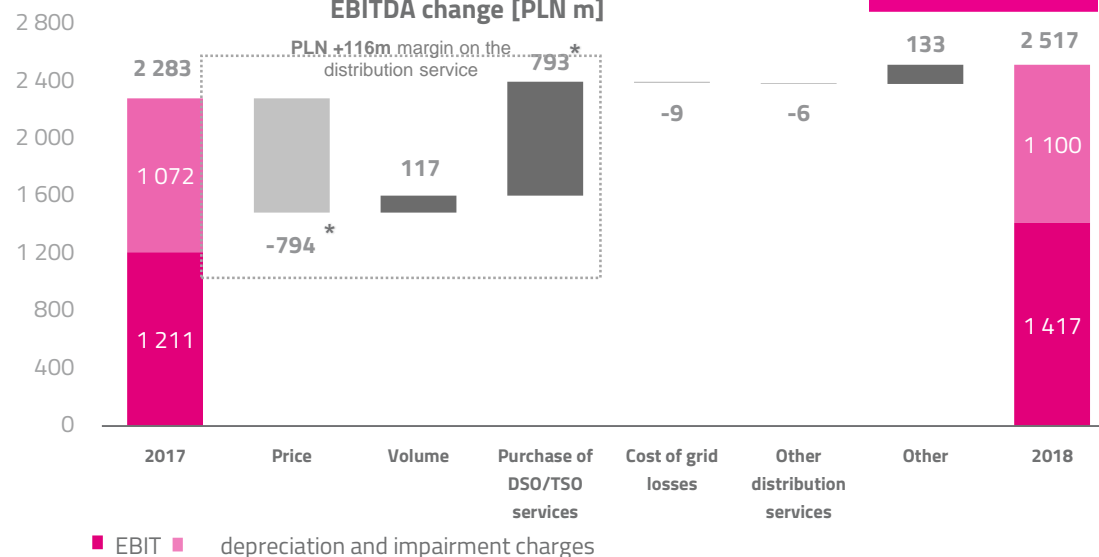
Distribution Segment – FY 2018



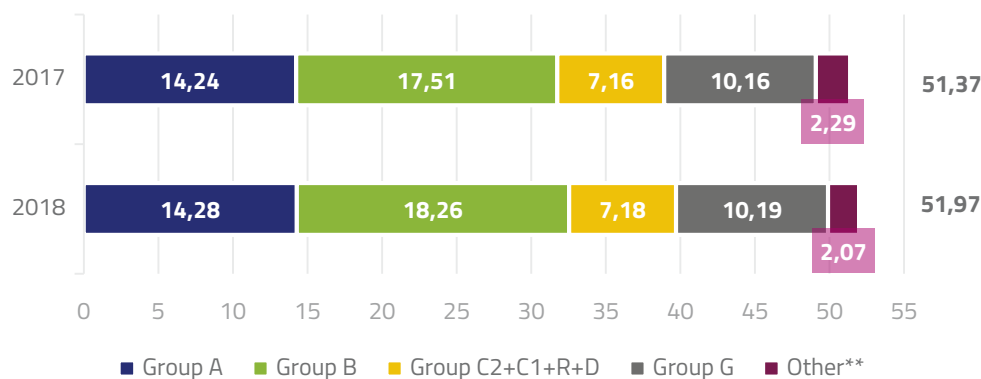
Financial data [PLN m]



EBITDA change [PLN m]



Electricity distribution [TWh]

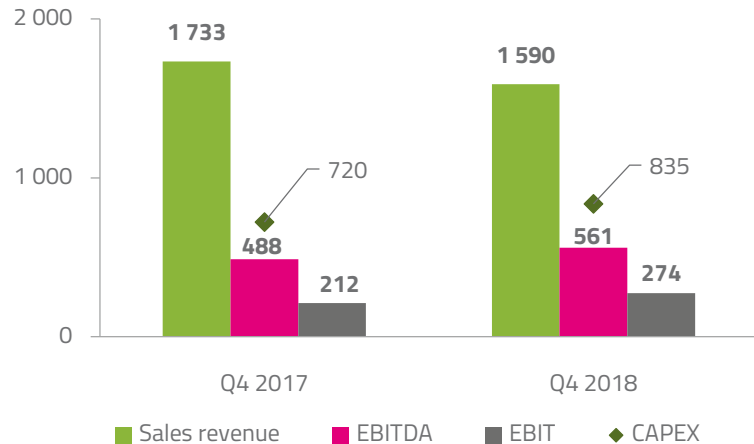


- Increase of the margin due to the higher electricity distribution services volume by 598 GWh ✓
- One-off event – dissolving of the provision related to the adjustment (112 GWh) ✓
- Reduction of the fixed costs ✓

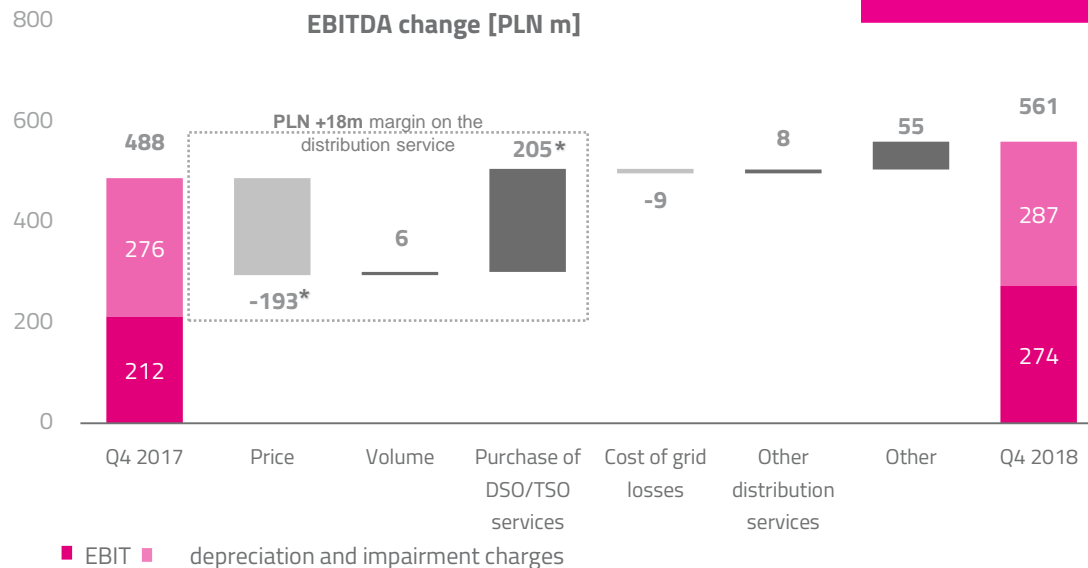
* Due to the IFRS 15 change the transition fee is excluded from the 2018 revenue and costs
 ** Neighboring DSO and exports

Distribution Segment – Q4 2018

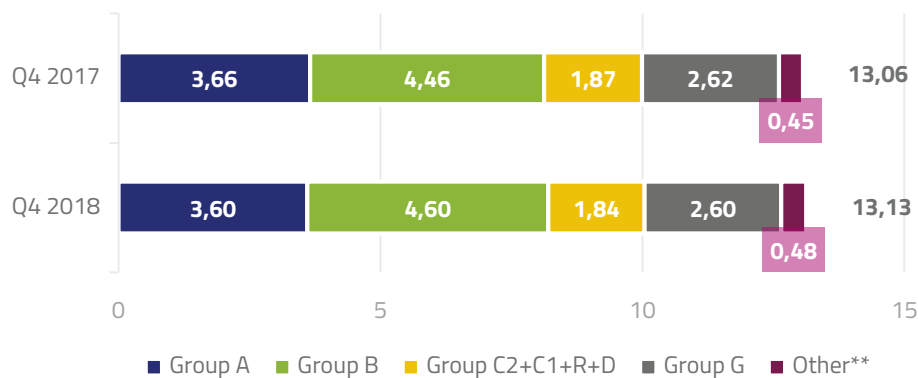
Financial data [PLN m]



EBITDA change [PLN m]



Electricity distribution [TWh]



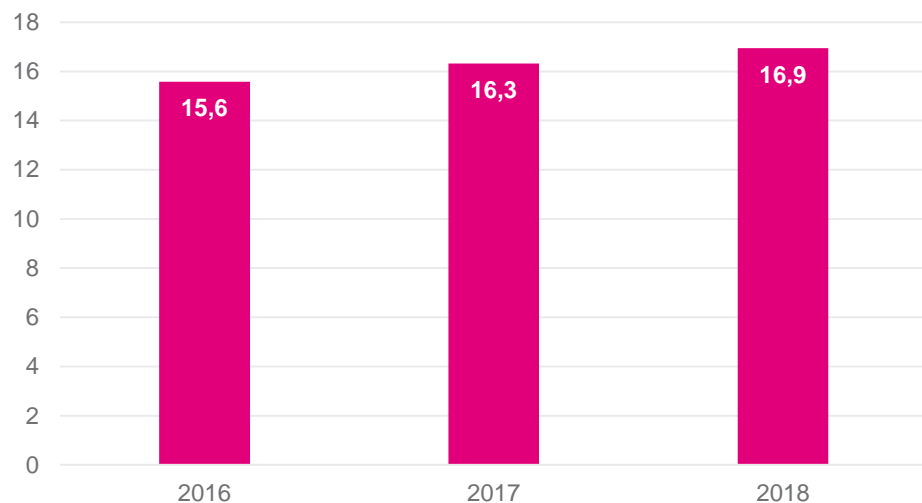
- Increase of the margin due to the higher electricity distribution services volume by 65 GWh ✓
- Reduction of the fixed costs ✓
- Increase of the prices of electricity to cover the balancing difference -

* Due to the IFRS 15 change the transition fee is excluded from the 2018 revenue and costs

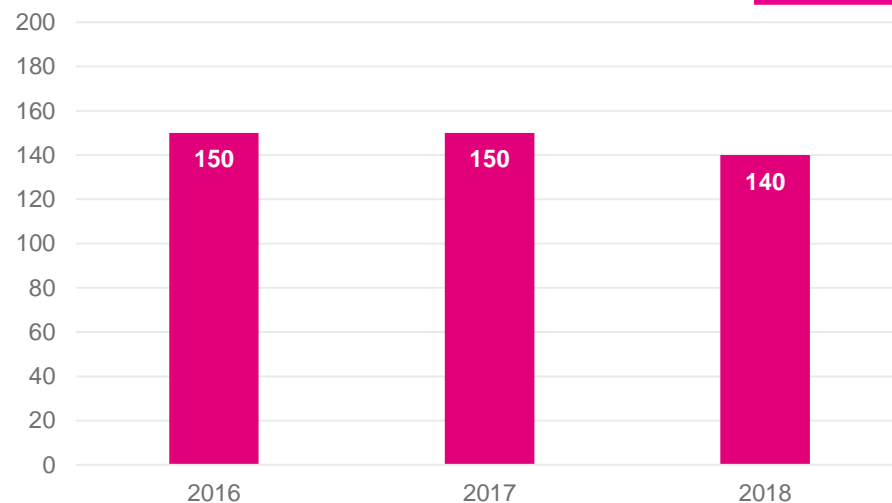
** Neighboring DSO and exports

Distribution Segment – key parameters

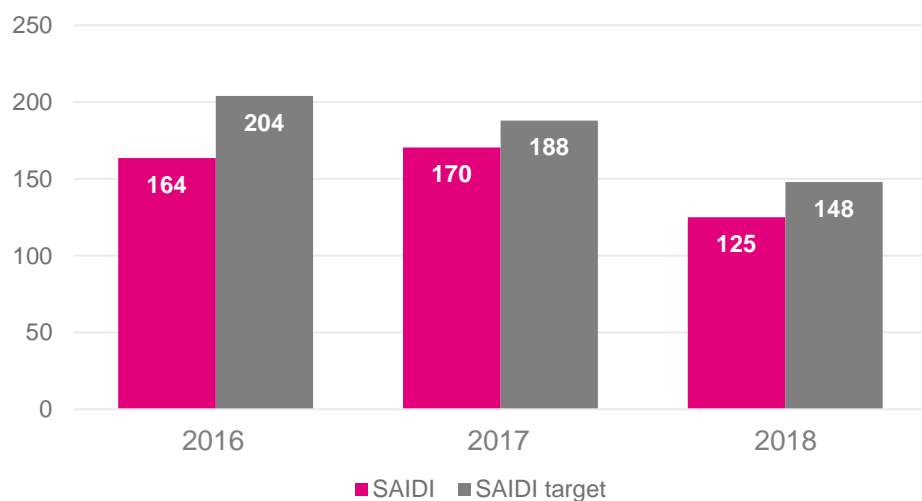
Regulatory Asset Base [PLN bn]



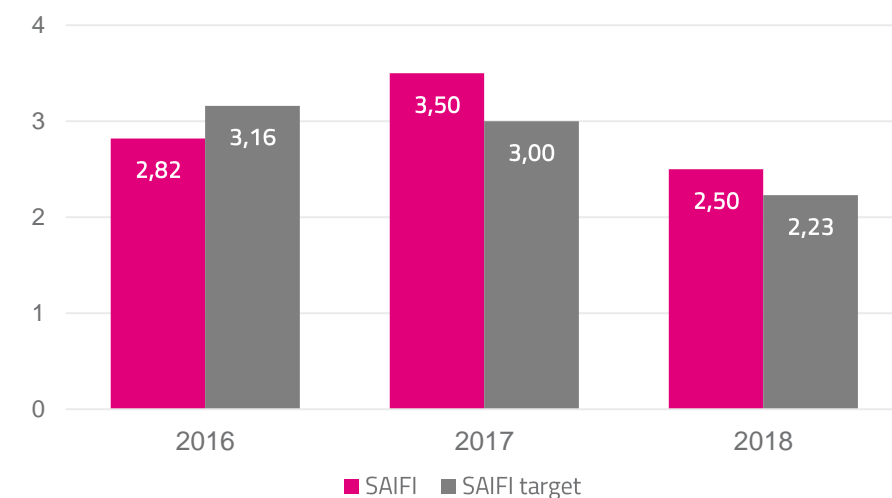
Customer connection time [days]



SAIDI [min] *



SAIFI [number]



* Data after excluding mass failures using the 2.5 Beta method according to the quality based regulation

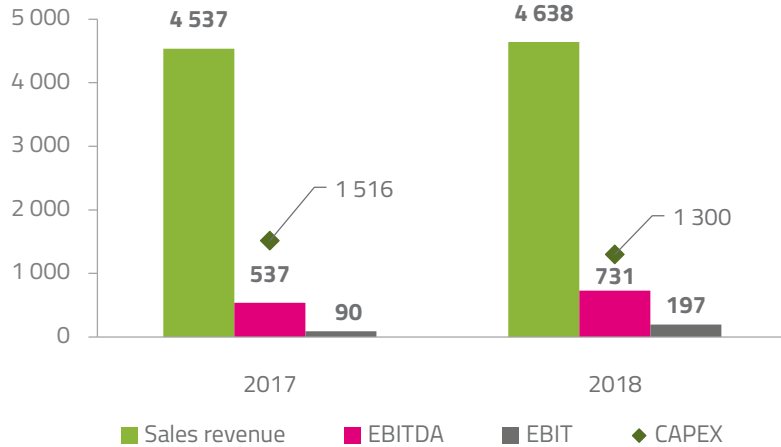


Generation Segment

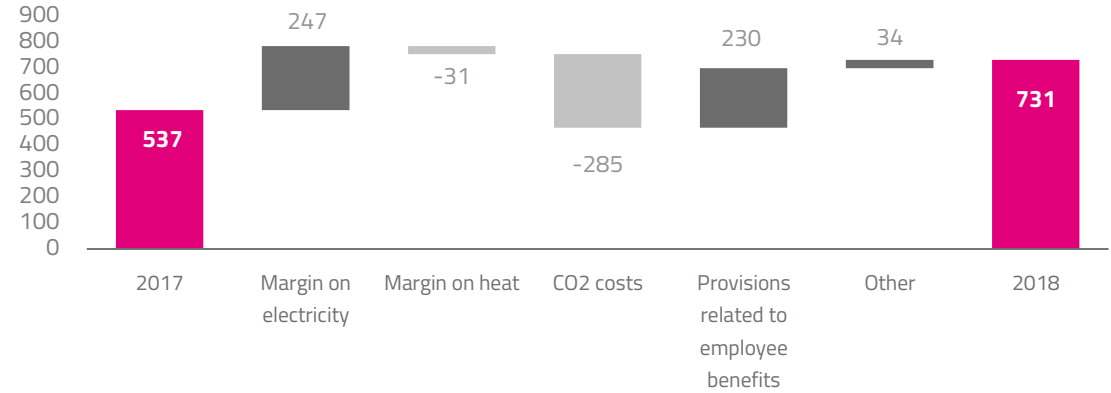
Generation Segment – FY 2018



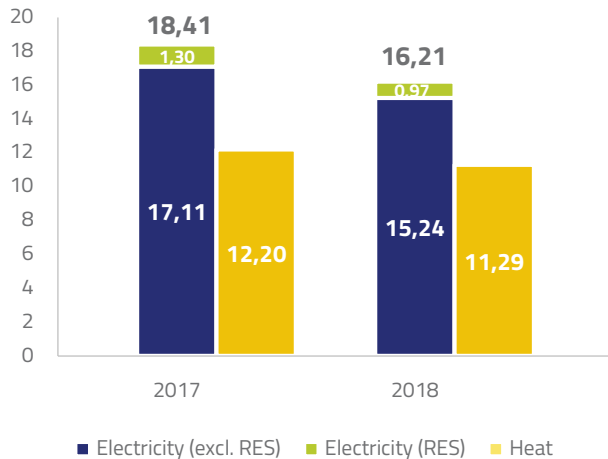
Financial data [PLN m]



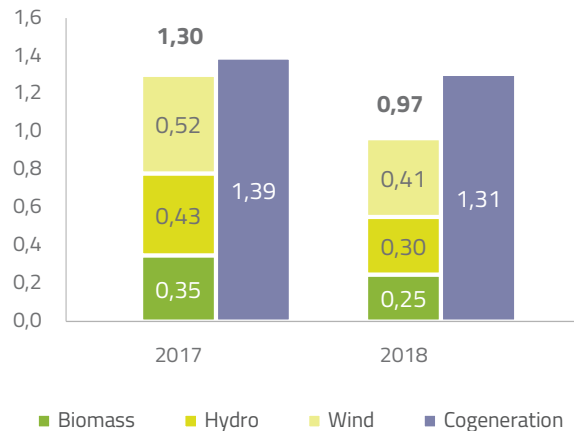
EBITDA change [PLN m]



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



RES and cogeneration production [TWh]

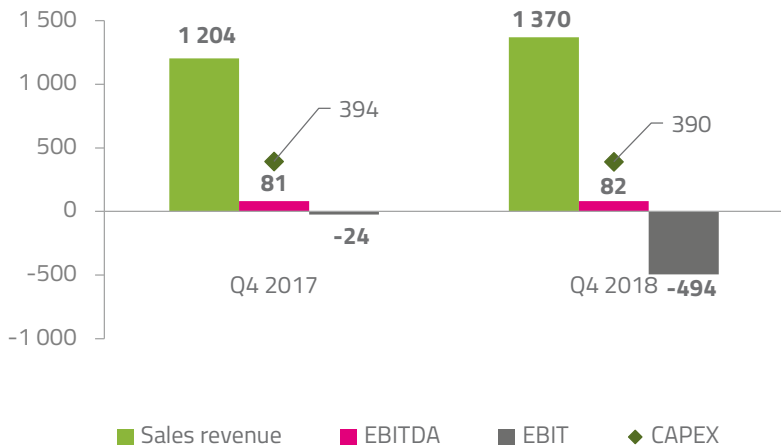


- Positive impact of dissolving provisions for employee benefits ✓
- Increase of electricity prices ✓
- Increase of CO₂ emission allowances prices -
- Increase of coal prices -

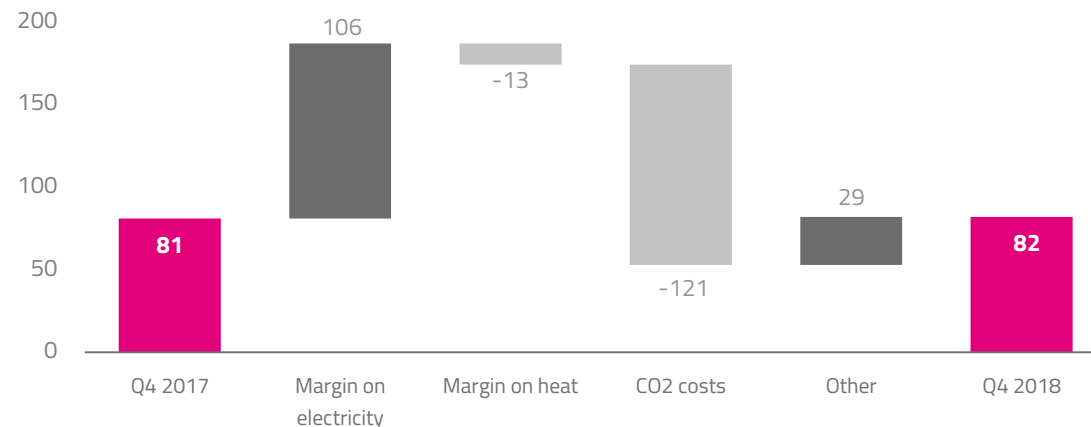
Generation Segment – Q4 2018



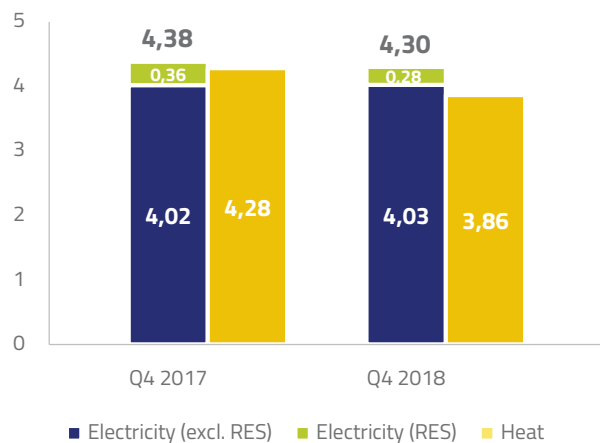
Financial data [PLN m]



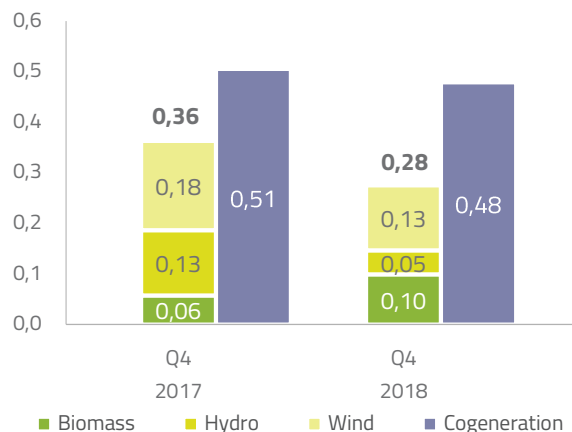
EBITDA change [PLN m]



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



RES and cogeneration production [TWh]

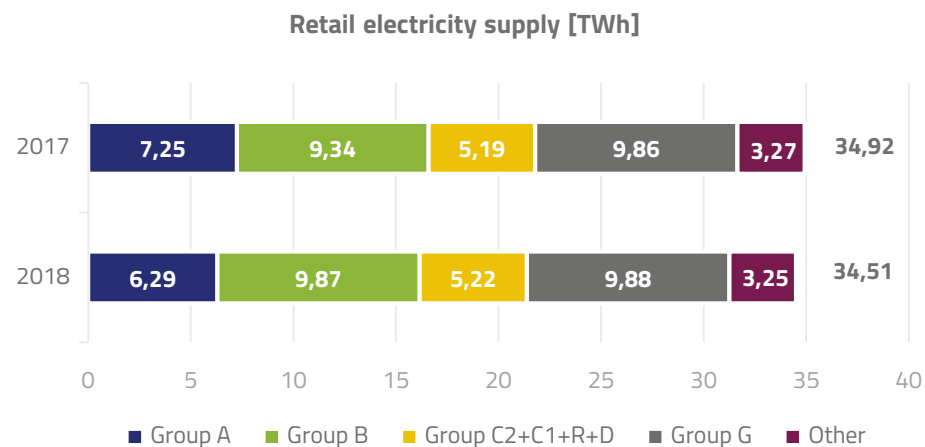
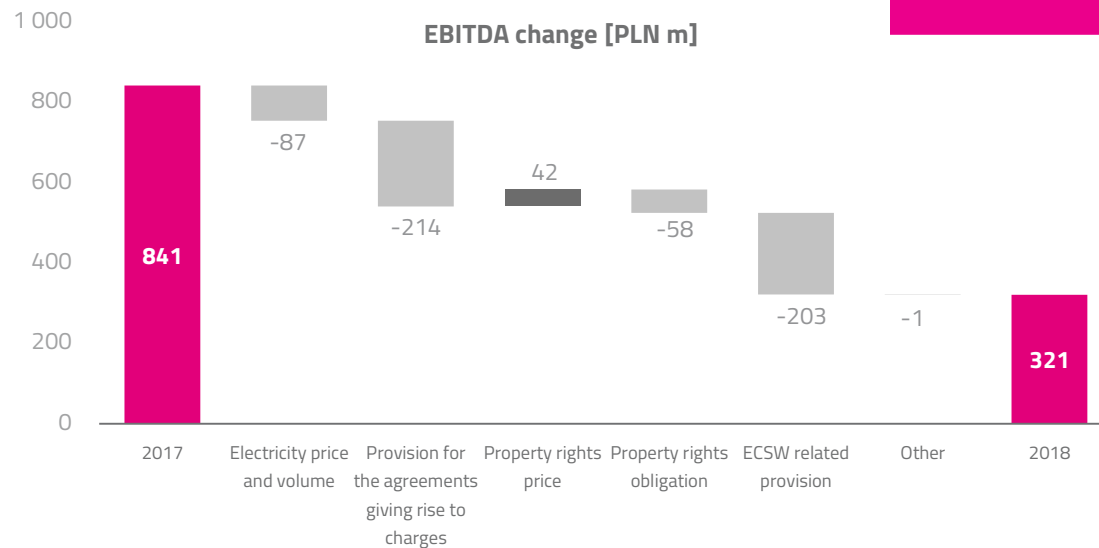
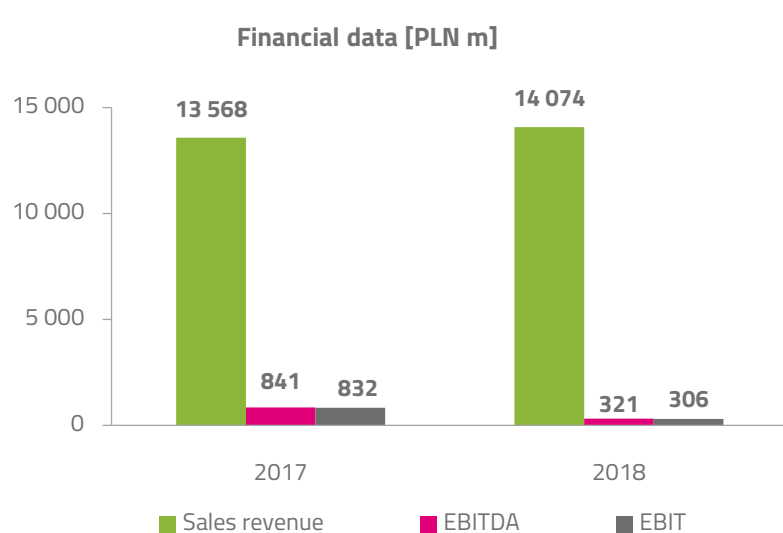


- Increase of electricity prices ✓
- Increase of PM OZE prices ✓
- Increase of CO₂ emission allowances prices -
- Increase of coal prices -



Supply Segment

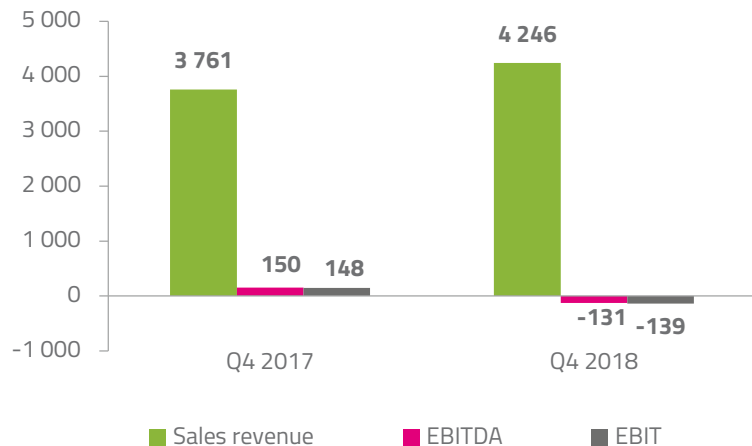
Supply Segment – FY 2018



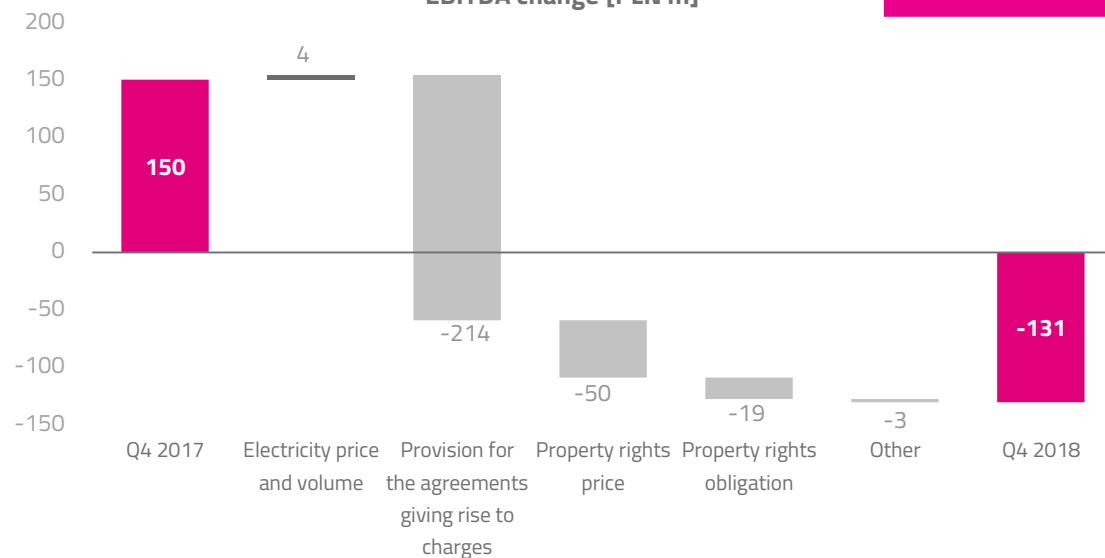
- Positive impact of redeeming PM OZEs ✓
- Setting up a provision for the agreements giving rise to charges -
- Increase of electricity purchase prices -
- Increase of the obligation to redeem property rights -

Supply Segment – Q4 2018

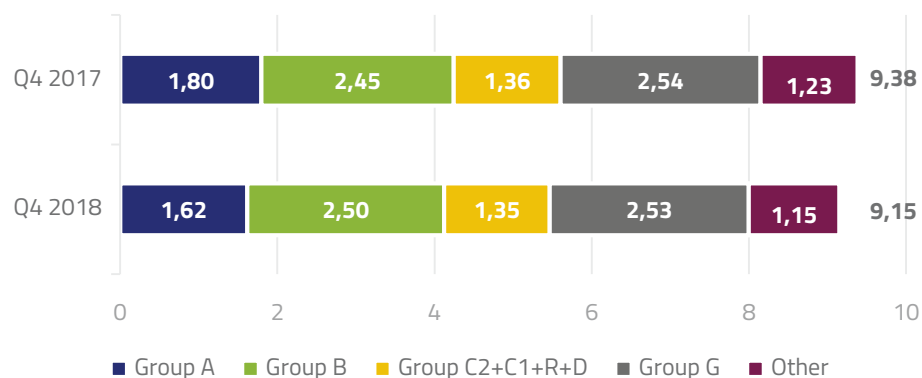
Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity supply [TWh]



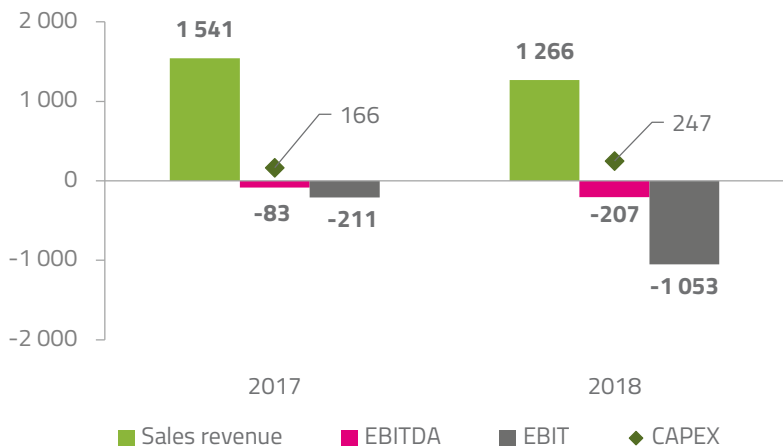
- Setting up a provision for the agreements giving rise to charges
- Increase of electricity purchase prices
- Negative impact of the settlement of PM OZEs and the increase of the obligation to redeem property rights



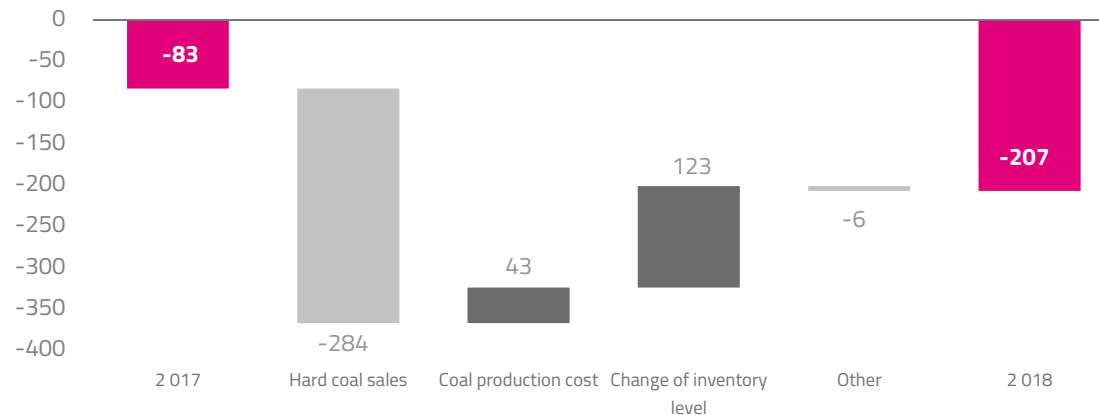
Mining Segment

Mining Segment – FY 2018

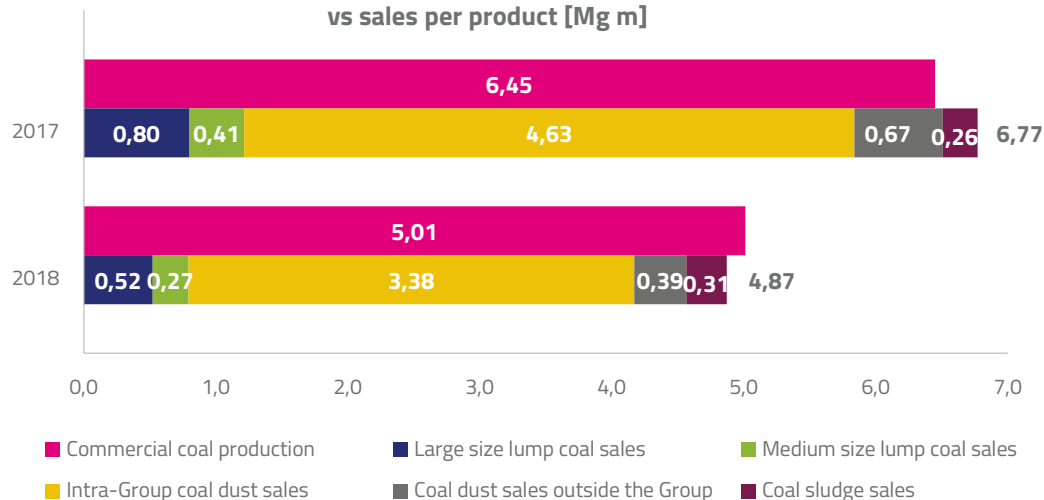
Financial data [PLN m]



EBITDA change [PLN m]



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

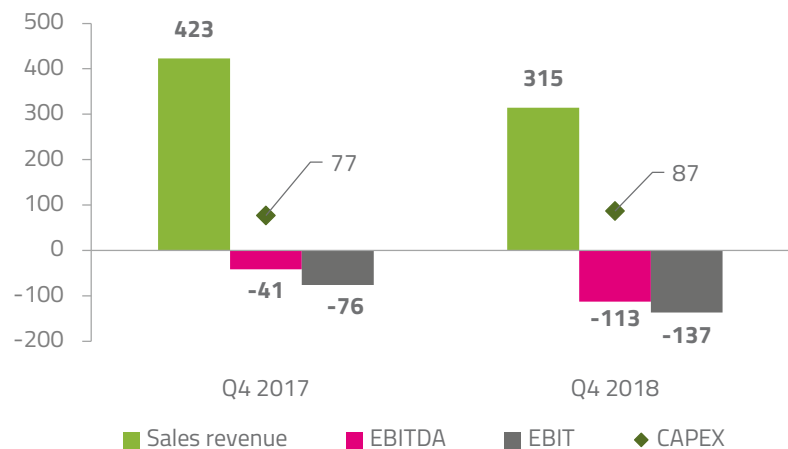


- Increase of coal prices ✓
- Decline of coal production volume -
- 66 PLN/Mg higher unit mining cash cost* (up from 204 PLN/Mg to 269 PLN/Mg) -

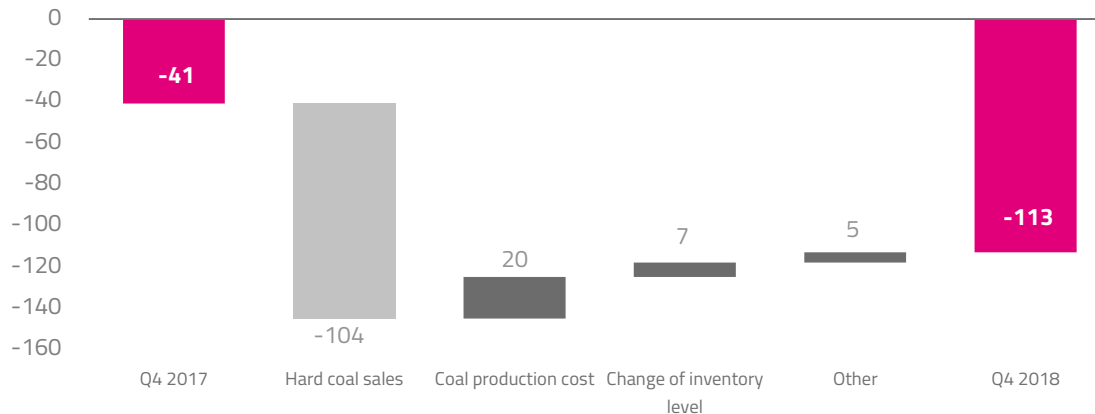
* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the company's cash flow

Mining Segment – Q4 2018

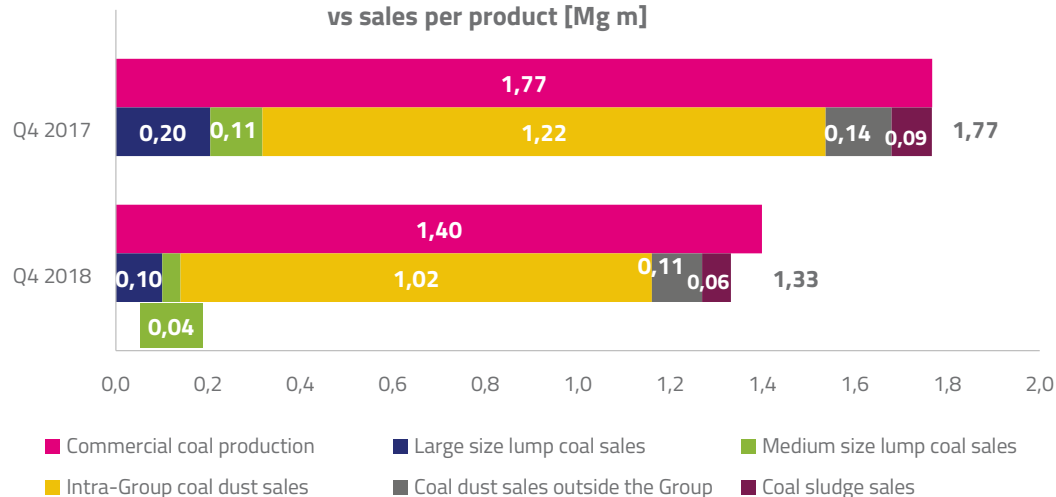
Financial data [PLN m]



EBITDA change [PLN m]



Commercial coal production vs sales per product [Mg m]

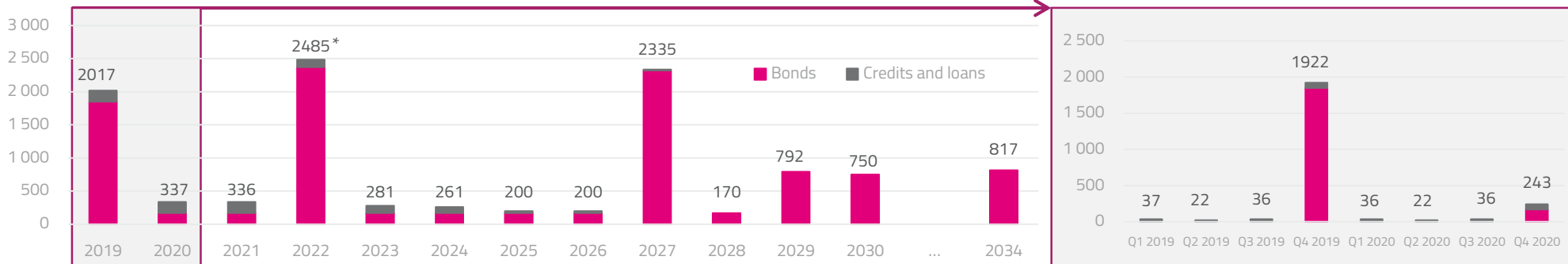


- Decrease of the coal prices
- Decline of coal production volume
- 80 PLN/Mg higher unit mining cash cost* (up from 252 PLN/Mg to 331 PLN/Mg)

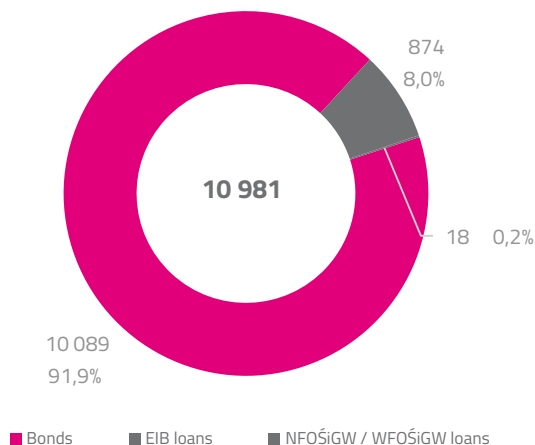
* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the company's cash flow

Debt and financing

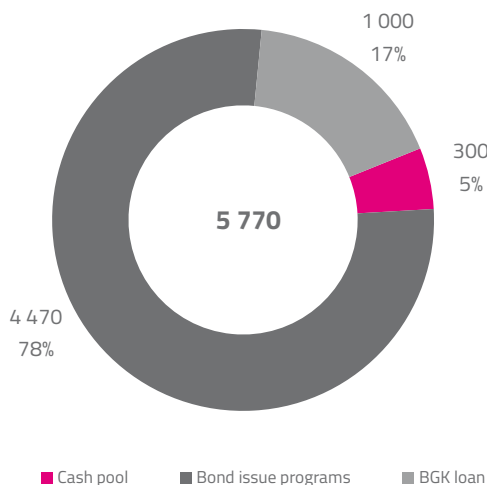
TAURON Group's nominal debt maturity as of 31.12.2018 [PLN m]



TAURON Group's nominal debt structure as of 31.12.2018 [PLN m]



Amounts of financing available to TAURON Group as of 31.12.2018 [PLN m]










Debt structure based on interest rate [PLN m]

Debt amount	Interest rate	Collateral floating rate
10 981	Floating: 5 668	IRS: 2 100
	Fixed: 5 313	None: 3 568

- Debt (nominal value of debt due to bonds, credits and loans) as of 31.12.2018 amounts to: PLN 10 981m
- Weighted average maturity of debt as of 31.12.2018 is 78 months (assuming bonds rollover until 2022)
- EUR denominated debt (eurobond, NSV bond and EIB bond issues) represents 34% of the total debt

* Assuming all bonds issued as part of the Bond Issue Program are rolled over until the end of the funds availability period, i.e. until 2022

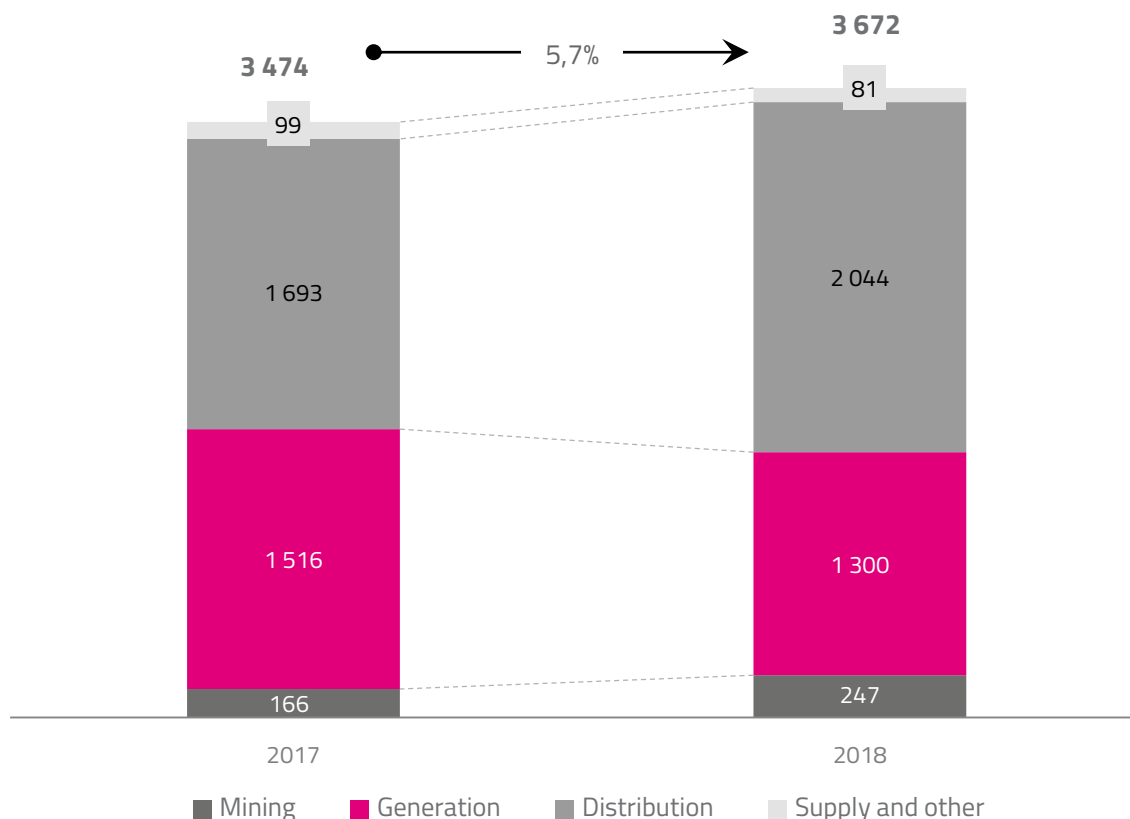
CAPEX – key projects' work progress

Investment project	Capacity (MW _e)	Capacity (MW _t)	Work progress (percentage)	Planned completion date
Construction of the hard coal-fired unit in Jaworzno	910	-	85	 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	-	-	63	 2021
Construction of the Grzegorz shaft at Sobieski Coal Mine	-	-	30	 2023
CAPEX program at Brzeszcze Coal Mine	-	-	42	 2025
Implementing heat production at Łagisza Power Plant by modernizing the 460 MW turbine, construction of the heating station, as well as the peaking and back-up (auxiliary) boilers	-	150+144	21	 2020
Adapting the generating units to the BAT conclusions	-	-	3	 2021

CAPEX – by segments



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



Key investment projects implemented in 2018

Mining:

- Brzeszcze Coal Mine's CAPEX program (PLN 87m)
- Construction of the Grzegorz shaft at Sobieski Coal Mine (PLN 68m)
- Construction of the 800 m level at Janina Coal Mine (PLN 34m)

Generation:

- Construction of 910 MW of new capacity in Jaworzno (PLN 991m)
- Replacement and refurbishment related outlays as well as overhaul components (PLN 76m)
- Connections of new sites (facilities) (PLN 28m)
- Maintenance and expansion of district heating networks (PLN 17m)
- Connecting the sites (facilities) heated using low emission sources to district heating networks (PLN 7m)

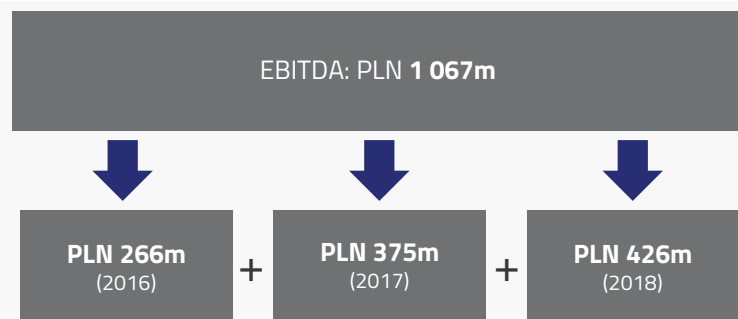
Distribution:

- Grid assets upgrades (refurbishments) and replacements (PLN 1 118m)
- Construction of new connections (PLN 676m)
- Outlays on IT, buildings and structures as well as means of transportation (PLN 180m)

* Total outlays including capex and excluding costs of financing amounted to PLN 3 380 m in 2017 and PLN 3 534 m in 2018.

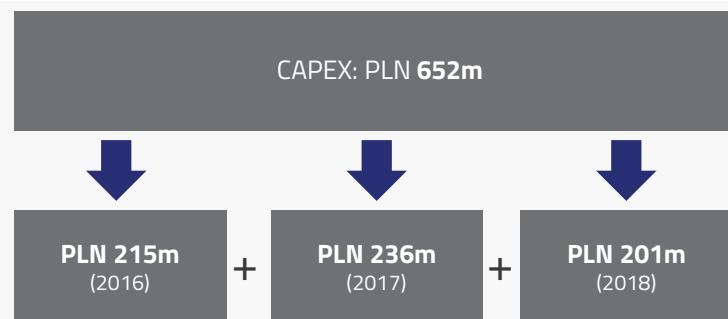
Results of 2016-2018 Efficiency Improvement Program

EBITDA: PLN +1 067m (cumulative 2016-2018 value) / PLN +400m per annum (recurring value from 2018)
 CAPEX: PLN 652m (2016-2018 savings on capital expenditures)



Mining	PLN 195m
Generation	PLN 238m
Distribution	PLN 342m
Other	PLN 292m

- Rationalizing employment costs: PLN **534m**
- Optimizing assets: PLN **145m**
- Reorganizing processes: PLN **388m**
 - ✓ Improving distribution efficiency
 - ✓ Reducing IT costs
 - ✓ Reducing customer service costs

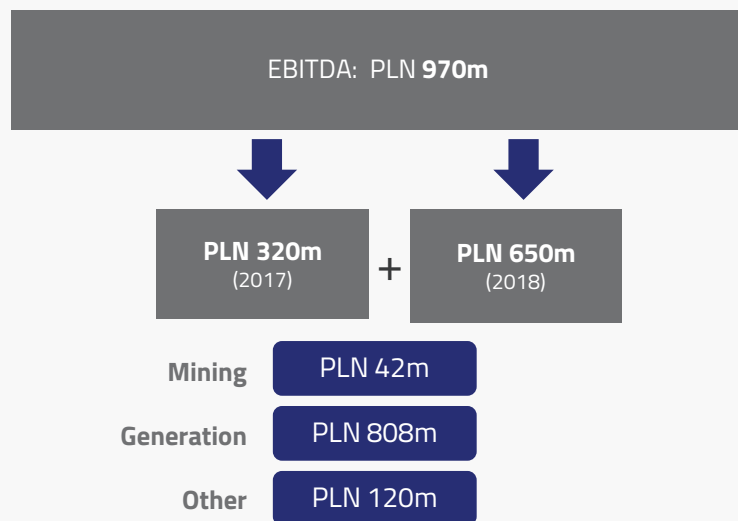


Mining	PLN 88m
Generation	PLN 292m
Distribution	PLN 272m
Other	PLN 1m

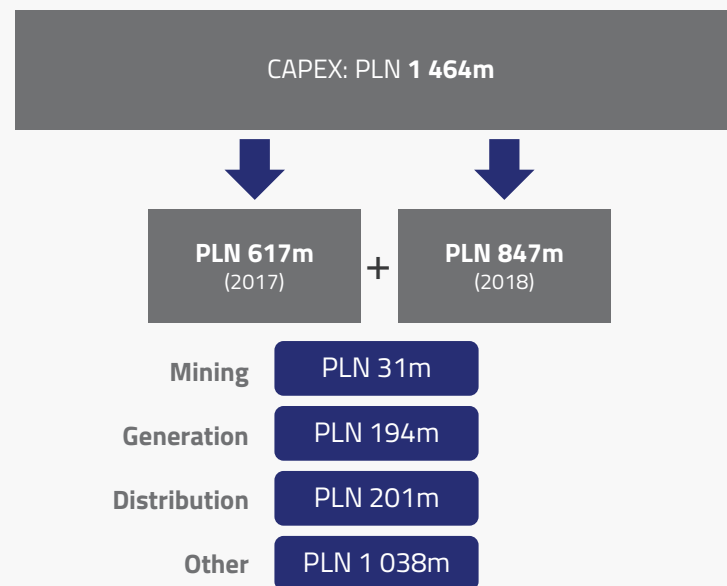
- More efficient asset management: PLN **419m**
- Optimizing procurement: PLN **233m**

Results of 2017-2018 Strategic Initiatives

EBITDA: PLN 970m (cumulative 2017-2018 value)
 CAPEX: PLN 1 464m (2017-2018 savings on capital expenditures)








- Rationalizing employment costs in the mining and generation lines of business: **PLN 260m**
- Optimizing and making operating expenses more flexible, as well as improving process efficiency: **PLN 368m**
- Improving profitability of lines of business by taking actions aimed at increasing revenue: **PLN 342m**



- Halting capital expenditures on the CCGT unit construction project at Łagisza Power Plant: **PLN 1 041m**
- Optimizing capital expenditures related to:
 - ✓ replacing distribution assets and focusing on improving the grid's reliability and implementing modern solutions: **PLN 201m**
 - ✓ management and maintenance of the production assets (power plants, combined heat and power plants, coal mines): **PLN 222m**

2019 Outlook

Segment	2019 EBITDA outlook versus 2018	Basic factors
 Distribution	stable	<ul style="list-style-type: none"> RAB up in 2019 by PLN 530m, to PLN 17.5bn, 2019 EBITDA up by PLN 20m WACC stable yoy (6.015 percent) Electricity distribution tariff coming into force as of April 6, 2019 Stable volume of electricity delivered yoy
 Generation	growth	<ul style="list-style-type: none"> Average price of generated electricity up more than 20 percent yoy Average coal price up 3 percent yoy Average CO₂ emission allowances purchase price up 80 percent yoy Better results of the renewable energy sources (higher electricity and PM OZE sales prices, higher assumed production volume, both from wind farms as well as from hydroelectric power plants) Deteriorating outlook for the results of the heat assets (delay in passing on the increase of the costs of coal and CO₂ emission allowances)
 Supply	decline	<ul style="list-style-type: none"> A few percentage points decline of the volume of the supply to the final consumers Rising electricity purchase price resulting in a decline of the margin on electricity sales Financial result dependent on the regulations related to the electricity sales prices for customers in 2019
 Mining	growth	<ul style="list-style-type: none"> Higher commercial coal production volume than in 2018 Maintaining average coal sales price at the level of 2018 Increase of the costs of electricity, outsourced services, freight forwarding, renting of mining machines and devices Implementation of the Productivity Improvement Program
 CAPEX and debt	growth	<ul style="list-style-type: none"> Increase of capex as a result of the 910 MW unit construction project in Jaworzno underway and the outlays related to the BAT modernization – the Group's planned 2019 capex: PLN 4-5bn Increase of debt, while maintaining the net debt to EBITDA ratio below 3.5x

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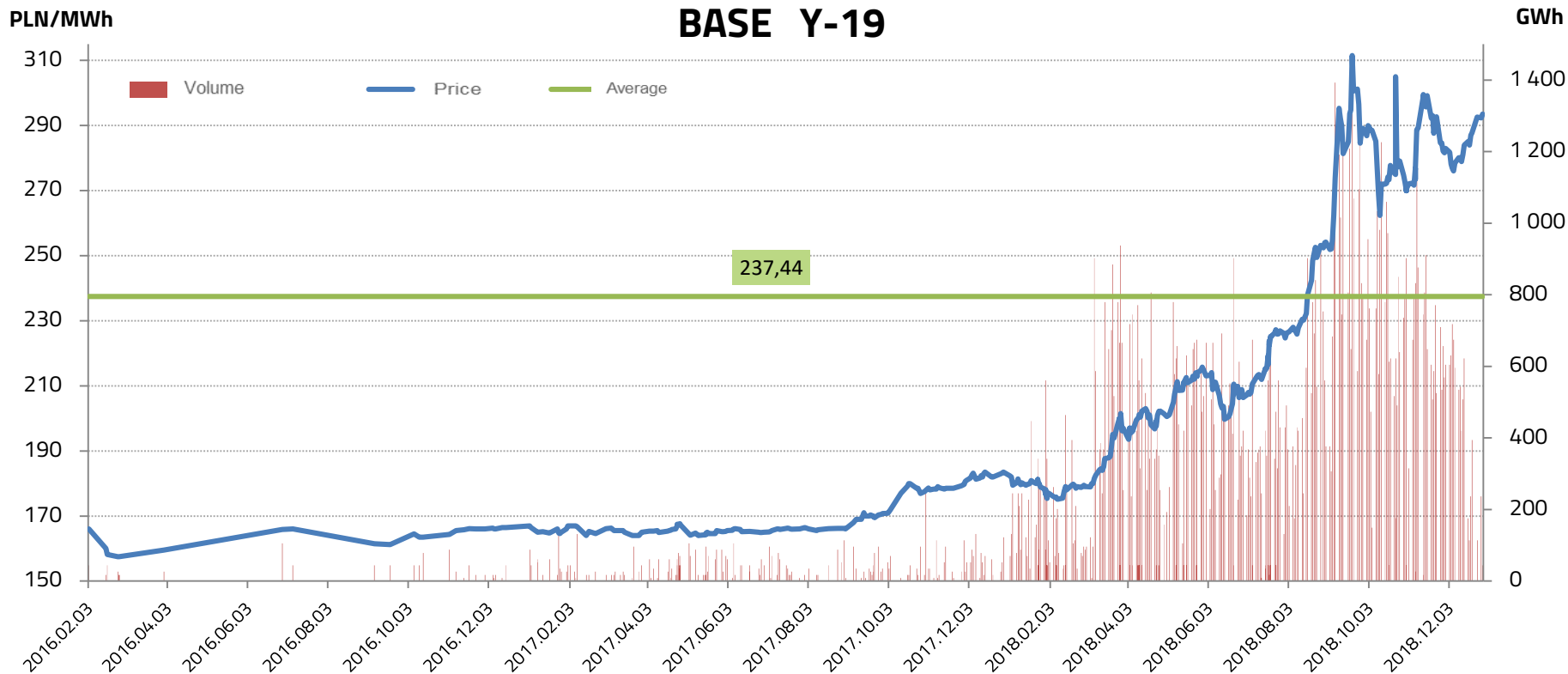
Electricity market price trends

Electricity						
Platforms: TGE, TFS	2018		2019 (prices until March 14, 2019 + estimation)		2019/2018	
	Price (PLN/MWh)	Volume (GWh)	Price (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	182.85	103 370	239.05	152 219	30.7%	47.3%
Forward PEAK (Y+Q+M)	228.27	11 058	340.28	12 328	49.1%	11.5%
Forward (weighted average)	187.24	114 427	246.28	164 547	31.5%	43.8%
SPOT (TGE)	224.73	27 645	263.01**	27 000	17.0%	-2.3%
Weighted average total	194.53	142 073	248.64	191 547	27.8%	34.8%

Property rights (PLN/MWh)			
Certificate type	Market prices (Q1 2019 average)	Substitution fee and obligation for:	
		2018	2019
RES (PMOZE_A)	111.94	48.53 (17.5%)	129.78 (18.5%)
RES from biogas plants (PMOZE_BIO)	300.58	300.03 (0.5%)	300.03 (0.5%)
Coal-fired cogeneration (PMEC-2018)	8.75	9.00 (23.2%)	
Gas-fired cogeneration (PMGM-2018)	109.51	115.00 (8.0%)	
Methane-fired cogeneration (PMMET-2018)	55.20	56.00 (2.3%)	

CO ₂ emission allowances (EUR/t)	
CO ₂ market analysts survey* (updated in March 2019)	Price (EUR/t)
2018 average	15.96 EUR/t
2019 average	25.5 EUR/t
2020 average	30 EUR/t
2019 average price forecast by TAURON	22-27 EUR/t

2019 BASE contract prices



		Average price [PLN/MWh]	Volume [GWh]
Total		237.44	133 170
including	on TGE	238.36	129 674
	non TGE	203.20	3 495

Average electricity price that takes into account 2019 one year BASE and PEAK contracts: 244.92 PLN/MWh, total 2019 BASE and PEAK contracts volume: 143 508 GWh

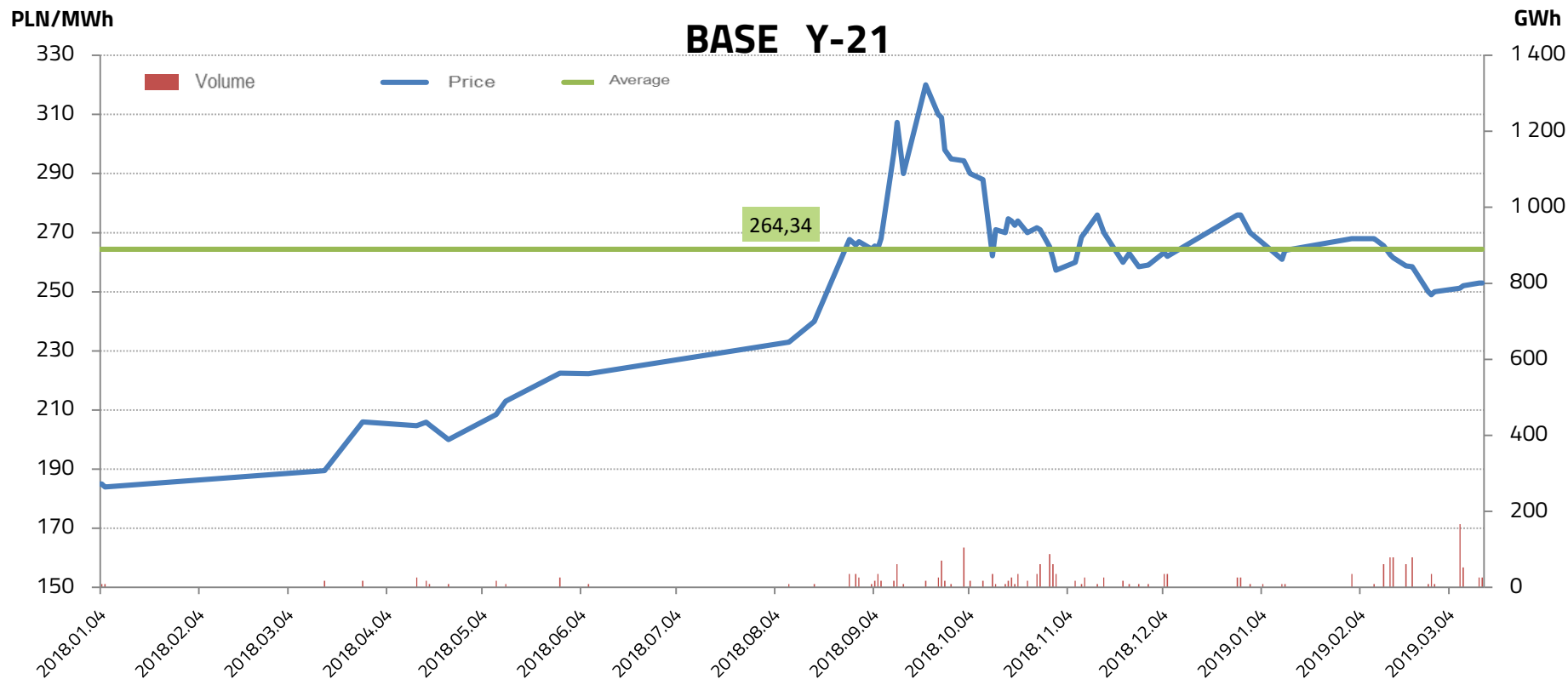
2020 BASE contract prices



		Average price [PLN/MWh]	Volume [GWh]
Total		260.91	31 271
including	on TGE	260.97	31 236
	non TGE	208.19	35

Average electricity price that takes into account 2020 one year BASE and PEAK contracts: 265.55 PLN/MWh, total 2020 BASE and PEAK contracts volume: 33 015 GWh

2021 BASE contract prices



		Average price [PLN/MWh]	Volume [GWh]
Total		264.34	2 190
including	on TGE	264.34	2 190
	non TGE		0

Average electricity price that takes into account 2021 one year BASE and PEAK contracts: 264.80 PLN/MWh, total 2021 BASE and PEAK contracts volume: 2 198 GWh

Thank you for your attention