



## TAURON Group's H1 2018

### Financial Results

August 23, 2018

## H1 2018 key data



TAURON Group's H1 2018 results			
[PLN m]		H1 2018 vs H1 2017	
Sales revenue	9 202	5%	
EBITDA	2 194	2%	
Net profit*	567	(44)%	
CAPEX	1 480	(1)%	
Net debt/EBITDA	2.30x	up 0.03 (vs 31.12.2017)	up 0.13 (vs 30.06.2017)
TAURON Group's H1 2018 operating data			
		H1 2018 vs H1 2017	
Commercial coal production [tonne m]	2.53	(24)%	
Electricity generation [TWh]	7.55	(20)%	
Heat production [PJ]	6.73	(5)%	
Electricity distribution [TWh]	26.01	1%	
Electricity retail supply [TWh]	17.20	-	

\* Net profit attributable to the shareholders of the parent company

## Q2 2018 key data



TAURON Group's Q2 2018 results			
[PLN m]		Q2 2018 vs Q2 2017	
Sales revenue	4 377	5%	
EBITDA	902	(3)%	
Net profit*	(69)	-	
CAPEX	912	6%	
Net debt/EBITDA	2.30x	up 0,03 (vs 31.12.2017)	up 0,13 (vs 30.06.2017)
TAURON Group's Q2 2018 operating data			
		Q2 2018 vs Q2 2017	
Commercial coal production [tonne m]	1.10	(39)%	
Electricity generation [TWh]	3.62	(21)%	
Heat production [PJ]	1.05	(41)%	
Electricity distribution [TWh]	12.59	2%	
Electricity retail supply [TWh]	7.93	(2)%	

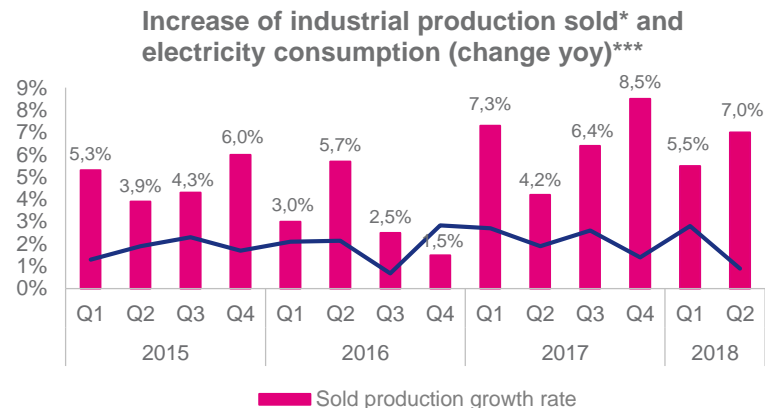
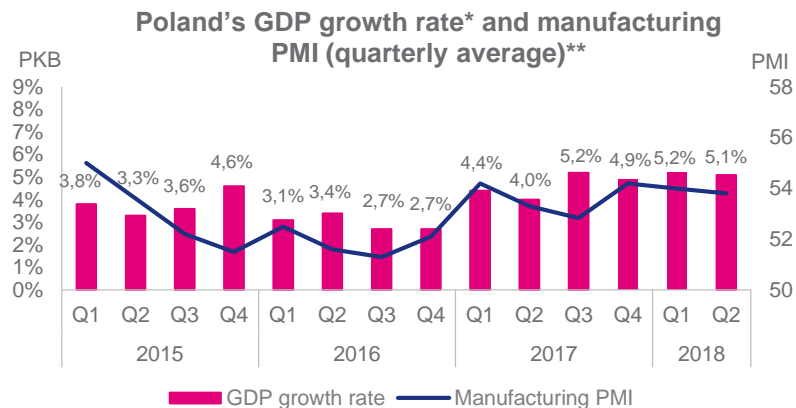
\* Net profit attributable to the shareholders of the parent company

# 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 agreement with the Polish Development Fund defining the terms of engagement in the construction of the 910 MW unit at Jaworzno III Power Plant worth up to PLN 880 million
April 6	Dissolving of the provisions related to employee benefits at TAURON Wytwarzanie – a positive impact on Q1 2018 EBITDA: PLN 230 million
April 23	910 MW unit at Jaworzno III Power Plant completes a successful pressure test
June 13	TAURON and PFR establish the first Corporate Venture Capital fund for developing innovations

# Macroeconomic and market situation



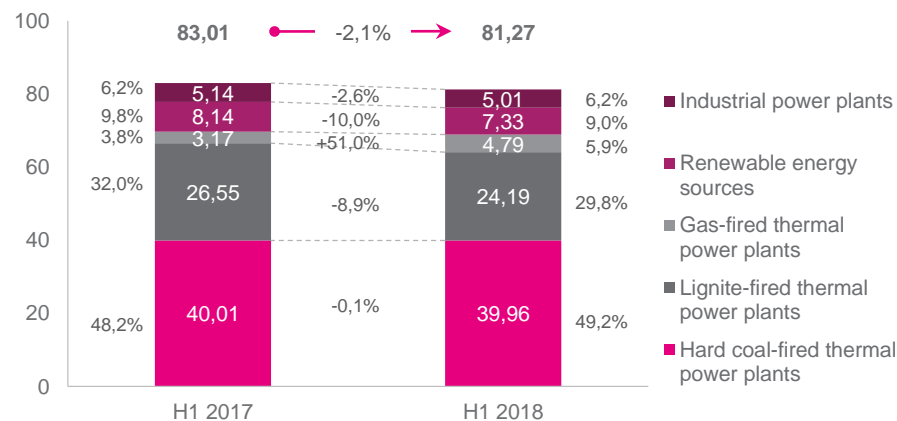
## Electricity prices under one year BASE contracts

Year	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	197.40	65 534
Y-20	202.87	4 480

Average electricity sales 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: 184.94 PLN/MWh (estimate)

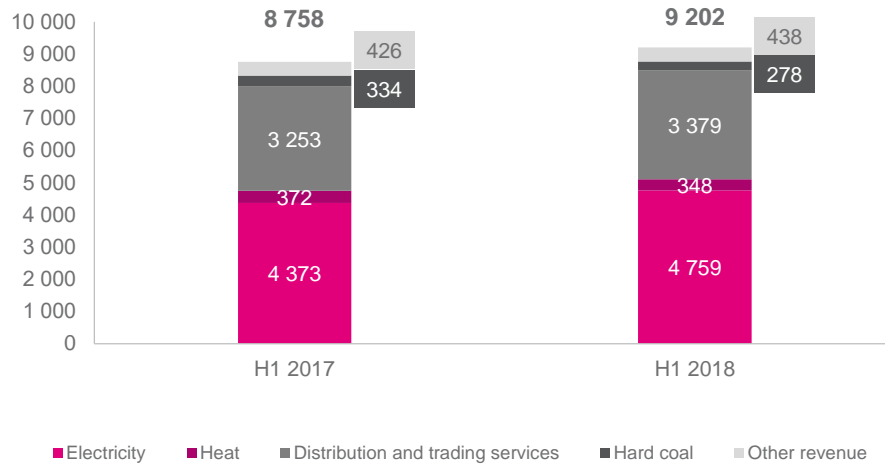
## Structure of electricity generation in Poland\*\*\* [TWh]



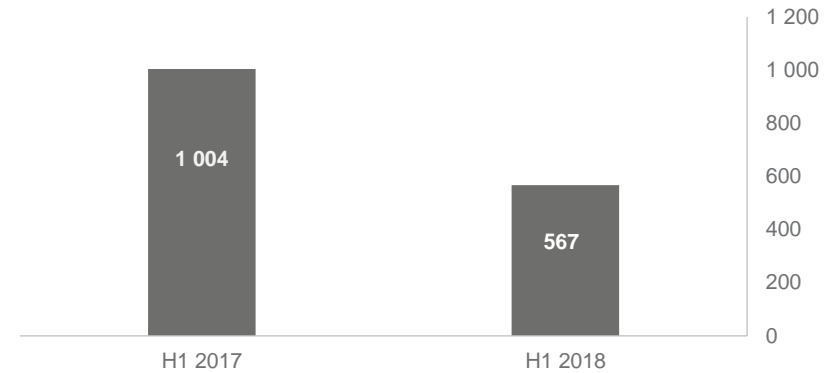
# H1 2018 key financial data



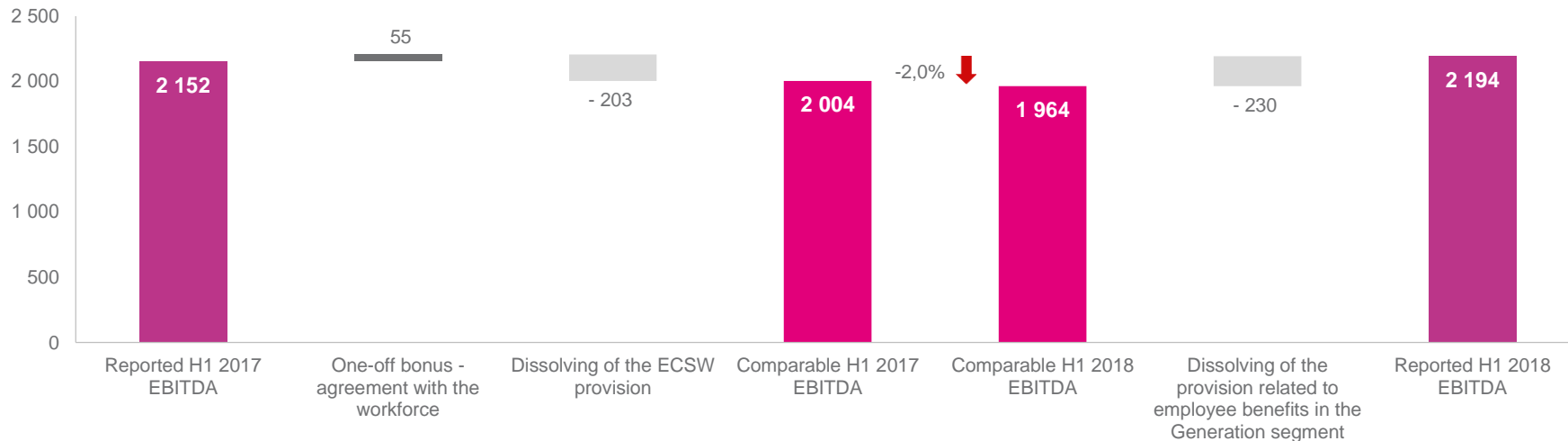
Sales revenue [PLN m]



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



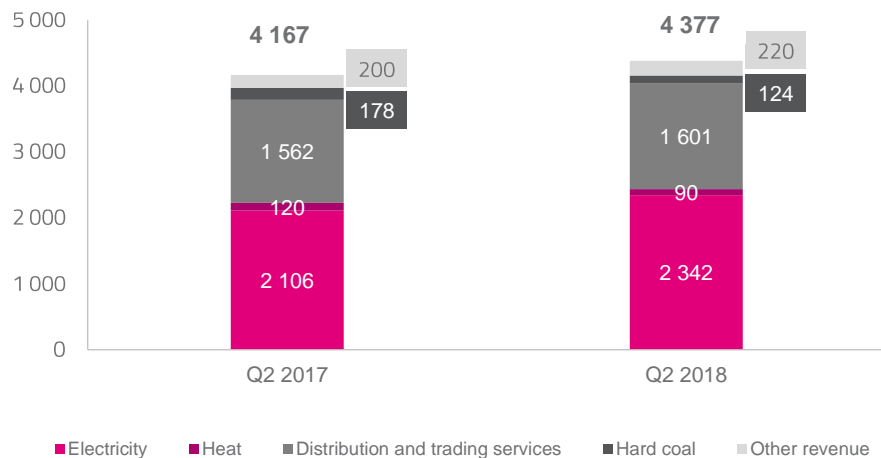
H1 2018 EBITDA vs H1 2017 EBITDA [PLN m]



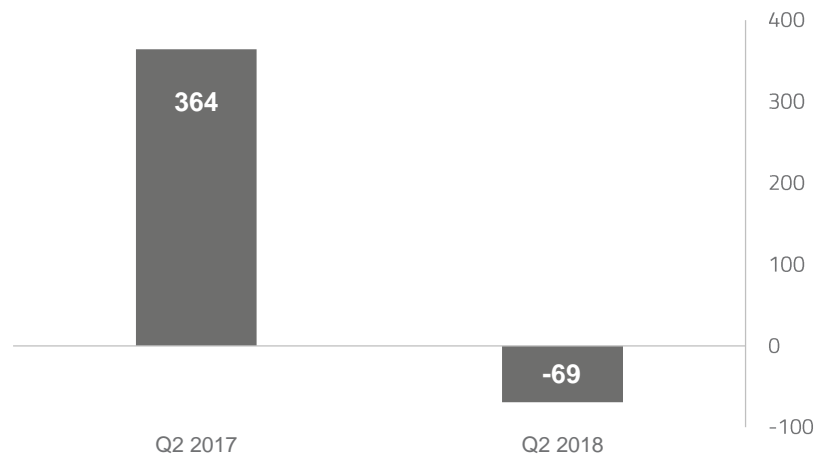
# Q2 2018 key financial data



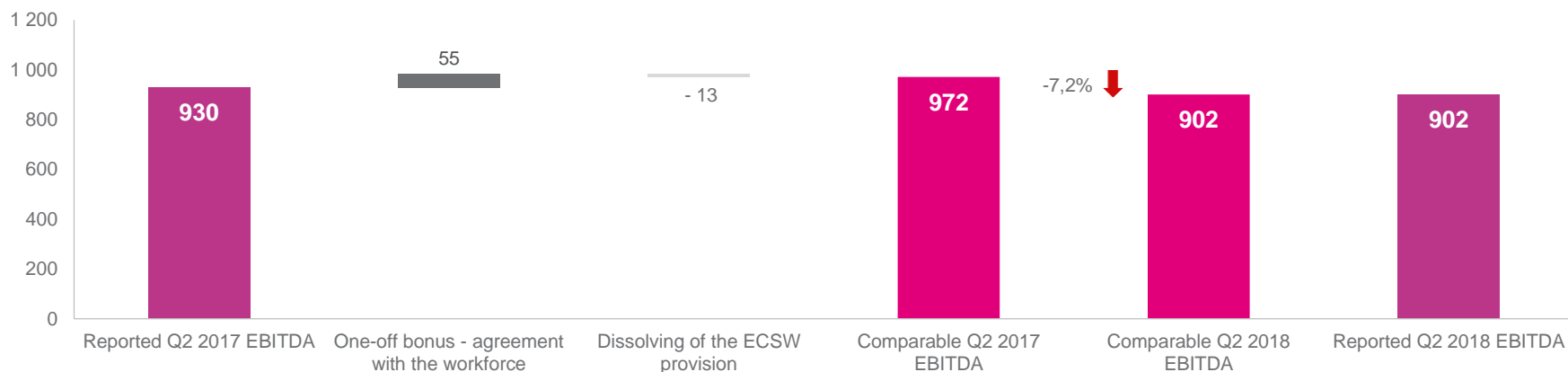
Sales revenue [PLN m]



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

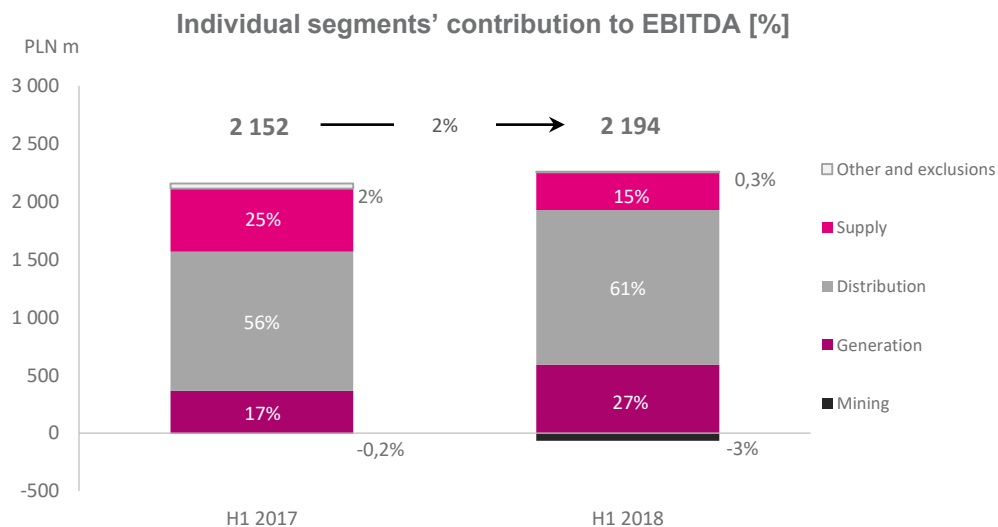


Q2 2018 EBITDA vs Q2 2017 EBITDA [PLN m]



## Key segments' H1 2018 results

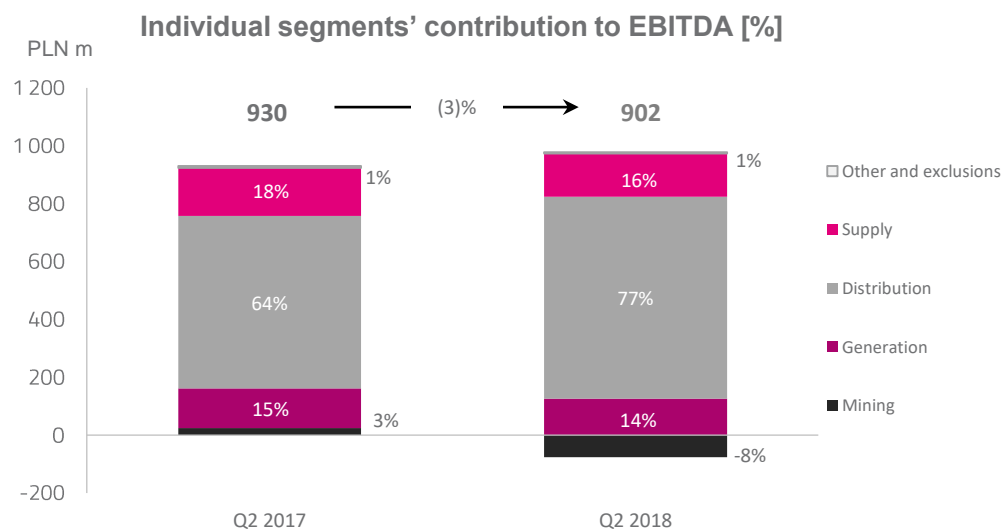
[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	679	2 119	3 464	6 615	(3 675)
EBITDA	(66)	592	1 336	326	6
EBIT	(866)	741	796	323	(39)
CAPEX	91	570	793	4	22





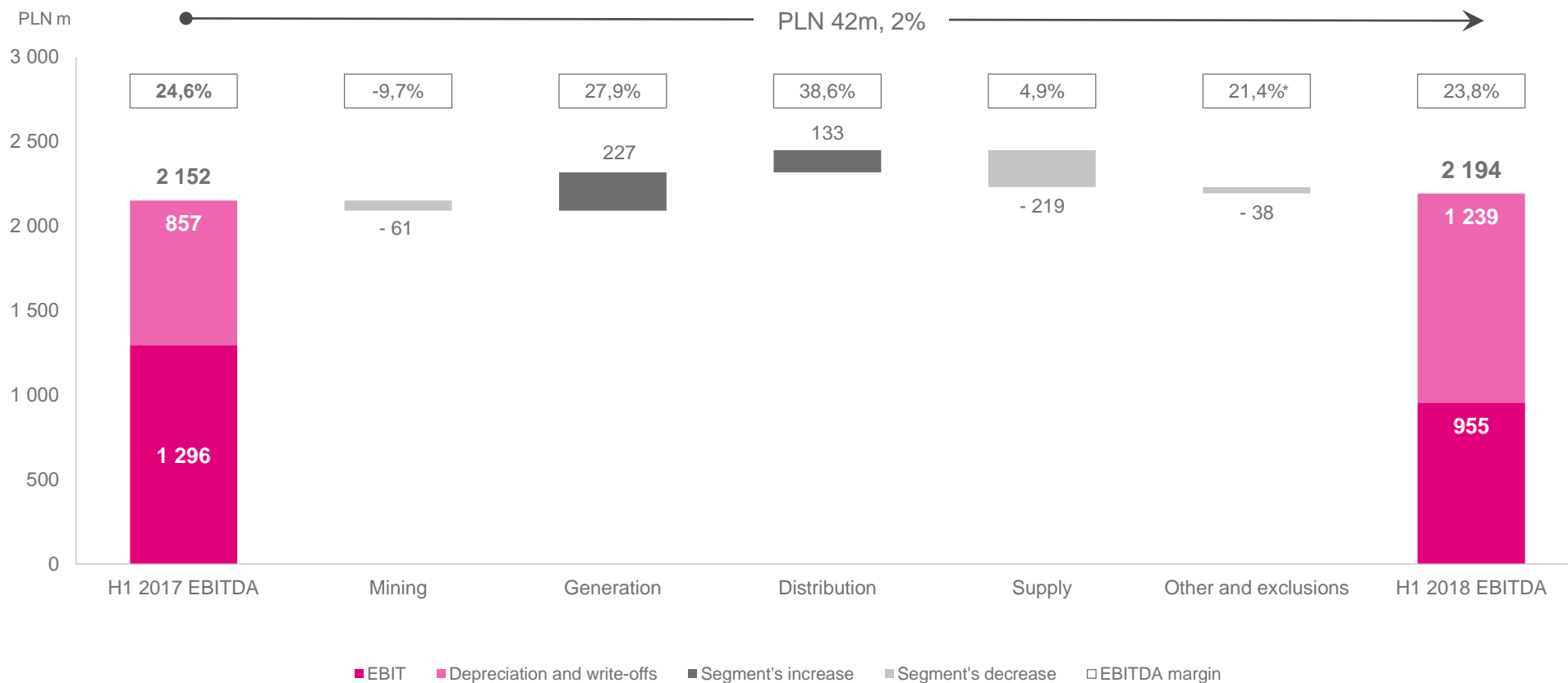
## Key segments' Q2 2018 results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	294	947	1 675	3 161	(1 700)
EBITDA	(76)	126	698	149	5
EBIT	(843)	369	425	147	(19)
CAPEX	51	327	520	4	9



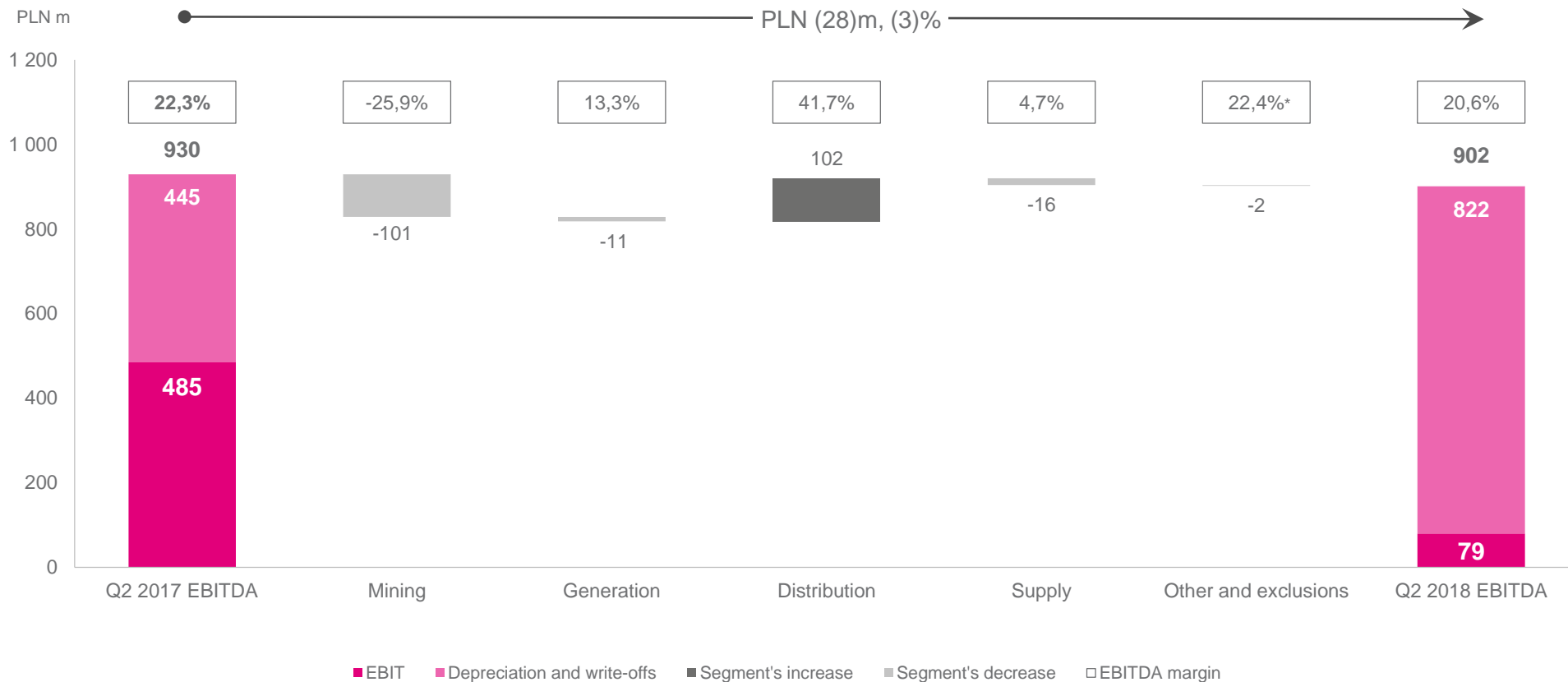
\* Items not included in the segments presented

# H1 2018 EBITDA



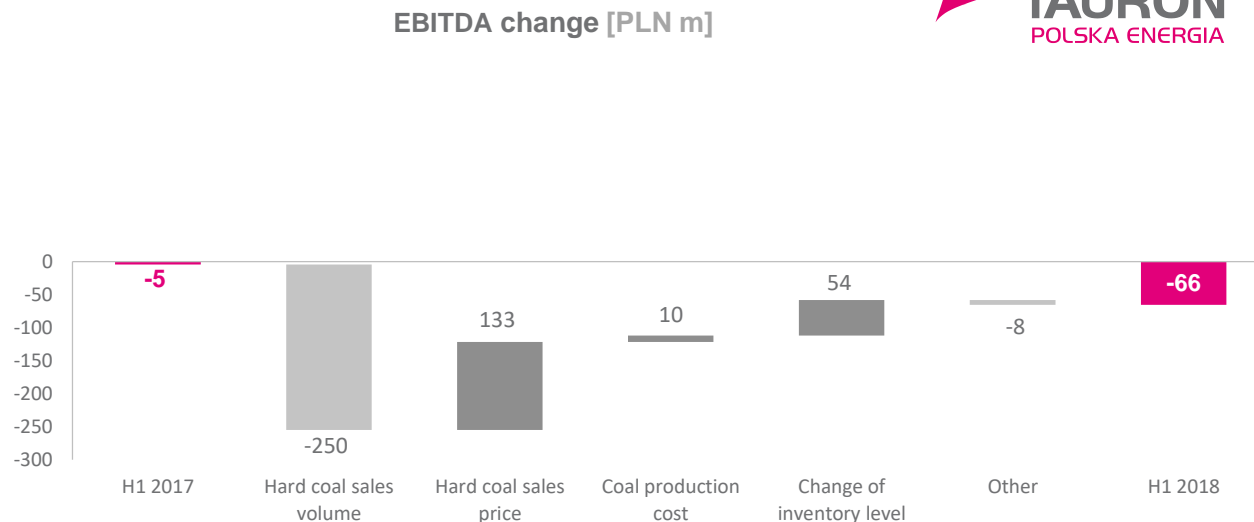
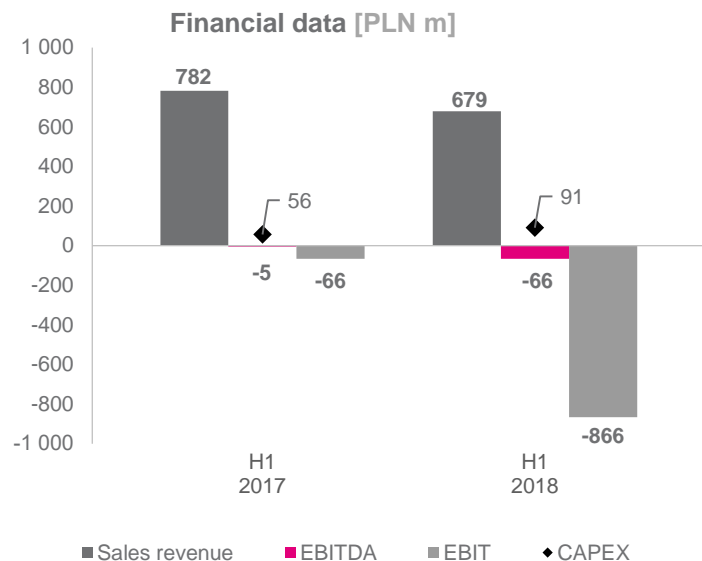
\*Other operations segment's EBITDA margin

# Q2 2018 EBITDA

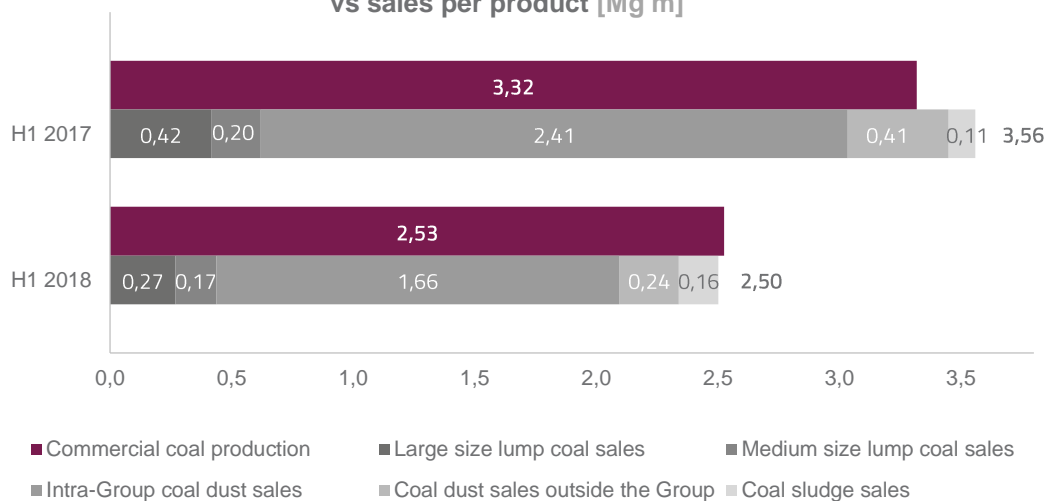


\*Other operations segment's EBITDA margin

# Mining Segment – H1 2018



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

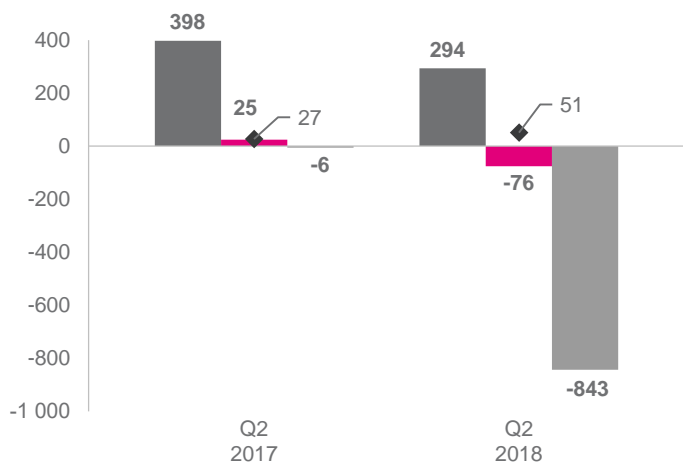


- Increase of the sold coal unit price ✓
- Decline of commercial coal production -
- 37.6% higher mining cash cost\* (up from 170 PLN/Mg to 234 PLN/Mg) -

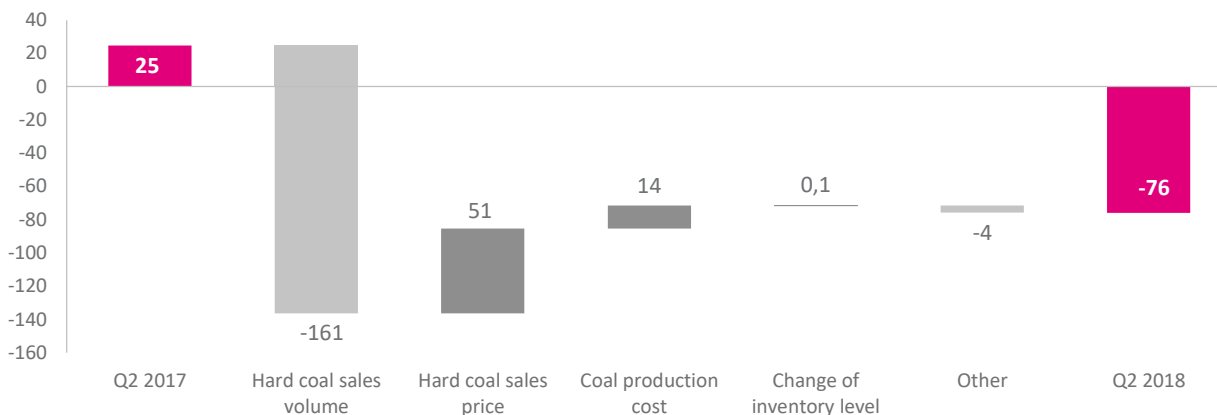
\* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the Company's cash flow

# Mining Segment – Q2 2018

Financial data [PLN m]

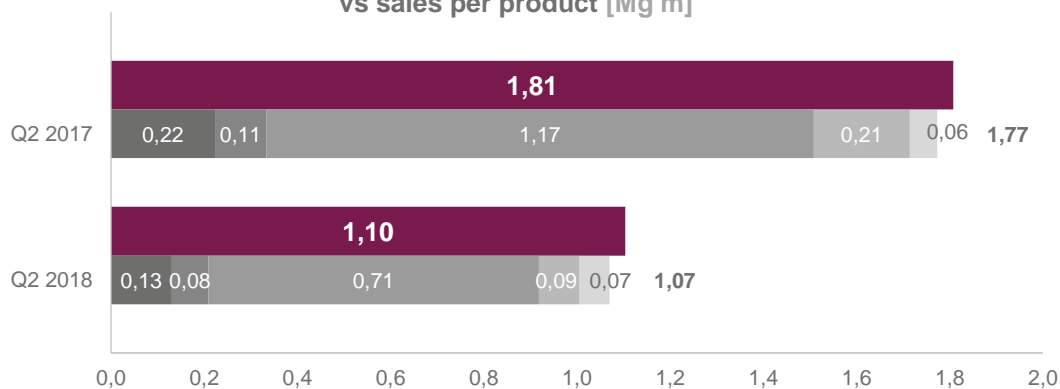


EBITDA change [PLN m]



■ Sales revenue ■ EBITDA ■ EBIT ◆ CAPEX

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



■ Commercial coal production ■ Large size lump coal sales ■ Medium size lump coal sales  
 ■ Intra-Group coal dust sales ■ Coal dust sales outside the Group ■ Coal sludge sales

• Increase of the sold coal unit price



• Decline of commercial coal production



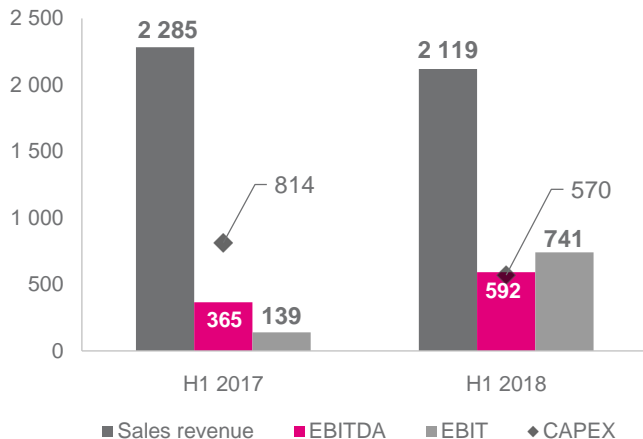
• 78.5% higher mining cash cost\* (up from 151 PLN/Mg to 269 PLN/Mg)



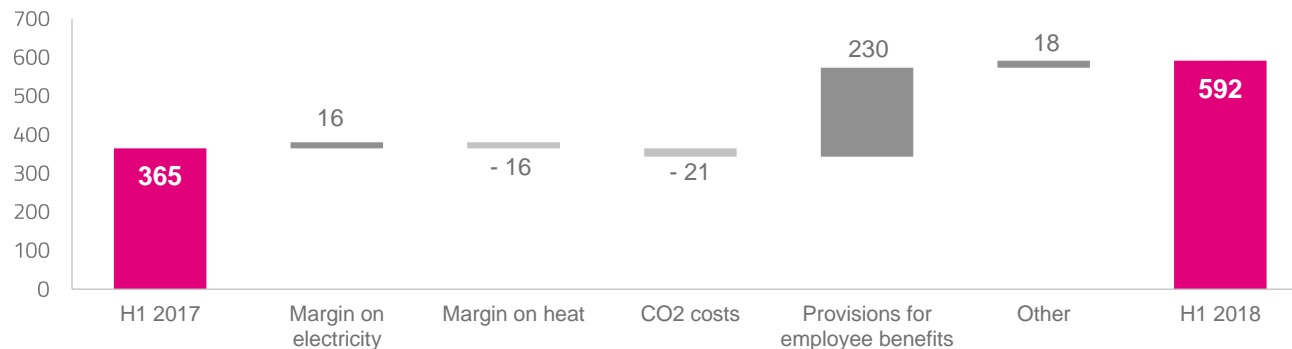
\* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the Company's cash flow

# Generation Segment – H1 2018

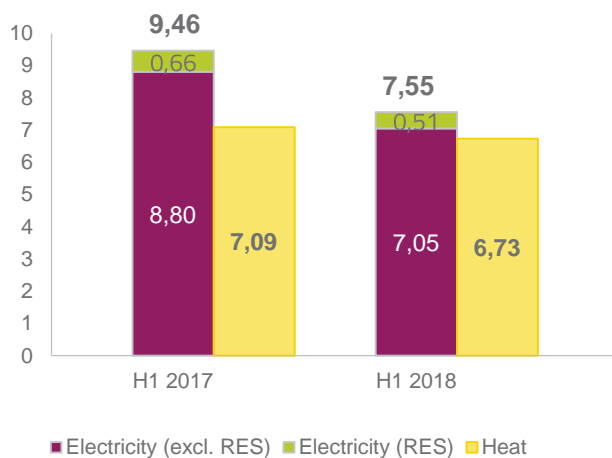
Financial data [PLN m]



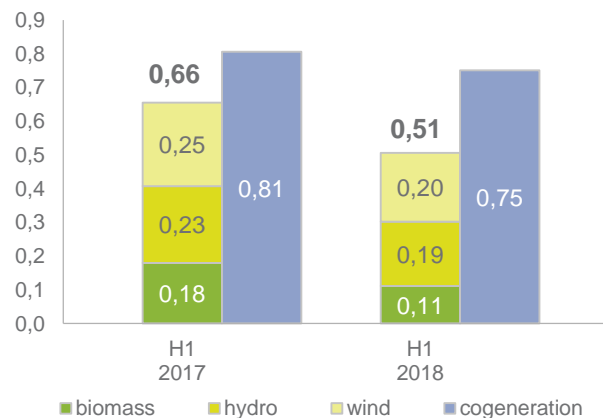
EBITDA change [PLN m]



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



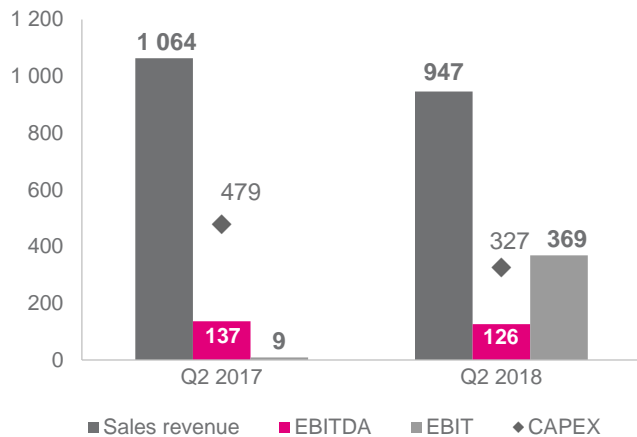
RES and cogeneration production [TWh]



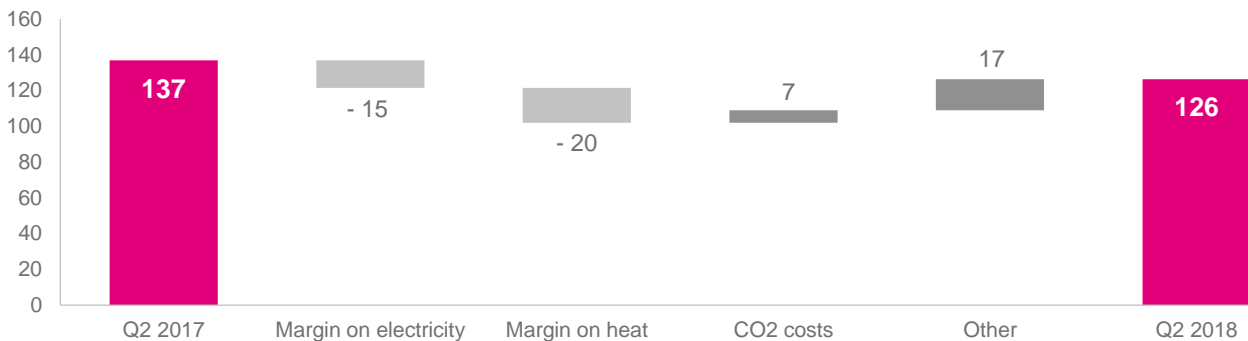
- Favorable impact of dissolving provisions related to employee benefits ✓
- Increase of electricity prices ✓
- Increase of CO<sub>2</sub> emission allowances prices -
- Increase of coal prices -

# Generation Segment – Q2 2018

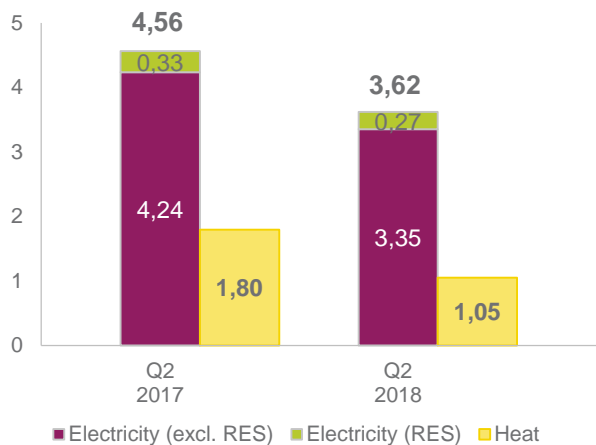
Financial data [PLN m]



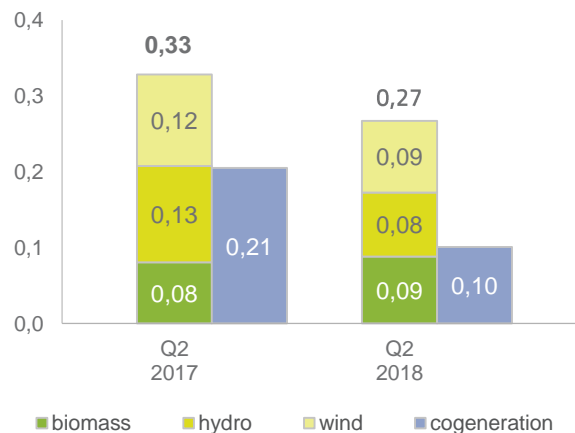
EBITDA change [PLN m]



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

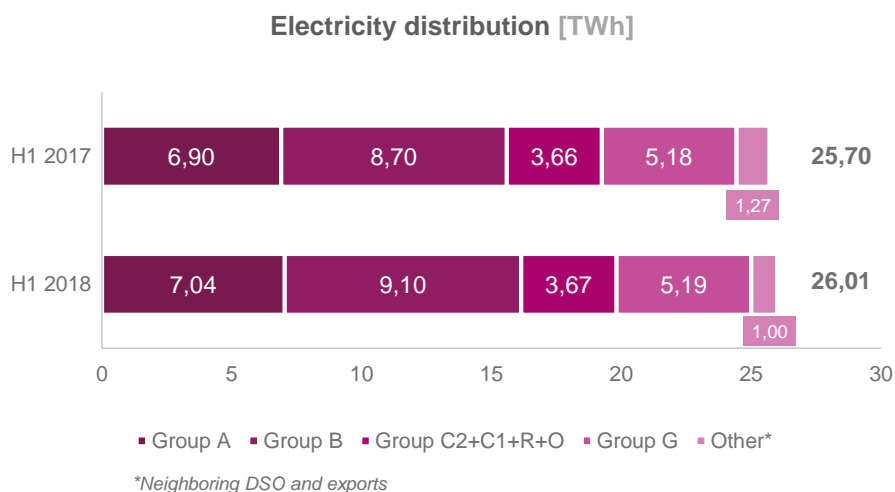
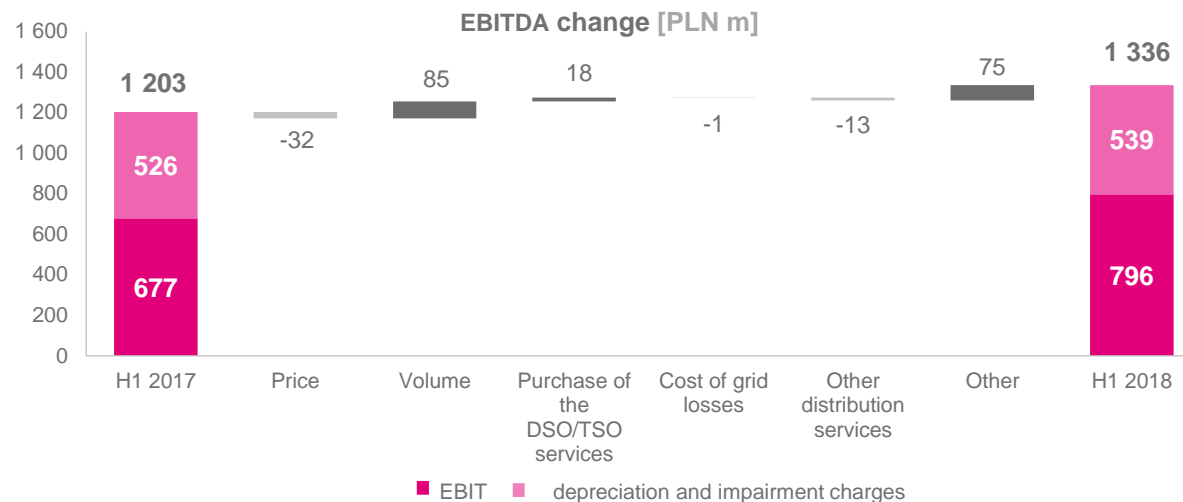
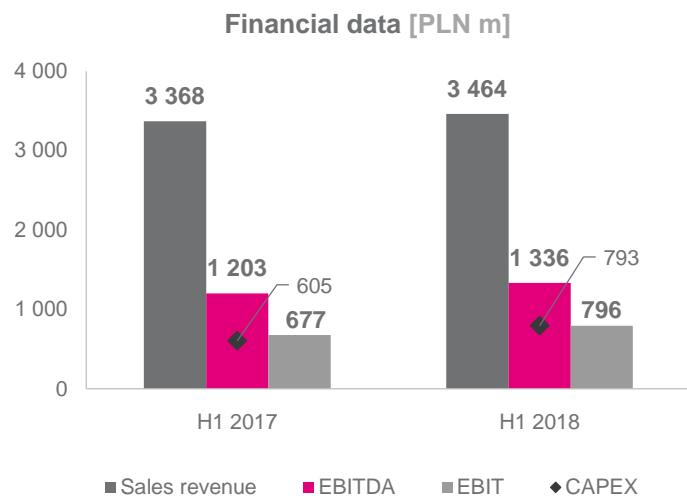


RES and cogeneration production [TWh]



- Increase of electricity prices ✓
- Lower costs of the real estate tax for wind farms ✓
- Lower heat sales volume -
- Increase of coal prices -

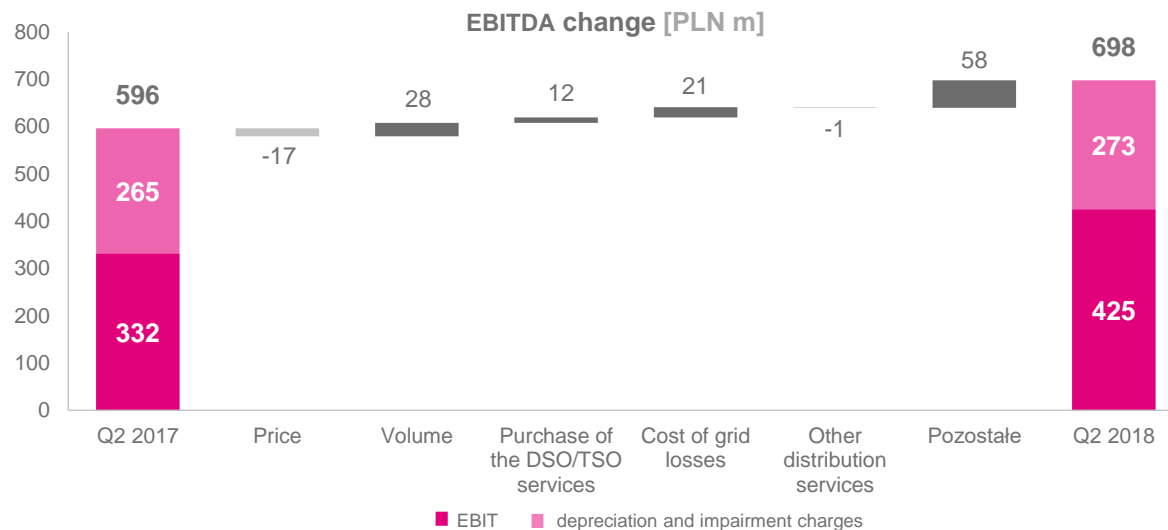
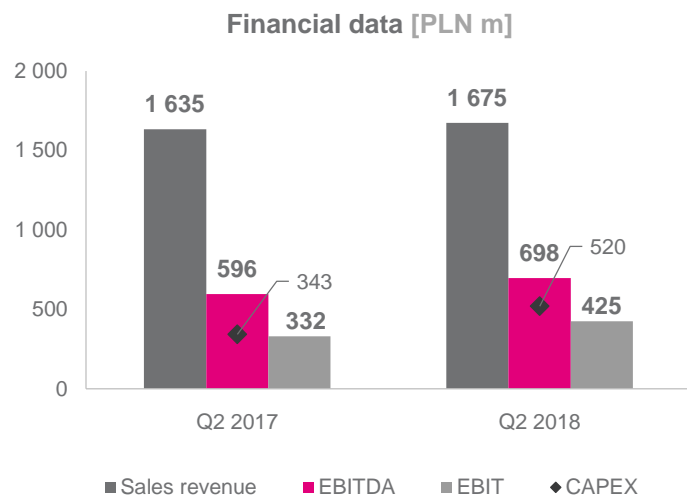
# Distribution Segment – H1 2018



- Decrease of the average tariff by 1.2%, i.e. 1.54 PLN/MWh -
- Higher electricity distribution services sales volume by 307 GWh, mainly in the manufacturing industry in correlation to GDP growth ✓
- One-off dissolving of the provision related to the adjustment (112 GWh) ✓
- Decline of fixed costs due to lower labor costs and the assets maintenance costs ✓



# Distribution Segment – Q2 2018

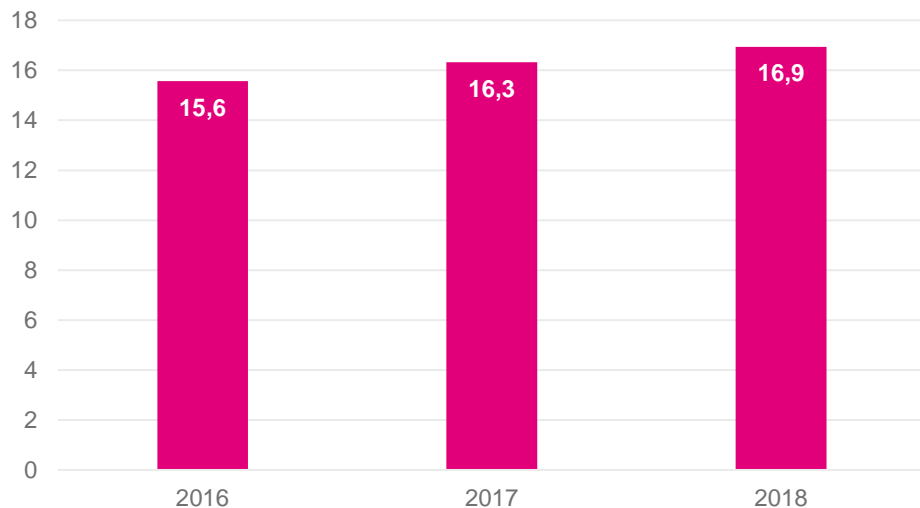


- Decrease of the average tariff by 1.2%, i.e. 1.54 PLN/MWh -
- Higher electricity distribution services sales volume by 193 GWh (1.6%) as a result of favorable economic conditions ✓
- Lower balancing difference indicator by 1.24 pp, decrease of the balancing electricity volume by 168 GWh ✓
- Decline of fixed costs ✓

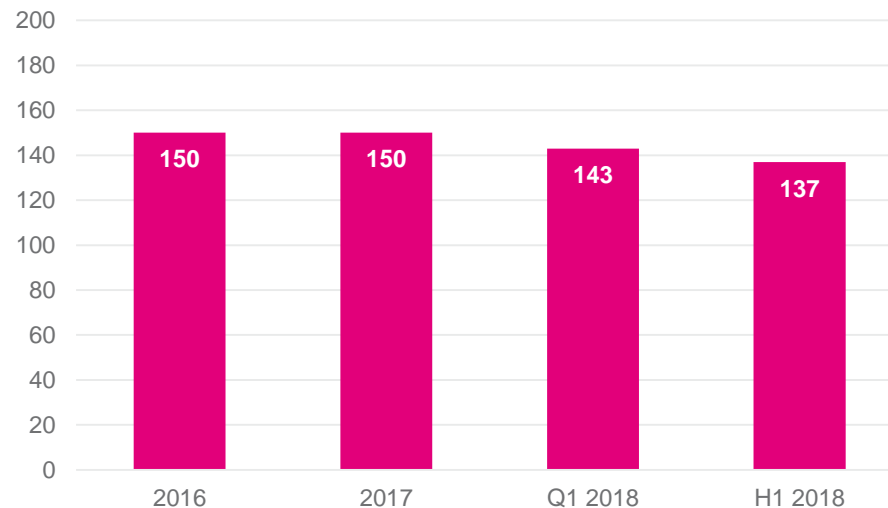
# Distribution Segment – key parameters



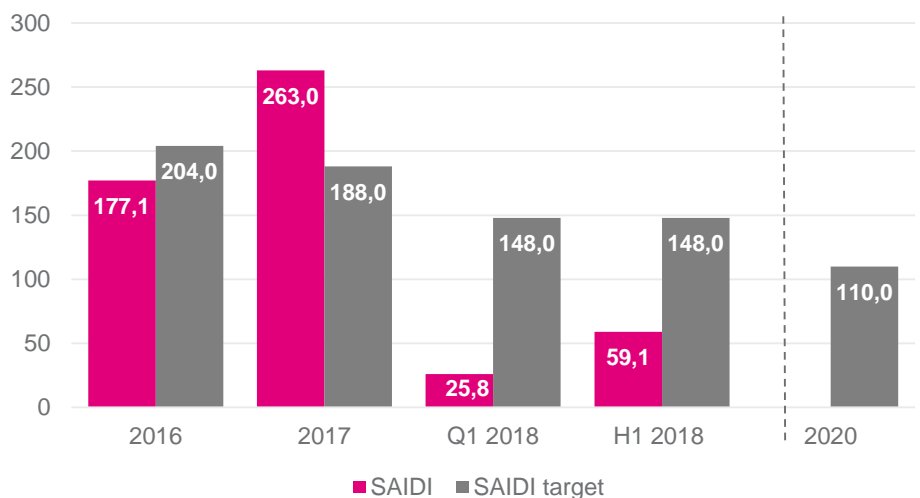
Regulatory Asset Base [PLN bn]



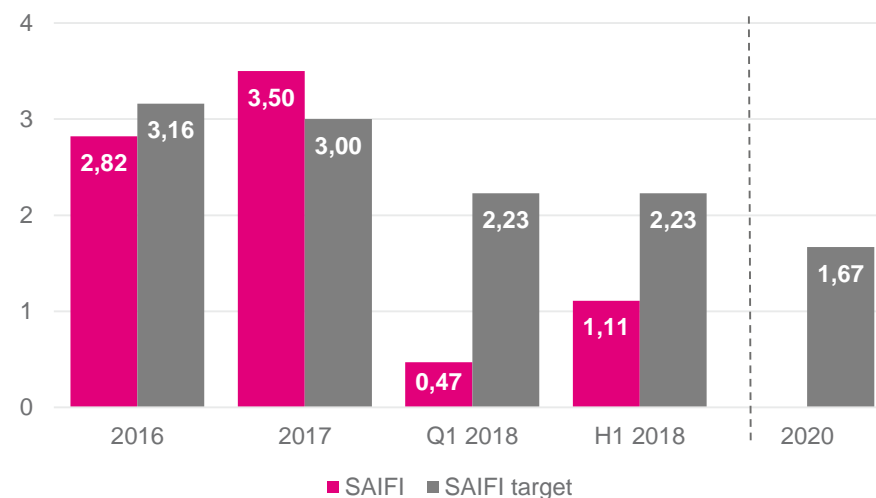
Customer connection time [days]



SAIDI [min.]

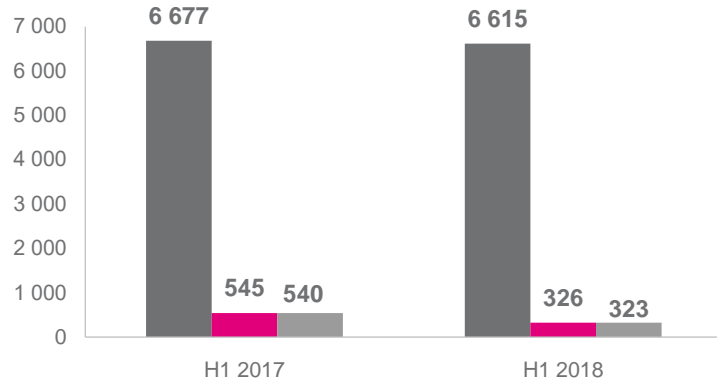


SAIFI [number]



# Supply Segment – H1 2018

Financial data [PLN m]



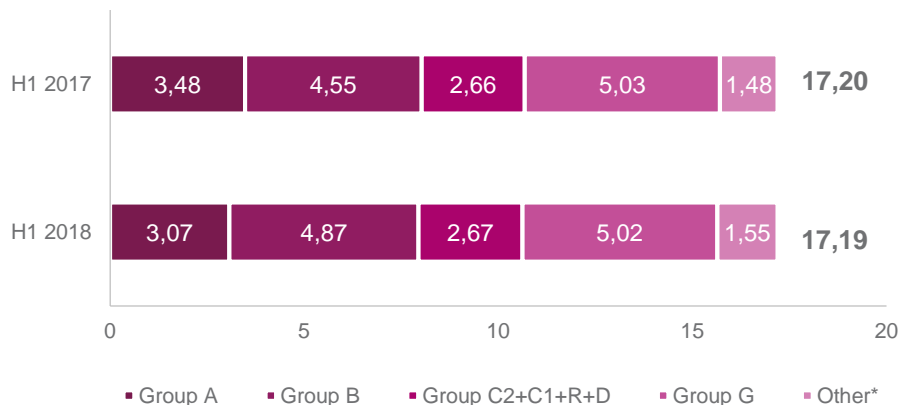
■ Sales revenue ■ EBITDA ■ EBIT

EBITDA change [PLN m]



■ EBIT ■ Depreciation and impairment charges

Retail electricity supply [TWh]



• Increase of the cost of purchasing electricity



• Change of the statutory obligation to redeem property rights



• Positive effect of PM OZE settlement

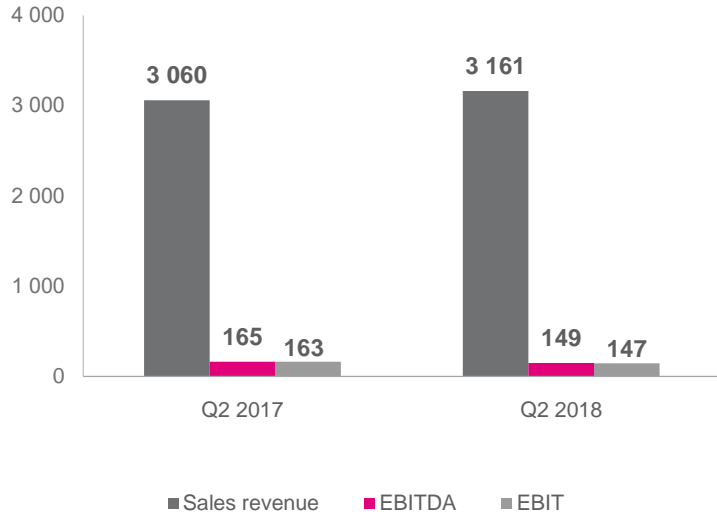


\*includes sales to cover the balancing difference and to the intra-Group final consumers

# Supply Segment – Q2 2018



Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity supply [TWh]

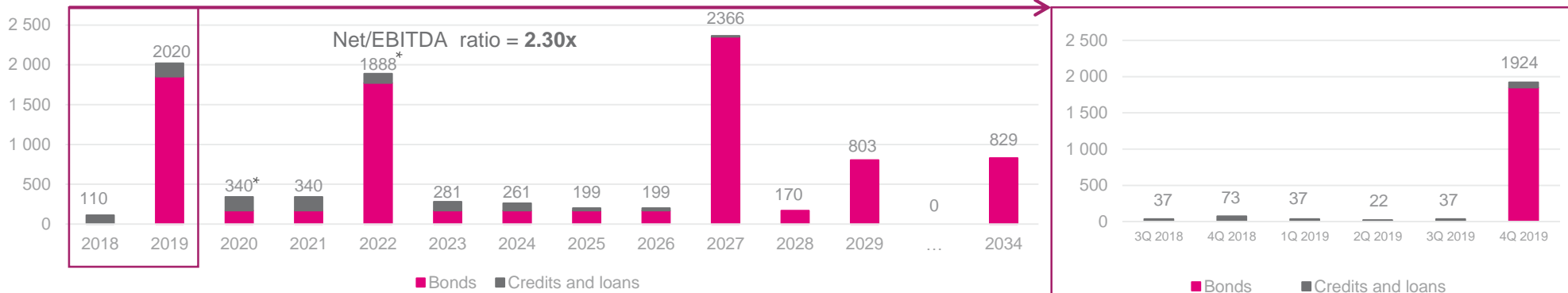


- Increase of the cost of purchasing electricity -
- Change of the statutory obligation to redeem property rights -
- Positive effect of PM OZE settlement ✓

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

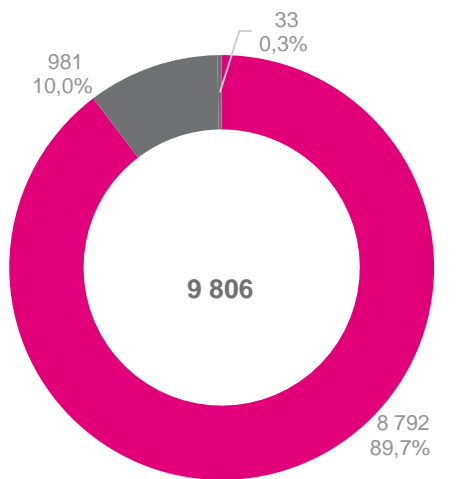
# Debt and financing

TAURON Group's debt maturity as of 30.06.2018 [PLN m]

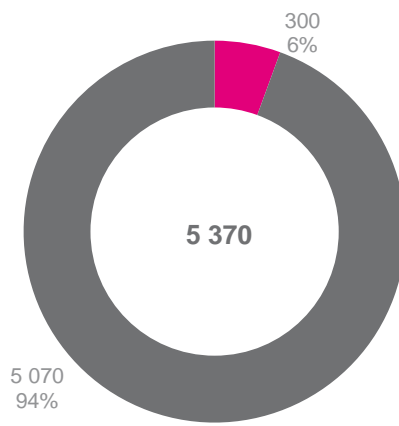


\* Assuming rollover of bonds issued as part of the Bond Issue Program (maturity date in accordance with issue terms and conditions is 2020, rollover until the end of the funds availability period, i.e. until 2022)

TAURON Group's debt structure as of 30.06.2018 [PLN m]

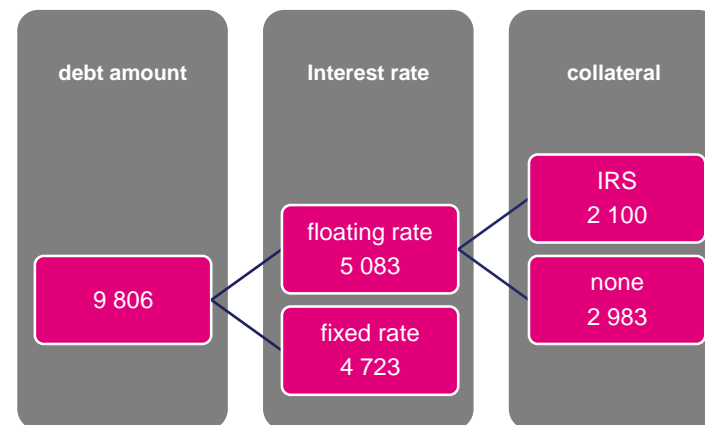


Financing available to TAURON Group as of 30.06.2018 [PLN m]











- Financial debt (nominal value of debt due to bonds, credits and loans) as of 30.06.2018 is PLN 9 806m
- Weighted average maturity of debt as of 30.06.2018 is 81 months (assuming bonds rollover until 2022)
- EUR denominated debt (eurobond issue, NSV and EIB bond issues) represents 38% of the total debt

Debt structure based on interest rate [PLN m]

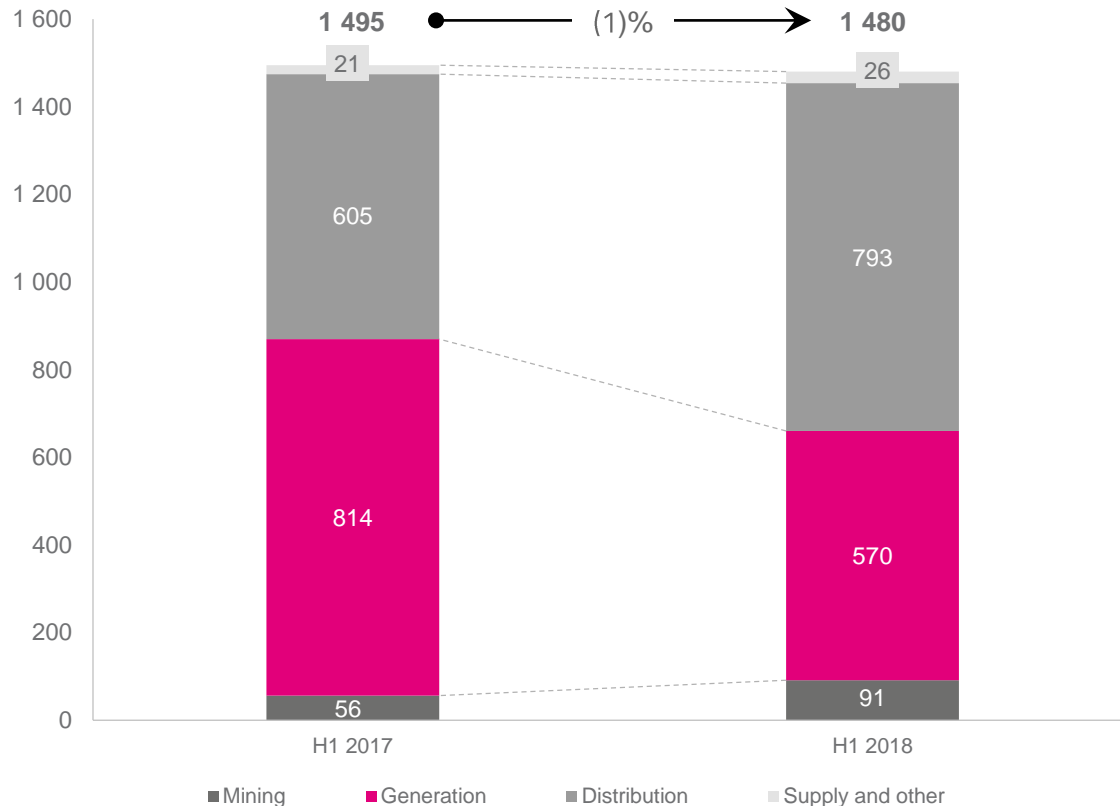


## CAPEX – key projects' work progress

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	-	71		2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant*	450	240	86		2019
Adapting TAURON Wytwarzanie's generating units to the operational conditions in force past 2021 (BAT)	-	-	2		2021
Construction of the 800m level at Janina coal mine	-	-	60		2021
Construction of Grzegorz shaft at Sobieski coal mine	-	-	23		2023
CAPEX program at Brzeszcze coal mine	-	-	32		2025
Low Emission Elimination Program	-	180	9		2023
Implementing heat generation at Łagisza Power Plant by modernizing the 460 MW turbine, construction of the heating station as well as the peaking and back-up boilers	-	150+144	21		2020

# CAPEX – by segments

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



\* including financial costs H1 2017: PLN 45m, H1 2018: PLN 80m

## Key investment projects implemented in H1 2018:

### Mining:

- Brzeszcze coal mine CAPEX program (PLN 33m)
- Construction of the Grzegorz shaft at Sobieski coal mine (PLN 31m)
- Construction of the 800 m level at Janina coal mine (PLN 15m)

### Generation:

- Construction of 910 MW of new capacity at Jaworzno (PLN 437m)
- Replacement and refurbishment outlays as well as overhaul components (PLN 34m)
- Connections of new facilities (PLN 9m)
- Maintenance and expansion of the district heating networks (PLN 5m)

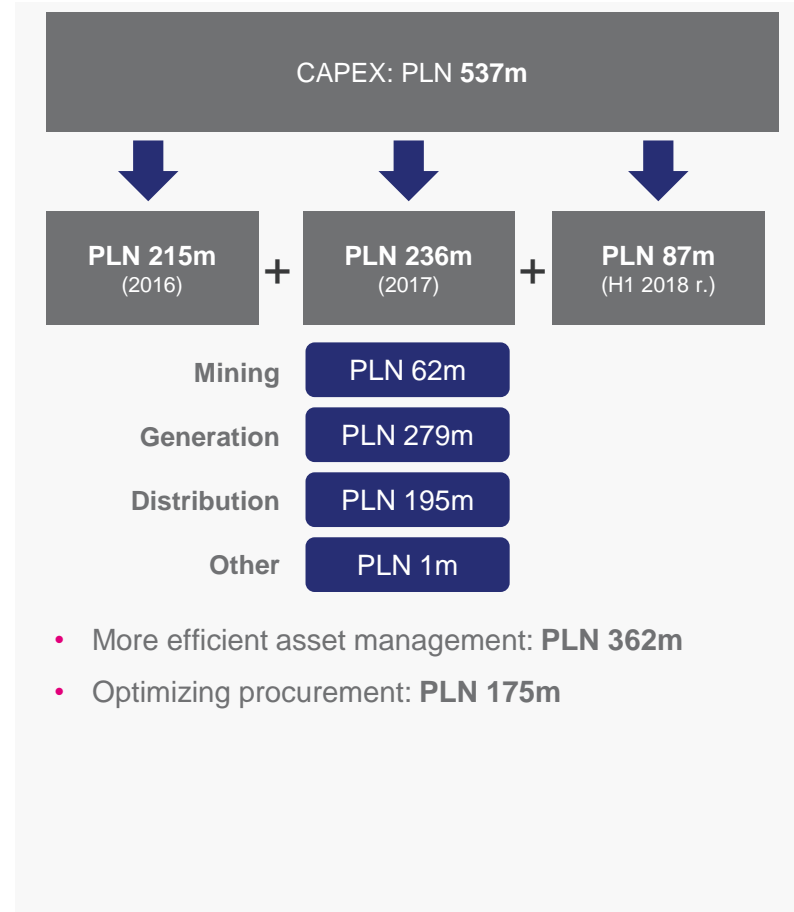
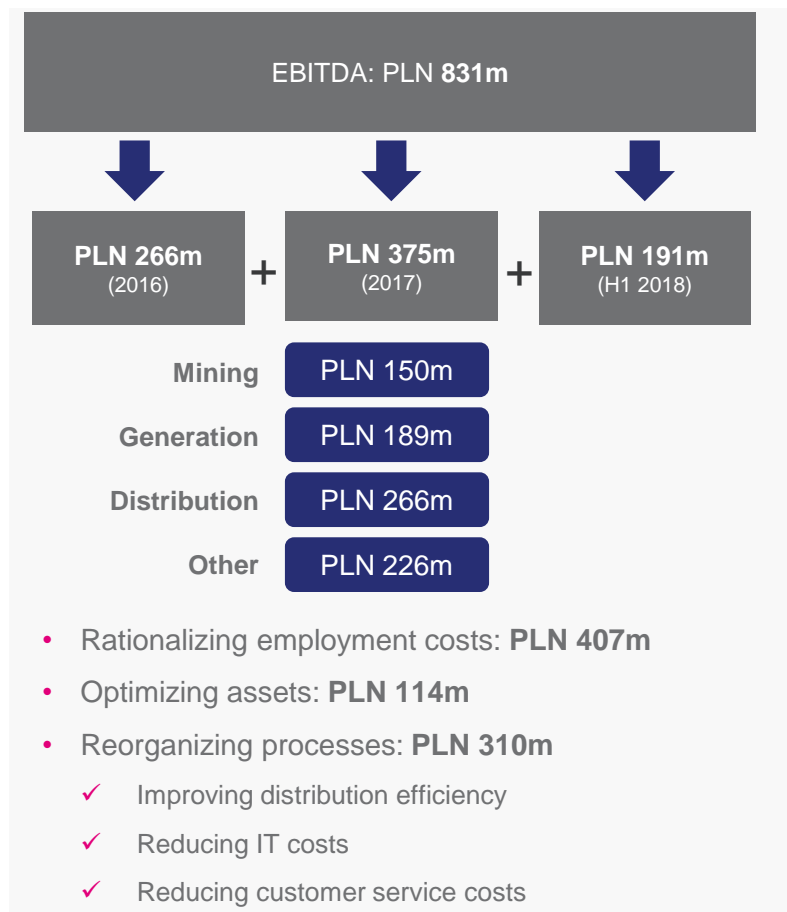
### Distribution:

- Grid asset upgrades (refurbishing) and replacements (PLN 436m)
- Construction of new connections (PLN 288m)

# Effects of the Efficiency Improvement Program from 2016 until H1 2018



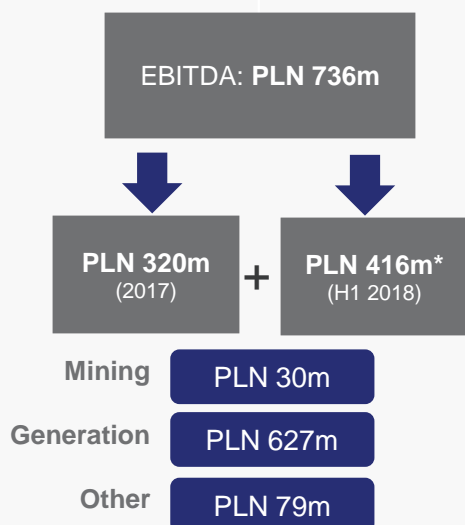
**EBITDA: PLN +831m** (cumulative 2016-H1 2018 value) / **PLN +400m per annum** (recurring value from 2018)  
**CAPEX: PLN 537m** (2016-H1 2018 savings on capital expenditures)



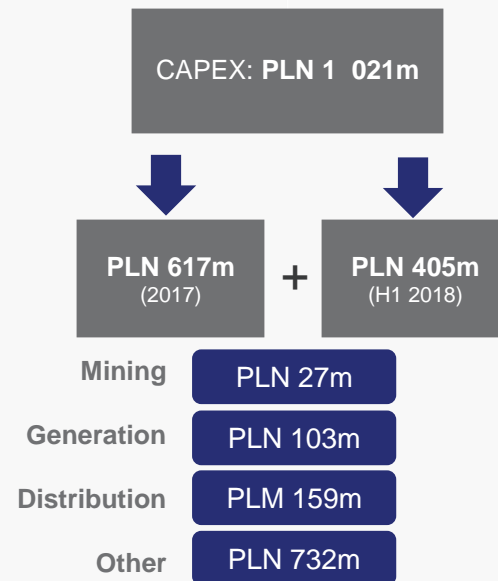


# Effects of the Strategic Initiatives from 2017 until H1 2018

**EBITDA: PLN +736m** (cumulative 2017-H1 2018 value) / **PLN +300m per annum** (recurring value from 2020)  
**CAPEX: PLN 1 021m** (2017-H1 2018 savings on capital expenditures)



- Rationalizing employment costs in the mining and generation lines of business: **PLN 248m**
- Optimizing and making operating expenses more flexible and improving process efficiency: **PLN 259m**
- Improving profitability of the lines of business by taking actions aimed at increasing revenue: **PLN 229m**



- Stopping capital expenditures in the Generation segment: **PLN 735m**
- Optimizing capital expenditures related to replacing distribution assets and focusing on improving grid reliability and implementing modern solutions **PLN 159m**
- Optimizing capital expenditures related to the power plants' and combined heat and power plants' production assets: **PLN 102m**
- Optimizing capital expenditures related to managing assets in the other lines of business: **PLN 25m**

\* including PLN 230m due to dissolving the provision related to employee benefits in the Generation segment in Q1 2018

# Thank you – Q & A



## Investor Relations Team

**Marcin Lauer**

[marcin.lauer@tauron.pl](mailto:marcin.lauer@tauron.pl)

tel. + 48 32 774 27 06

**Paweł Gaworzyński**

[pawel.gaworzynski@tauron.pl](mailto:pawel.gaworzynski@tauron.pl)

tel. + 48 32 774 25 34

**Mirosław Szczygielski**

[miroslaw.szczygielski@tauron.pl](mailto:miroslaw.szczygielski@tauron.pl)

tel. + 48 516 112 858

**Magdalena Wilczek**

[magdalena.wilczek@tauron.pl](mailto:magdalena.wilczek@tauron.pl)

tel. + 48 723 600 894

**Katarzyna Heinz**

[katarzyna.heinz@tauron.pl](mailto:katarzyna.heinz@tauron.pl)

tel. + 48 32 774 25 38

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Societe Generale	<b>Bartłomiej Kubicki</b>
Dom Maklerski BZ WBK	<b>Paweł Puchalski</b>
Dom Maklerski PKO BP	<b>Stanisław Ozga</b>
Dom Maklerski Banku Handlowego	<b>Piotr Dzięciołowski</b>
Ipopema	<b>Robert Maj</b>
Erste Group	<b>Tomasz Duda</b>

Institution	Analyst
Raiffeisen Centrobank	<b>Teresa Schinwald</b>
Trigon	<b>Krzysztof Kubiszewski</b>
WOOD & Company	<b>Bram Buring</b>
Dom Maklerski BOŚ	<b>Jakub Viscardi</b>
Exane BNP Paribas	<b>Michael Harleaux</b>
Pekao Investment Banking	<b>Maksymilian Piotrowski</b>

# Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2017		2018 (prices until July 2018 + estimation)		2018/2017	
	Price (PLN/MWh)	Volume (GWh)	Price (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	160.10	104 921	178.14	113 220	11.3%	7.9%
Forward PEAK (Y+Q+M)	208.87	11 417	224.20	13 140	7.3%	15.1%
Forward (wighted average)	164.88	116 338	182.64	126 360	10.8%	8.6%
SPOT (TGE)	158.14	25 210	212.84**	27 000	34.6%	7.1%
Weighted average total	<b>163.68</b>	<b>141 548</b>	<b>187.96</b>	<b>153 360</b>	<b>14.8%</b>	<b>8.3%</b>

Property rights (PLN/MWh)			
Certificate type	Market prices (H1 2018 weighted average)	Substitution fee and obligation for::	
		2017	2018
OZE (PMOZE_A)	68.89	300.03 (Jan-Sep) 92.03 (Sep-Dec) (15.4%)	48.53 (17.5%)
RES from biogas plants (PMOZE_BIO)	316.59	300.03 (0.6%)	300.03 (0.5%)
Coal-fired cogeneration (PMEC-2017)	9.80	10.00 (23.2%)	9.00 (23.2%)
Gas-fired cogeneration (PMGM-2017)	117.51	120.00 (7.0%)	115.00 (8.0%)
Methane-fired cogeneration (PMMET-2017)	55.39	56.00 (1.8%)	56.00 (2.3%)

CO <sub>2</sub> emission allowances (EUA/t)	
CO <sub>2</sub> market analysts survey* (updated in July 2018)	Price (EUR/t)
2017 average	5.84 EUR/t
2018 average	15.37 EUR/t
2019 average	19.0 EUR/t
2018 average price forecast by TAURON (**updated in July 2018)	15.00-16.50 EUR/t

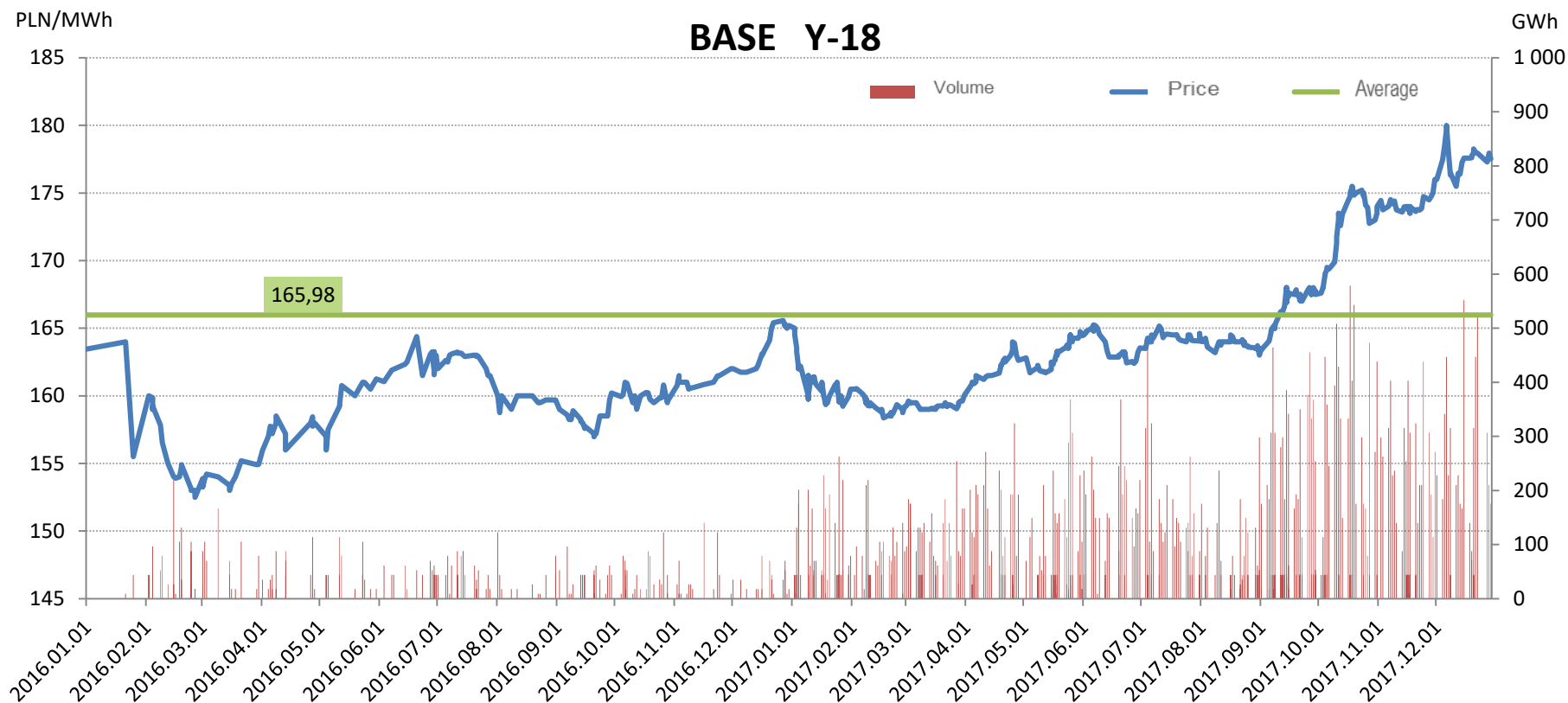
\* Sources: Point Carbon, BNEF, Consus, GDF SUEZ Trading, HSE, Mkonline, Societe Generale, TAURON

\*\* Average price in the January - July 2018 time frame + TPE analysts' estimation

# 2018 BASE contract prices



## BASE Y-18



		Average price [PLN/MWh]	Volume [GWh]
Total		165.98	65 227
including	on TGE	166.64	52 148
	non TGE	163.35	13 079

Average electricity price that takes into account 2018 one year BASE and PEAK contracts: 171.29 PLN/MWh, total 2018 BASE and PEAK contracts volume: 73 108 GWh

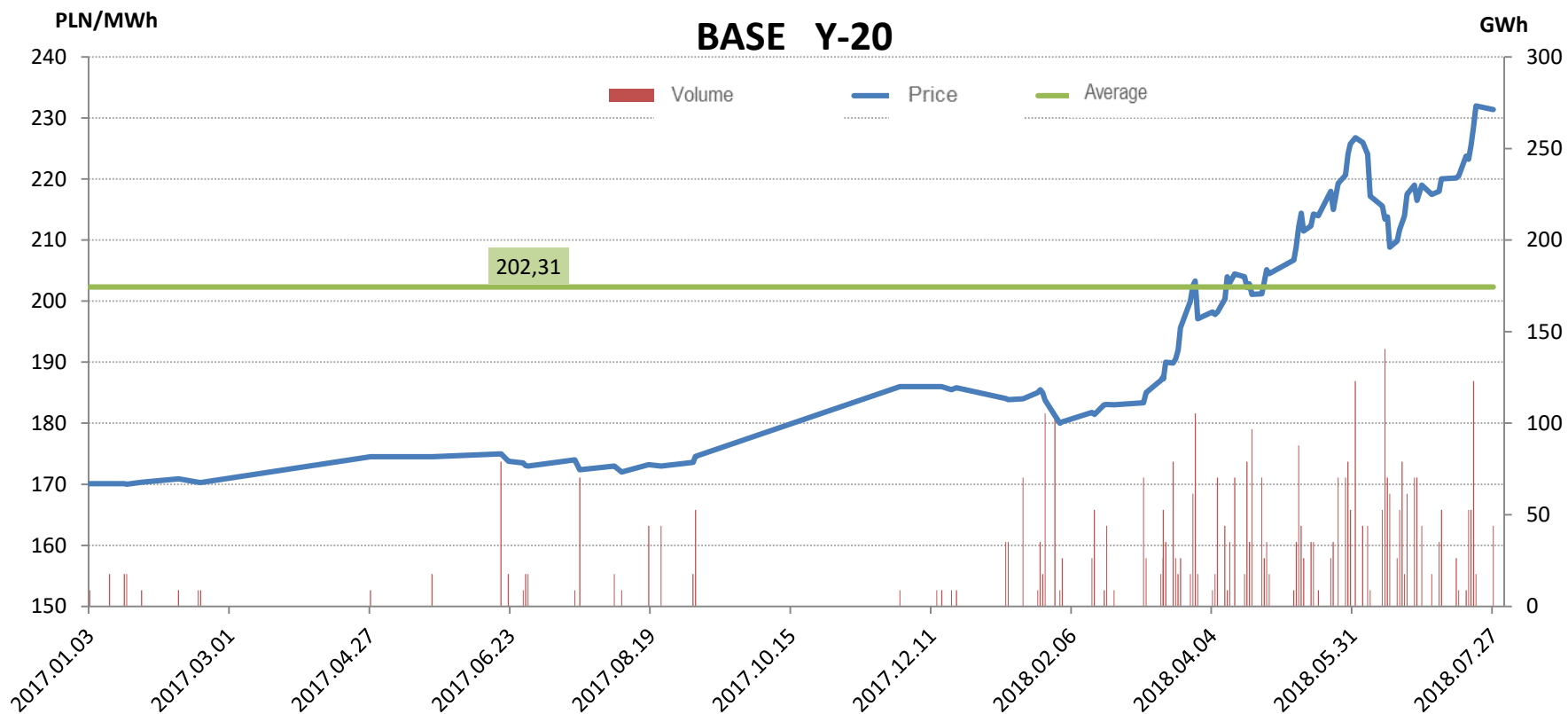
# 2019 BASE contract prices



		Average price [PLN/MWh]	Volume [GWh]
Total		197.16	64 973
including	on TGE	197.47	62 012
	non TGE	190.72	2 961

Average electricity price that takes into account 2019 one year BASE and PEAK contracts: 200.16 PLN/MWh, total 2019 BASE and PEAK contracts volume: 68 177 GWh

# 2020 BASE contract prices



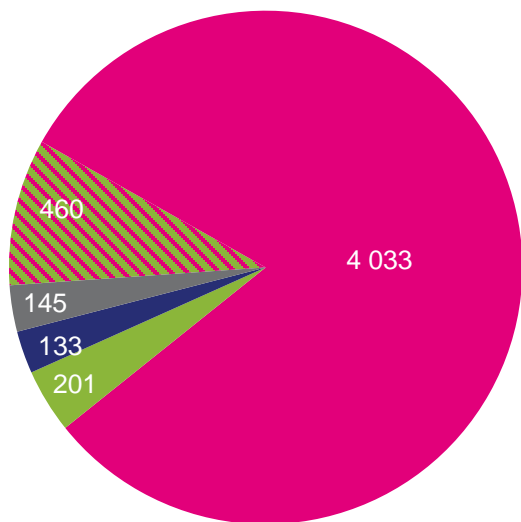
		Average price [PLN/MWh]	Volume [GWh]
Total		202.31	4 392
including	on TGE	202.40	4 366
	non TGE	187.25	26

Average electricity price that takes into account 2020 one year BASE and PEAK contracts: 202.61 PLN/MWh, total 2020 BASE and PEAK contracts volume: 4 434 GWh

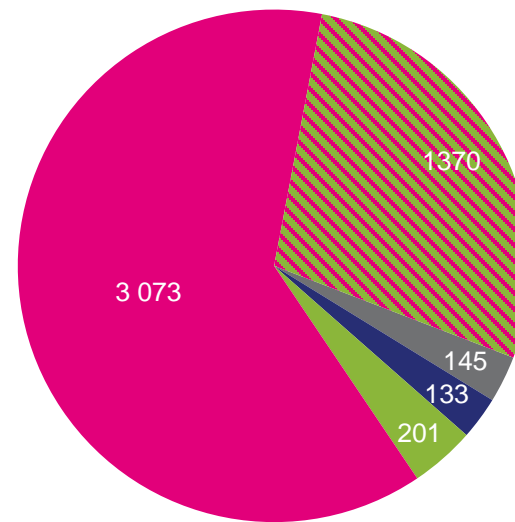


# Generation segment's capacity balance and potential

2018 - 4 972 MW<sub>e</sub>



2020 - 4 922 MW<sub>e</sub>



- Modern coal technology
- Conventional generation
- Wind farms
- Hydroelectric power plants
- Biomass-fired units

- Total installed capacity 4 972 MW<sub>e</sub> / 2 435 MW<sub>t</sub>
- 5 power plants and 3 combined heat and power plants
- 4 wind farms (201 MW<sub>e</sub>)
- 34 hydroelectric power plants (133 MW<sub>e</sub>)
- 842 km of district heating networks
- 18.4 TWh of gross electricity production in 2017

- Modernized (refurbished) generation fleet
- Shutdown (retirement) of 8 x 120 MW class generating units
- Comparison of the parameters of Jaworzno III Power Plant's 910 MW generating unit with the 120 MW class units:
  - ✓ 30% lower fuel consumption => savings of **PLN 263m** per annum
  - ✓ Emission reductions: SO<sub>2</sub> by 87%, NO<sub>x</sub> by 80% and CO<sub>2</sub> by 32% => savings of **PLN 174m** per annum

Thank you for your attention