



TAURON Group's Q1 2018

Financial Results

May 17, 2018

Q1 2018 key data



TAURON Group's Q1 2018 results			
		Q1 2018 vs Q1 2017	
Sales revenue [PLN m]	4 826	↑	5%
EBITDA [PLN m]	1 292	↑	6%
Net profit [PLN m]*	636	↓	(1)%
CAPEX [PLN m]	569	↓	(11)%
Net debt / EBITDA	2.28x	up 0.01 (vs 31.12.2017)	

TAURON Group's Q1 2018 operating data			
		Q1 2018 vs Q1 2017	
Commercial coal production [tonne m]	1.42	↓	(6)%
Electricity generation [TWh]	3.94	↓	(19)%
Heat production [PJ]	5.68	↑	7%
Electricity distribution [TWh]	13.42	↑	1%
Electricity retail supply [TWh]	9.28	↑	2%

* Net profit attributable to the shareholders of the parent company

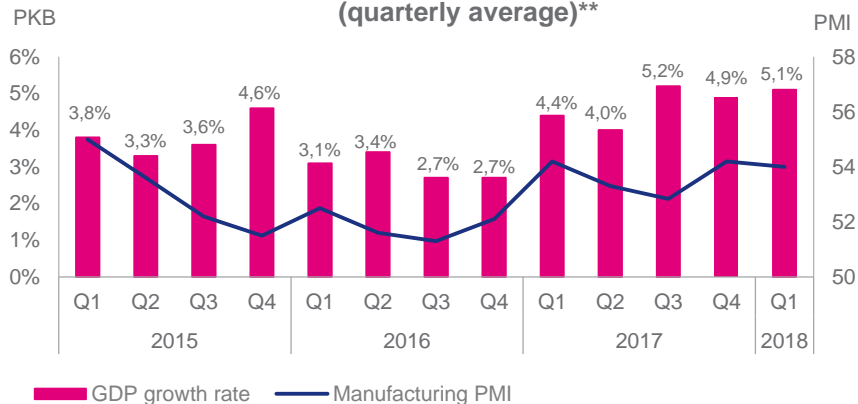
Highlights Summary



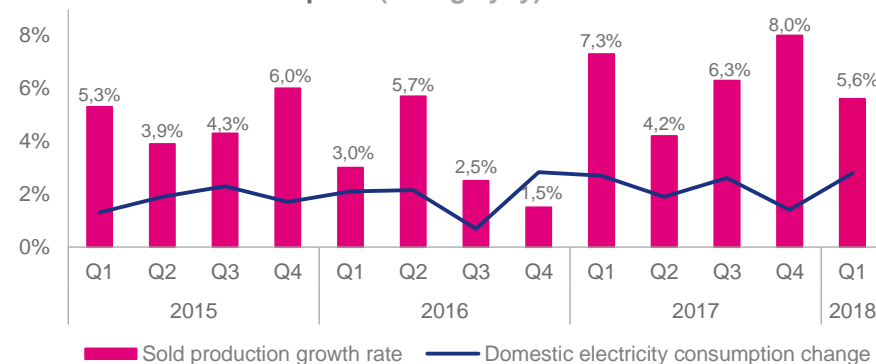
January 18	Conclusion of the coal purchase agreement with Polska Grupa Górnicza for 2018-2021 with an estimated net value of PLN 2.15 billion
March 8	Obtaining of the new financing to complete the construction of the CCGT unit at Stalowa Wola
March 9	Extending the period of availability of funds under the Bond Issue Program
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. Work progress on the project exceeded 60 percent

Macroeconomic and market situation

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



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



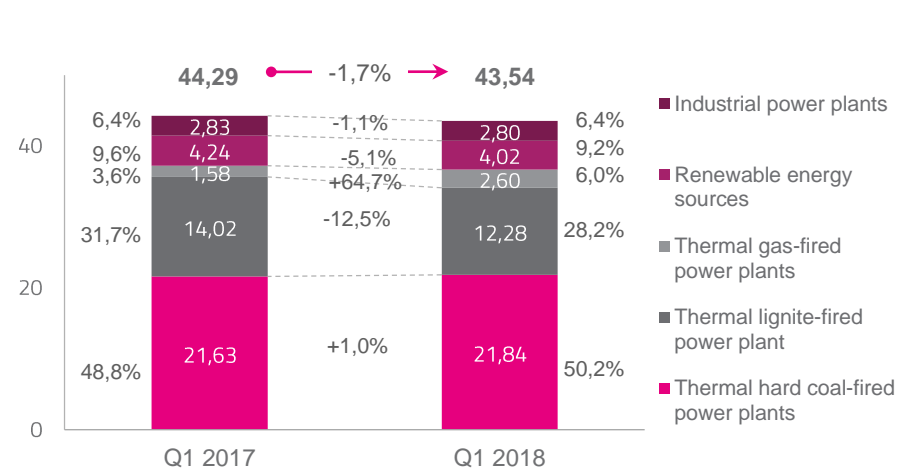
Electricity prices under one year BASE contracts

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	185.43	35 574
Y-20	187.94	2 310

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

- 2013: 181.55 PLN/MWh
- 2014: 163.58 PLN/MWh
- 2015: 169.99 PLN/MWh
- 2016: 169.70 PLN/MWh
- 2017: 163.70 PLN/MWh
- 2018: 177.91 PLN/MWh (estimate)

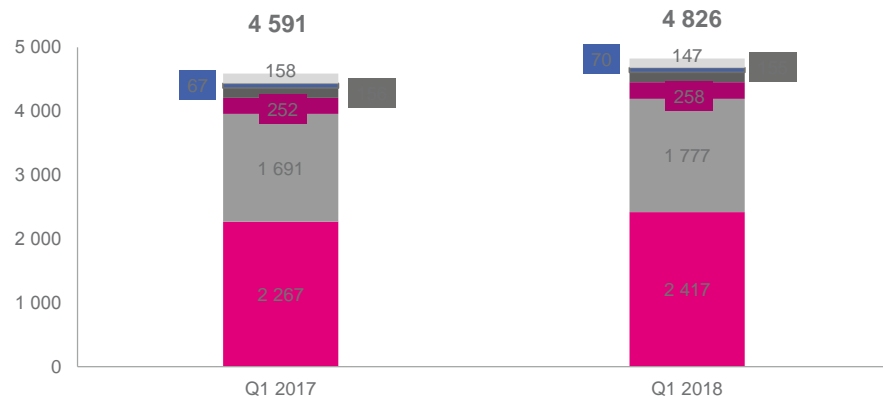
Structure of electricity generation in Poland*** [TWh]



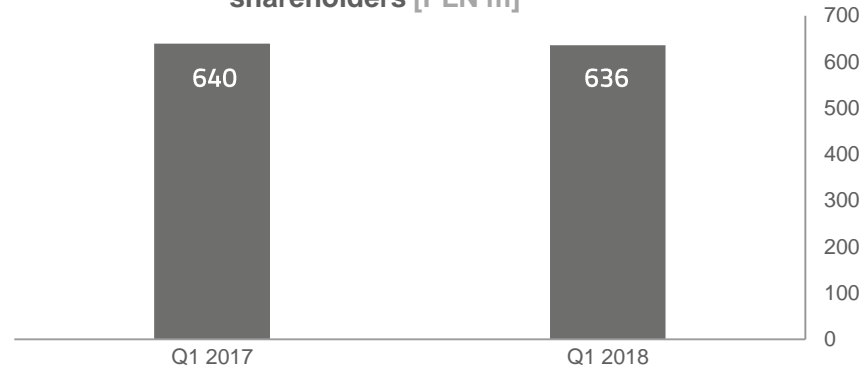
Q1 2018 key financial data



Sales revenue [PLN m]

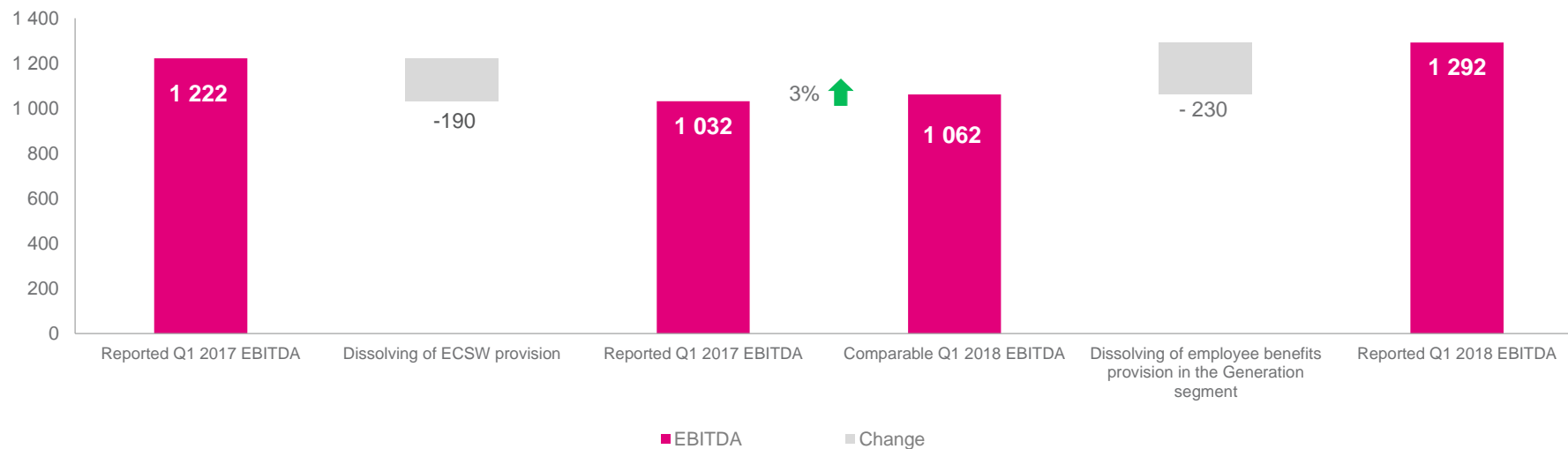


Net profit attributable to the parent company's shareholders [PLN m]



■ Electricity ■ Distribution and trading services ■ Heat ■ Hard coal ■ Gas ■ Other revenue

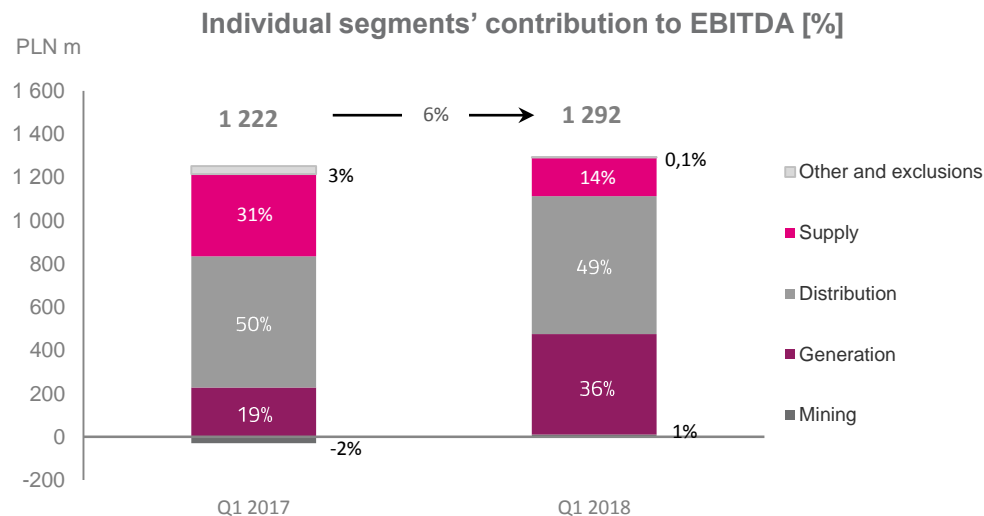
Q1 2018 EBITDA vs Q1 2017 EBITDA [PLN m]



■ EBITDA ■ Change

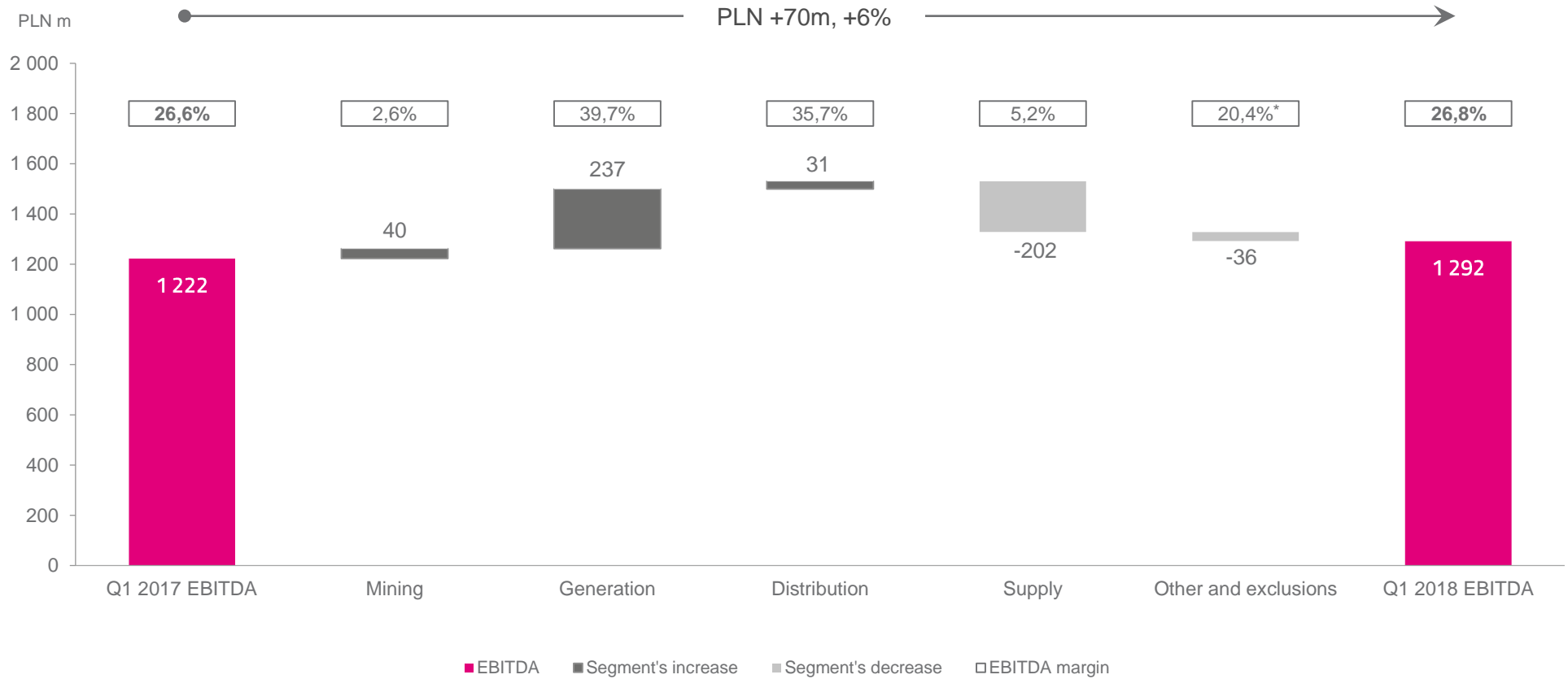
Key segments' Q1 2018 results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	385	1 172	1 789	3 454	(1 974)
EBITDA	10	465	638	178	1
EBIT	(23)	372	372	176	(20)
CAPEX	39	243	273	0.2	13



* Items not included in the segments presented

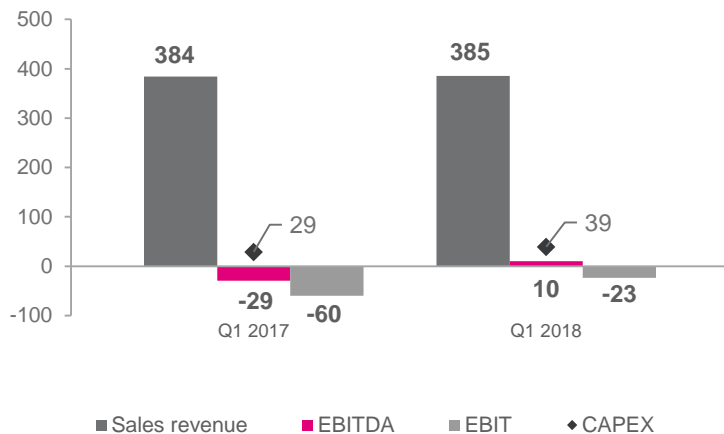
Q1 2018 EBITDA



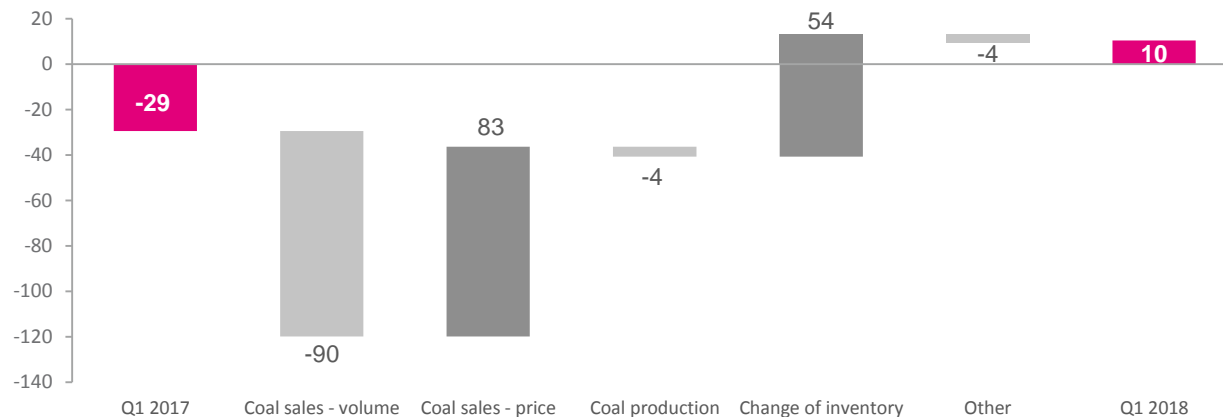
* Other operations segment's EBITDA margin

Mining Segment – Q1 2018

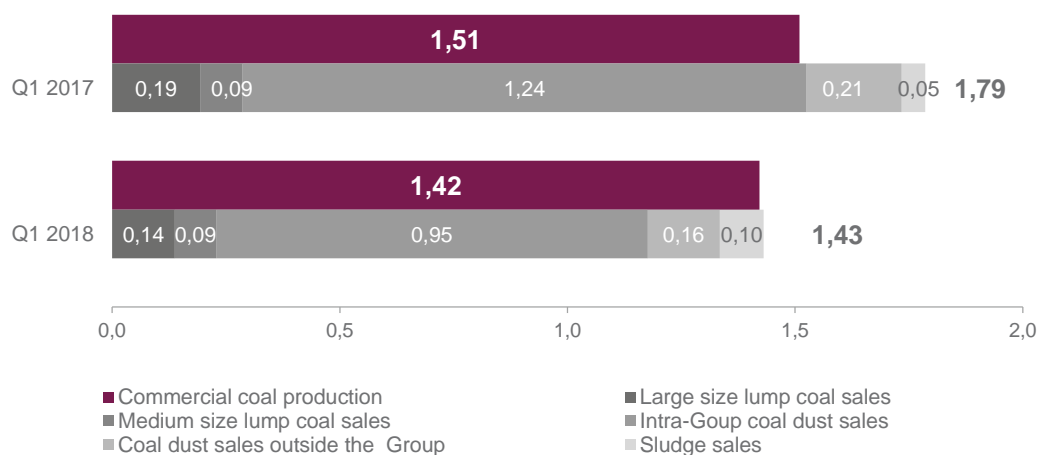
Financial data [PLN m]



EBITDA change [PLN m]



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



• 22.4% increase of the sold coal unit price



• 6.0% decline of commercial coal production



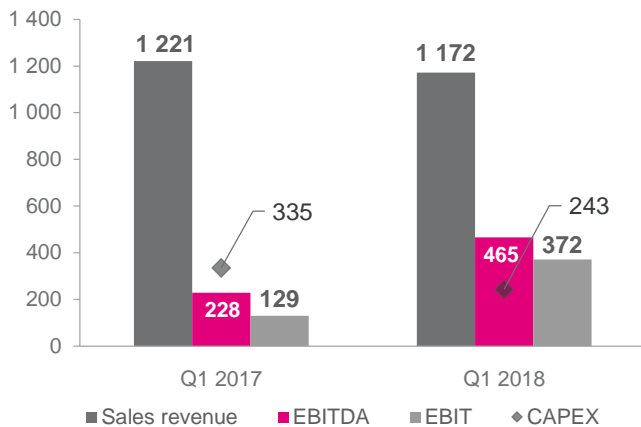
• 7.0% higher unit mining cash cost* (up from 193 PLN/Mg to 206 PLN/Mg)



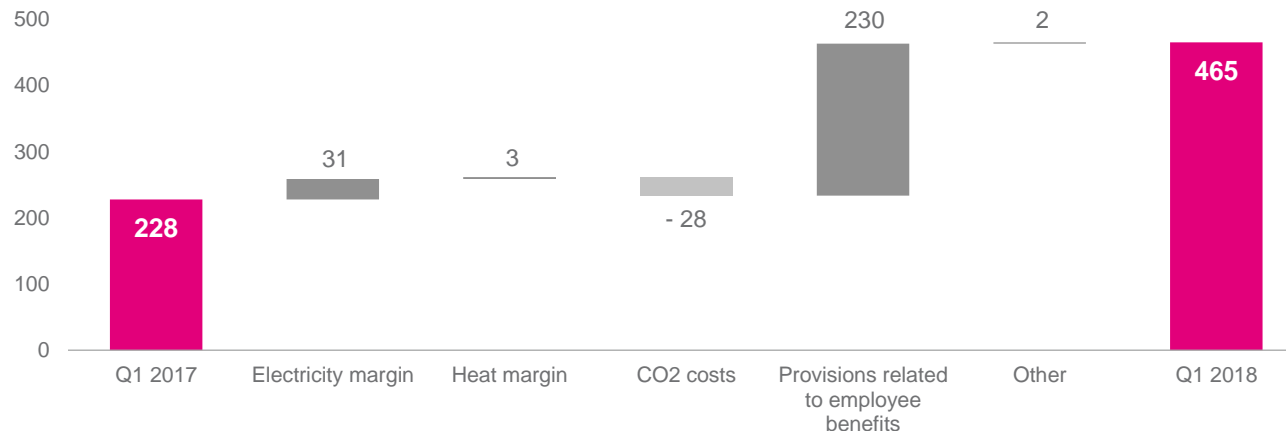
* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the Company's cash flow

Generation Segment – Q1 2018

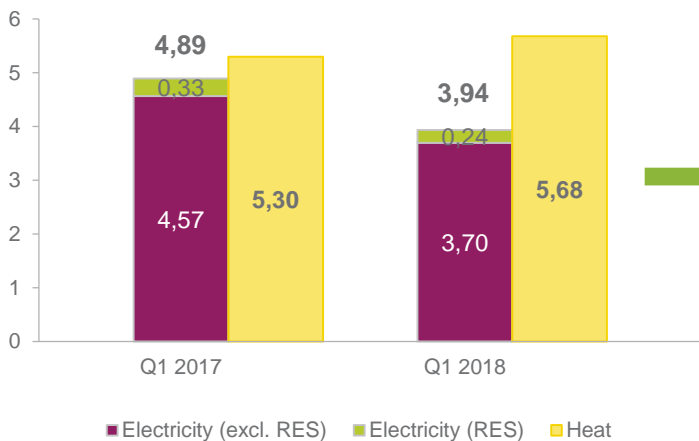
Financial data [PLN m]



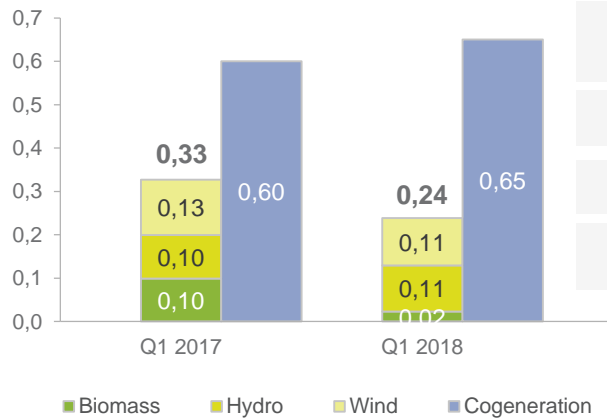
EBITDA change [PLN m]



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



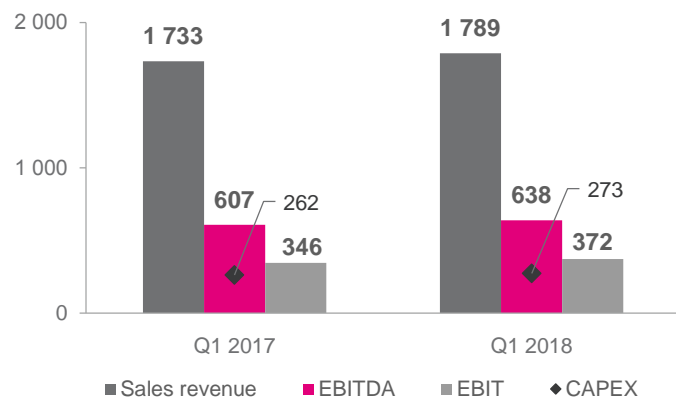
RES and cogeneration production [TWh]



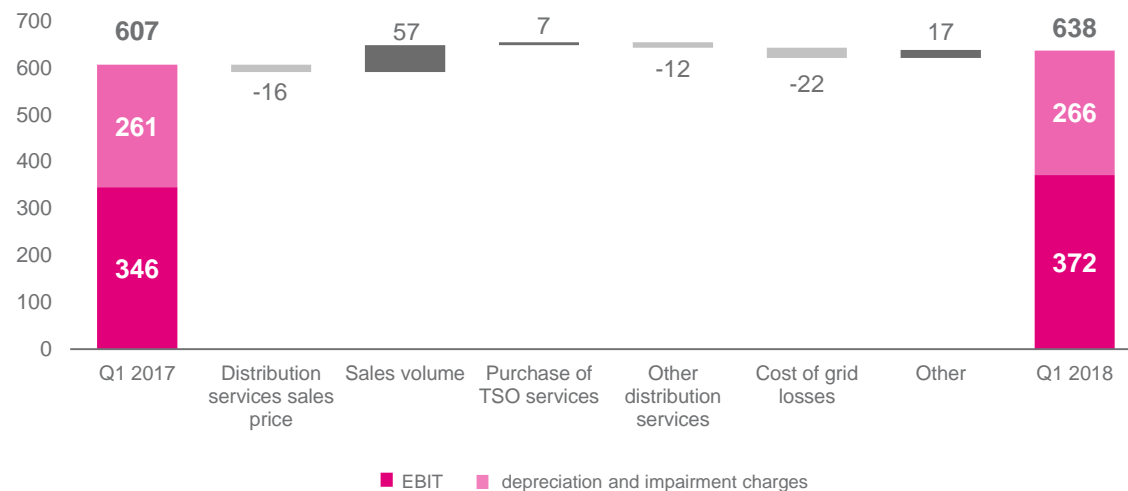
- Beneficial impact of dissolving provisions related to employee benefits ✓
- Increase of electricity prices ✓
- Increase of CO2 emission allowances prices -
- Increase of coal prices -

Distribution Segment – Q1 2018

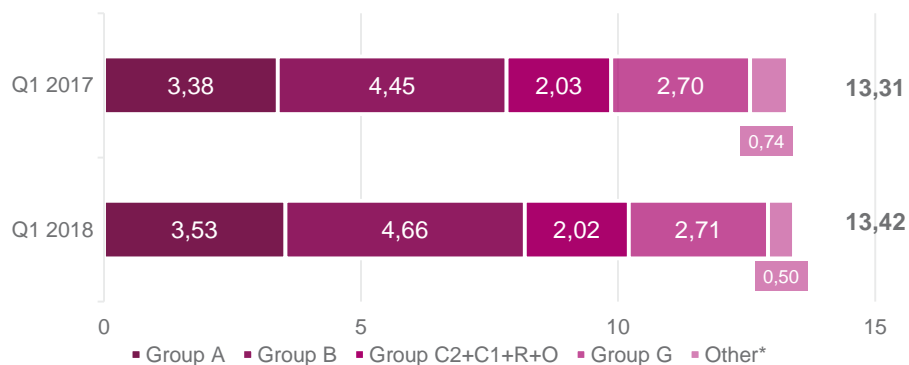
Financial data [PLN m]



EBITDA change [PLN m]



Electricity distribution [TWh]

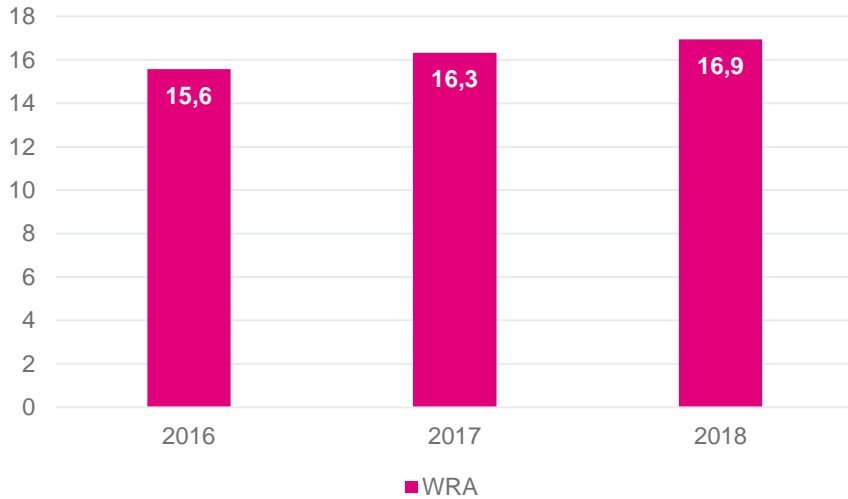


* Neighboring DSO and exports

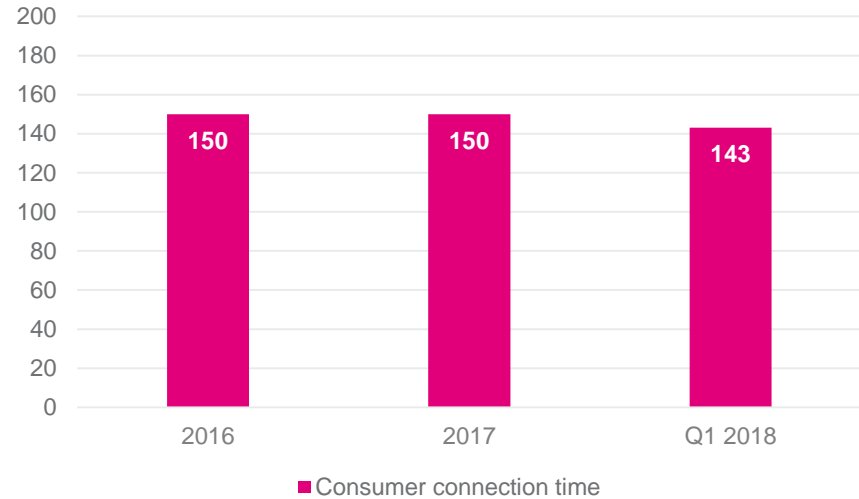
- Drop of approved tariff by 1.54 PLN/MWh (1.2%) -
- Higher electricity distribution services sales volume by 114 GWh (0.9%), mainly in the manufacturing industry (groups A and B) in correlation to GDP growth ✓
- One-off dissolving of the provision related to the adjustment (112 GWh) ✓
- Increase of the balancing difference indicator by 0.50 pp, increase of the price of balancing electricity within the Group by 2.5% -

Distribution Segment – key parameters

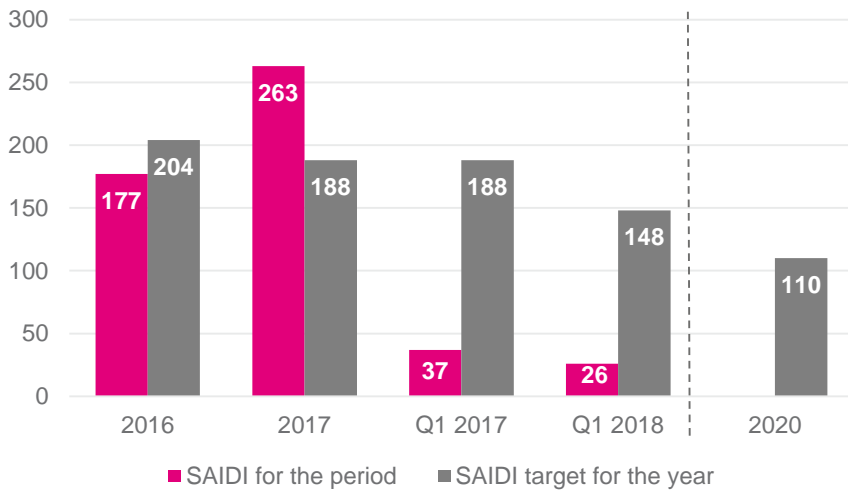
Regulatory Asset Base [PLN bn]



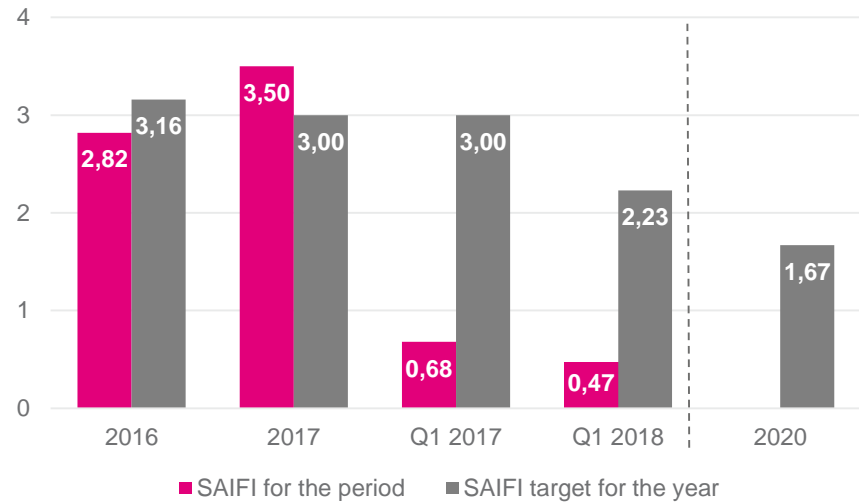
Customer connection time [days]



SAIDI [min.]

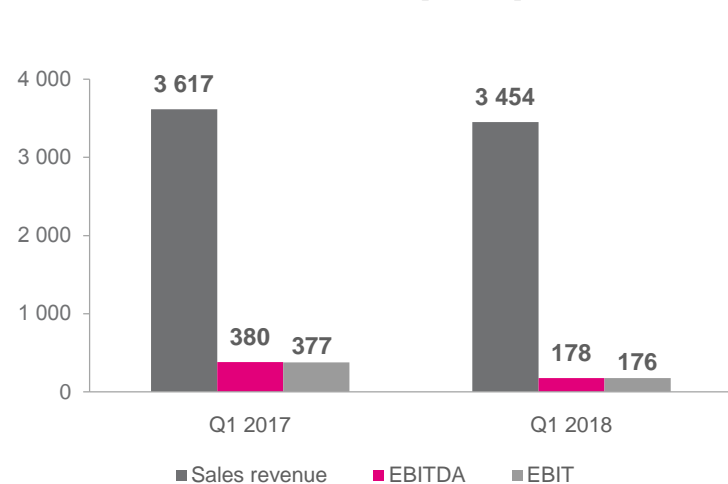


SAIFI [number]

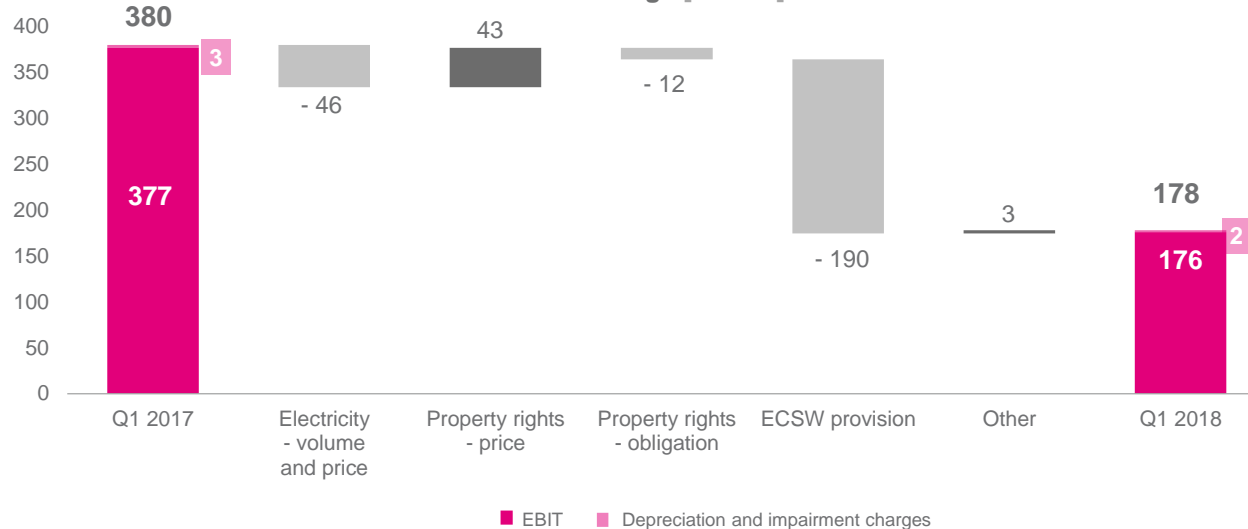


Supply Segment – Q1 2018

Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity supply [TWh]

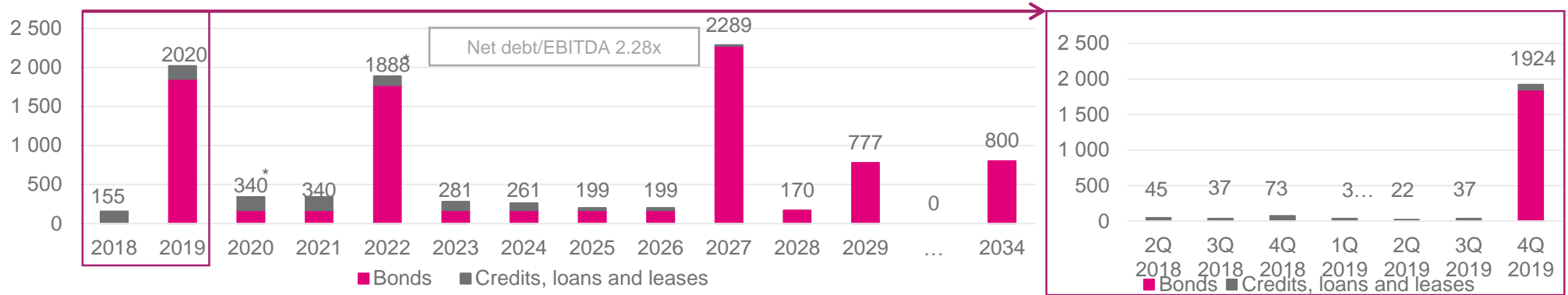


- Increase of the cost of purchasing black energy -
- Change of the obligation to redeem property rights: for PM OZE from 15.4% to 17.5% , for PM OZE-BIO from 0.6% to 0.5%, for PMGM from 7% to 8% and PMMET from 1.8% to 2.3% -
- Lower purchase prices of PM OZE to be redeemed ✓

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

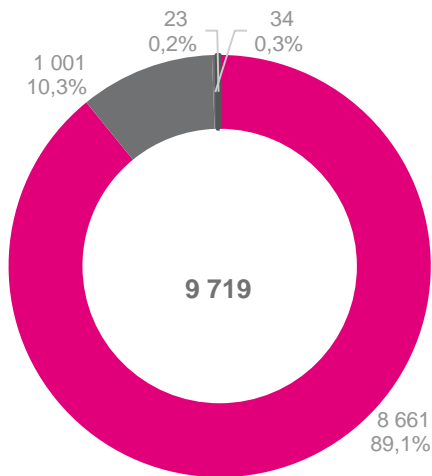
Debt and financing

TAURON Group's debt maturity as of 31.03.2018 [PLN m]

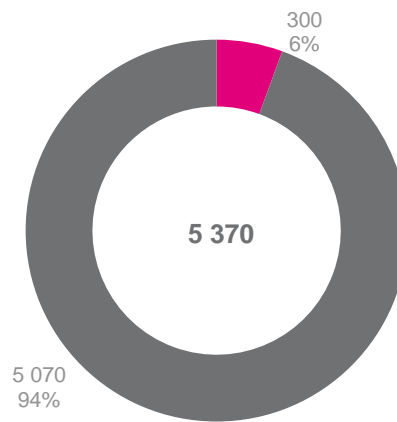


* Assuming rollover of bonds issued as part of the Bond Issue Program (maturity date in accordance with issue terms and conditions is 2020, rollover until the end of the funds availability period, i.e. until 2022)

TAURON Group's debt structure as of 31.03.2018 [PLN m]

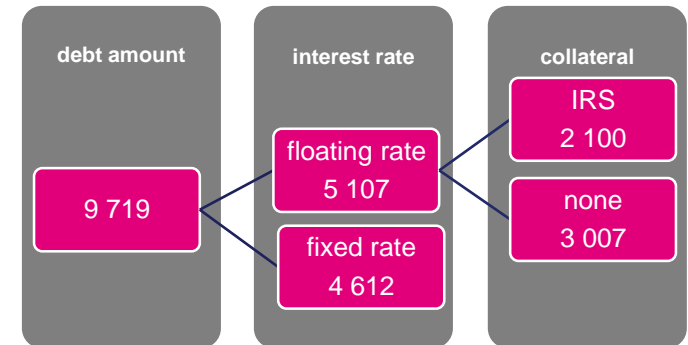


Financing available to TAURON Group as of 31.03.2018 [PLN m]



- Financial debt (nominal value of debt due to credits, loans, leases and bonds) as of 31.03.2018 is PLN 9 719m
- Weighted average maturity of debt as of 31.03.2018 is 83 months (assuming bonds rollover until 2022)
- EUR denominated debt (eurobond issue, NSV and EIB bond issues) represents 37% of the total debt

Debt structure based on interest rate [PLN m]



■ Bonds ■ EIB loans ■ NFOŚiGW / WFOŚiGW loans ■ Leases

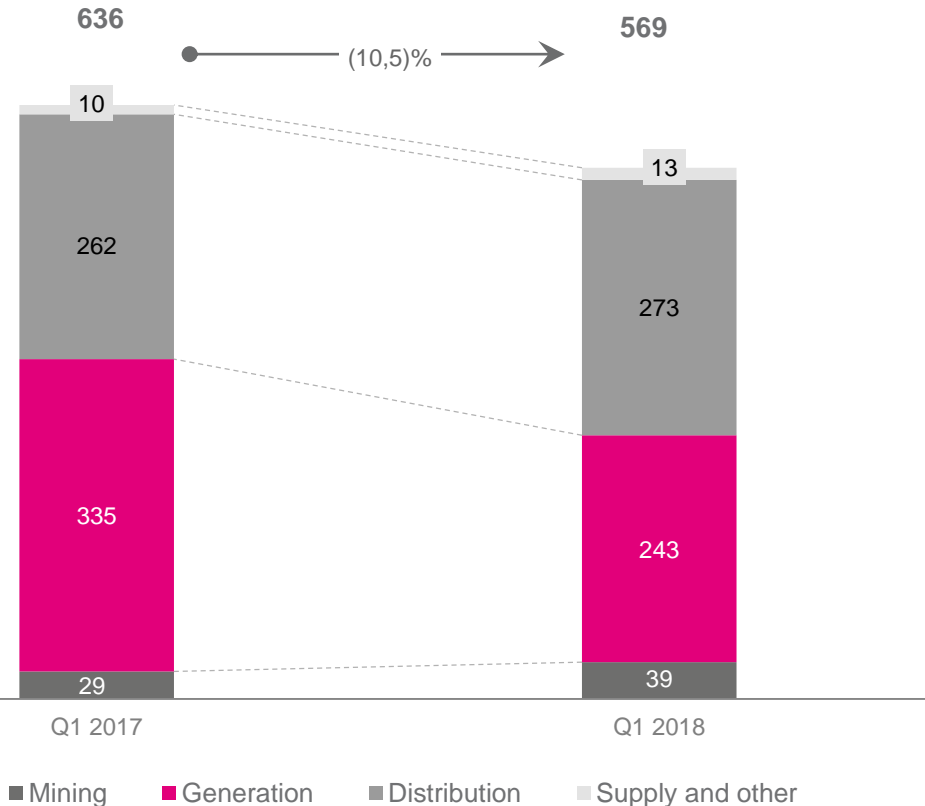
■ Cash pool ■ Bond issue programs

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	-	61	 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	-	-	58	 2020
Construction of Grzegorz shaft at Sobieski coal mine	-	-	20	 2023
CAPEX program at Brzeszcze coal mine	-	-	29	 2025

CAPEX – by segments

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



Key investment projects implemented in Q1 2018:

Mining:

- Brzeszcze coal mine CAPEX program (PLN 16m)
- construction of the Grzegorz shaft at Sobieski coal mine (PLN 13m)
- construction of the 800 m level at Janina coal mine (PLN 7m)





Generation:

- construction of the 910 MW unit at Jaworzno III Power Plant (PLN 190m)
- replacement and refurbishment outlays as well as overhaul components at TAURON Wytwarzanie (PLN 8m)
- connections of new facilities (PLN 4m)
- maintenance and expansion of district heating network (PLN 2m)
- connections of facilities heated using low emission sources to district heating networks (PLN 2m)

Distribution:

- grid asset upgrades (refurbishing) and replacements (PLN 140m)
- construction of new connections (PLN 116m)

Efficiency Improvement Program

Segment	Financial effects realized in 2016 – Q1 2018	Financial effects planned in 2016- Q1 2018	Progress %	Main initiatives
Mining	PLN 180m	PLN 255m	 71%	<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 449m	PLN 367m	 122%	<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 402m	PLN 390m	 103%	<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 195m	PLN 291m	 67%	<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 1 227m	PLN 1 303m	94%	

Under the Voluntary Redundancy Programs, being part of the Efficiency Improvement Program, TAURON Group's headcount was reduced by 1 065 FTEs in the period from 2016 until March 31, 2018.

Thank you – Q & A



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Dom Maklerski BOŚ	Jakub Viscardi
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Pekao Investment Banking	Maksymilian Piotrowski

Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2017		2018 (prices until April 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	169.26	101 755	5.7%	-3.0%
Forward PEAK (Y+Q+M)	208.87	11 417	216.82	12 222	3.8%	7.1%
Forward (weighted average)	164.88	116 338	174.05	113 978	5.6%	-2.0%
SPOT (TGE)	158.14	25 210	194.75**	27 000	23.2%	7.1%
Weighted average total	163.68	141 548	178.02	140 978	8.8%	-0.4%

Property rights (PLN/MWh)			
Certificate type	Market prices (Q1 2018 weighted average)	Substitution fee and obligation for:	
		2017	2018
OZE (PMOZE_A)	63.04	300.03 (Jan-Sep) 92.03 (Sep-Dec) (15.4%)	48.53 (17.5%)
RES from biogas plants (PMOZE_BIO)	318.07	300.03 (0.6%)	300.03 (0.5%)
Coal-fired cogeneration (PMEC-2017)	9.82	10.00 (23.2%)	9.00 (23.2%)
Gas-fired cogeneration (PMGM-2017)	117.55	120.00 (7.0%)	115.00 (8.0%)
Methane-fired cogeneration (PMMET-2017)	55.39	56.00 (1.8%)	56.00 (2.3%)

CO ₂ emission allowances (EUA/t)	
CO ₂ market analysts survey* (updated in April 2018)	Price (EUR/t)
2017 average	5.84 EUR/t
2018 average	11.51 EUR/t
2019 average	13.86 EUR/t
2018 average price forecast by TAURON (**updated in April 2018)	11.00-12.00 EUR/t

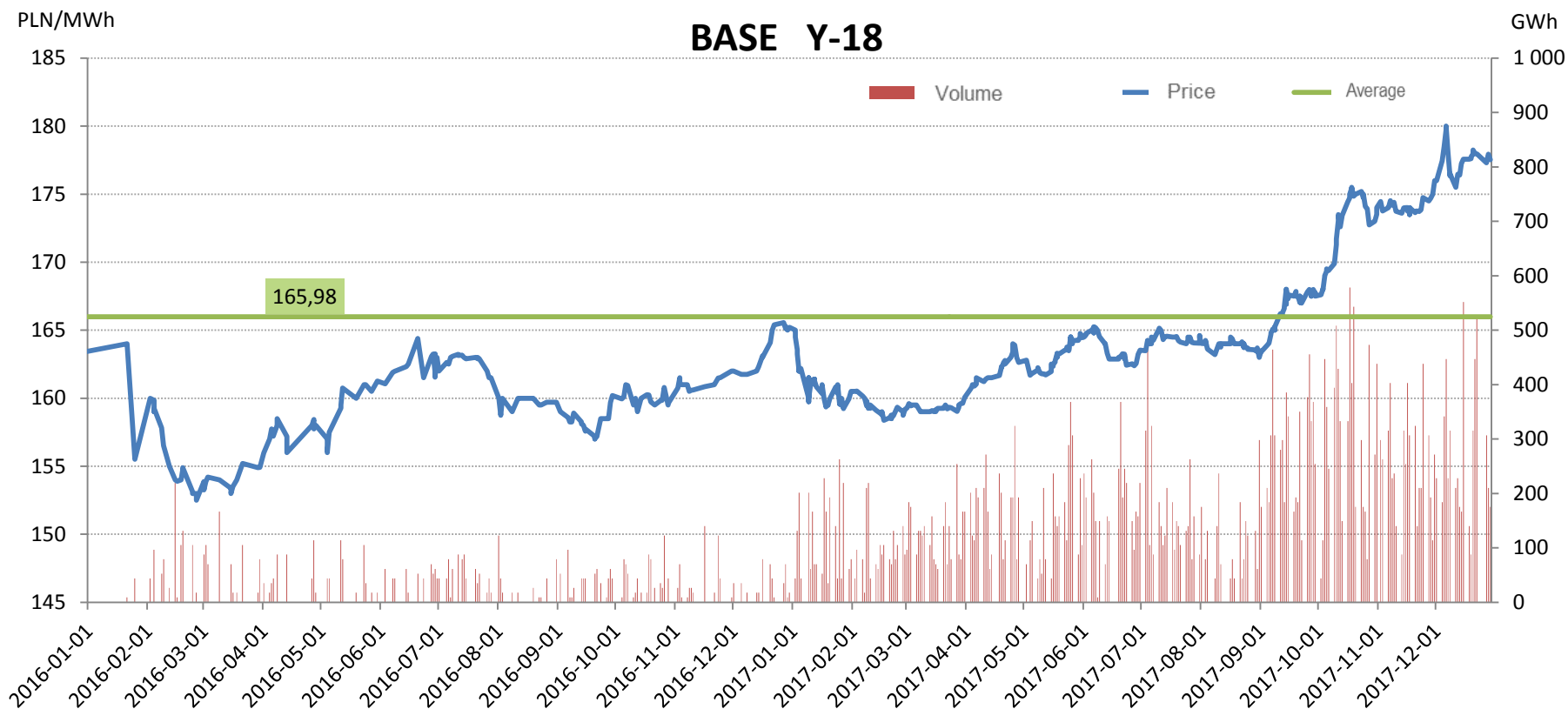
* Sources: Point Carbon, BNEF, Consus, GDF SUEZ Trading, HSE, Mkonline, Societe Generale, TAURON

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

2018 BASE contracts



BASE Y-18



		Average price [PLN/MWh]	Volume [GWh]
Total		165.98	65 227
including	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 volume: 73 108 GWh

2019 BASE contracts



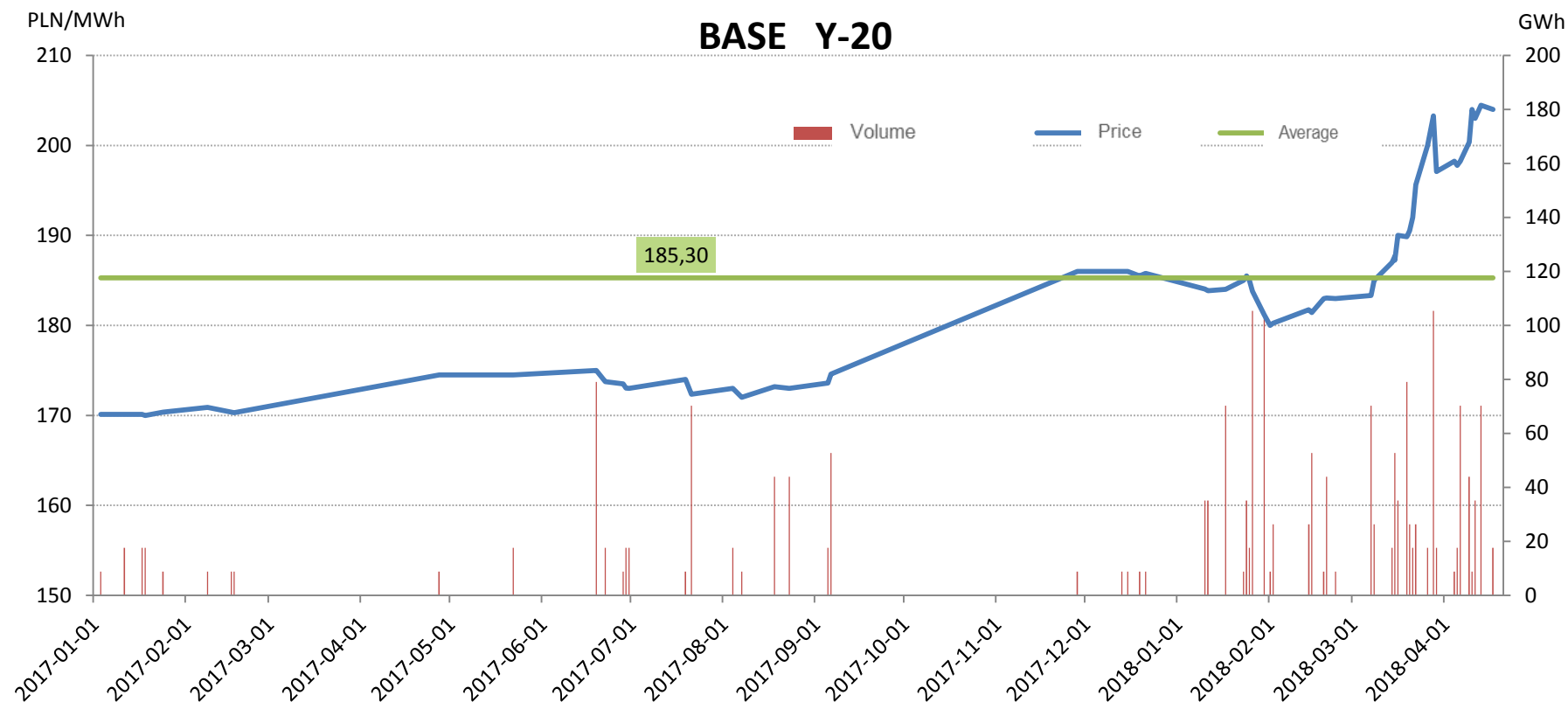
BASE Y-19



		Average price [PLN/MWh]	Volume [GWh]
Total		183.68	31 711
including	TGE	184.05	29 994
	non TGE	177.23	1 717

Average electricity price that takes into account 2019 one year BASE and PEAK contracts: 185.33 PLN/MWh, total 2019 BASE and PEAK volume: 32 916 GWh

2020 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		185.30	1 950
including	TGE	185.27	1 924
	non TGE	187.25	26

Average electricity price that takes into account 2020 one year BASE and PEAK contracts: 186.17 PLN/MWh, total 2020 BASE and PEAK volume: 1 988 GWh

Thank you for your attention