



TAURON Group's Q1-3 2018

Financial Results

November 7, 2018

Agenda of the presentation



Filip Grzegorzczak – President of the Management Board, CEO

- Key data and highlights
- Investment projects and capex
- Efficiency Improvement Program



Marek Wadowski – Vice-President of the Management Board, CFO

- Macroeconomic and market situation
- Financial data
- Segment performances
- Debt and financing

Q1-3 2018 key data

TAURON Group's Q1-3 2018 financial results

[PLN m]		Q1-Q3 2018 vs Q1-Q3 2017	
Sales revenue	13 302	3%	
EBITDA	2 972	1%	
Net profit*	853	(28)%	
CAPEX	2 325	5%	
Net debt/EBITDA	2.24x	down 0.03 (vs 31.12.2017)	up 0.13 (vs 30.09.2017)

Q1-3 2018 operating data

		Q1-Q3 2018 vs Q1-Q3 2017
Commercial coal production [ton m]	3.61	(23)%
Electricity generation [TWh]	11.90	(15)%
Heat production [PJ]	7.42	(6)%
Electricity distribution [TWh]	38.84	1%
Retail electricity supply [TWh]	25.37	(1)%

* attributable to the shareholders of the parent company

Q3 2018 key data

TAURON Group's Q3 2018 financial results

[PLN m]		Q3 2018 vs Q3 2017	
Sales revenue	4 476	9%	
EBITDA	778	(2)%	
Net profit*	286	52%	
CAPEX	844	17%	
Net debt/EBITDA	2.24x	down 0.03 (vs 31.12.2017)	up 0.13 (vs 30.09.2017)

Q3 2018 operating data

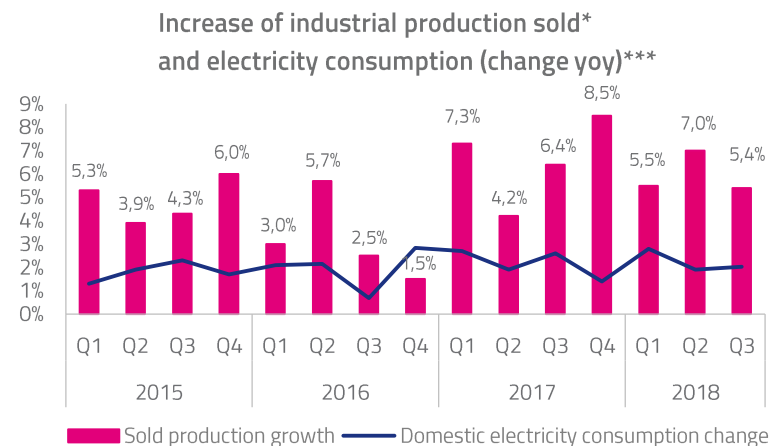
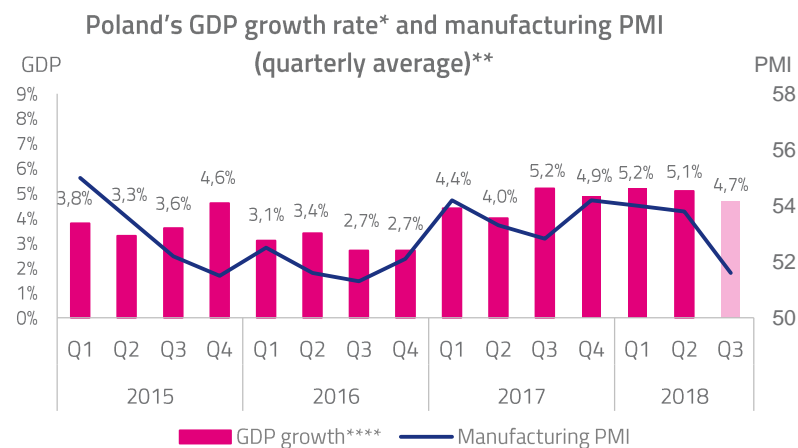
		Q3 2018 vs Q3 2017
Commercial coal production [ton m]	1.09	(20)%
Electricity generation [TWh]	4.35	(5)%
Heat production [PJ]	0.70	(15)%
Electricity distribution [TWh]	12.83	2%
Retail electricity supply [TWh]	8.17	(2)%

* attributable to the shareholders of the parent company

Highlights

March 8	Obtaining of the new financing to complete the construction of the CCGT unit at Stalowa Wola
March 9	Extending of 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 at Jaworzno. Maximum engagement: PLN 880 million
April 6	Dissolving of the provisions related to employee benefits at TAURON Wytwarzanie – positive impact on Q1 2018 EBITDA: PLN 230 million
June 13	TAURON and PFR establish Poland’s first Corporate Venture Capital fund for developing innovations
October 2	Commencement of negotiations on acquiring wind farms with 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
October 18	Signing by TAURON and KGHM of a letter of intent related to cooperation with respect to building an electric vehicles charging infrastructure, developing a carsharing service and pro-ecological activities
October 19	Fulfillment of the last suspending condition in the investment agreement related to the 910 MW unit construction project in Jaworzno – obtaining of the decision of the Head of the National Revenue Administration (APA decision)

Macroeconomic and market situation



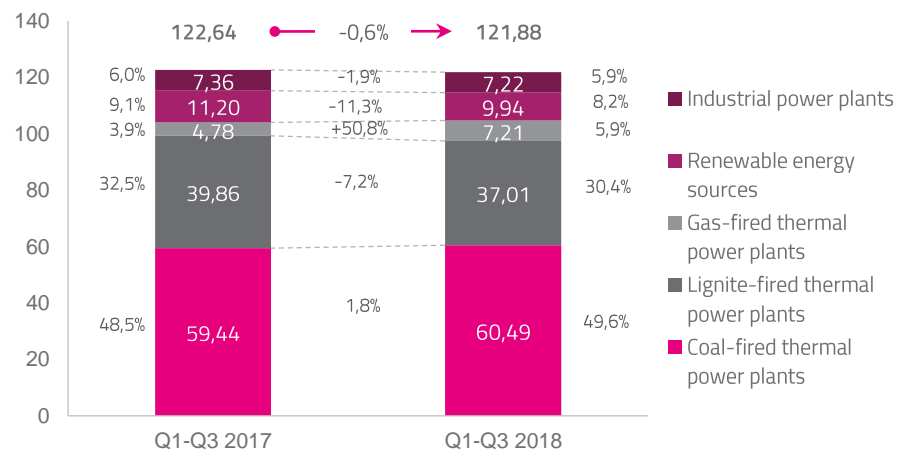
Electricity prices under annual BASE contracts

	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	225.71	105 882
Y-20	251.13	11 050

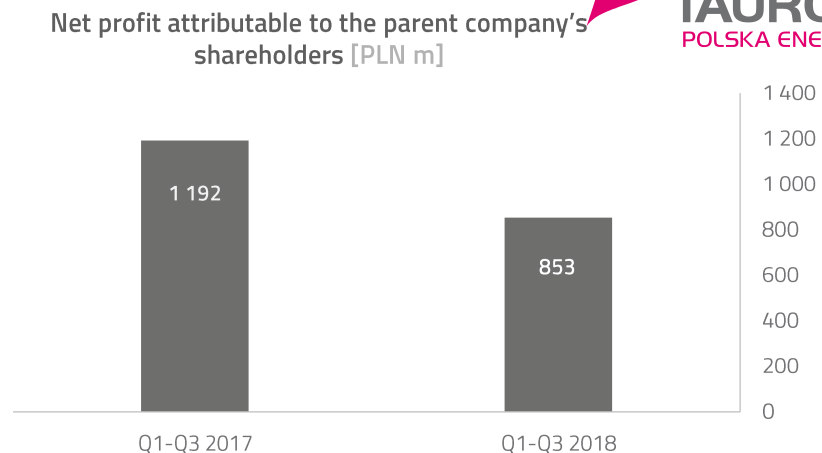
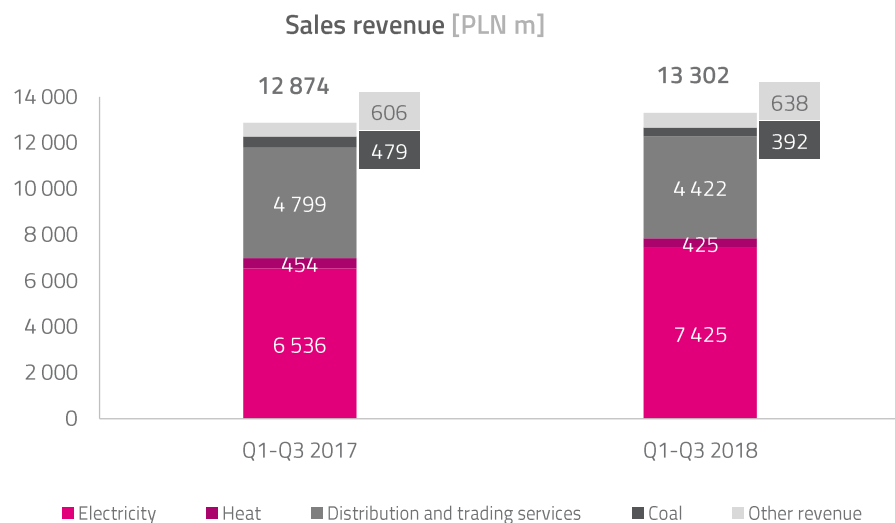
Average electricity prices on the competitive market (acc. to ERO):

- 2014: 163.58 PLN/MWh
- 2015: 169.99 PLN/MWh
- 2016: 169.70 PLN/MWh
- 2017: 163.70 PLN/MWh
- 2018: 191.74 PLN/MWh (estimate)

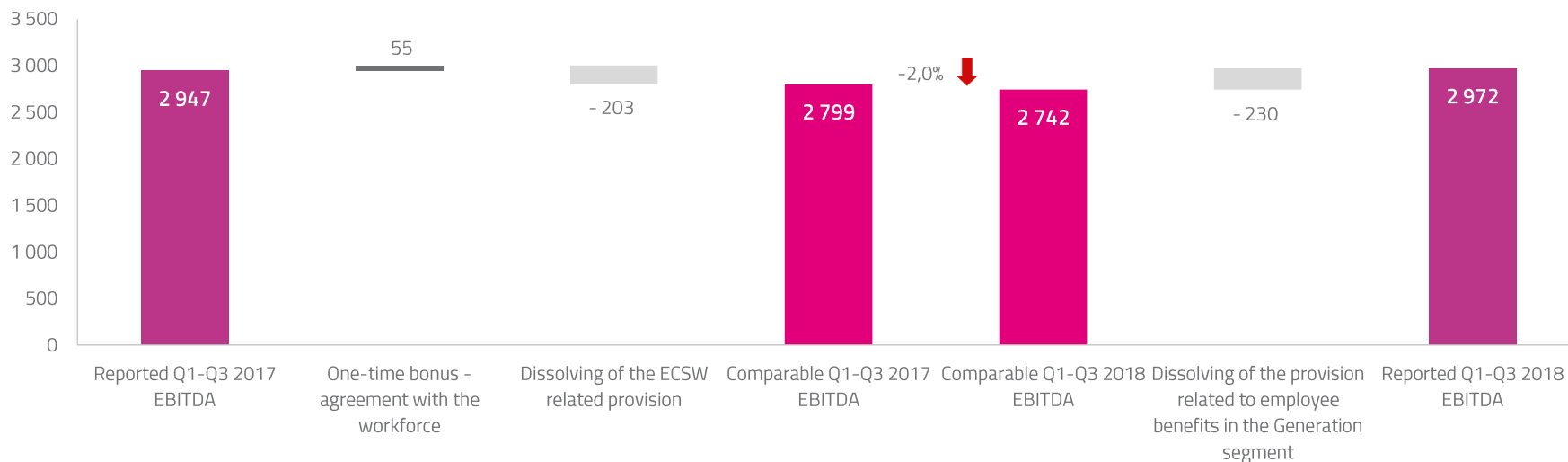
Structure of electricity production in Poland*** [TWh]



Q1-3 key financial data



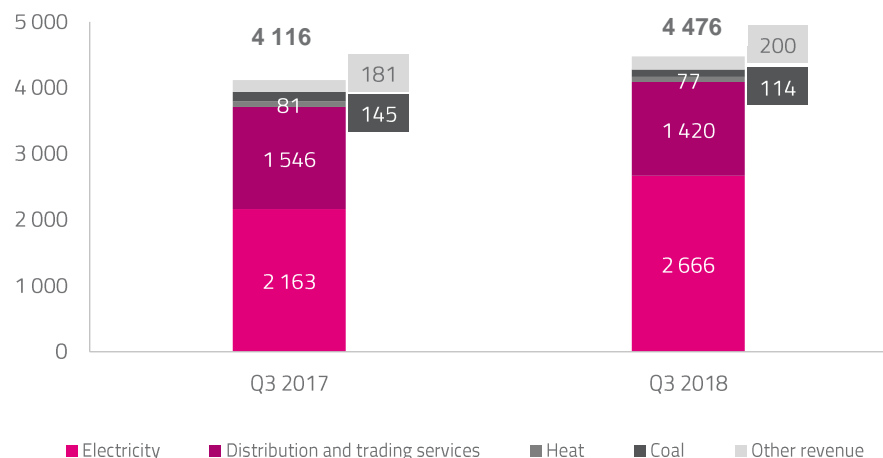
Q1-Q3 2018 EBITDA vs Q1-Q3 2017 EBITDA [PLN m]



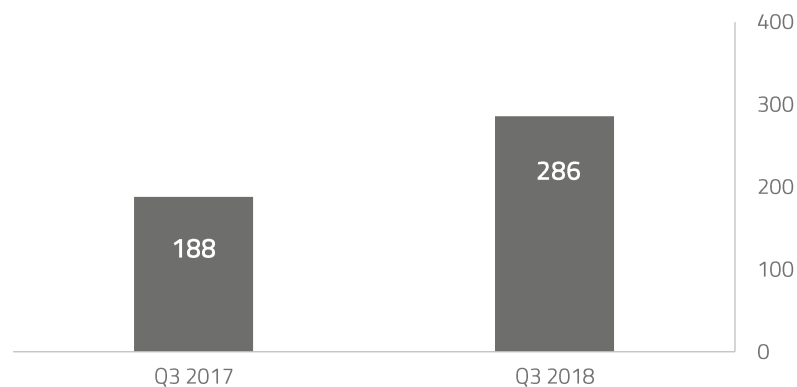
Q3 2018 key financial data



Sales revenue [PLN m]

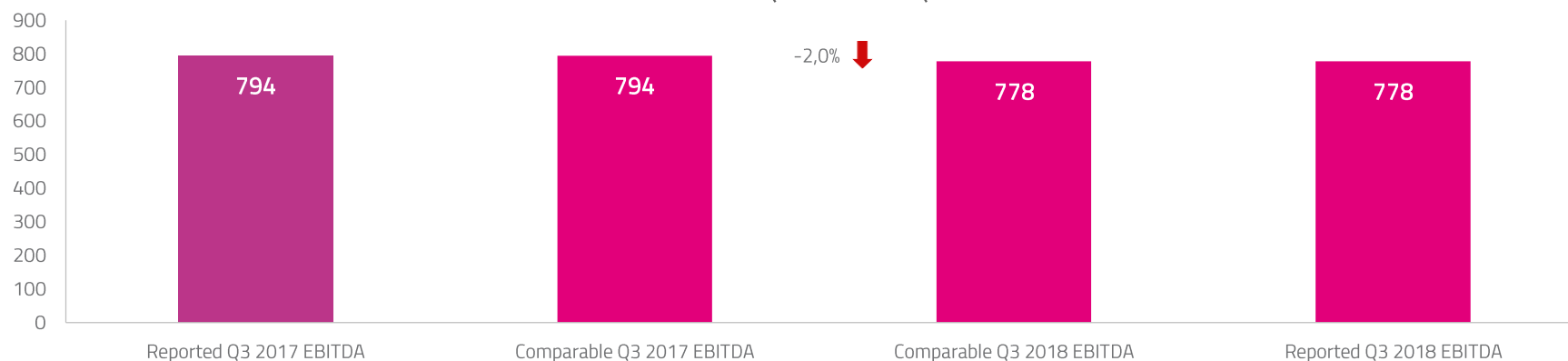


Net profit attributable to the parent company's shareholders [PLN m]



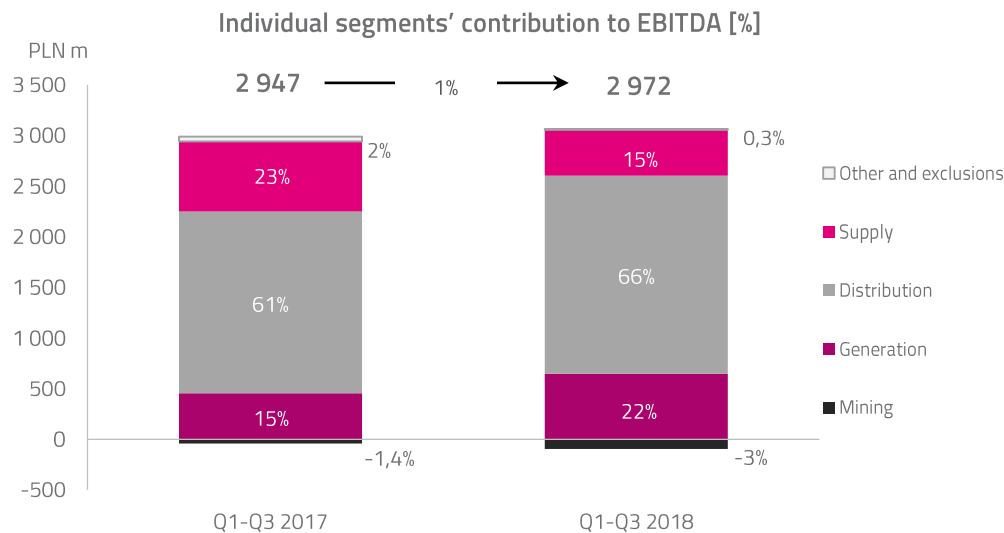
Q3 2018 EBITDA vs Q3 2017 EBITDA [PLN m]

No one-off events in Q3 2018 and Q3 2017



Key segments' Q1-3 2018 results

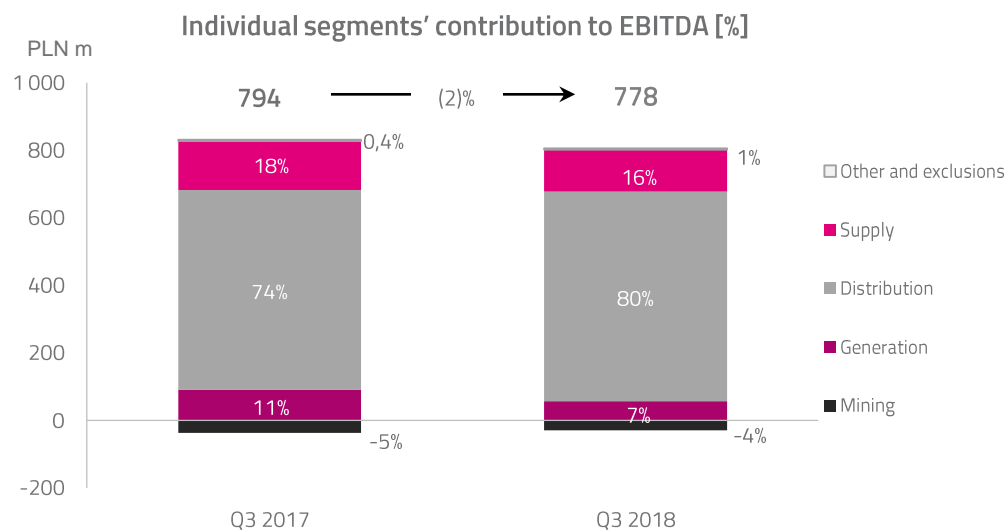
[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	951	3 269	4 569	9 828	(5 315)
EBITDA	(94)	649	1 957	451	10
EBIT	(917)	691	1 143	446	(58)
CAPEX	161	909	1 209	6	40



* Items not included in the presented segments

Key segments' Q3 2018 results

[PLN m]	Mining	Generation	Distribution	Supply	Other and exclusions*
Segment's revenue	273	1 149	1 482	3 415	(1 843)
EBITDA	(29)	57	621	125	4
EBIT	(51)	(50)	347	123	(19)
CAPEX	70	340	415	2	18

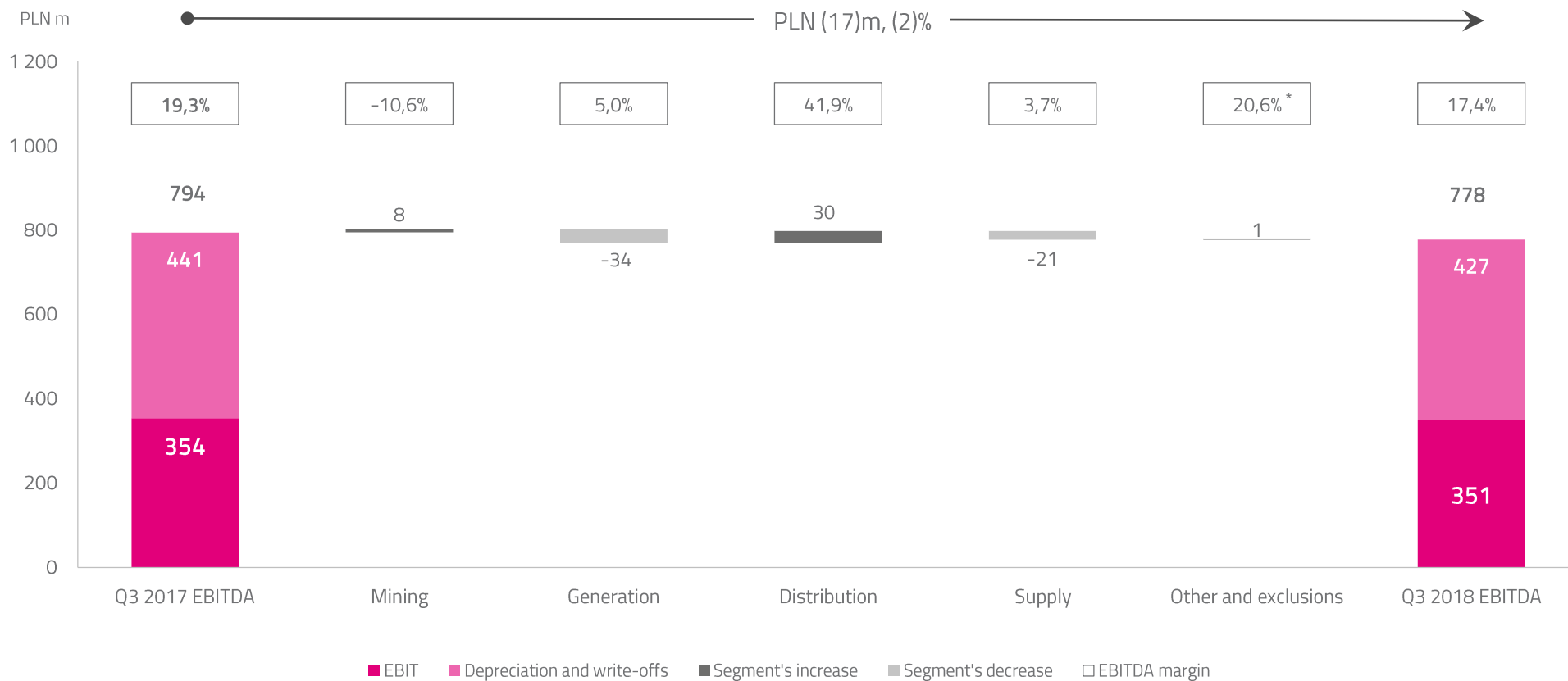


Q1-3 2018 EBITDA



*Other segment's EBITDA margin

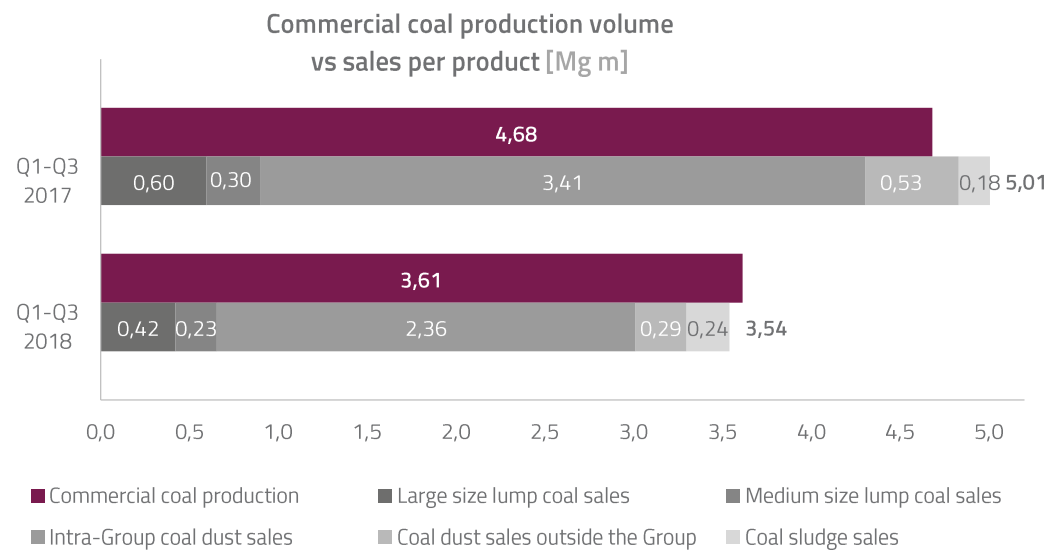
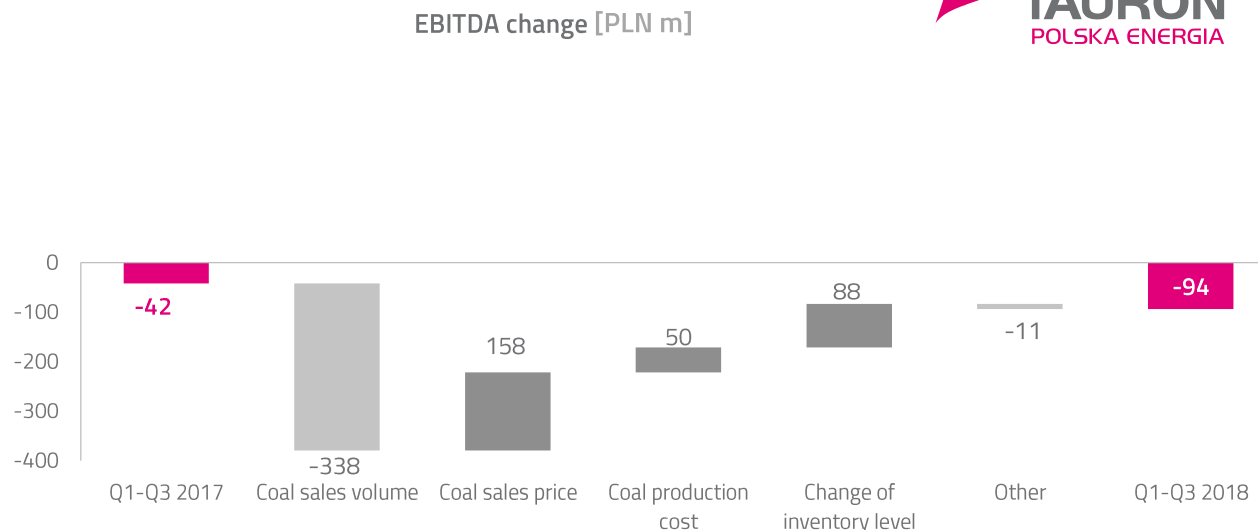
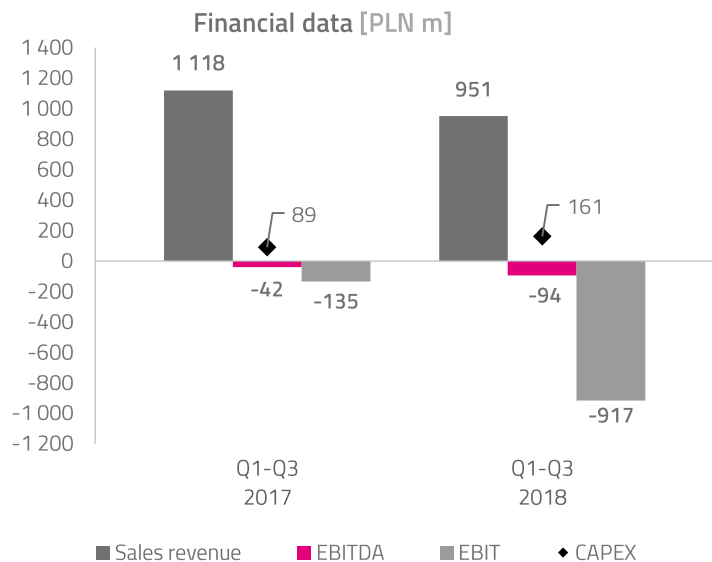
Q3 2018 EBITDA



*Other segment's EBITDA margin

Mining Segment

Mining Segment – Q1-3 2018

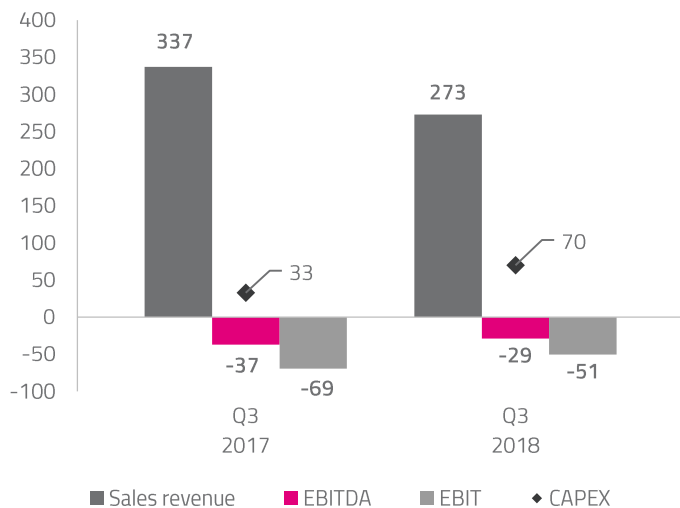


- Increase of the unit price of the coal sold
√
- Decline of the commercial coal production
-
- 31.7% higher unit mining cash cost* (from 186 PLN/Mg to 245 PLN/Mg)
-

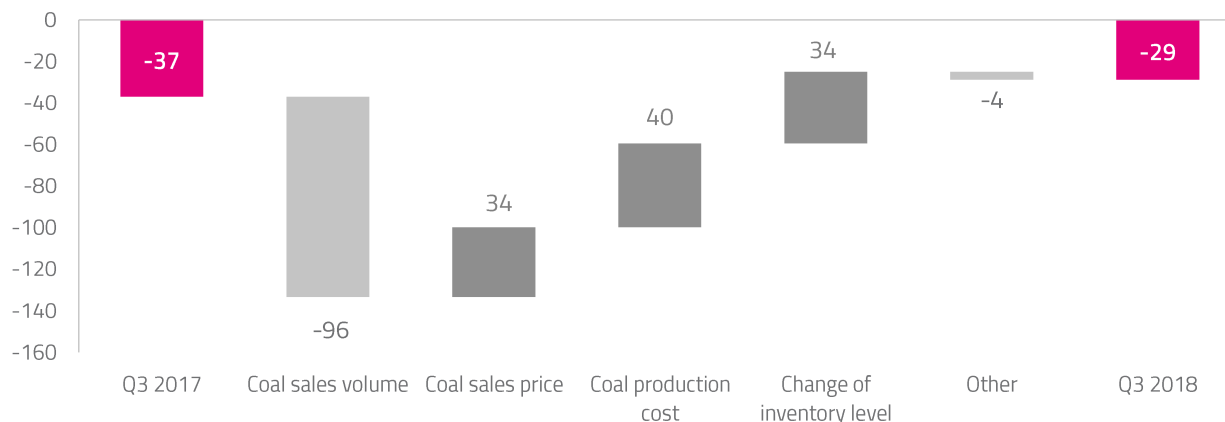
* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the company's cash flow

Mining Segment – Q3 2018

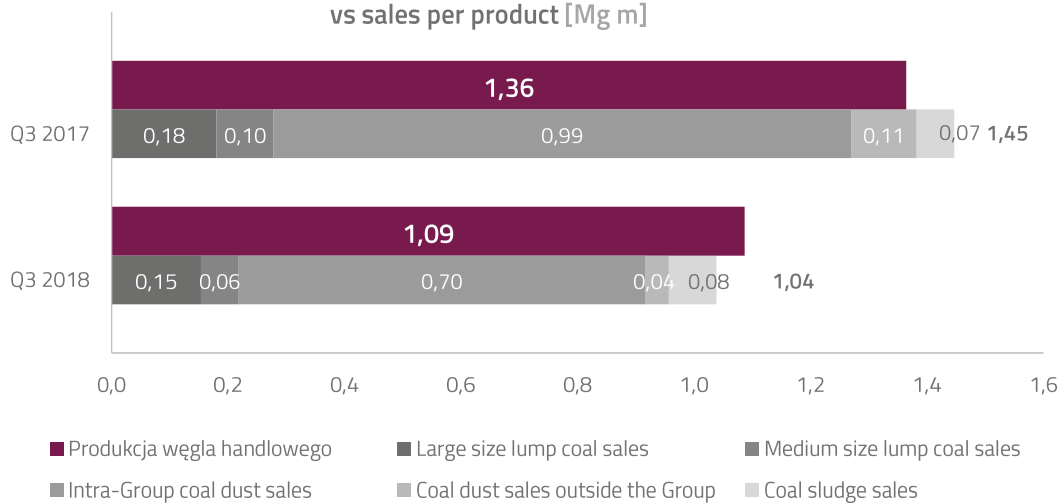
Financial data [PLN m]



EBITDA change [PLN m]



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



▪ Increase of the unit price of the coal sold



▪ Decline of the commercial coal production



▪ 15.6% higher unit mining cash cost* (from 224 PLN/Mg to 259 PLN/Mg)



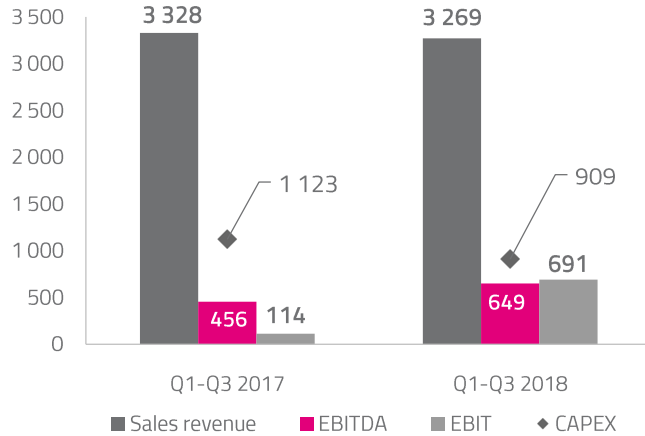
* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the company's cash flow

Generation Segment

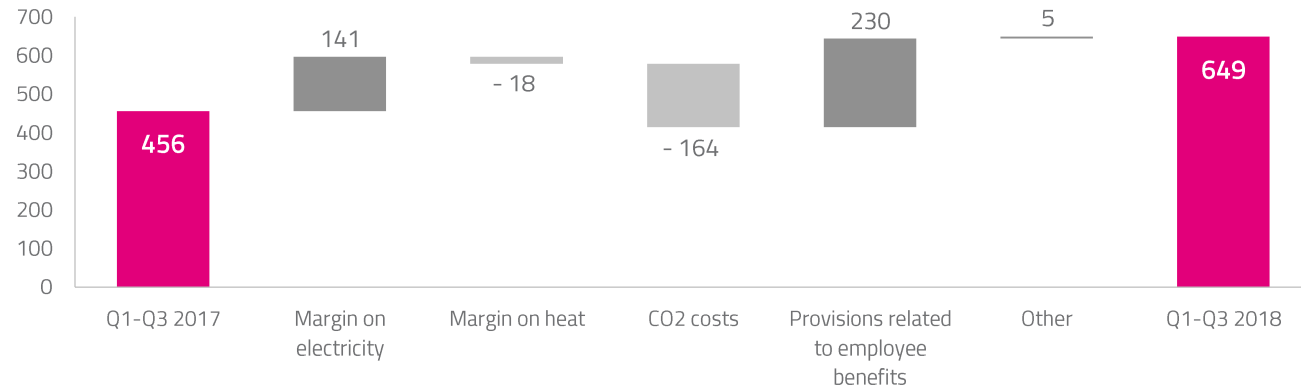
Generation Segment – Q1-3 2018



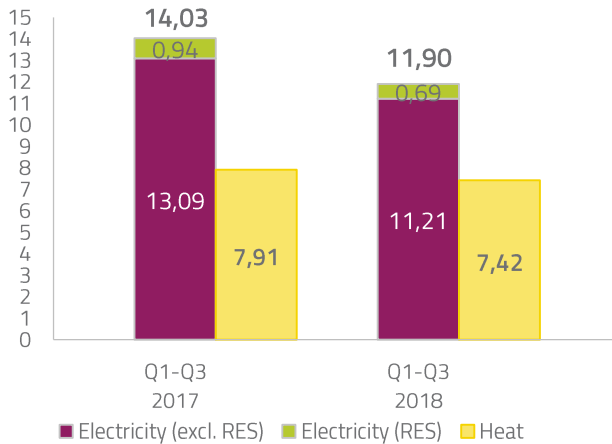
Financial data [PLN m]



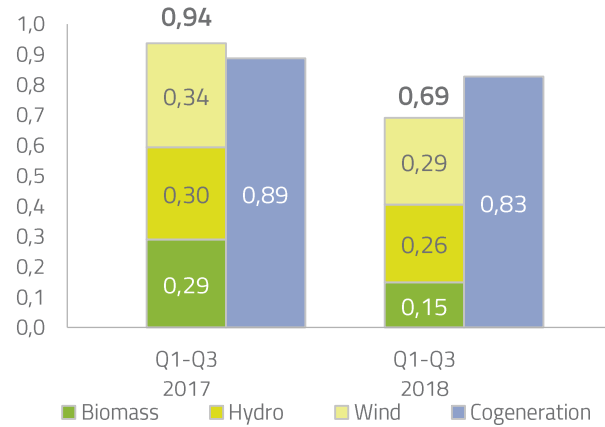
EBITDA change [PLN m]



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



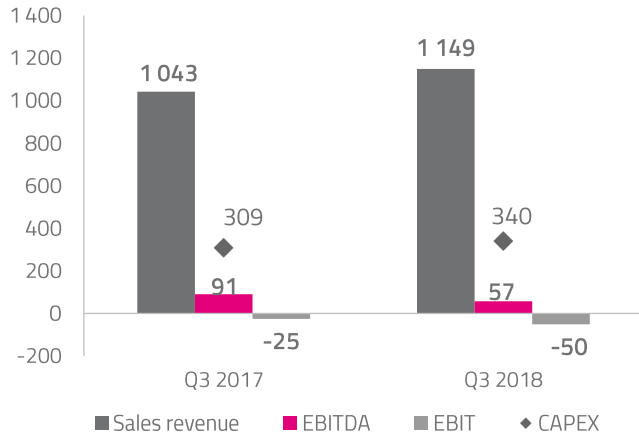
RES and cogeneration production [TWh]



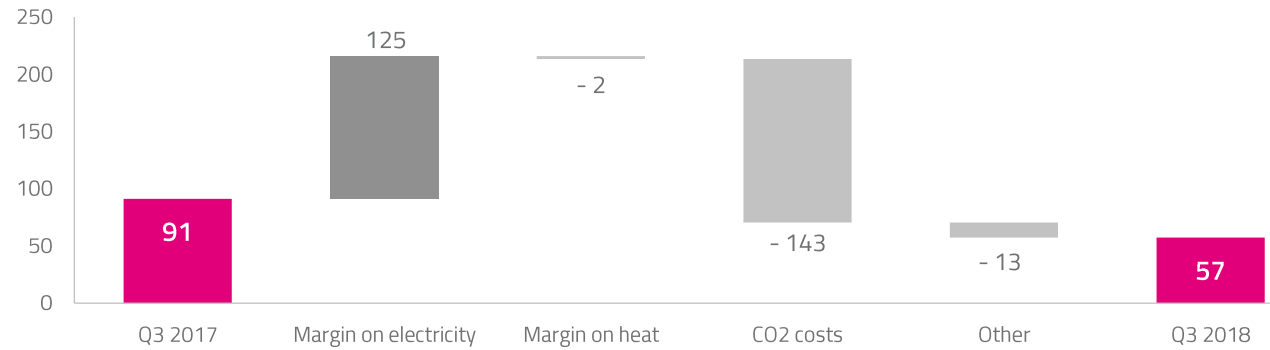
- Favorable impact of dissolving provisions related to employee benefits ✓
- Increase of electricity prices ✓
- Increase of CO₂ emission allowances prices -
- Increase of coal prices -

Generation Segment – Q3 2018

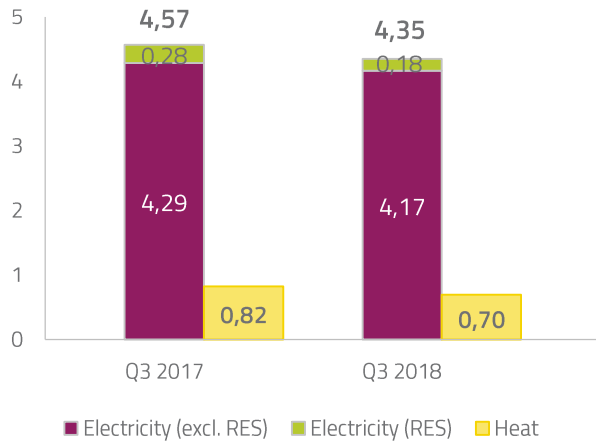
Financial data [PLN m]



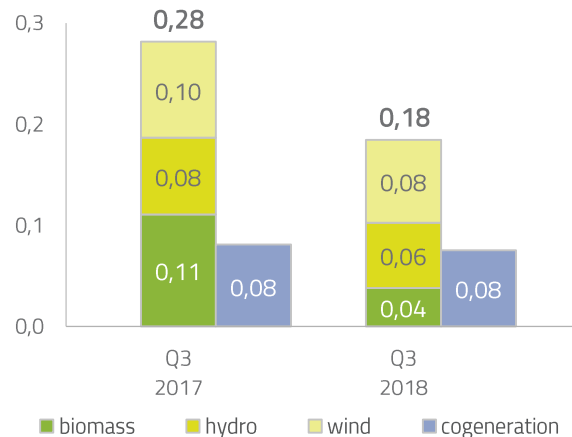
EBITDA change [PLN m]



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



RES and cogeneration production [TWh]

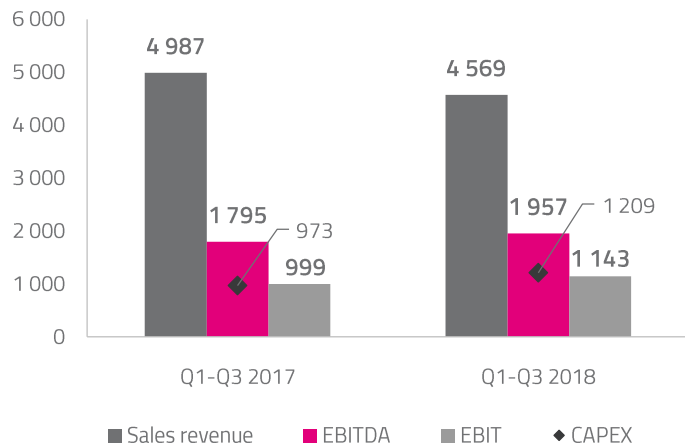


▪ Increase of electricity prices	✓
▪ Increase of the RES property rights prices	✓
▪ Increase of CO ₂ emission allowances prices	-
▪ Increase of coal prices	-

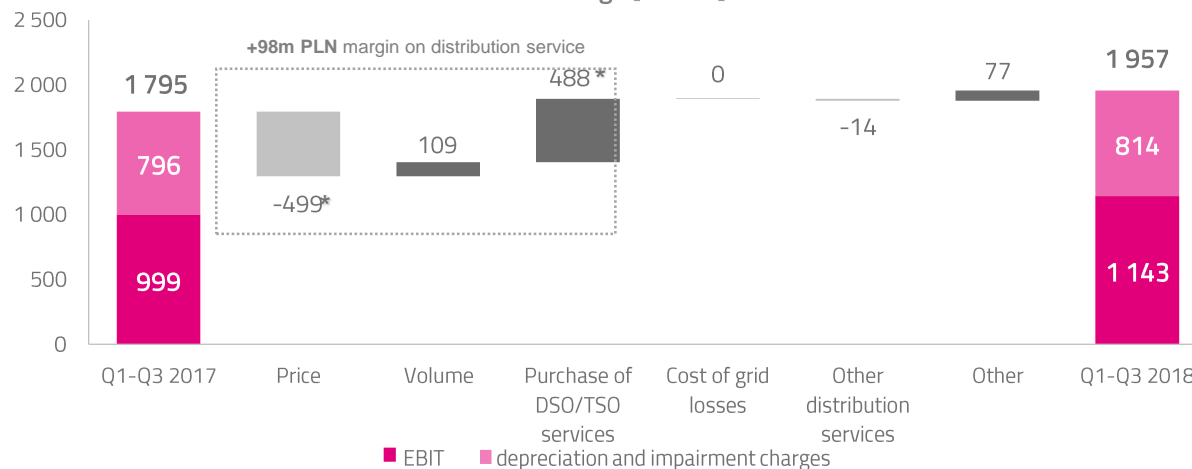
Distribution Segment

Distribution Segment – Q1-3 2018

Financial data [PLN m]

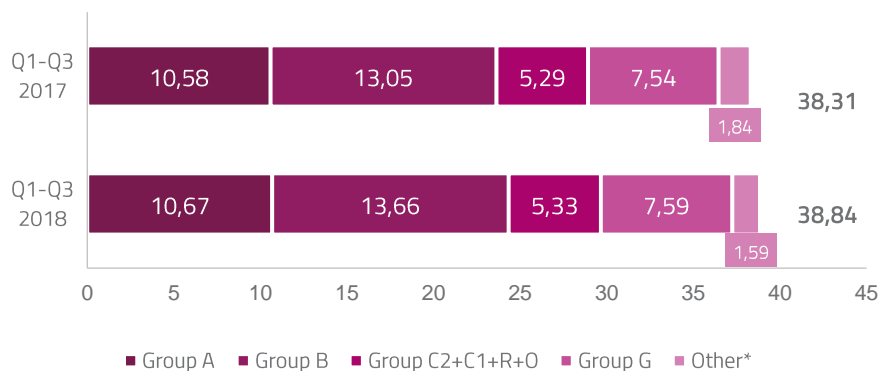


EBITDA change [PLN m]



*Due to the IFRS15 change the transition fee is excluded from the 2018 revenue and costs

Electricity distribution [TWh]



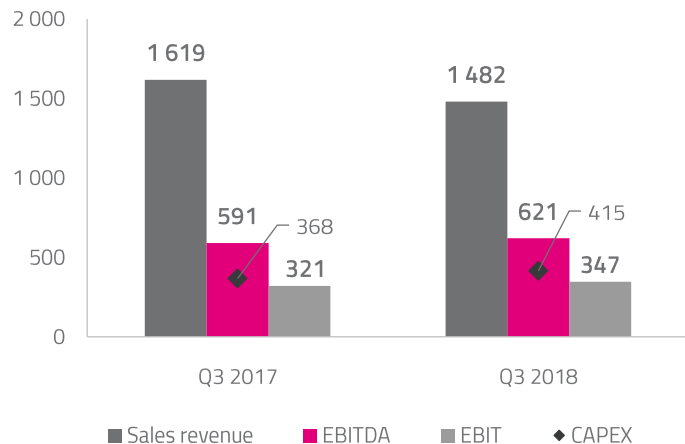
- Increase of the margin on the distribution service sales ✓
- Higher volume of electricity distribution services sales by 533 GWh ✓
- One-off – dissolving of the provision related to the adjustment (112 GWh) ✓
- Decline of fixed costs due to lower labor costs and the assets maintenance costs ✓

■ Group A ■ Group B ■ Group C2+C1+R+O ■ Group G ■ Other*
*neighboring DSO and exports

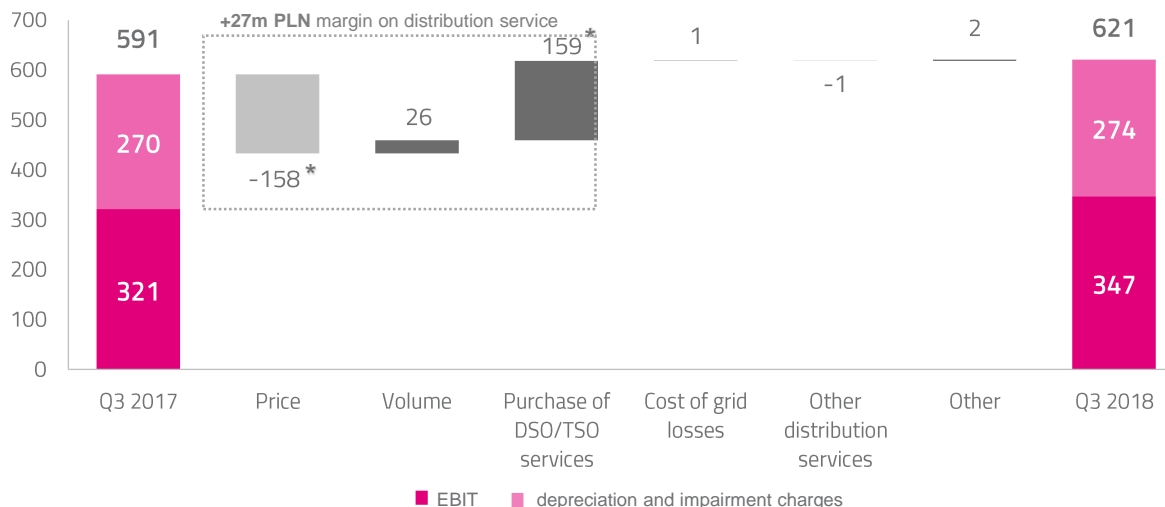
Distribution Segment – Q3 2018



Financial data [PLN m]

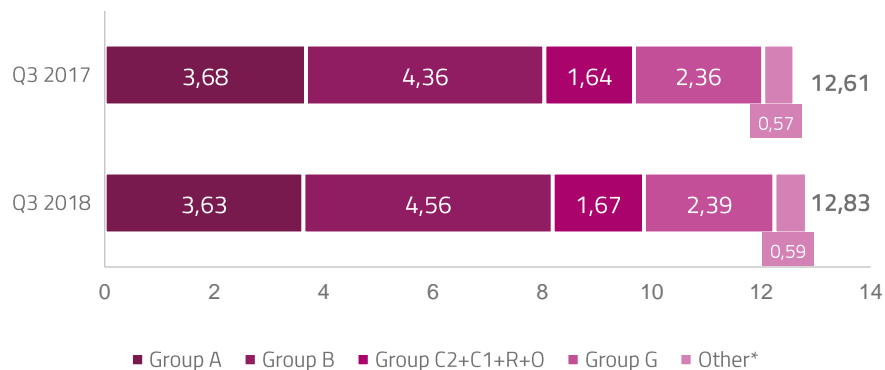


EBITDA change [PLN m]



*Due to the IFRS15 change the transition fee is excluded from the 2018 revenue and costs

Electricity distribution [TWh]



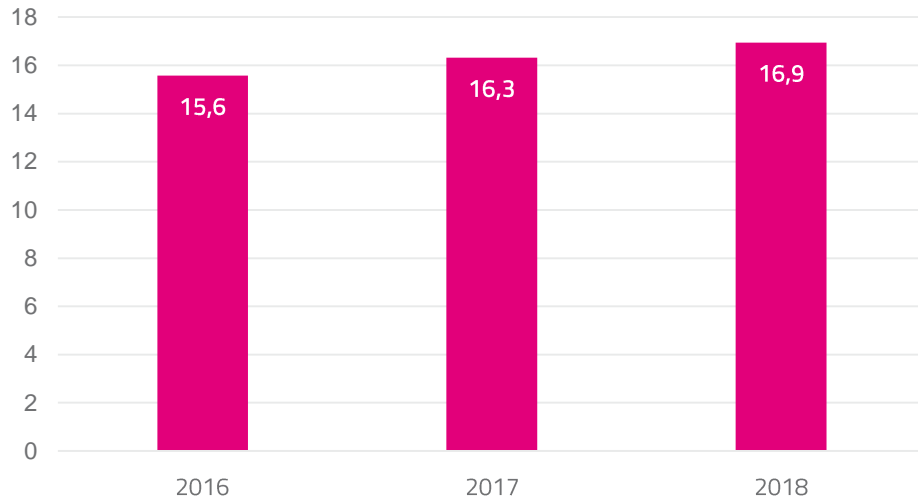
- Increase of the margin on the distribution service sales ✓
- Higher electricity distribution services sales volume by 226 GWh ✓
- Balancing difference indicator lower by 0.3 pp, decrease of the balancing difference electricity volume by 29 GWh ✓

*neighboring DSO and exports

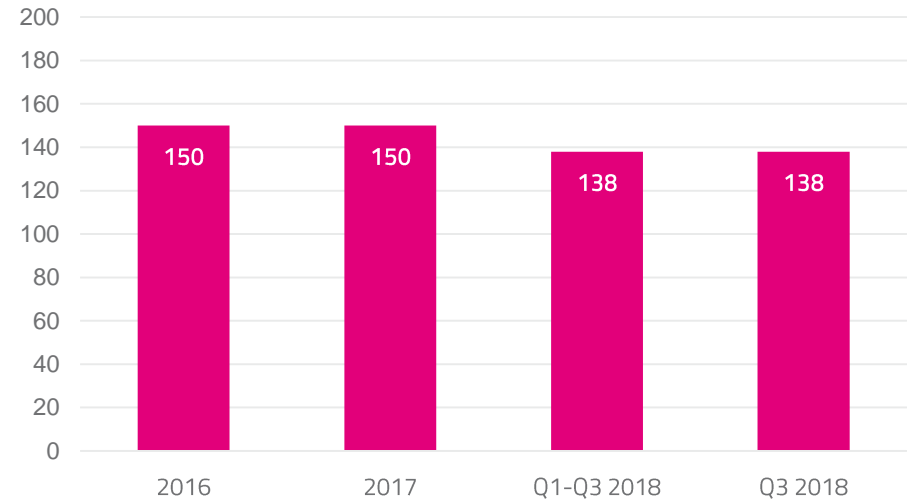
Distribution Segment – key parameters



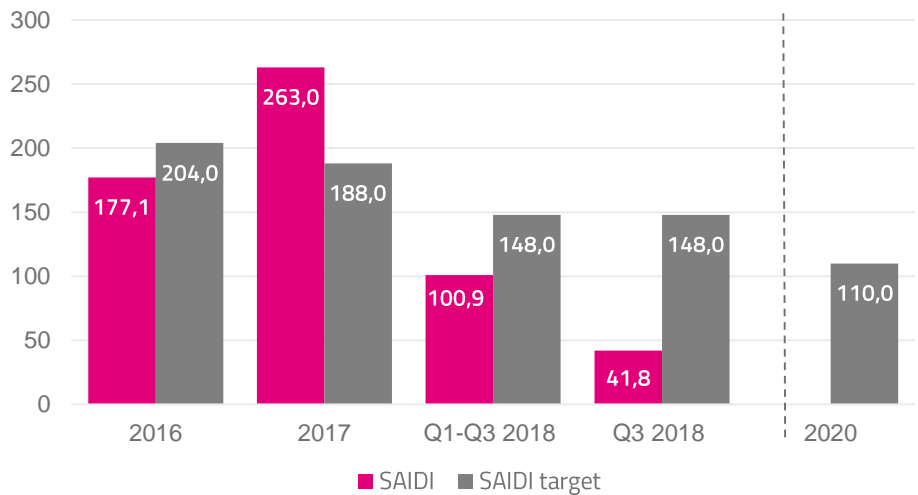
Regulatory Asset Base [PLN bn]



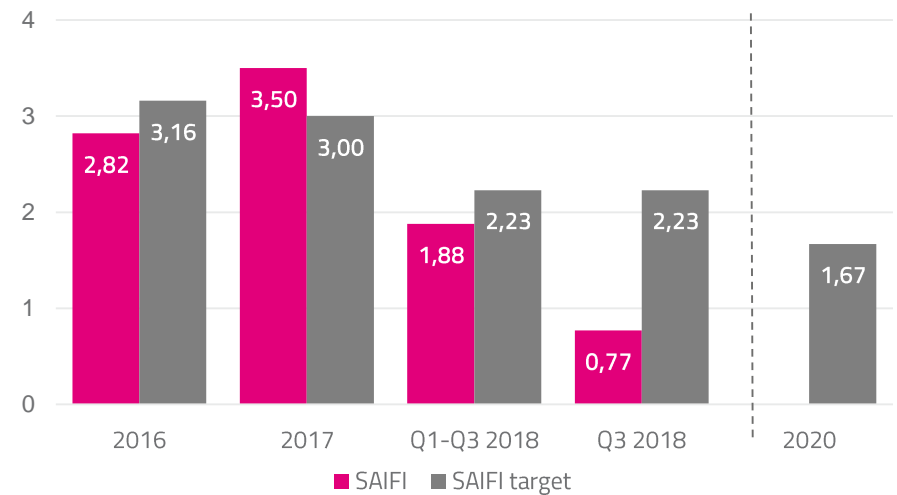
Customer connection time [days]



SAIDI [min.]



SAIFI [number]

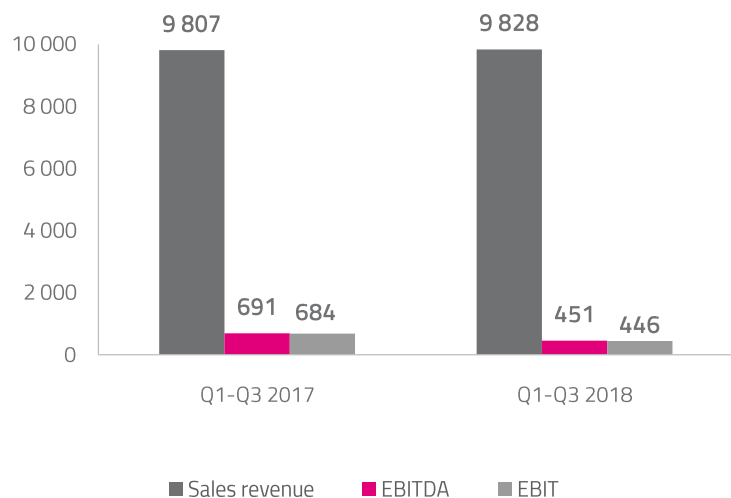


Supply Segment

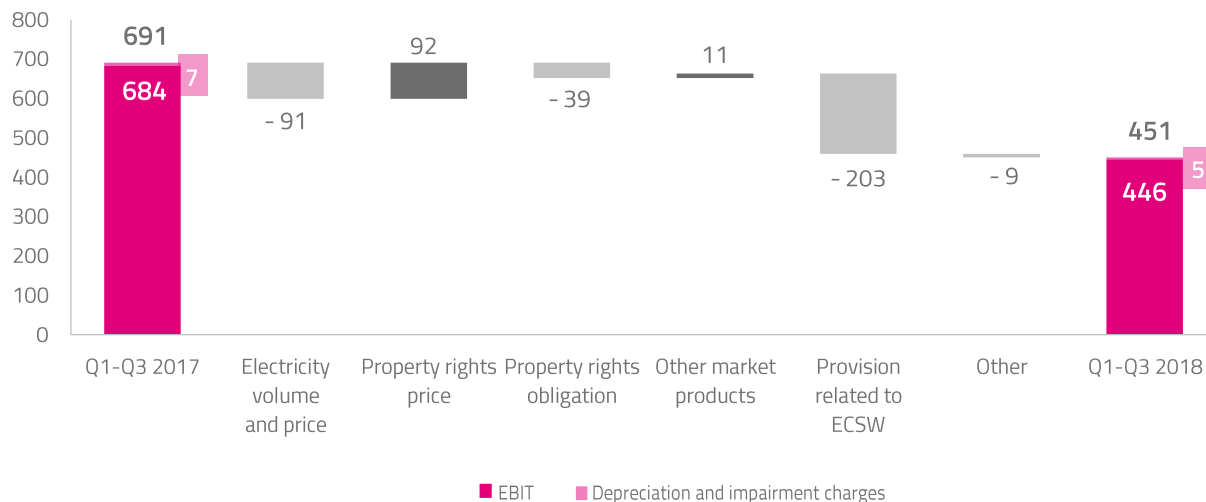
Supply Segment – Q1-3 2018



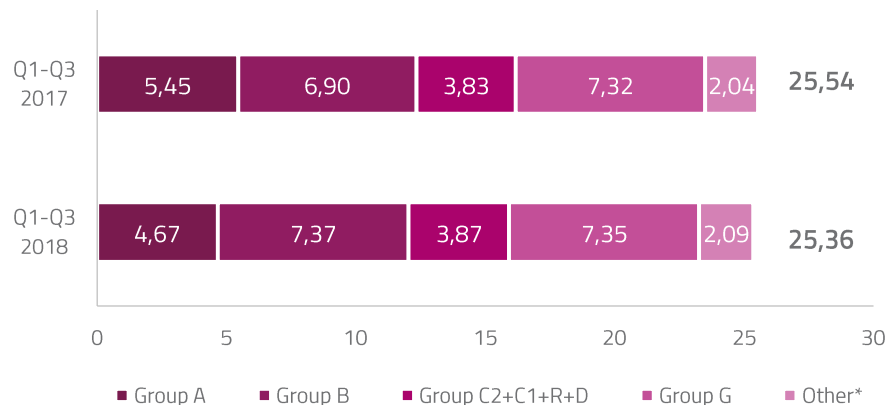
Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity supply [TWh]



▪ Increase of electricity purchase prices



▪ Change of the statutory obligation to redeem property rights



▪ Positive impact of redeeming PMOZE (RES property rights)



▪ Price hikes for the ABC groups customers

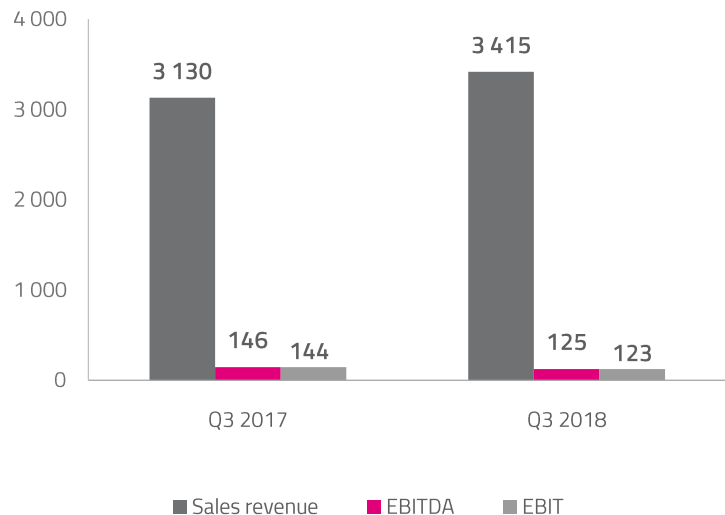


*includes supply to cover the balancing difference and to the final intra-Group consumers

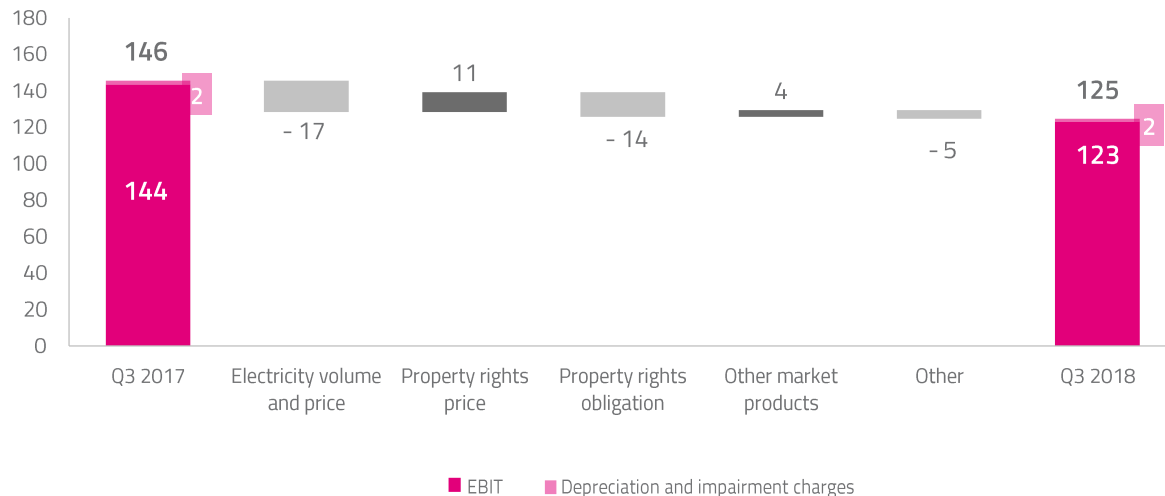
Supply Segment – Q3 2018



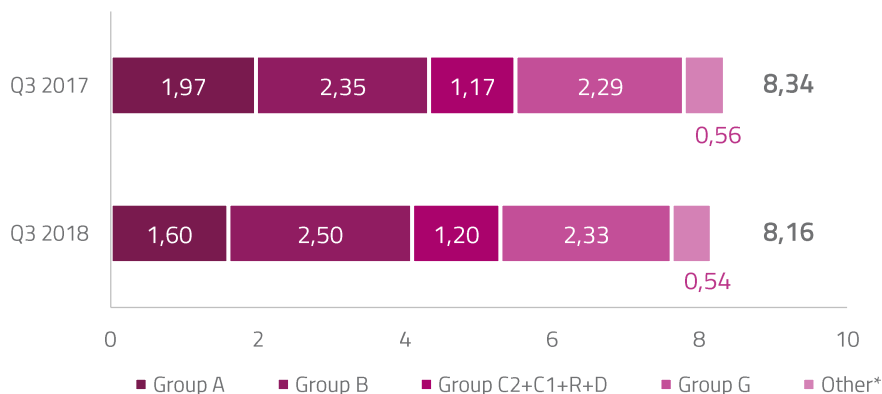
Financial data [PLN m]



EBITDA change [PLN m]



Retail electricity supply [TWh]

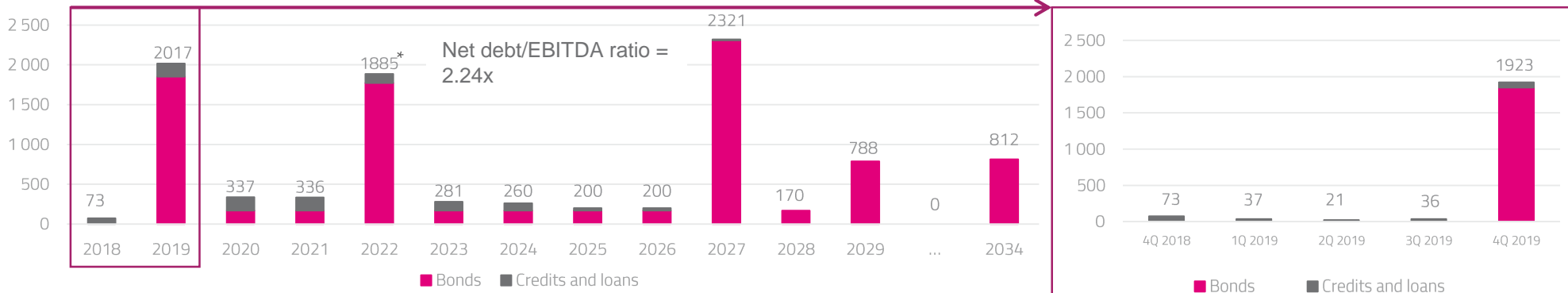


- Increase of electricity purchase prices -
- Change of the statutory obligation to redeem property rights -
- Positive impact of redeeming PMOZEs ✓
- Price hikes for the ABC groups customers ✓

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

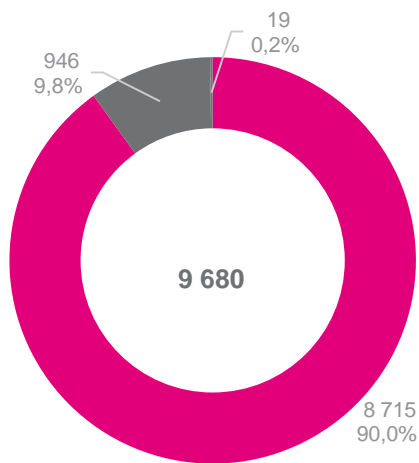
Debt and financing

TAURON Group's debt maturity as of 30.09.2018 [PLN m]



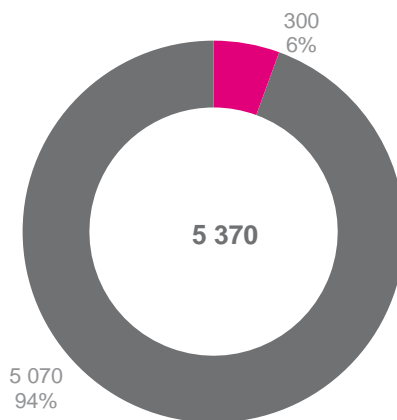
* Assuming rollover of the bonds issued as part of the Bond Issue Program (maturity date, in accordance with the issue terms and conditions, is 2020, rollover until the end of the fund availability period, i.e. until 2022)

TAURON Group's debt structure as of 30.09.2018 [PLN m]



■ Bonds ■ EIB loans ■ NFOŚiGW / WFOŚiGW loans

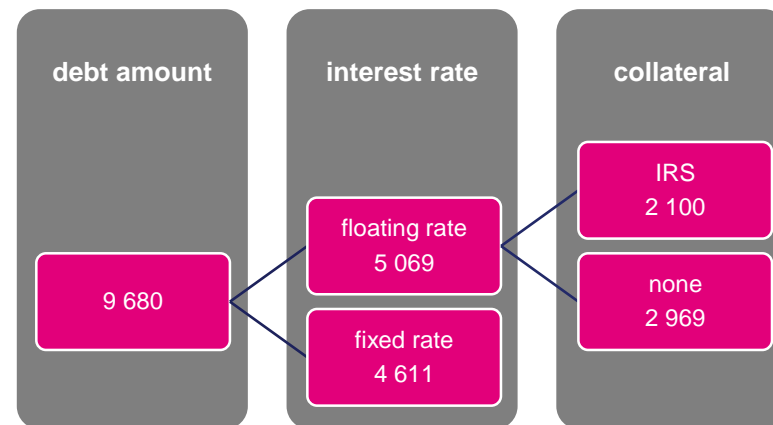
Financing available to TAURON Group as of 30.09.2018 [PLN m]










■ Cash pool ■ Bond issue programs

- Debt (nominal value of debt due to bonds, credits and loans) as of 30.09.2018 amounts to: PLN 9 680m
- Weighted average maturity of debt as of 30.09.2018 is 77 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]

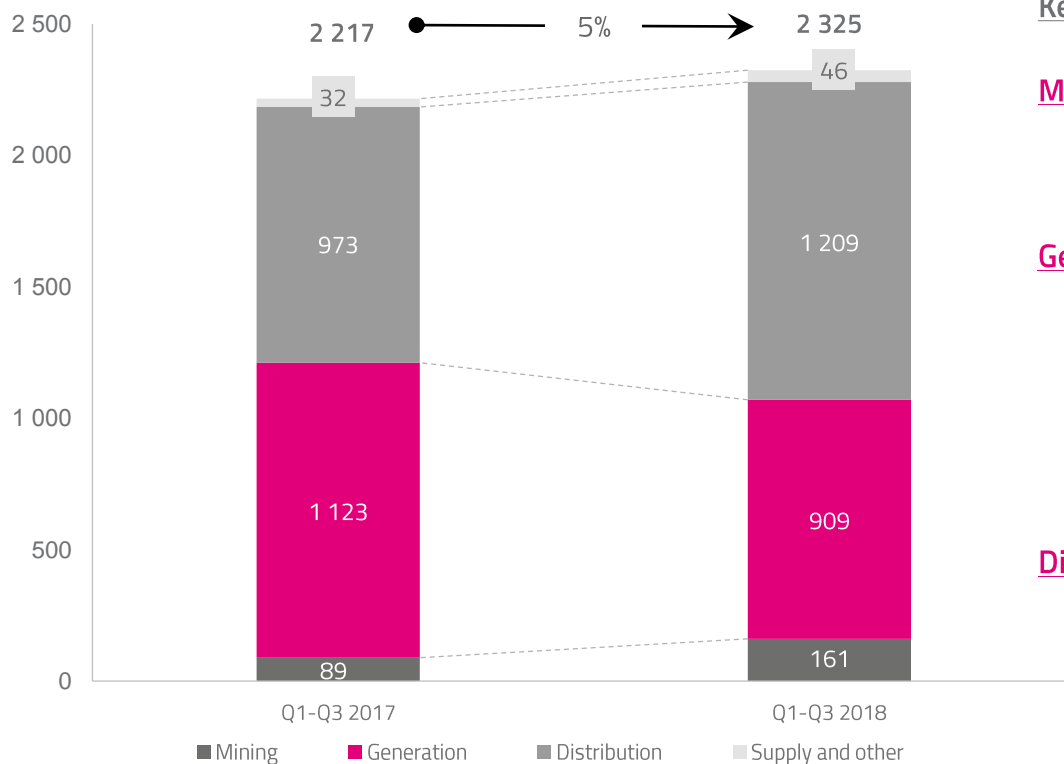


CAPEX – key projects' work progress

Investment project	Capacity (MW _e)	Capacity (MW _t)	Work progress (percentage)		Planned completion date
Construction of the hard coal-fired unit in Jaworzno	910	-	80		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	-	-	61		2021
Construction of Grzegorz shaft at Sobieski Coal Mine	-	-	27		2023
CAPEX program at Brzeszcze Coal Mine	-	-	35		2025
Low Emission Elimination Program	-	183	10		2023
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

CAPEX – by segments

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



* Including financial costs Q3 2017: PLN 70m, Q3 2018: PLN 125m

Key investment projects implemented in Q1-Q3 2018:

Mining:

- Construction of the Grzegorz shaft at w Sobieski Coal Mine (PLN 63m)
- Brzeszcze Coal Mine's CAPEX program (PLN 53m)
- Construction of the 800 m level at Janina Coal Mine (PLN 25m)

Generation:

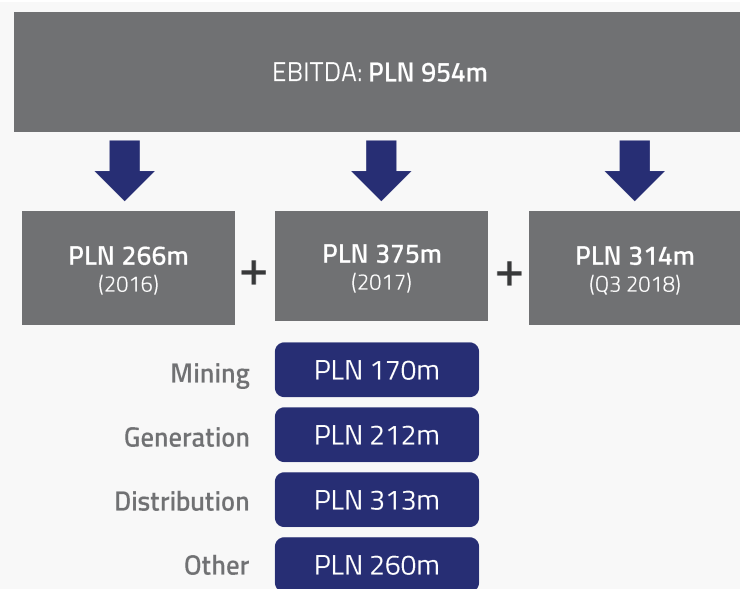
- Construction of 910 MW of new capacity at Jaworzno (PLN 693m)
- Replacement and refurbishment related outlays as well as overhaul components (PLN 49m)
- Connecting new facilities (PLN 17m)
- Maintenance and expansion of district heating networks (PLN 10m)
- Connecting facilities heated using low emission sources to district heating networks (PLN 5m)

Distribution:

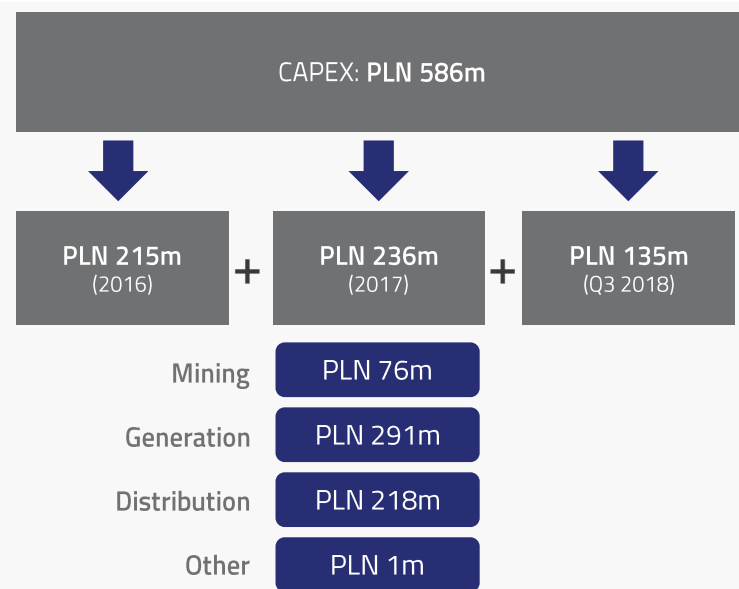
- Grid assets upgrades and replacements (PLN 637m)
- Construction of new connections (PLN 466m)

Results of the Efficiency Improvement Program from 2016 until Q3 2018

EBITDA: PLN +954m (cumulative 2016-Q3 2018 value) / PLN +400m per annum (recurring value from 2018)
CAPEX: PLN 586m (2016-Q3 2018 savings on capital expenditures)



- Rationalizing employment costs: **PLN 476m**
- Optimizing assets: **PLN 126m**
- Reorganizing processes: **PLN 352m**
 - ✓ Improving distribution efficiency
 - ✓ Reducing IT costs
 - ✓ Reducing customer service costs



- More efficient asset management: **PLN 384m**
- Optimizing procurement: **PLN 202m**

Thank you – Q & A



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Exane BNP Paribas	Michael Harleaux
Pekao Investment Banking	Maksymilian Piotrowski

Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2017		2018 r. (prices until October 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	182.29	117 498	13.9%	12.0%
Forward PEAK (Y+Q+M)	208.87	11 417	227.70	13 475	9.0%	18.0%
Forward (weighted average)	164.88	116 338	186.68	130 974	13.2%	12.6%
SPOT (TGE)	158.14	25 210	227.93**	27 000	44.1%	7.1%
Weighted average total	163.68	141 548	193.73	157 974	18.4%	11.6%

Property rights (PLN/MWh)			
Certificate type	Market prices (Q1-3 2018 average)	Substitution fee and obligation for:	
		2017	2018
RES (PMOZE_A)	87.75	300.03 (Jan-Sep) 92.03 (Sep-Dec) (15.4%)	48.53 (17.5%)
RES from biogas plants (PMOZE_BIO)	314.96	300.03 (0.6%)	300.03 (0.5%)
Coal-fired cogeneration (PMEC-2018)	8.78	10.00 (23.2%)	9.00 (23.2%)
Gas-fired cogeneration (PMGM-2018)	109.29	120.00 (7.0%)	115.00 (8.0%)
Methane-fired cogeneration (PMMET-2018)	55.05	56.00 (1.8%)	56.00 (2.3%)

CO ₂ emission allowances (EUR/t)	
CO ₂ market analysts survey* (updated in October 2018)	Price (EUR/t)
2017 average	5.84 EUR/t
2018 average	17 EUR/t
2019 average	25 EUR/t
2018 average price forecast by TAURON (**updated in October 2018)	14.50-15.50 EUR/t

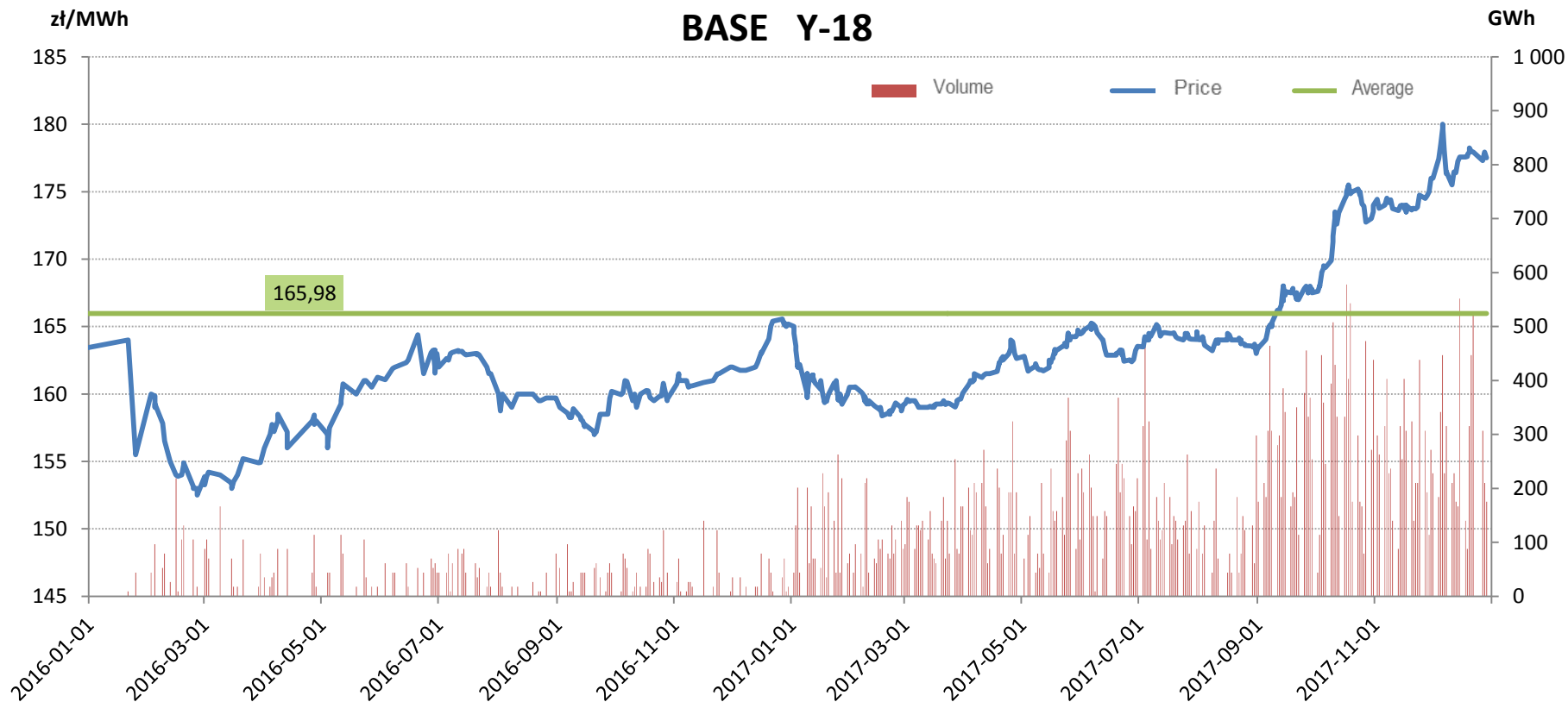
* Sources: Point Carbon, BNEF, Consus, GDF SUEZ Trading, HSE, Mkonline, Societe Generale, TAURON

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

2018 BASE contract prices



BASE Y-18



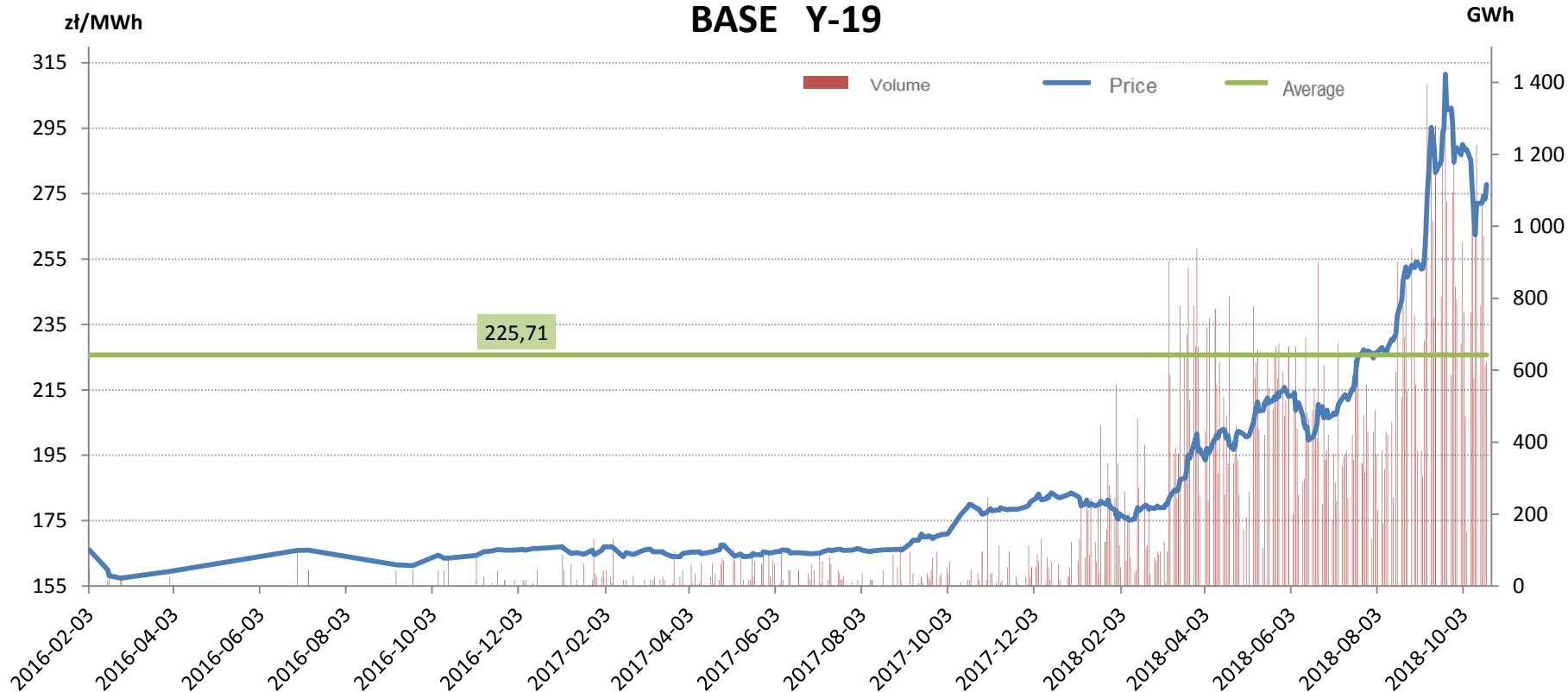
		Average price [PLN/MWh]	Volume [GWh]
Total		165,98	65 227
including	on TGE	166,64	52 148
	non TGE	163,35	13 079

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

2019 BASE contract prices



BASE Y-19



		Average price [PLN/MWh]	Volume [GWh]
Total		225.71	105 882
including	on TGE	226.70	102 877
	non TGE	191.92	3 005

Average electricity price that takes into account 2019 annual BASE and PEAK contracts: 232.10 PLN/MWh, total 2019 BASE and PEAK contracts volume: 113 021 GWh

2020 BASE contract prices

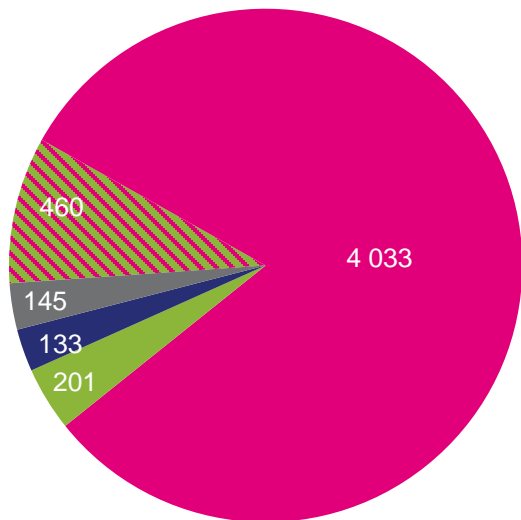


		Average price [PLN/MWh]	Volume [GWh]
Total		251.13	11 050
including	on TGE	251.27	11 015
	non TGE	208.19	35

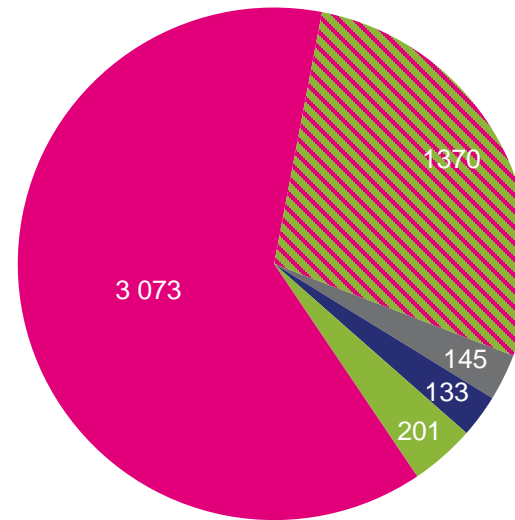
Average electricity price that takes into account 2020 one year BASE and PEAK contracts: 251.61 PLN/MWh, total 2020 BASE and PEAK contracts volume: 11 134 GWh

Generation segment's capacity balance and potential

2018 - 4 972 MW_e



2020 - 4 922 MW_e



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

- Total installed capacity 4 972 MW_e / 2 435 MW_t
- 5 power plants and 3 combined heat and power plants
- 4 wind farms (201 MW_e)
- 34 hydroelectric power plants (133 MW_e)
- 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: SO₂ by 87%, NO_x by 80% and CO₂ by 32% => savings of **PLN 174m** per annum

Thank you for your attention
