



**TAURON Group's  
Q1-Q3 2019  
Financial Results**

November 15, 2019

# Structure of the presentation



**Filip Grzegorzczak**  
CEO

- Key financial and operating data
- Highlights
- Investment projects and CAPEX



**Marek Wadowski**  
CFO

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

# Key Q1-Q3 2019 data



Financial results		
[PLN m]	Q1-Q3 2019 vs Q1-Q3 2018	
Sales revenue	<b>15 260</b>	<b>15%</b>
EBITDA	<b>3 016</b>	<b>(1)%</b>
Net profit*	<b>854</b>	<b>0.2%</b>
CAPEX	<b>2 741</b>	<b>12%</b>
Net debt/EBITDA	<b>2.83x</b>	<b>up 0.29x (vs 31.12.2018)</b>

Operating data		
	Q1-Q3 2019 vs Q1-Q3 2018	
Electricity distribution [TWh]	<b>38.74</b>	<b>(0,3)%</b>
Electricity production [TWh]	<b>10.41</b>	<b>(13)%</b>
Heat generation [PJ]	<b>7.14</b>	<b>(4)%</b>
Retail electricity supply [TWh]	<b>25.02</b>	<b>(1)%</b>
Commercial coal production [ton m]	<b>2.94</b>	<b>(19)%</b>

\* Attributable to the shareholders of the parent company

# Key Q3 2019 data



Financial results		
[PLN m]	Q3 2019 vs Q3 2018	
Sales revenue	<b>4 862</b>	<b>9%</b>
EBITDA	<b>808</b>	<b>2%</b>
Net profit*	<b>188</b>	<b>(34)%</b>
CAPEX	<b>1 099</b>	<b>24%</b>
Net debt/EBITDA	<b>2.83x</b>	up 0.29x (vs 31.12.2018)

Operating data		
	Q3 2019 vs Q3 2018	
Electricity distribution [TWh]	<b>12.66</b>	<b>(1)%</b>
Electricity production [TWh]	<b>3.26</b>	<b>(25)%</b>
Heat generation [PJ]	<b>0.73</b>	<b>4%</b>
Retail electricity supply [TWh]	<b>8.00</b>	<b>(2)%</b>
Commercial coal production [ton m]	<b>0.69</b>	<b>(37)%</b>

\* Attributable to the shareholders of the parent company

# Highlights Summary



**April 17**

Affirming by Fitch Ratings of the BBB long term ratings in domestic and foreign currency with a stable outlook and granting the hybrid bonds of the BB+ rating in domestic and foreign currency and the BBB+ domestic rating

**May 27**

Adoption of the update of TAURON Group's strategic directions

**September 3**

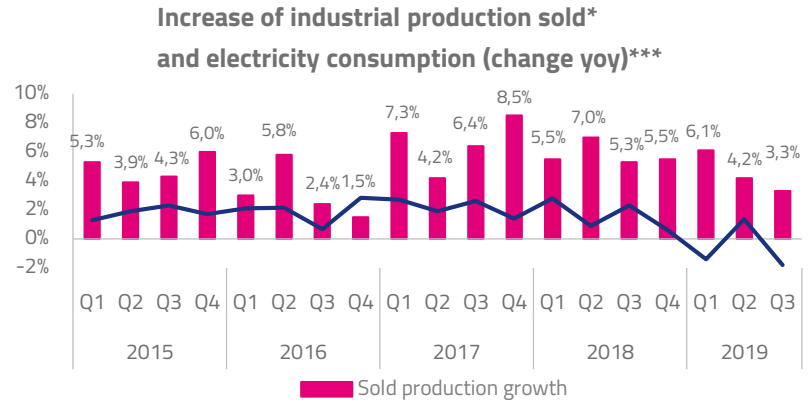
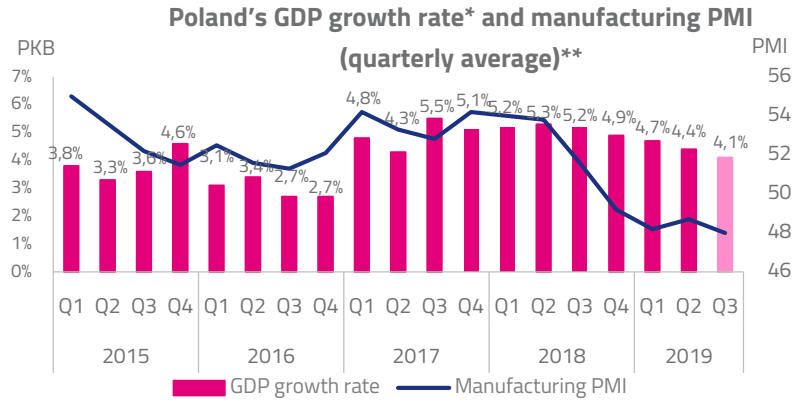
Signing of the transaction documents related to the acquisition of five wind farms with the capacity of 180 MW for EUR 137.1 million

**October 16**

Accomplishments in this year's edition of "The Best Annual Report" competition organized by the Accounting and Taxes Institute (Instytut Rachunkowości i Podatków):

- "The Best of the Best" award
- special award for the best integrated report
- honorable mention for the best statement on compliance with corporate governance rules

# 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*	267.54	112 549
Y-21*	268.68	12 860

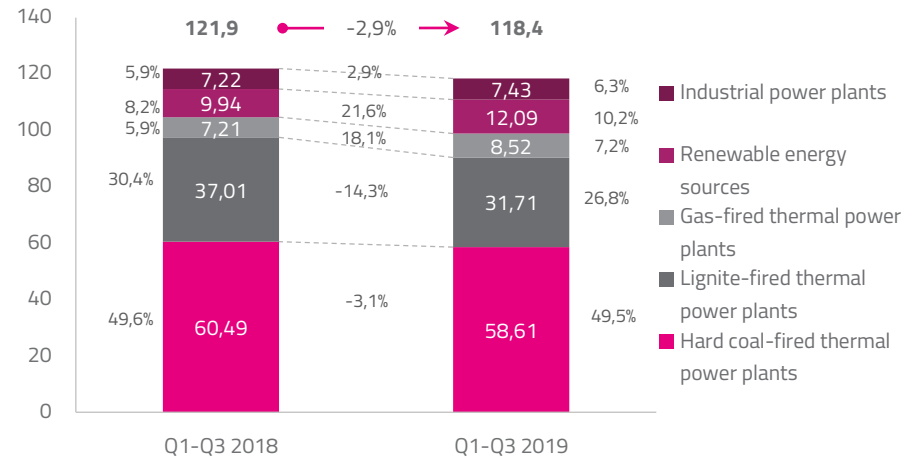
\* prices until October 24, 2019

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: 194.30 PLN/MWh
- 2019: 246.39 PLN/MWh (estimate)

Source: \* GUS \*\* Bankier.pl \*\*\* PSE

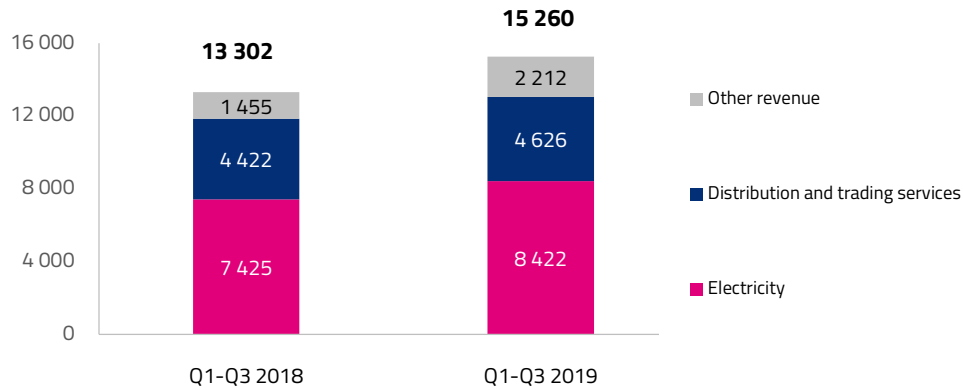
### Structure of electricity production in Poland\*\*\* [TWh]



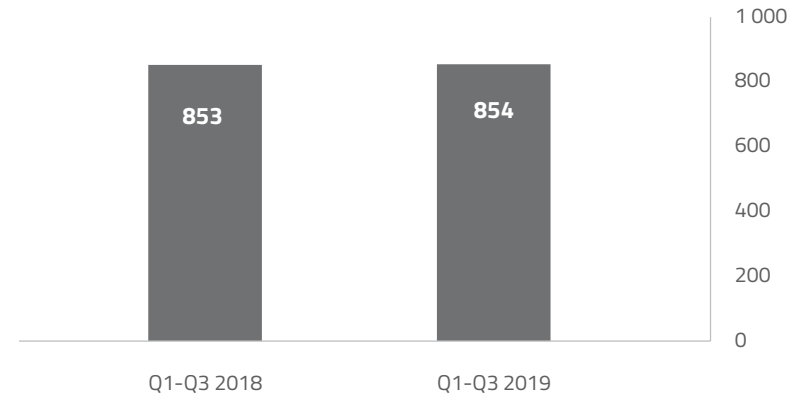
# Q1-Q3 2019 financial data



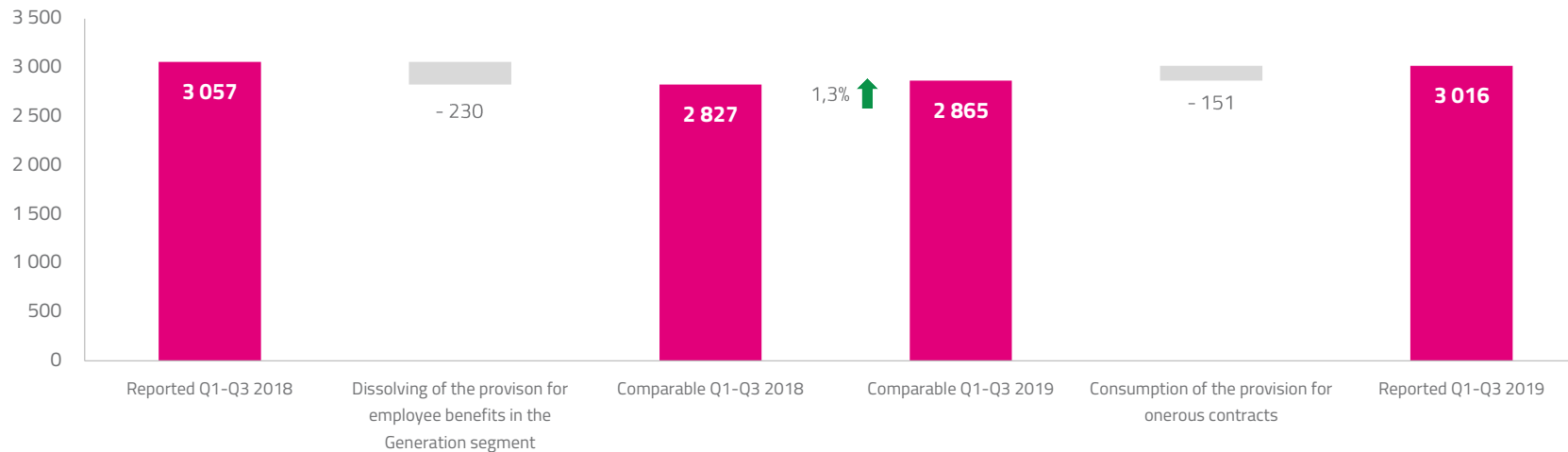
Sales revenue [PLN m]



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



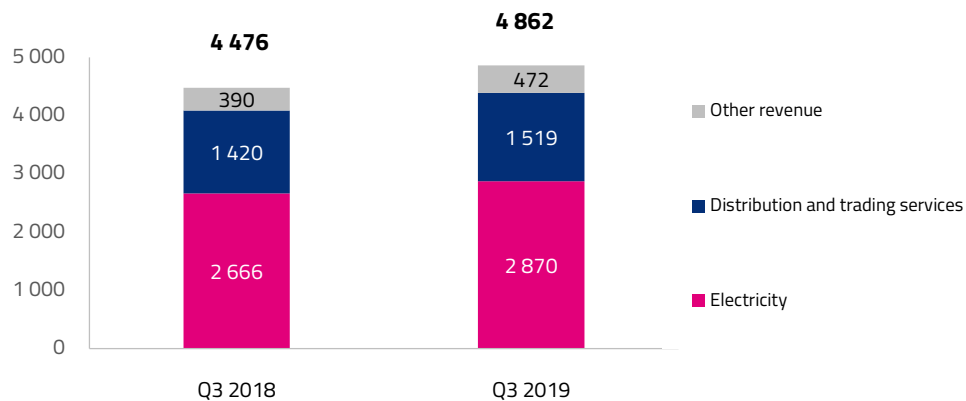
Q1-Q3 2019 EBITDA vs Q1-Q3 2018 EBITDA [PLN m]



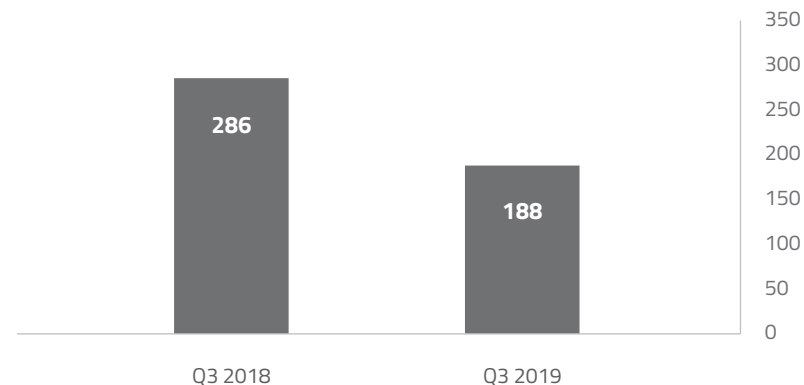
# Q3 2019 financial data



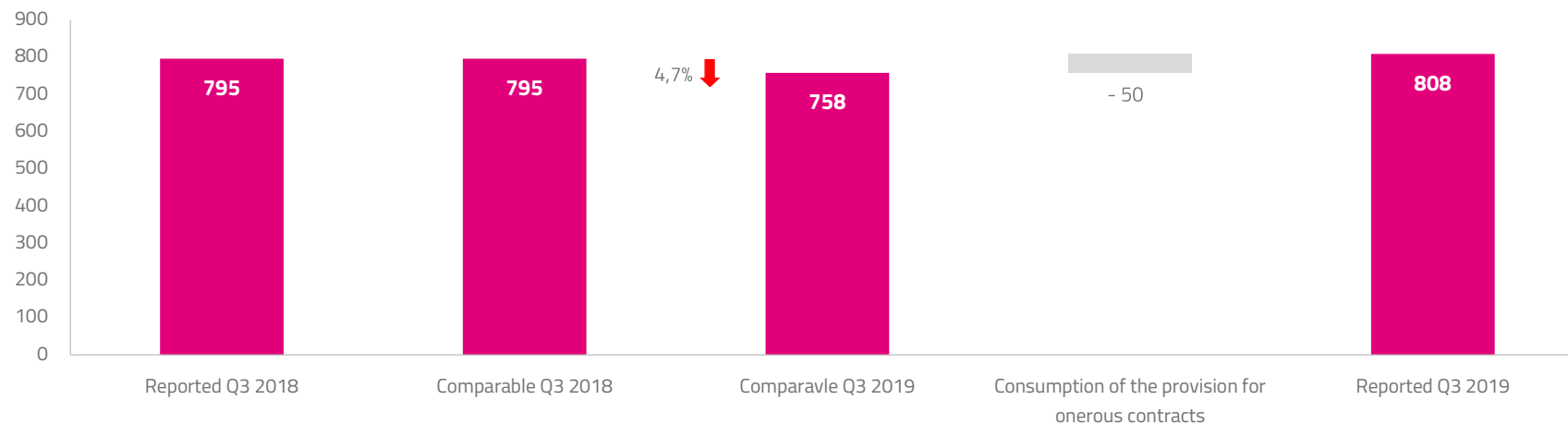
Sales revenue [PLN m]



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



Q3 2019 EBITDA 2019 vs Q3 EBITDA 2018 [PLN m]

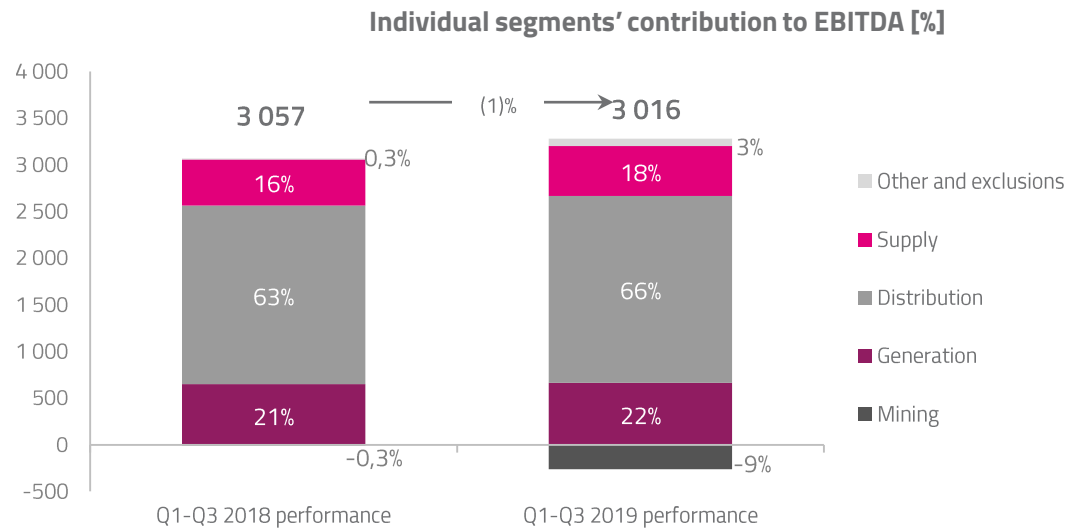




# Individual segments' Q1-Q3 2019 results



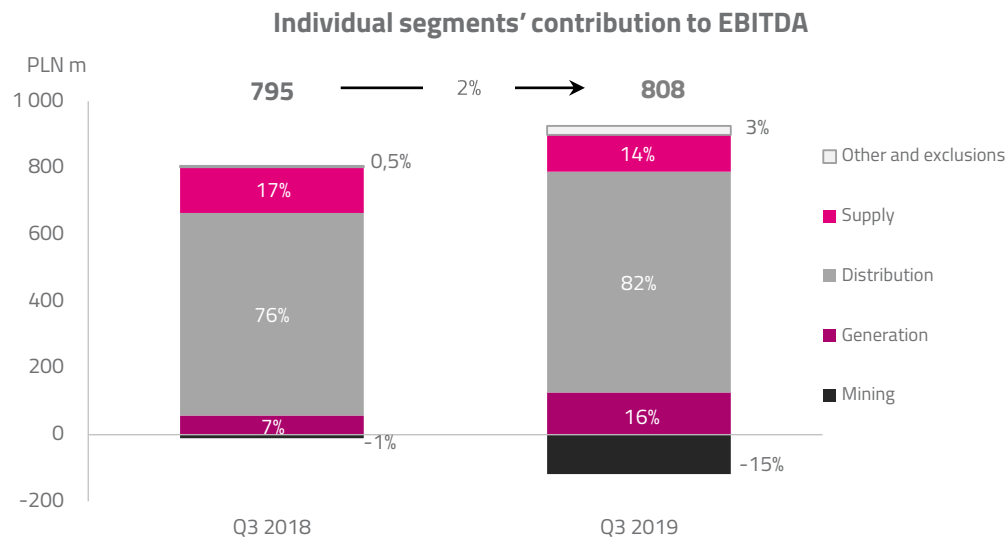
[PLN m]	Distribution	Generation	Supply	Mining	Other and exclusions*
Revenue	4 898	3 635	11 221	733	(5 228)
EBITDA	2 000	666	534	(262)	79
EBIT	1 141	340	504	(676)	11
CAPEX	1 331	972	21	369	49



\* Items not included in the segments presented

# Individual segments' Q3 2019 results

[PLN m]	Distribution	Generation	Supply	Mining	Other and exclusions*
Revenue	1 623	1 089	3 575	202	(1 626)
EBITDA	663	126	110	(119)	27
EBIT	376	15	100	(165)	4
CAPEX	468	471	10	132	17



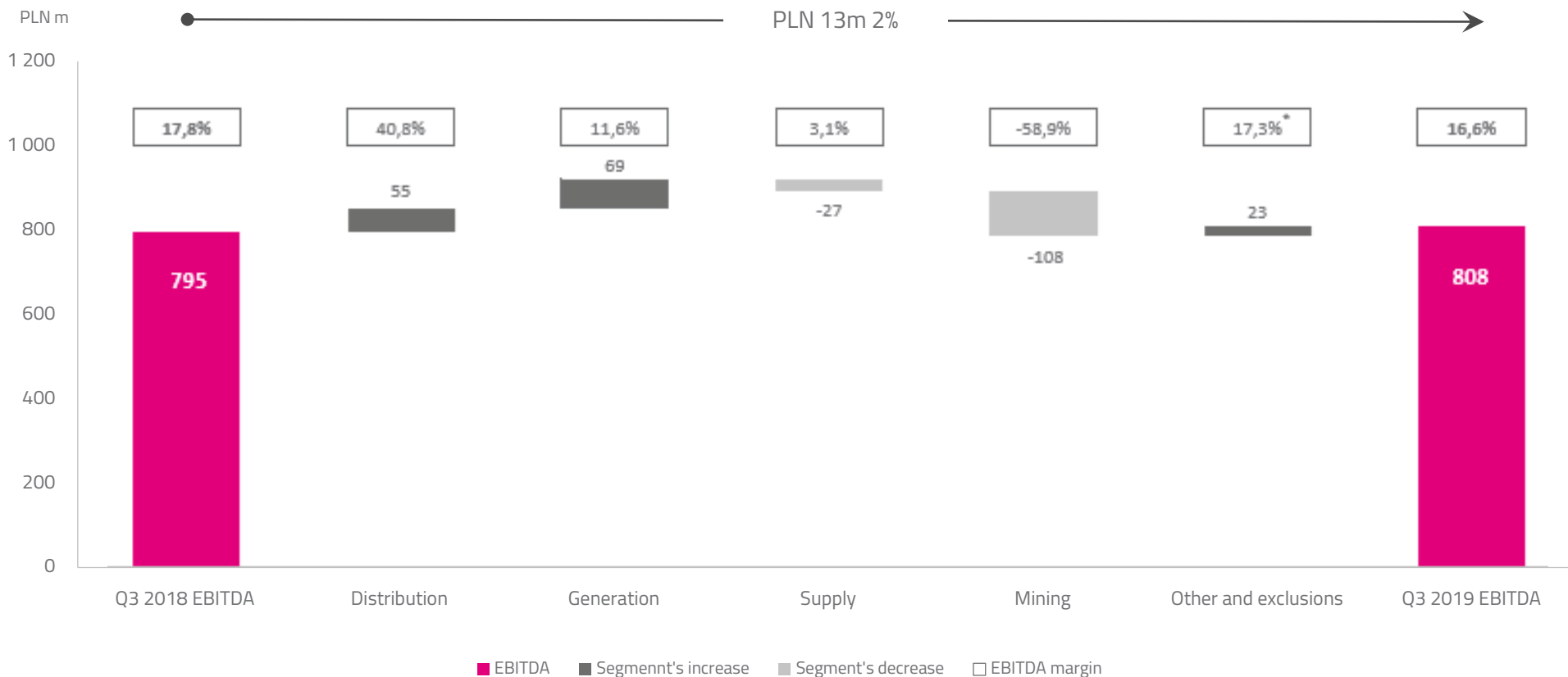
\* Items not included in the segments presented

# Q1-Q3 2019 EBITDA



\*Other operations segment's EBITDA margin

# Q3 2019 EBITDA



\*Other operations segment's EBITDA margin

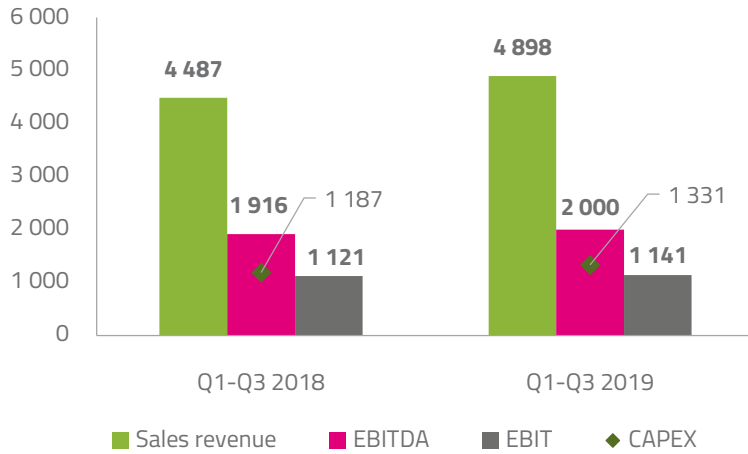


## Distribution Segment

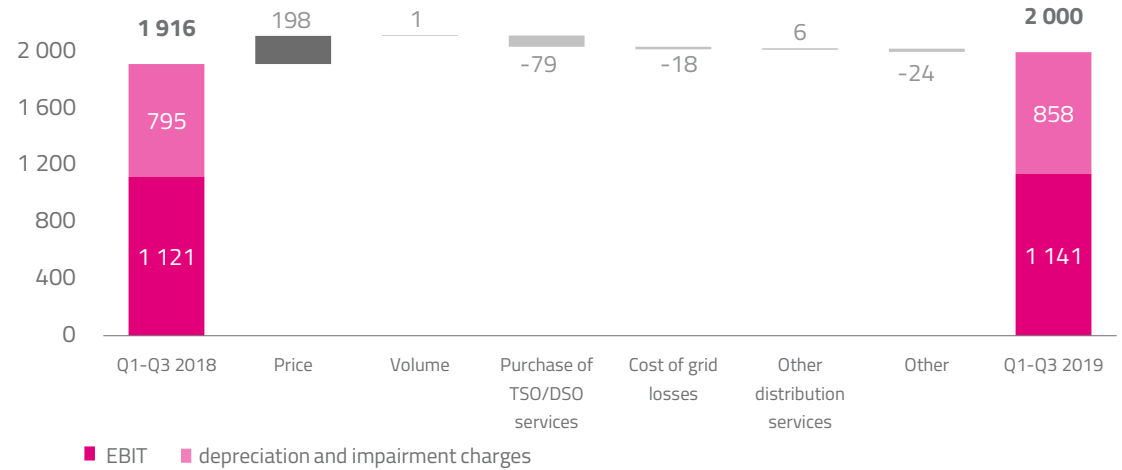
# Distribution Segment – Q1-Q3 2019



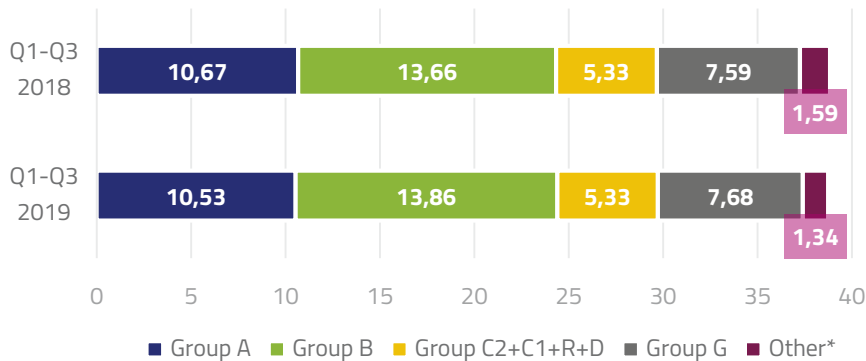
Financial data [PLN]



EBITDA change [PLN m]



Electricity distribution [TWh]



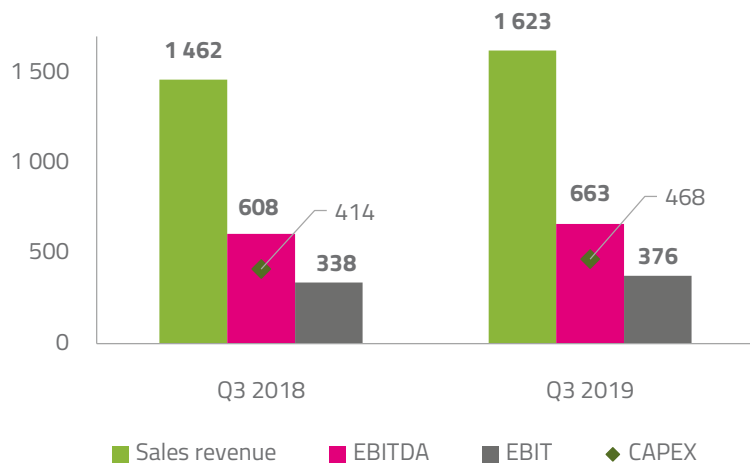
- Increase of the average price of the distribution service to the final consumers ✓
- Higher volume of electricity distribution services sales to the final consumers ✓
- Entry into force, as of April 6, 2019, of the new distribution tariff for 2019

\* Neighboring DSOs and exports

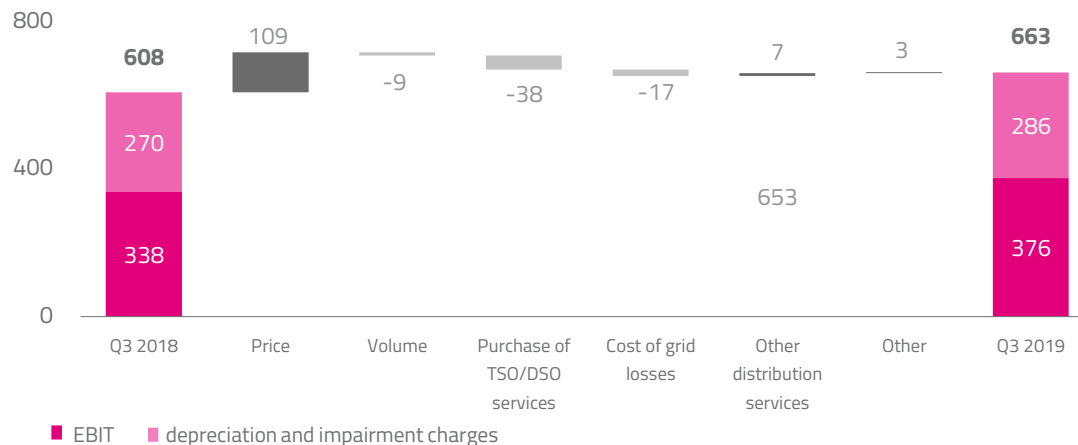
# Distribution Segment – Q3 2019



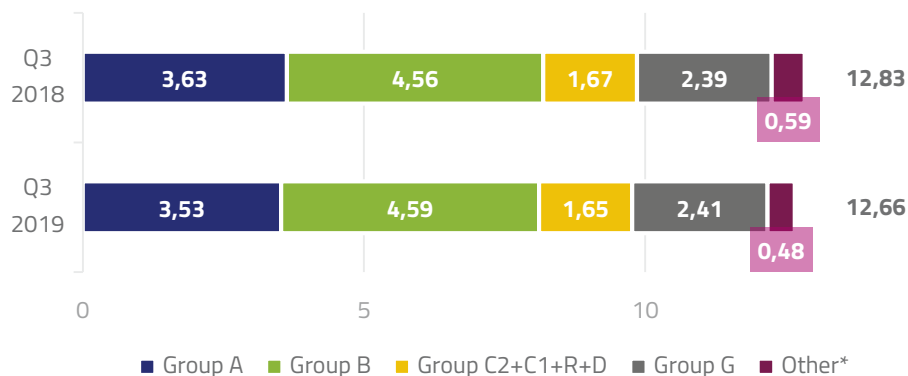
Financial data [PLN m]



EBITDA change [PLN m]



Electricity distribution [TWh]



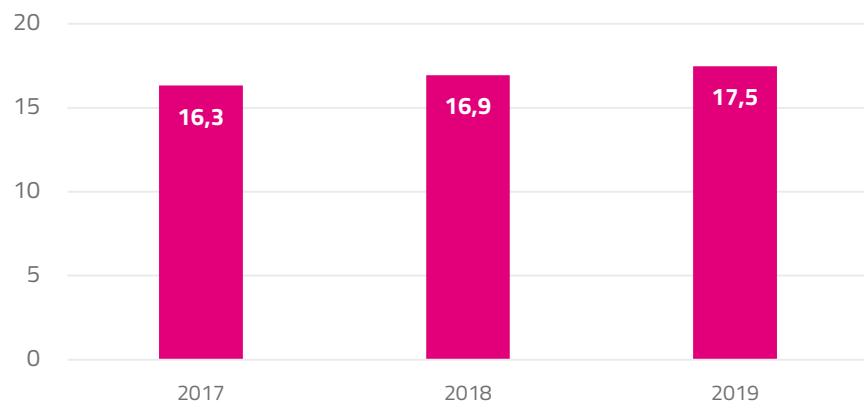
\* Neighboring DSOs and exports

- Higher distribution service sales price ✓
- Decline of electricity distribution service sales volume -
- Higher cost of purchasing electricity to cover the grid losses -

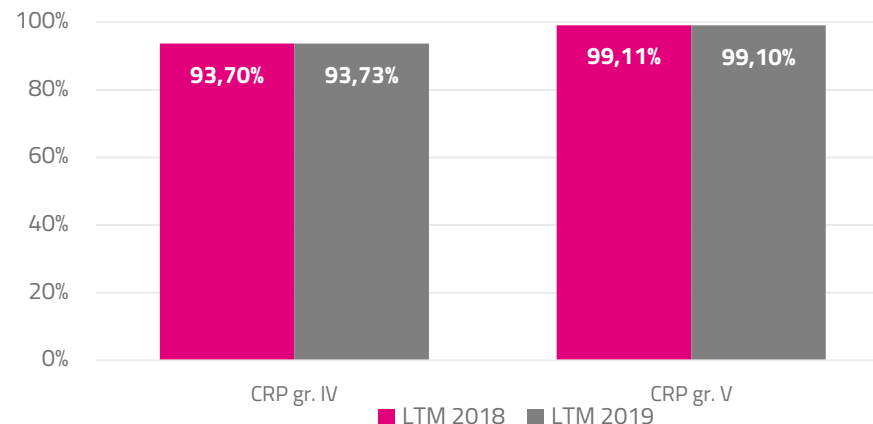
# Distribution Segment – key parameters



Regulatory Asset Base [PLN bn]

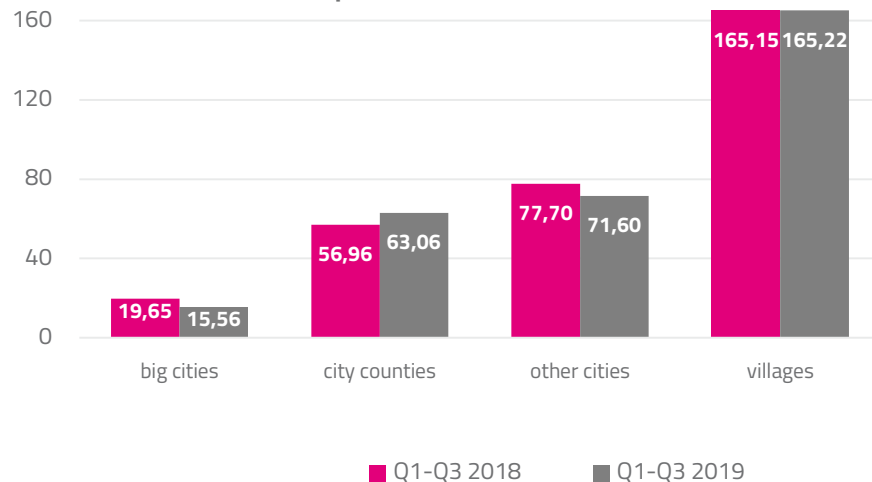


New connection installation time [%]

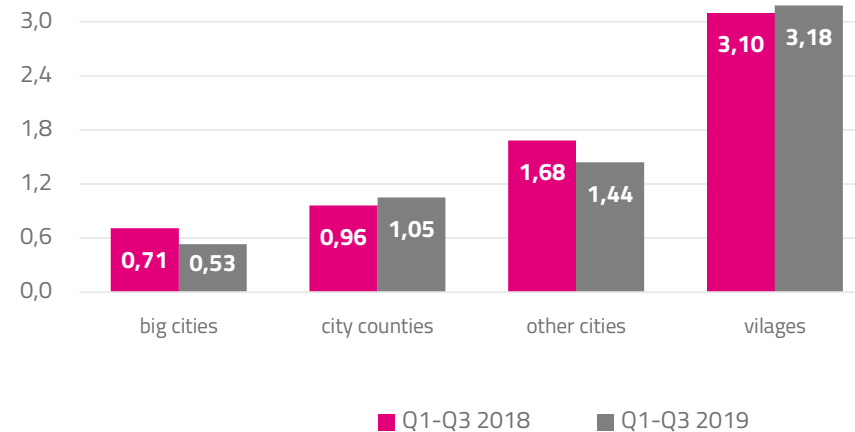


LTM – last (trailing) 12 months' period ending on September 30, 2019

Interruption duration [min/consumer]



Frequency of interruptions [number of interruptions/consumer]



## INTERRUPTION DURATION

- CTP<sub>md</sub> – big cities
- CTP<sub>mp</sub> – city counties
- CTP<sub>m</sub> – cities
- CTP<sub>w</sub> – villages

## FREQUENCY OF INTERRUPTIONS

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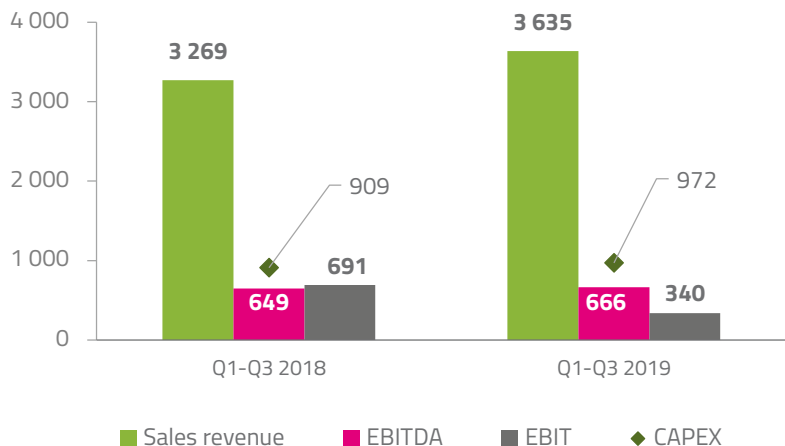


# Generation Segment

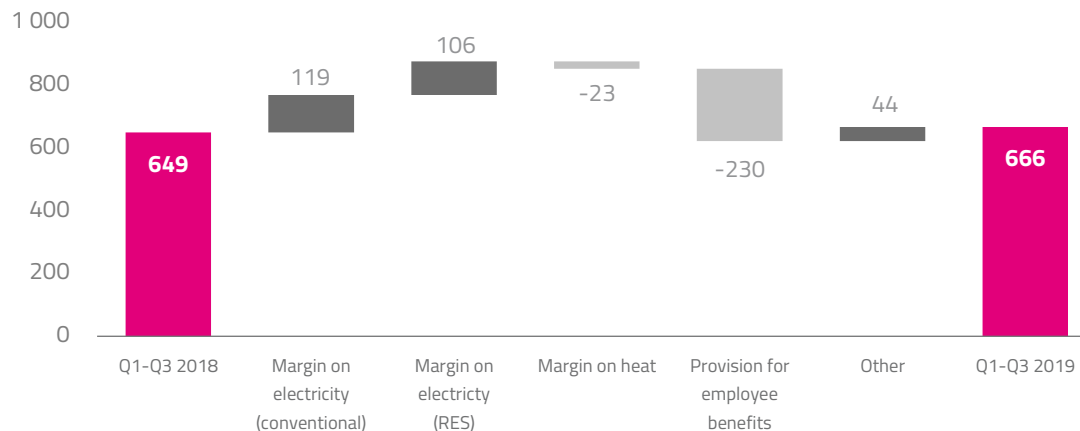
# Generation Segment – Q1-Q3 2019



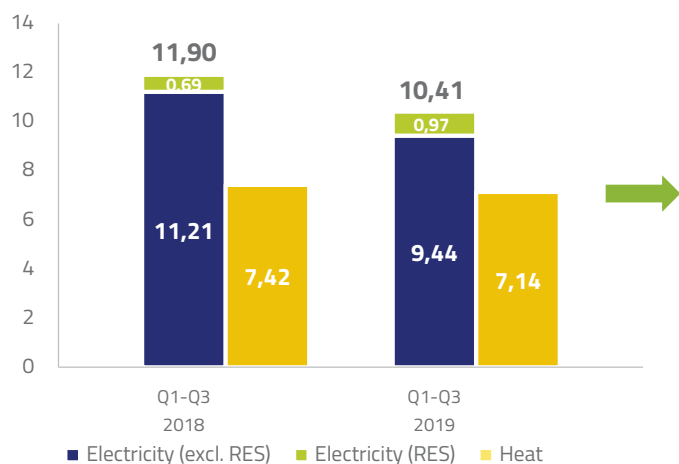
Financial data [PLN m]



EBITDA change [PLN m]



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



RES and high efficiency cogeneration production [TWh]

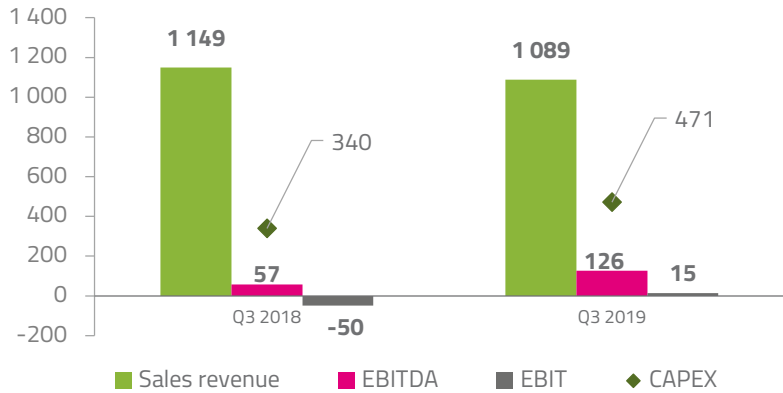


- Higher electricity prices ✓
- Higher electricity production volume by hydroelectric power plants and wind farms, as well as biomass-fired units ✓
- Increase of the prices of fuels and CO<sub>2</sub> emission allowances and partial passing on of the above increase in the heating tariffs -

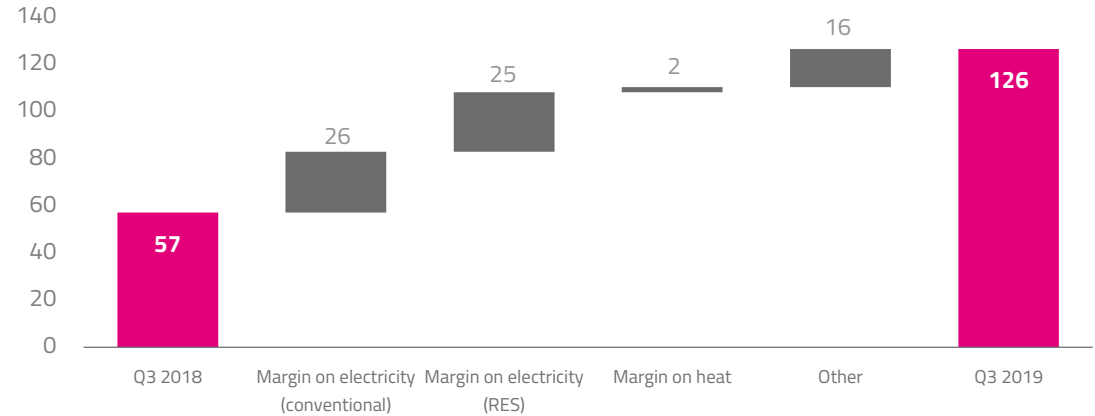
# Generation Segment – Q3 2019



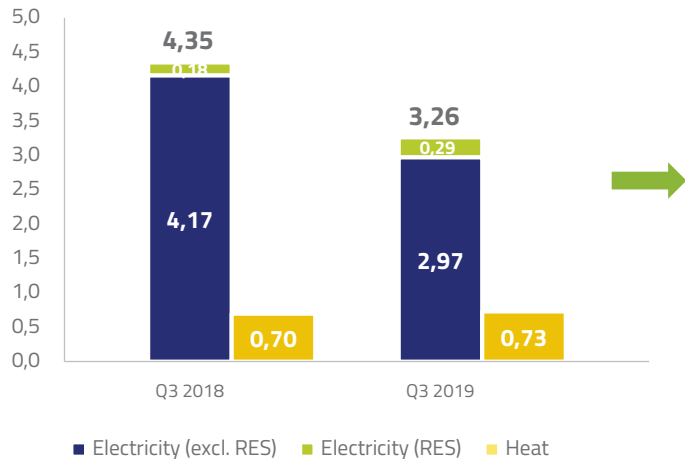
Financial data [PLN m]



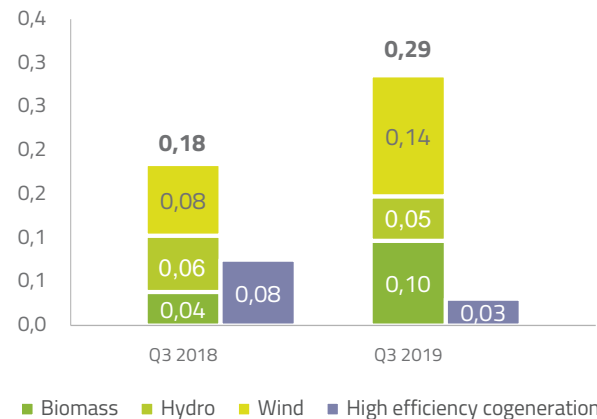
EBITDA change [PLN m]



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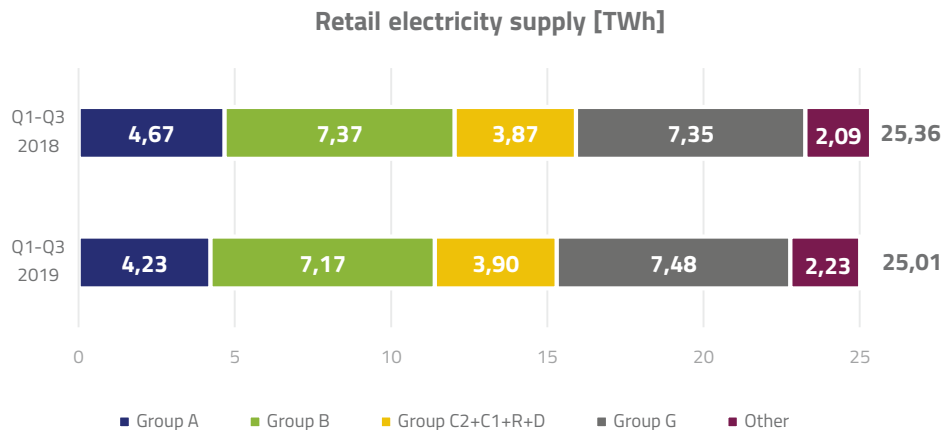
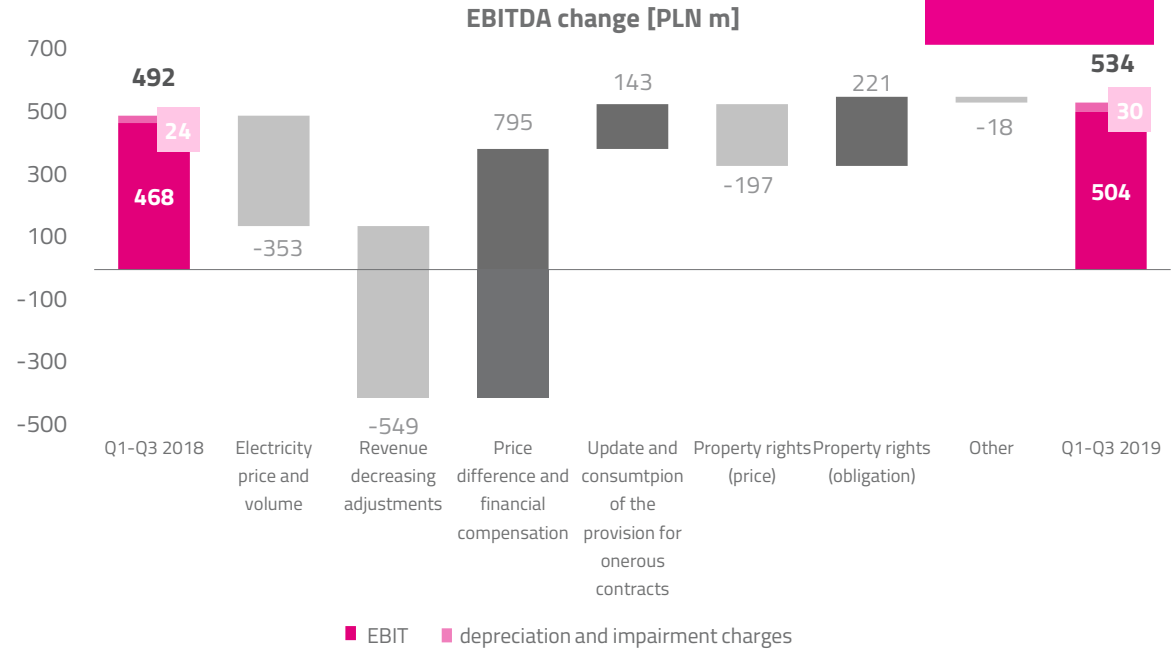
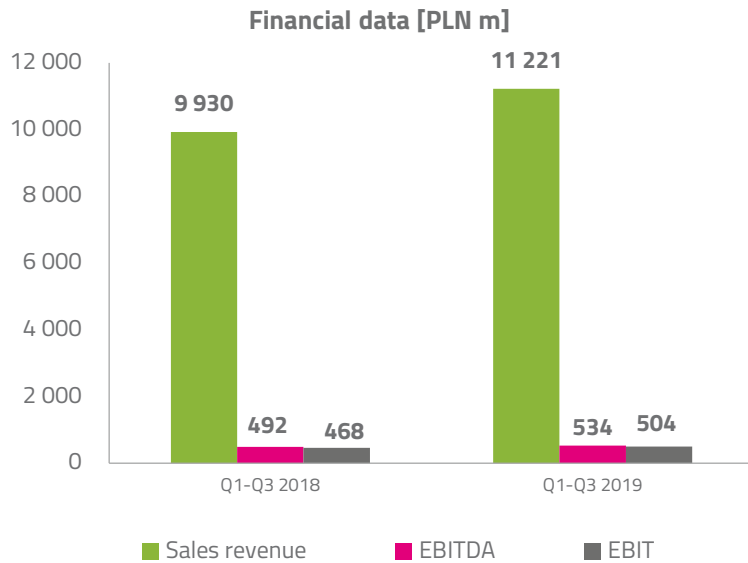


- Higher electricity prices ✓
- Higher electricity production volume by hydroelectric power plants and wind farms ✓
- Increase of the prices of fuels and CO<sub>2</sub> emission allowances -



## Supply Segment

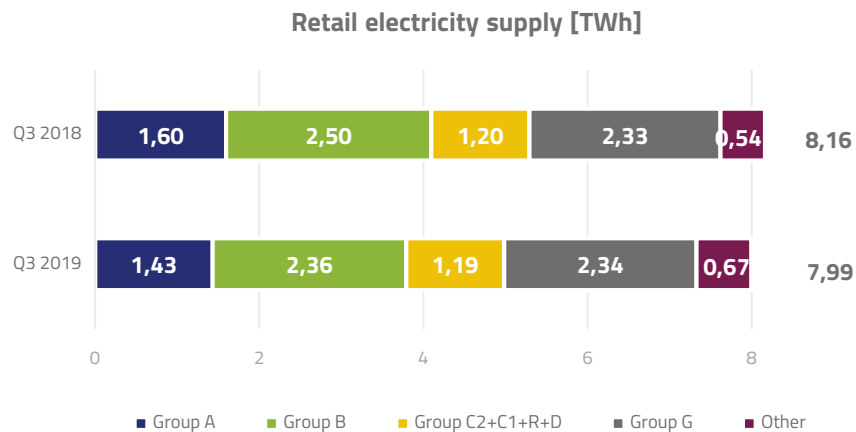
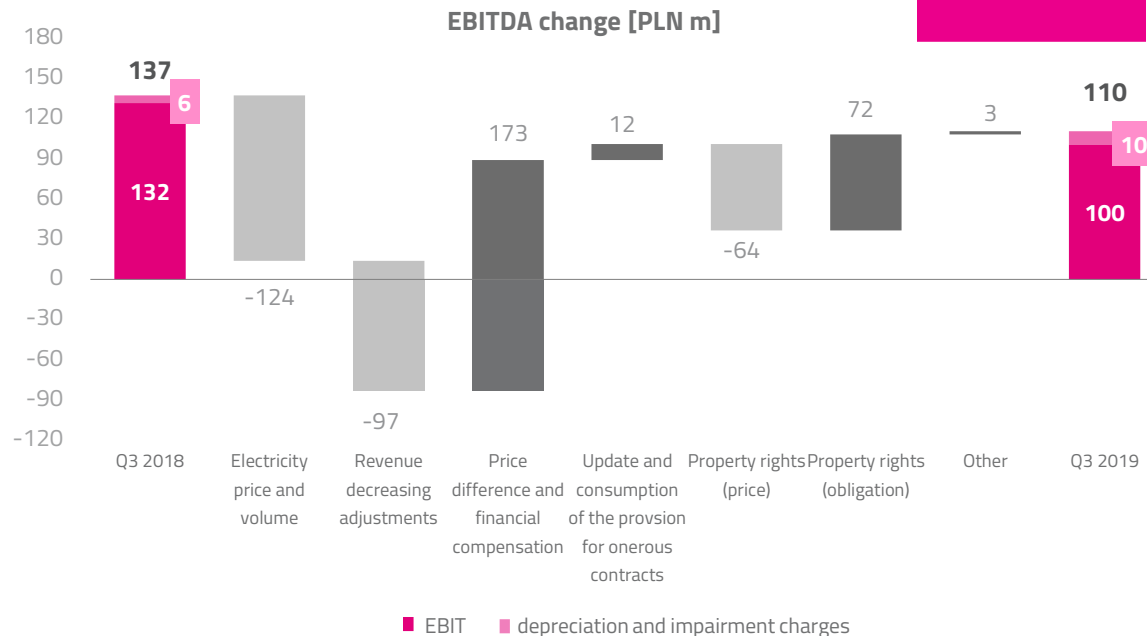
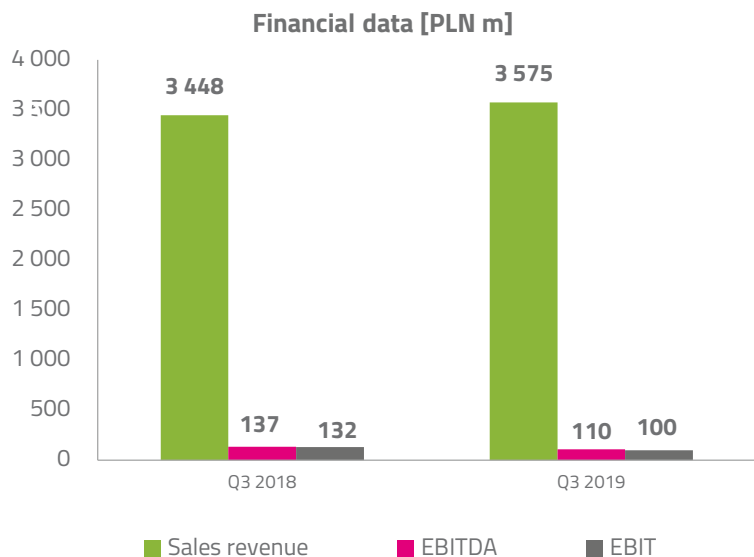
# Supply Segment – Q1-Q3 2019



- Increase of electricity and PMOZE purchase prices and the growing pressure on margin reduction related thereto
- Positive impact of the lack of the obligation to redeem certificates of origin of electricity produced in cogeneration
- Effect of the so-called electricity act - neutral



# Supply Segment – Q3 2019



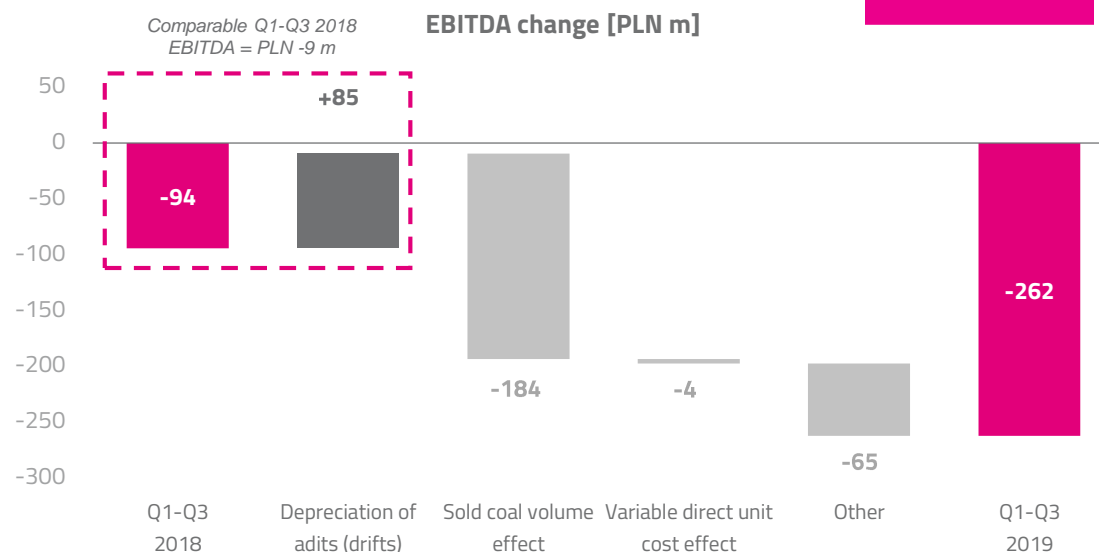
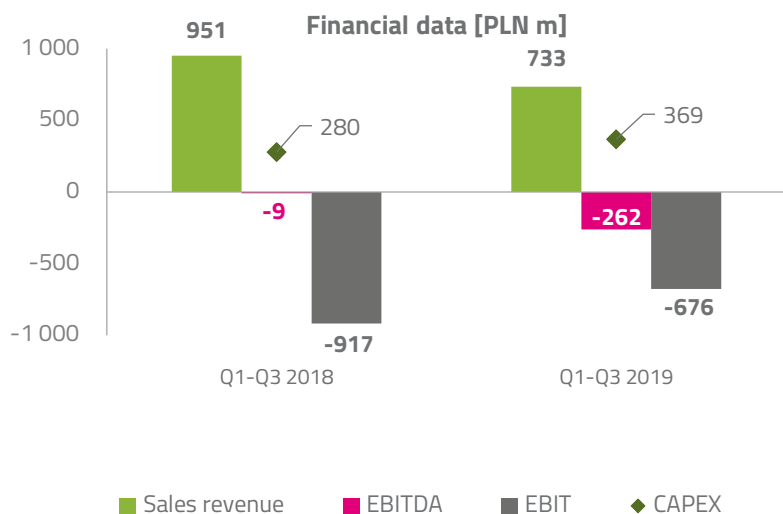
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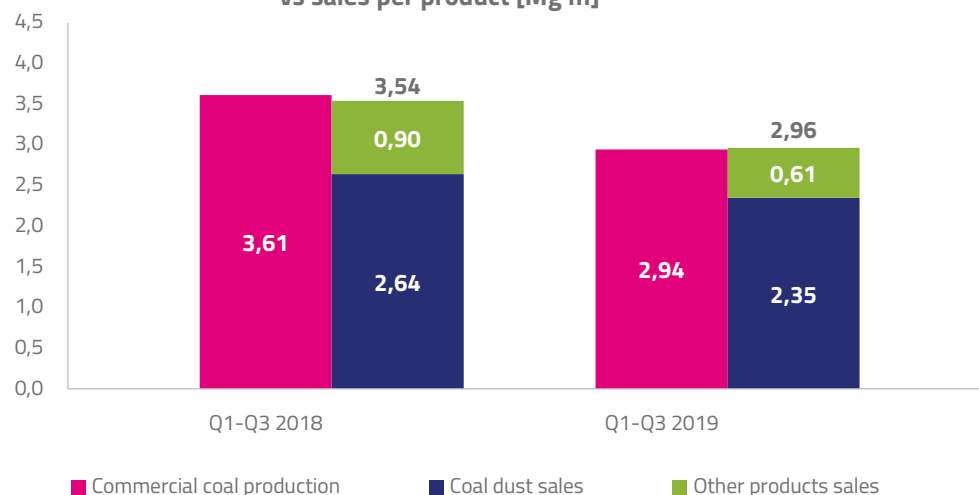


## Mining Segment

# Mining Segment – Q1-Q3 2019



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

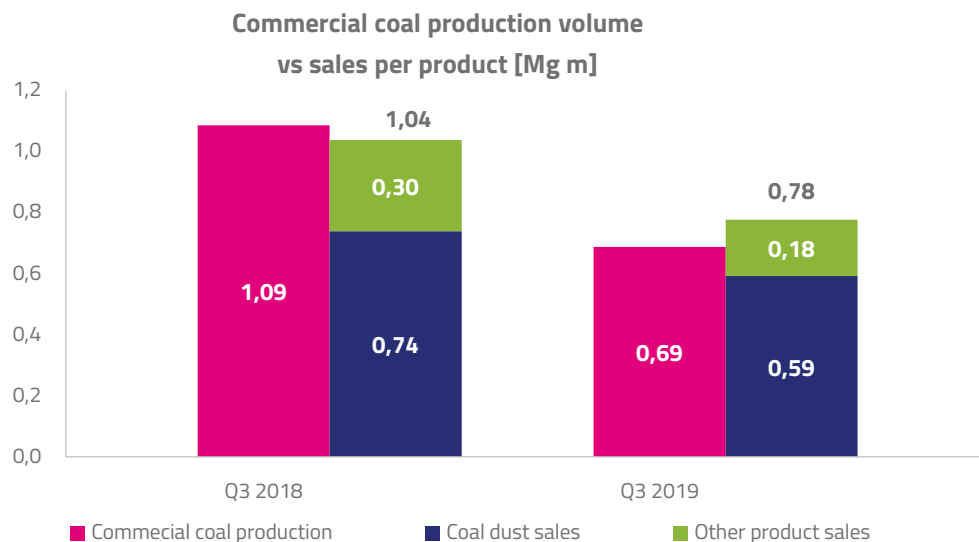
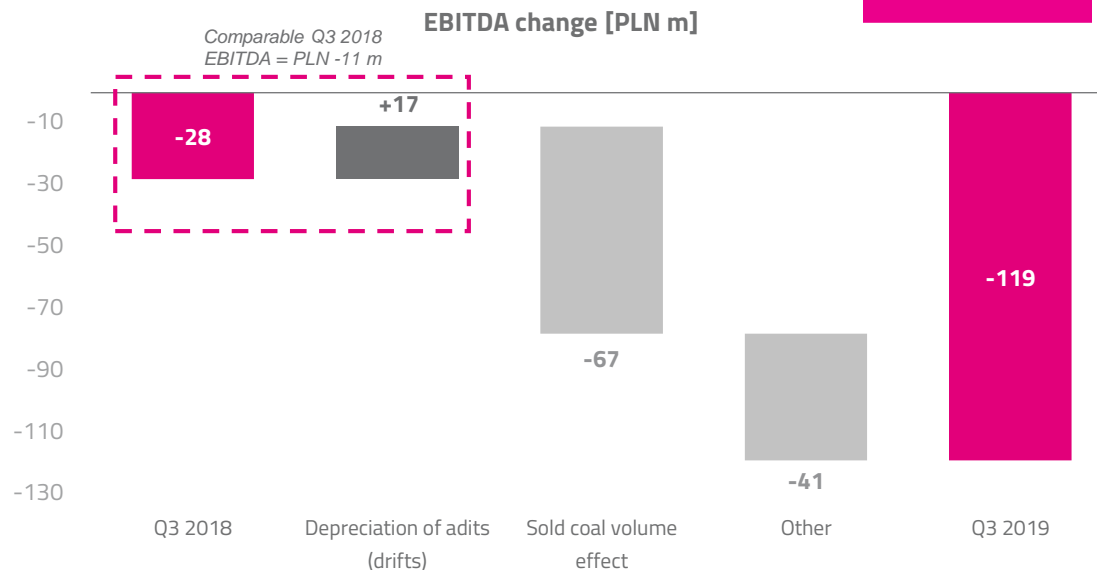
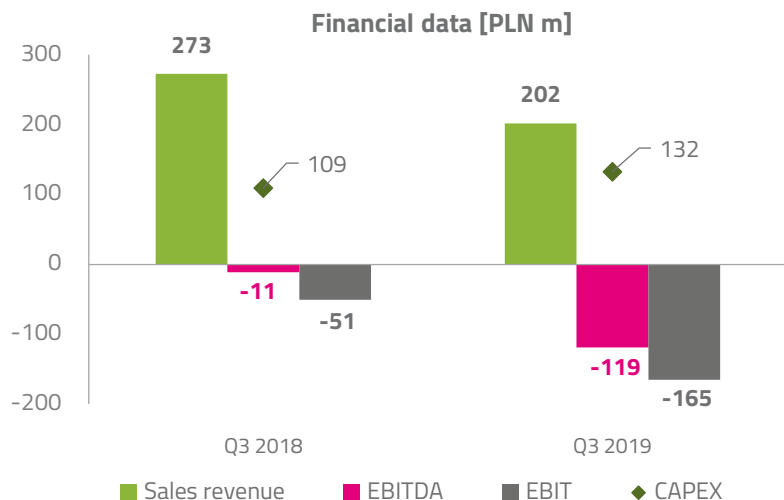


- Lower sold coal volume
- Higher unit costs of purchasing services and electricity
- 40 PLN/Mg higher unit mining cash cost\* (up from 209 PLN/Mg to 249 PLN/Mg)

\* 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 2019

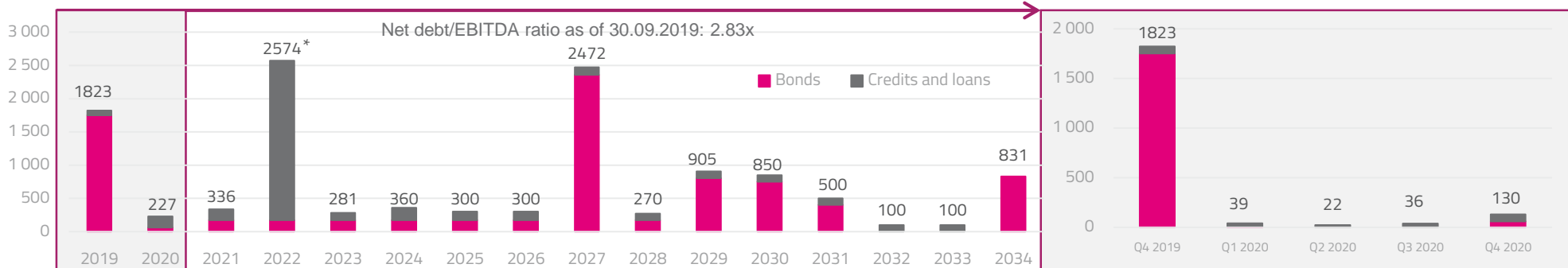


- Lower sold coal volume
- 117 PLN/Mg higher unit mining cash cost\* (up from 224 PLN/Mg to 342 PLN/Mg)

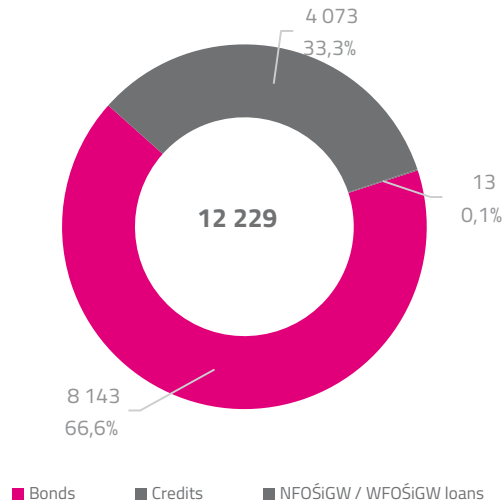
\* Total costs excluding depreciation, impairment charges, costs not directly related to coal production and costs that do not have a permanent impact on the company's cash flow

# Debt and financing

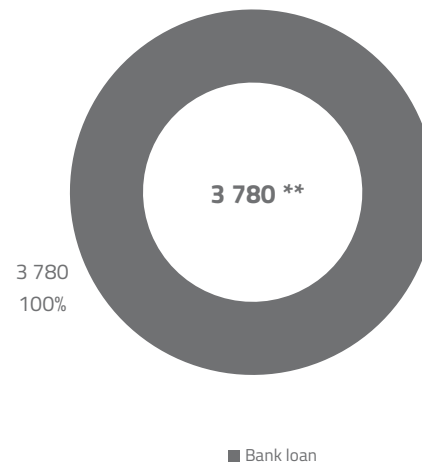
TAURON Group's nominal debt maturity as of 30.09.2019 [PLN m]



TAURON Group's nominal debt structure as of 30.09.2019 [PLN m]



Amounts of financing available to TAURON Group as of 30.09.2019 [PLN m]



Debt structure by interest rate [PLN m]








Debt amount	Interest rate	Collateral floating rate
12 229	Floating: 6 943	IRS: 3 100
	Fixed: 5 286	None: 3 843

- Weighted average maturity of debt as of 30.09.2019 is 77 months (assuming drawing of the bank loan until 2022)
- EUR denominated debt (eurobond, NSV bond and EIB bond issues) represents 31% of the total debt

\* Taking into account the maximum maturity of funds available as part of the bank loan, i.e. until 2022

\*\* TAURON Group is also using overdraft facilities with the maximum available limits of PLN 300m and EUR 45m

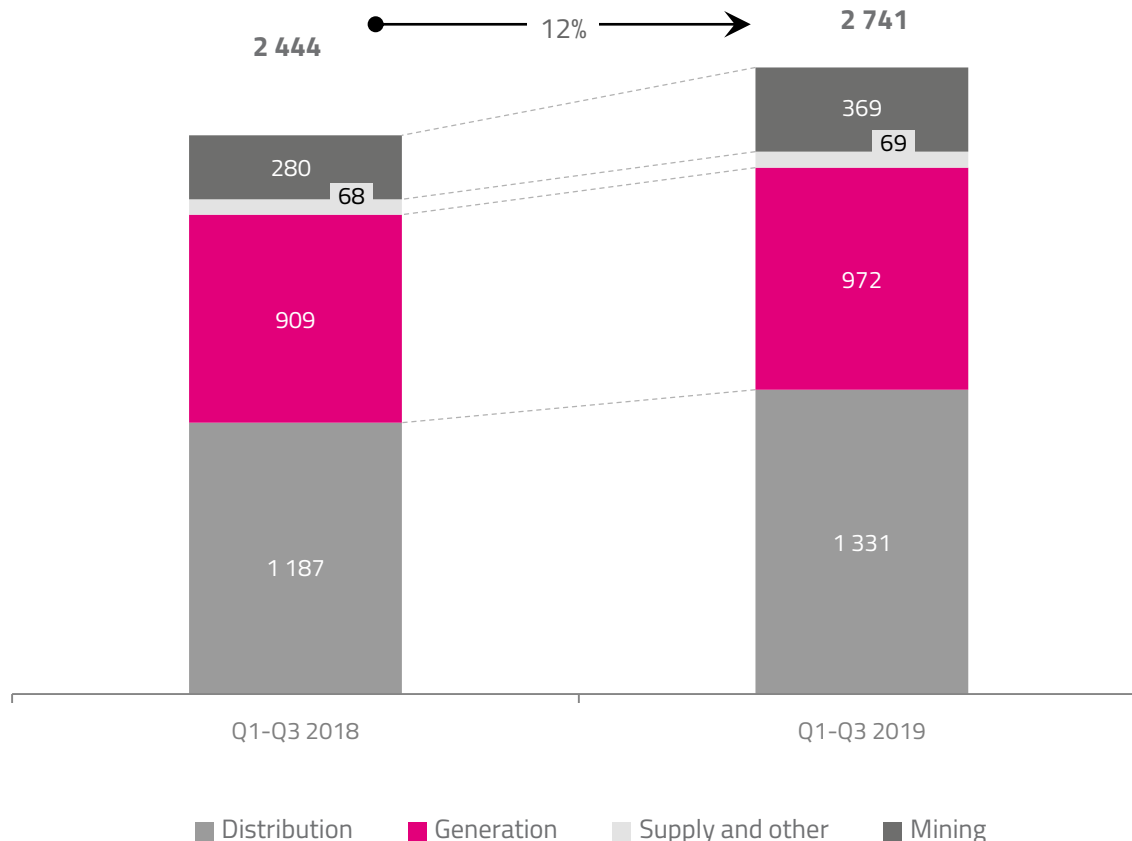
# CAPEX – work progress on the key projects

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 in Jaworzno	910	-	96	 2020
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant	450	240	86	 2020
Construction of the 800m level at Janina Coal Mine	-	-	73	 2021
Construction of the Grzegorz shaft at Sobieski Coal Mine	-	-	44	 2023
CAPEX program at Brzeszcze Coal Mine	-	-	59	 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	65	 2019
Adapting the TAURON Wytwarzanie's generating units to the BAT conclusions	-	-	9	 2021

# Capex – by segments



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



## Key investment projects implemented in Q1-Q3 2019:

### Distribution:

- Grid assets upgrades (refurbishments) and replacements (PLN 754m)
- Installing new connections (PLN 487m)
- Outlays on IT, buildings and structures, as well as transportation means (PLN 72m)

### Generation:

- Construction of the new 910 MW capacity in Jaworzno (PLN 513m)
- Replacement and refurbishment related outlays as well as overhaul components (PLN 167m)
- Implementing heat production at Łagisza Power Plant (PLN 74m)
- Restoration of the demineralized water treatment station (PLN 12m)
- New facility connections (PLN 18m)
- District heating maintenance and expansion (PLN 19m)

### Mining:

- Brzeszcze Coal Mine's CAPEX program (PLN 61m)
- Construction of the Grzegorz shaft at Sobieski Coal Mine (PLN 79m)
- Construction of the 800 m level at Janina Coal Mine (PLN 51m)
- Production preparation (PLN 143m)

### Equity investments:

- Acquisition of wind farms with the capacity of 180 MW (PLN 601m)

\*Expenditures including equity investments, excluding financial costs, reached: PLN 2 344m in Q1-3 2018 and PLN 3 192m in Q1-3 2019

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Dom Maklerski Santander	<b>Paweł Puchalski</b>
Dom Maklerski PKO BP	<b>Andrzej Rembelski</b>
Dom Maklerski Banku Handlowego	<b>Piotr Dzięciołowski</b>
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WOOD & Company	<b>Ondrej Slama</b>
Dom Maklerski BOŚ	<b>Jakub Viscardi</b>
Exane BNP Paribas	<b>Michael Harleaux</b>
Pekao Investment Banking	<b>Maksymilian Piotrowski</b>
Beskidzki Dom Maklerski	<b>Krzystian Brymora</b>
Trigon Dom Maklerski	<b>Michał Kozak</b>

# Electricity market price trends

Electricity						
Platforms: TGE, TFS	2018		2019 (prices until October 24, 2019 and estimation)		2019/2018	
	Price (PLN/MWh)	Volume (GWh)	Price (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	182.85	103 370	242.00	168 051	32.3%	62.6%
Forward PEAK (Y+Q+M)	228.27	11 058	335.24	13 728	46.9%	24.1%
Forward (weighted average)	187.24	114 427	249.05	181 778	33.0%	58.9%
SPOT (TGE)	224.73	27 645	233.64	25 000	4.0%	-9.6%
Weighted average total	<b>194.53</b>	<b>142 073</b>	<b>247.19</b>	<b>206 778</b>	<b>27.1%</b>	<b>45.5%</b>

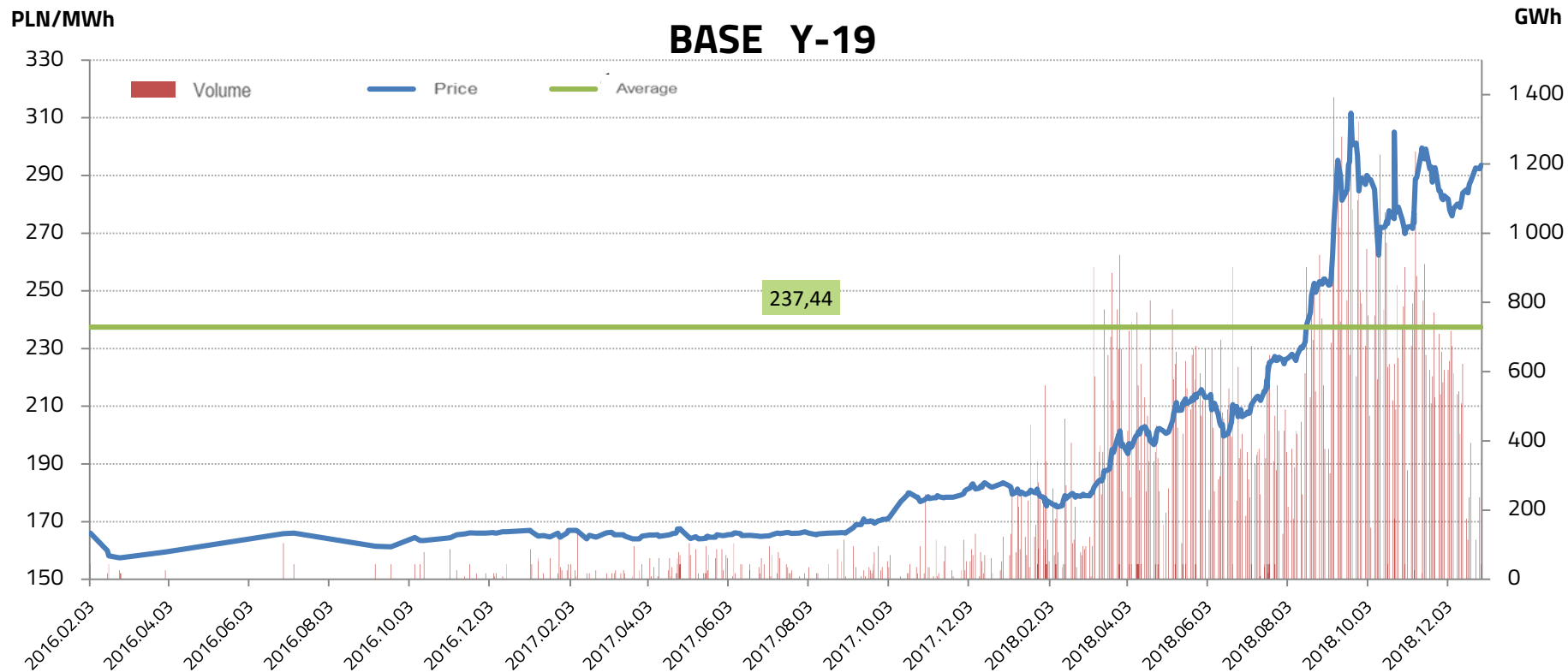
Property rights (PLN/MWh)			
Certificate type	Market prices (Q1-3 2019 average)	Substitution fee and obligation for:	
		2018	2019
OZE (PMOZE_A)	127.88	48.53 (17.5%)	129.78 (18.5%)
RES from biogas plants (PMOZE_BIO)	299.28	300.03 (0.5%)	300.03 (0.5%)

CO <sub>2</sub> emission allowances (EUR/t)	
CO <sub>2</sub> market analysts survey* (updated in October 2019)	Price (EUR/t)
2019 average	25.00 EUR/t
2020 average	33.40 EUR/t
2021 average	34.10 EUR/t
2020 average price forecast by TAURON	27-35 EUR/t

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



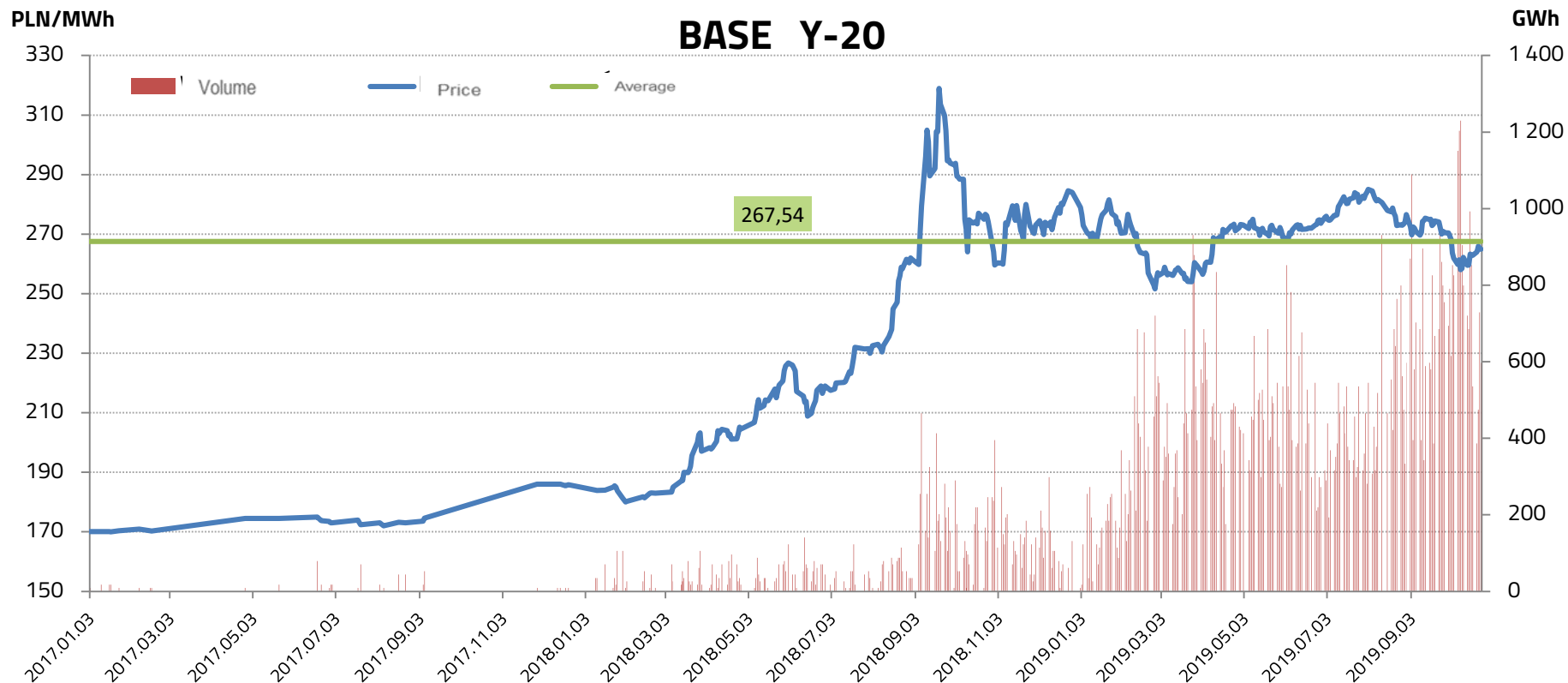
# 2019 BASE contract prices



		Average price [PLN/MWh]	Volume [GWh]
Total		237.44	133 170
including	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		267.54	112 549
including	TGE	267.56	112 514
	non-TGE	208.19	35

Average electricity price that takes into account 2020 one year BASE and PEAK contracts: 274.22 PLN/MWh, total 2020 BASE and PEAK contracts volume: 125 696 GWh

# 2021 BASE contract prices



		Average price [PLN/MWh]	Volume [GWh]
Total		268.68	12 860
including	TGE	268.68	12 860
	non-TGE		0

Average electricity price that takes into account 2021 one year BASE and PEAK contracts: 275.37 PLN/MWh, total 2021 BASE and PEAK contracts volume: 14 593 GWh

Thank you for your  
attention