



TAURON Group's Q1 2016

Financial Results

May 12, 2016

Q1 2016 key financial data



TAURON Group's Q1 2016 results

| [PLN m] | | Q1 2016/Q1 2015 | |
|-----------------|-------|-----------------|----------------------------|
| Sales revenue | 4 647 | ↓ | (3%) |
| EBITDA | 873 | ↓ | (14%) |
| Net profit* | 323 | ↓ | (36%) |
| CAPEX | 654 | ↓ | (17%) |
| Net debt/EBITDA | 2.50x | ↑ | Up 0.3x (vs 31.12.2015) |

Q1 2016 operating data

| | | Q1 2016/Q1 2015 | |
|----------------------------------|-------|-----------------|-------|
| Commercial coal production [t m] | 1.21 | ↑ | 25%** |
| Electricity generation [TWh] | 4.31 | ↓ | (2%) |
| Heat generation [PJ] | 4.84 | ↓ | (6%) |
| Electricity distribution [TWh] | 12.73 | ↑ | 2% |
| Electricity supply [TWh] | 8.37 | ↓ | (8%) |

*attributable to the shareholders of the parent company

**excluding Nowe Brzeszcze Grupa TAURON it would be 13%

Highlights summary

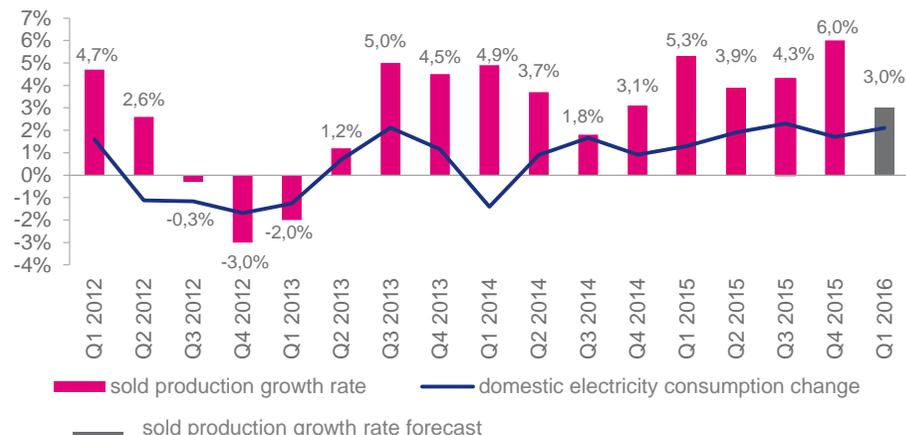
| | |
|-------------|--|
| January 29 | EC Stalowa Wola terminates the agreement with Abener Energia – the general contractor of the CCGT unit at Stalowa Wola. Termination cause: breach of the schedule and of the material technical provisions of the contract |
| February 15 | Information on the intention to recognize in the 2015 financial statements the impairment charge related to the carrying amount of the Generation segment's generation units and the write-down due to the loss on the carrying value of shares/interests in TAURON Wytwarzanie and TAURON Ciepło on the balance sheet (approx. PLN 3.6bn write-down in the consolidated financial statements and PLN 4.9bn in the separate (standalone) financial statements) |
| March 9 | Adoption of the 2016-2018 efficiency improvement program with the total planned value of PLN 1.3bn. The program's implementation will allow for increasing the Group's EBITDA by approximately PLN 400m in 2018 (permanent, recurring effect of this magnitude in the subsequent years) |
| March 22 | By March 21, 2016 the agreement was signed with the bondholders holding 6 937 of TPEA1119 series bonds which represented 39.64 percent of the total nominal value of all the bonds of this series and provided authorization to exercise 39.64 percent of the votes. The bondholders undertook that during the term of the agreements they would take part in every meeting of bondholders and vote against passing a resolution that would allow the bondholders to demand from the company an early redemption of the bonds (in conjunction with the possible case of the leverage ratio exceeding 3.0x, provided this ratio does not exceed 3.5x) |
| March 10 | Management Board recommended to the Ordinary General Meeting of Shareholders the allocation of the company's retained earnings in the part that includes amounts transferred from previous years' profits to pay out the dividend in the amount of PLN 175 254 939.40 (PLN 0.10 per share). On March 17 the Management Board's recommendation received a positive opinion of the Supervisory Board |
| April 12 | Convening of the General Meeting of Shareholders to be held on June 8, 2016 |
| April 25 | Adoption by the Management Board of TAURON Group's new Business Model |

Macroeconomic and market situation

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



Increase of manufacturing production sold and electricity consumption (change r/r)*



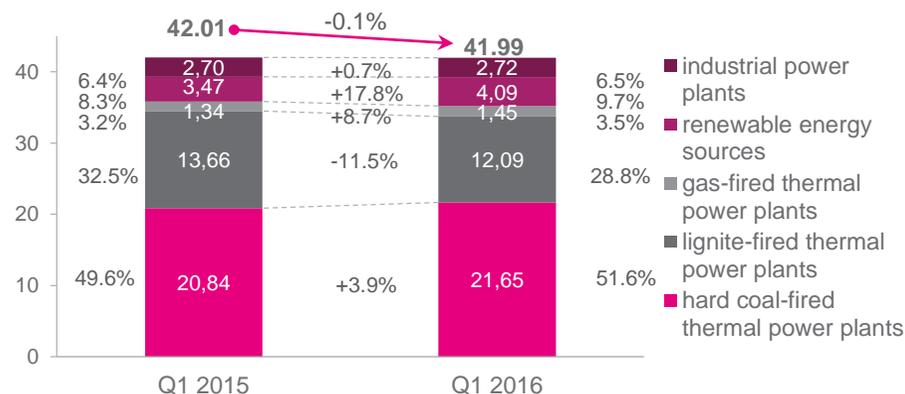
Electricity prices under one year BASE contracts

| 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 | 160.36 | 32 167 |
| Y-18 | 156.54 | 3 048 |
| Y-19 | 160.08 | 193 |

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

- 2011: PLN 198.90/MWh
- 2012: PLN 201.36/MWh
- 2013: PLN 181.55/MWh
- 2014: PLN 163.58/MWh
- 2015: PLN 169.99/MWh

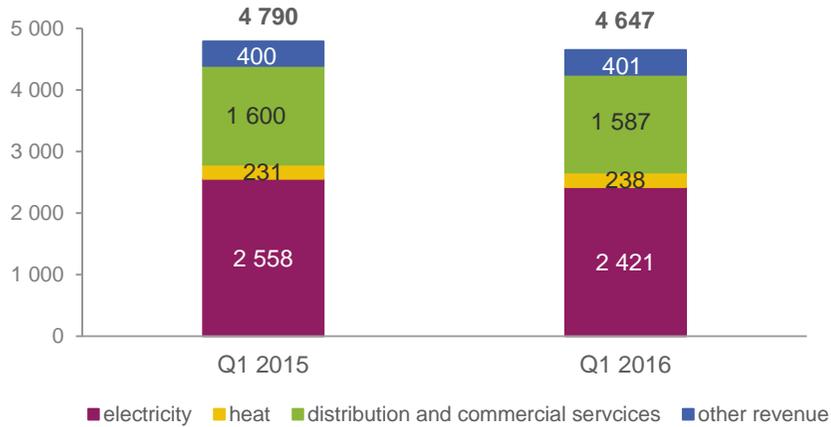
Structure of electricity generation in Poland [TWh]



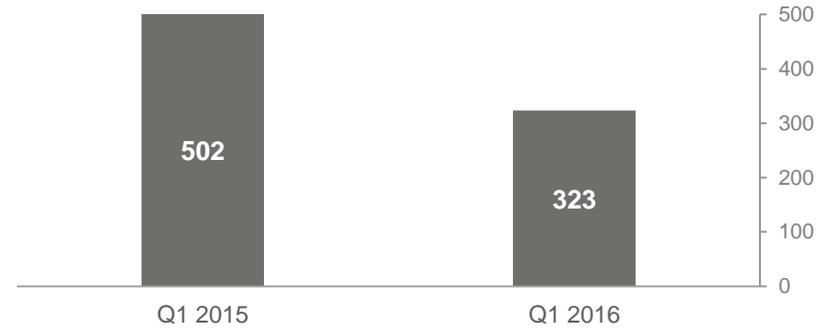
* Source: GUS, IBnGR, PSE

Q1 2016 key financial data

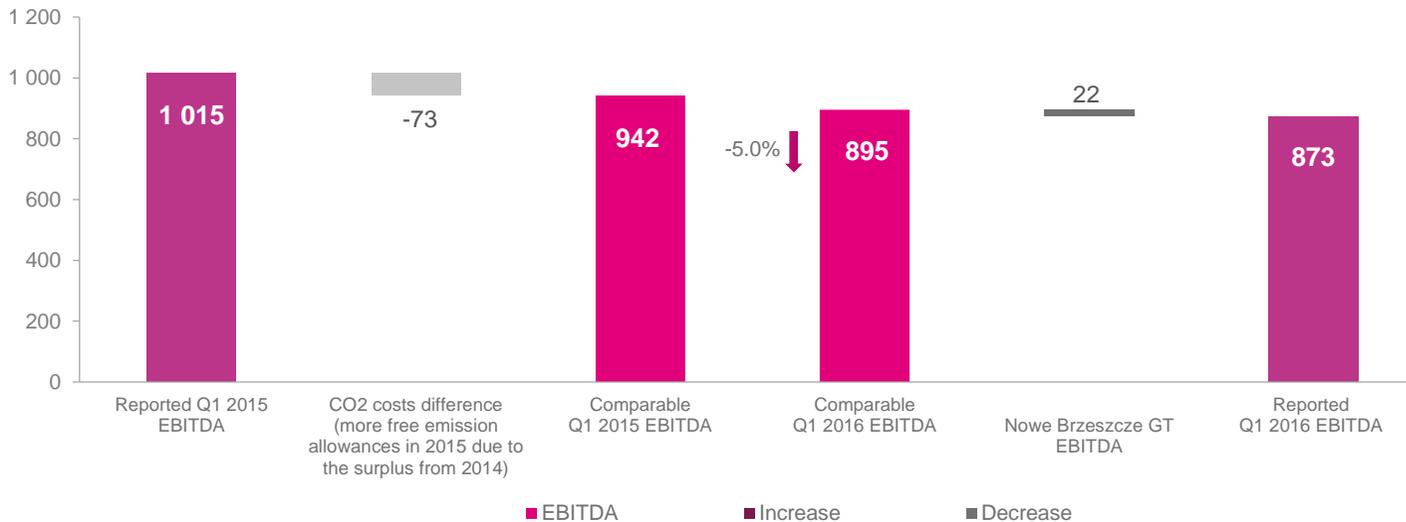
Sales revenue [PLN m]



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

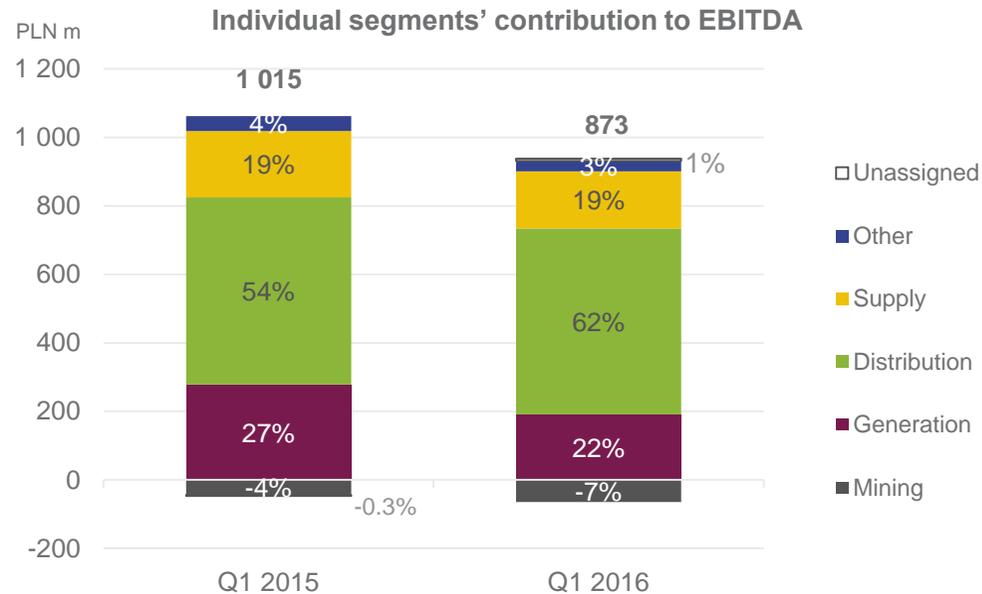


Q1 2016 vs Q1 2015 EBITDA [PLN m]

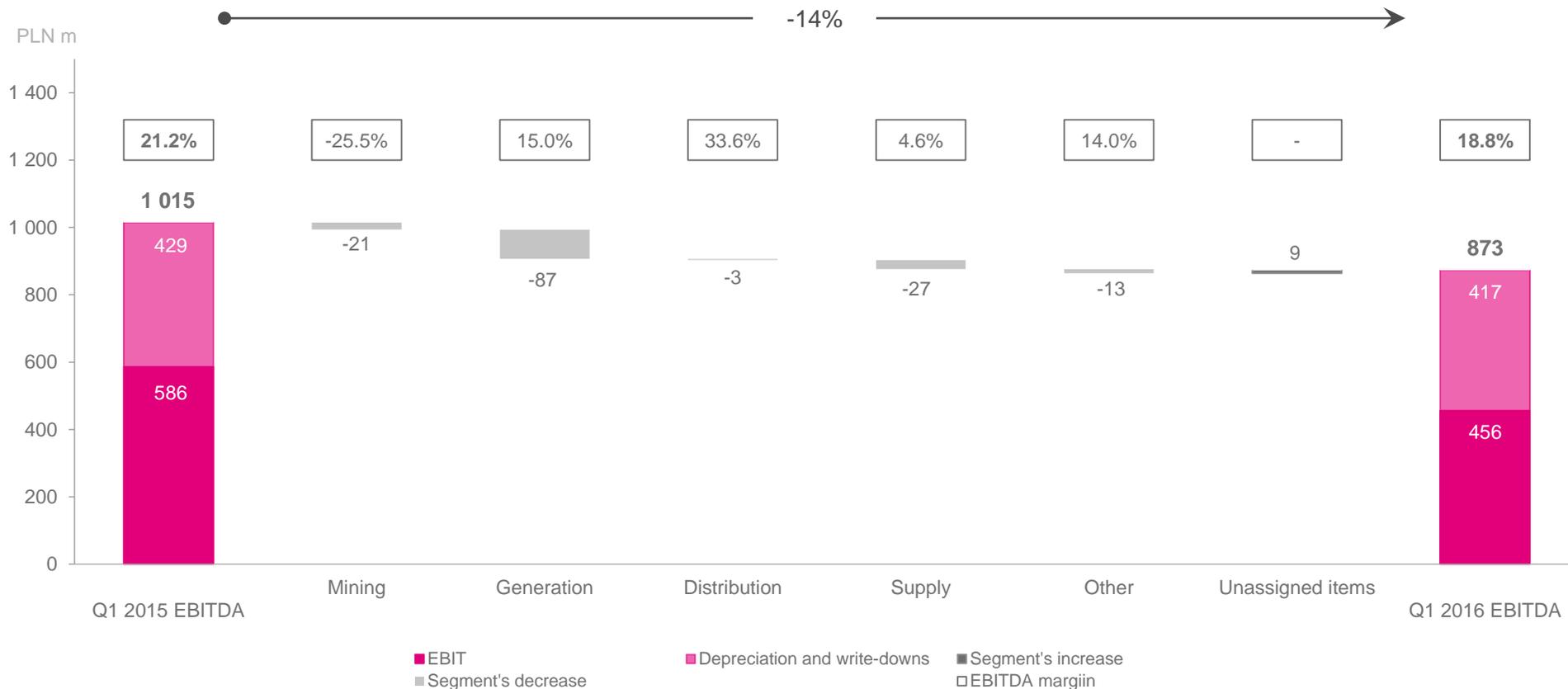


Q1 2016 key segments results

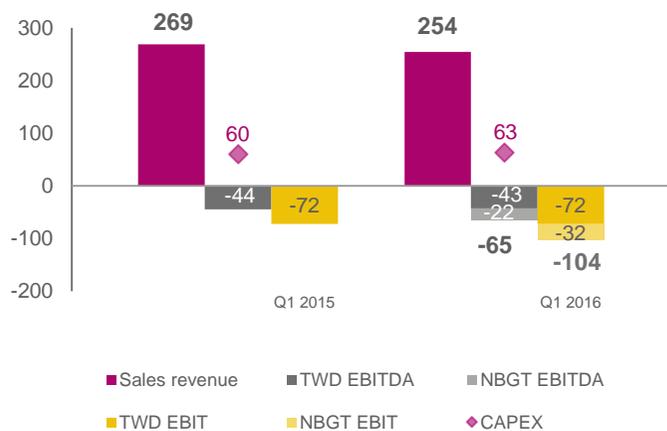
| [PLN m] | Distribution | Supply | Generation | Mining |
|-------------------|--------------|--------|------------|--------|
| Segment's revenue | 1 616 | 3 591 | 1 272 | 254 |
| EBITDA | 543 | 167 | 191 | (65) |
| EBIT | 292 | 160 | 89 | (104) |
| CAPEX | 328 | 0.7 | 256 | 63 |



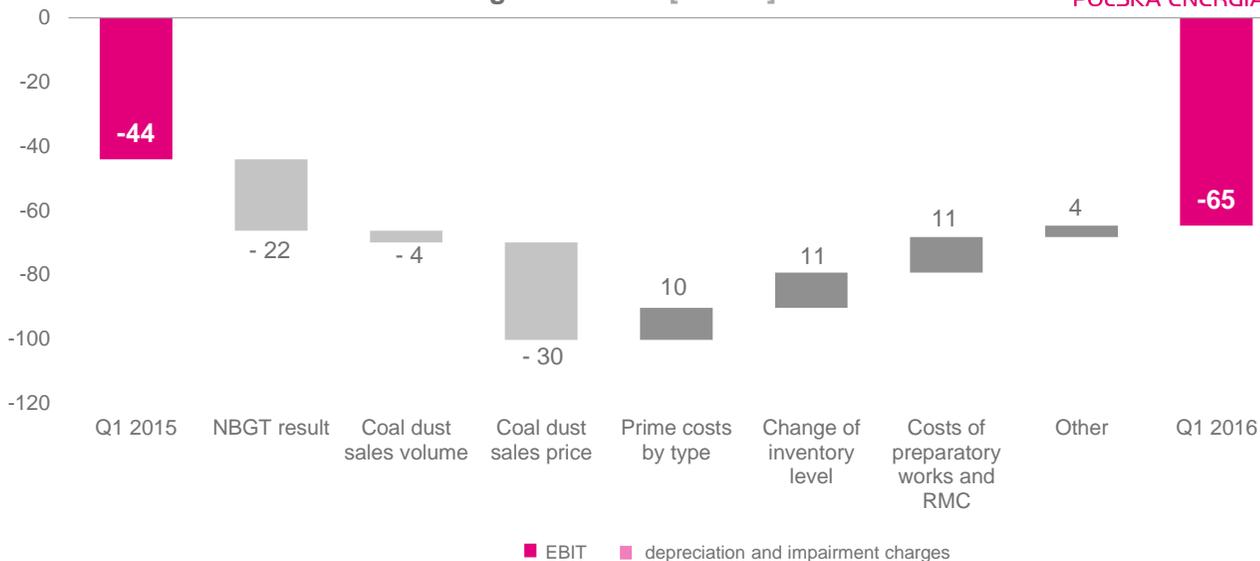
Q1 2016 EBITDA



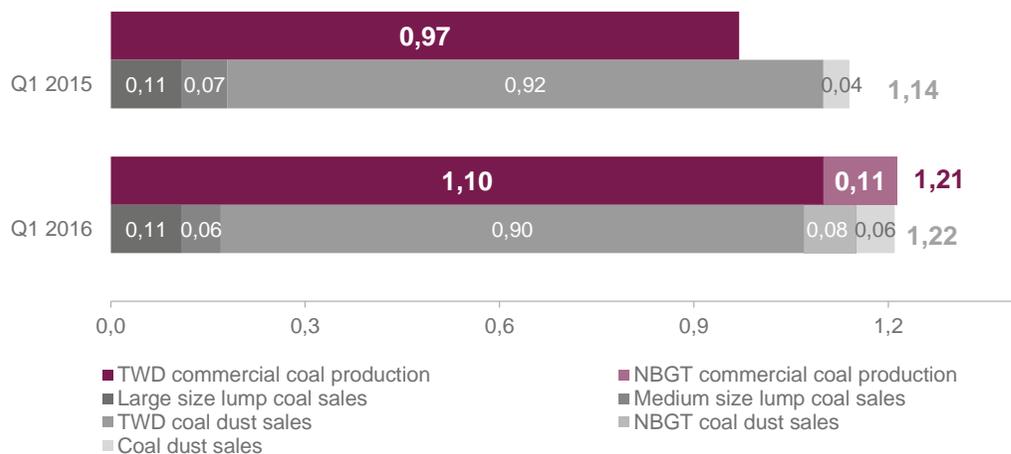
Financial data [PLN m]



Change of EBITDA [PLN m]



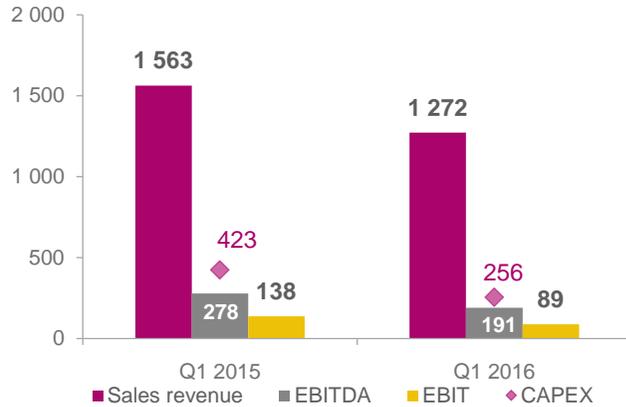
Commercial coal production volume vs sales per product [Mg m]



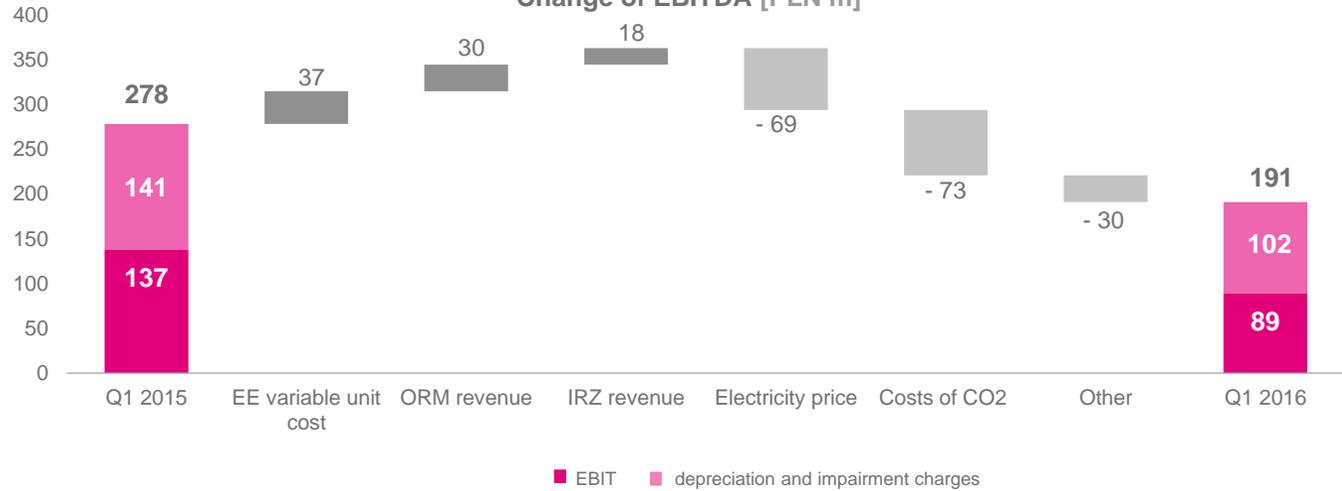
- 1 Approx. 16.3 percent decline of coal dust prices -
- 2 2.1 percent drop of coal dust sales volume -
- 3 Lower headcount (down by 567 FTEs on average) ✓

Generation

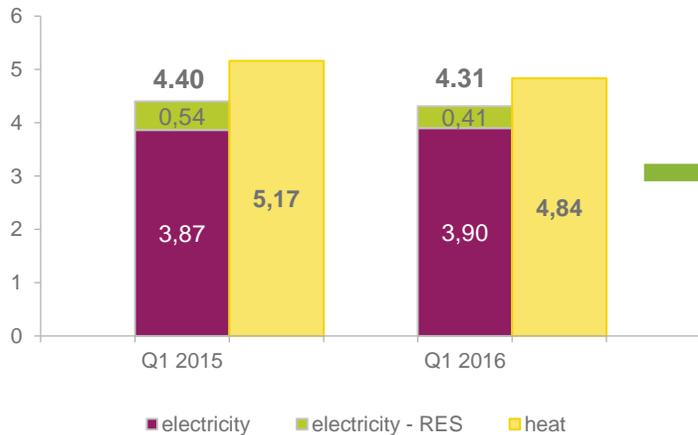
Financial data [PLN m]



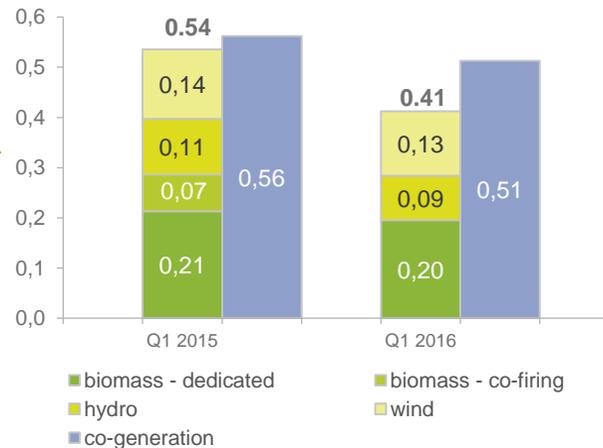
Change of EBITDA [PLN m]



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



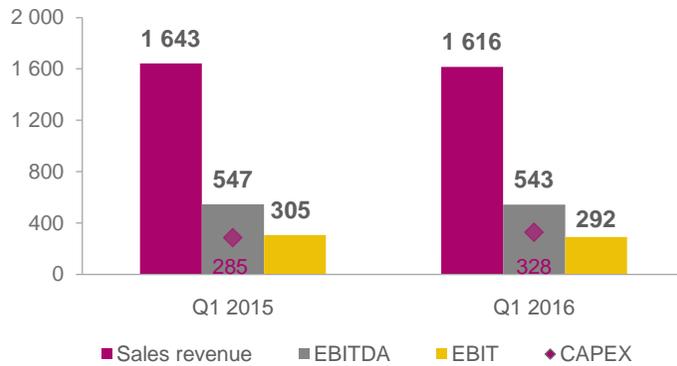
RES and cogeneration production [TWh]



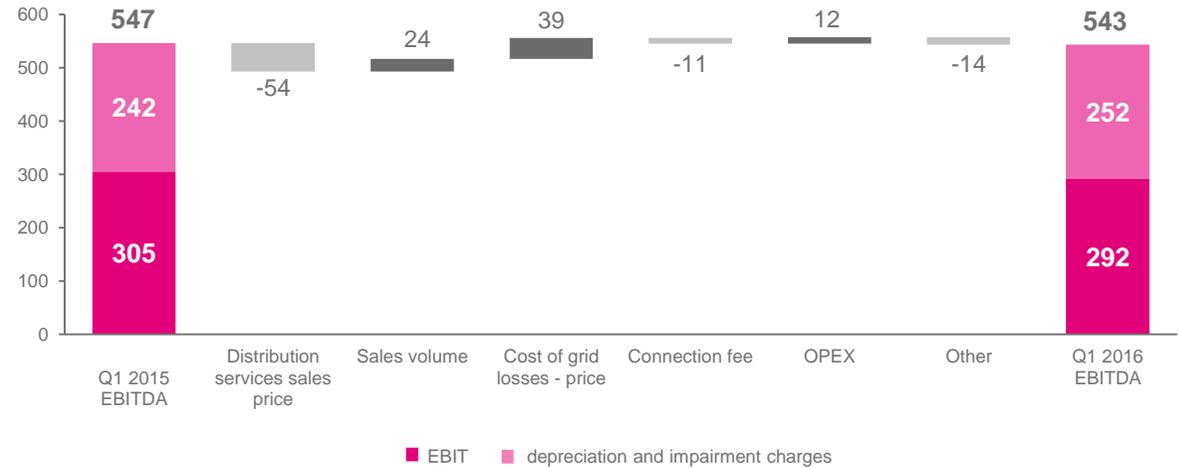
- 1 Increase of the Operational Capacity Reserve (ORM) volume and revenue from the Cold Intervention Reserve (IRZ) ✓
- 2 10 percent hard coal price drop yoy ✓
- 3 Lower depreciation costs (impairment charge as of 31.12.2015) ✓
- 4 Higher CO₂ costs -
- 5 Declining electricity prices -

Distribution

Financial data [PLN m]



Change of EBITDA [PLN m]

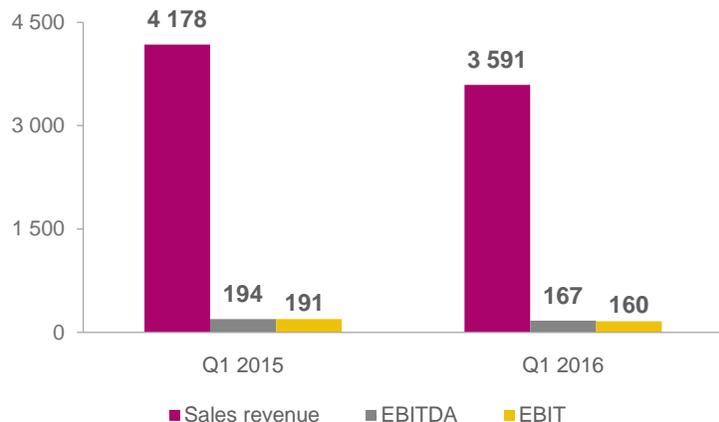


Electricity distribution to end users [TWh]



- 1 PLN 3.6/MWh (2.9%) tariff drop -
- 2 Balancing difference optimization – PLN 33.9/MWh (15.2%) balancing price decline and grid losses factor drop (by 0.10 pp) ✓
- 3 359 GWh (0.31%) higher distribution services sales volume, mainly the result of rising manufacturing output ✓

Financial data [PLN m]



Change of EBITDA [PLN m]



Retail electricity sales [TWh]

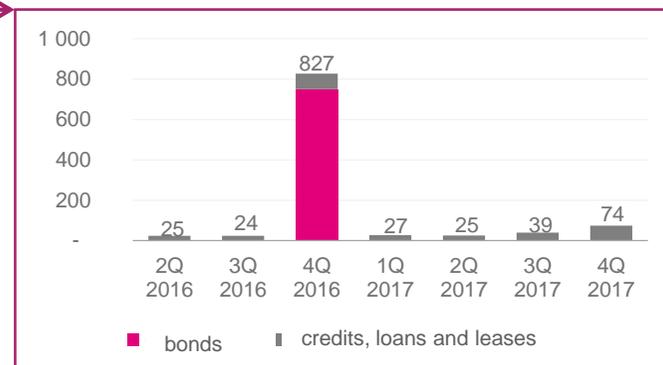
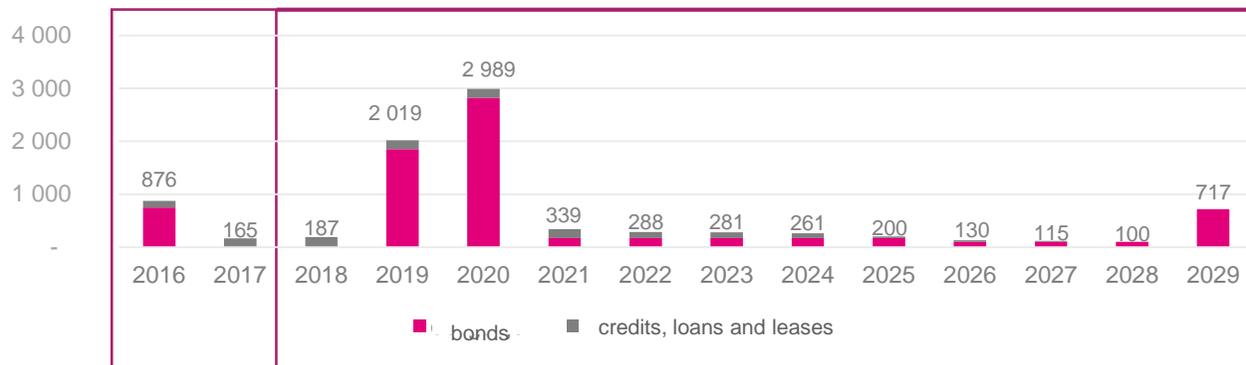


- 1 1.7% electricity retail sales prices drop and 0.1% electricity purchase prices decline -
- 2 Falling retail electricity sales volumes mainly to large business customers and to the SMEs -
- 3 Increased obligations to redeem property rights: in case of PMOZE from 14% to 15%, in case of PMGM from 4.9% to 6.0%, in case of PMMET from 1.3% to 1.5% -
- 4 Approx. 27% lower purchase prices of the "green" property rights to be redeemed ✓

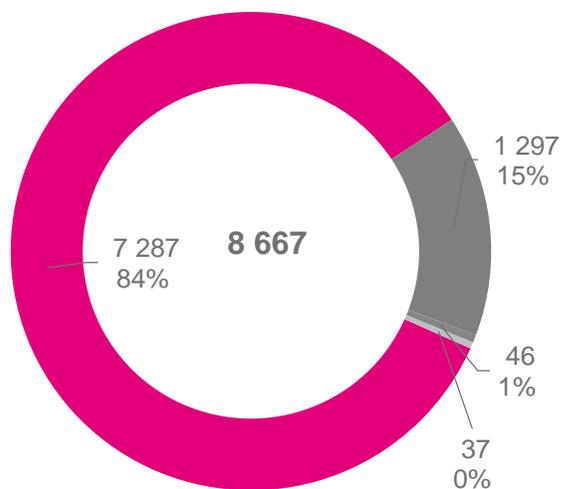
*includes sales to cover the balancing difference and to the intra-Group end users

Debt and financing

TAURON Group's debt maturity as of 31.03.2016

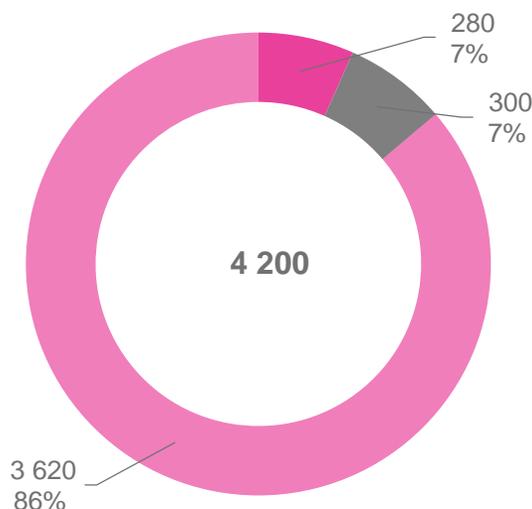


TAURON Group's debt structure as of 31.03.2016 [PLN m]



- bonds
- EIB loans
- NFOSiGW/WFOSiGW loans
- leases

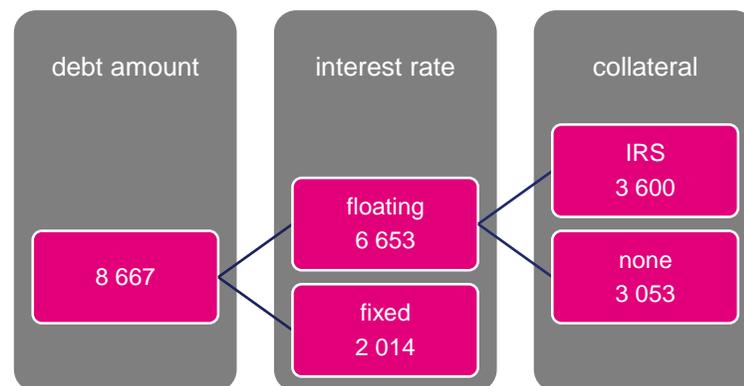
Financing available to TAURON Group as of 31.03.2016 [PLN m]



- BGK program bonds
- cashpooling
- banks program bonds

- debt (nominal value of debt due to investment loans, loans, leases and bonds) as of March 31, 2016 is PLN 8 667mln
- weighted average debt maturity as of March 31, 2016 is 64 months
- EUR denominated debt (NSV bond issue) represents 8.27% of the total debt

Debt structure based on interest rate [PLN m]:



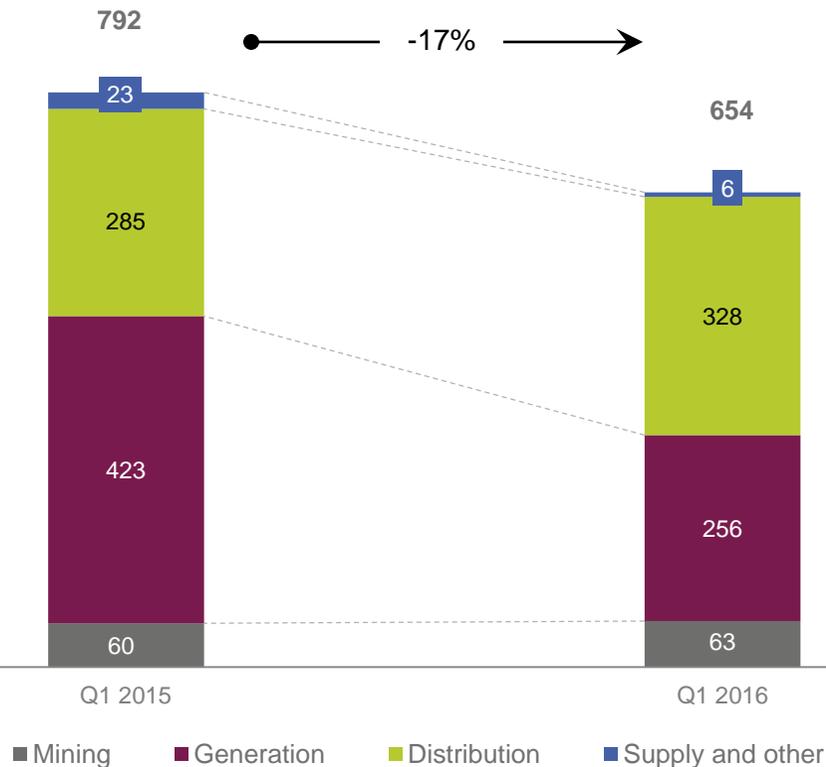
CAPEX – key projects' work progress

| Investment project | Capacity (MW _e) | Capacity (MW _t) | Work progress (percentage) | | Planned completion date |
|---|-----------------------------|-----------------------------|----------------------------|---|-------------------------|
| Construction of the hard coal-fired unit at Jaworzno III Power Plant | 910 | - | 17 |  | 2019 |
| Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant | 450 | 240 | 85 |  | 2018/2019* |
| Construction of the hard coal-fired co-generation unit at ZW Tychy | 50 | 86 | 97 |  | 2016 |
| Jaworzno III Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units | - | - | 92 |  | 2016 |
| Construction of the CCGT unit at Łagisza Power Plant | 413 | 250 | 5 |  | 2019 |
| Construction of the 800m level at Janina coal mine | - | - | 39 |  | 2020 |
| Construction of Grzegorz shaft at Sobieski coal mine | - | - | 20 |  | 2023 |

* Completion date will be estimated following the inventory taking and acceptance of the comprehensive project completion concept

CAPEX per segment

CAPEX by segment [PLN m]



Key investment projects completed in Q1 2016:

- Mining:
 - construction of the 800 m level at Janina coal mine (PLN 12m)
 - construction of the Grzegorz shaft at Sobieski coal mine (PLN 15m)
- Generation:
 - construction of the NO_x emission reduction system (PLN 8m), construction of new 910 MW capacity at Jaworzno Power Plant (PLN 182m), construction of new 413 MW capacity at Łagisza Power Plant (PLN 3m)
 - hydroelectric power plants upgrade (PLN 4m)
 - construction and upgrade of district heating networks (PLN 14m), adaptation of the ZW Katowice heat source to the heat market needs past 2015 (PLN 9m)
- Distribution:
 - construction of new connections (PLN 133m)
 - upgrade and restoration of grid assets (PLN 165m)

Efficiency improvement program

| Segment | Savings realized in Q1 2016 | Savings planned in 2016-2018 | Progress % | Main initiatives |
|-------------------------------------|-----------------------------|------------------------------|--|--|
| Mining | PLN 24m | PLN 255m |  9% | <ul style="list-style-type: none"> Employment restructuring, reduction of labor costs and increasing their flexibility, reorganizational measures Use of electronic auctions in the purchasing process CAPEX plan optimization |
| Generation (including RES and Heat) | PLN 15m | PLN 367m |  4% | <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 17m | PLN 390m |  4% | <ul style="list-style-type: none"> Reorganization and employment restructuring Asset maintenance costs control Purchasing efficiency improvement Outsourcing of the storage services Sale of redundant real estate |
| Other | PLN 11m | PLN 291m |  4% | <ul style="list-style-type: none"> Employment restructuring, Restricting the scope of IT services Customer service costs and overhead (administration) costs control Optimization of the costs of promotional and sponsoring activities |
| Total | PLN 67m | PLN 1 303m | 5% | |

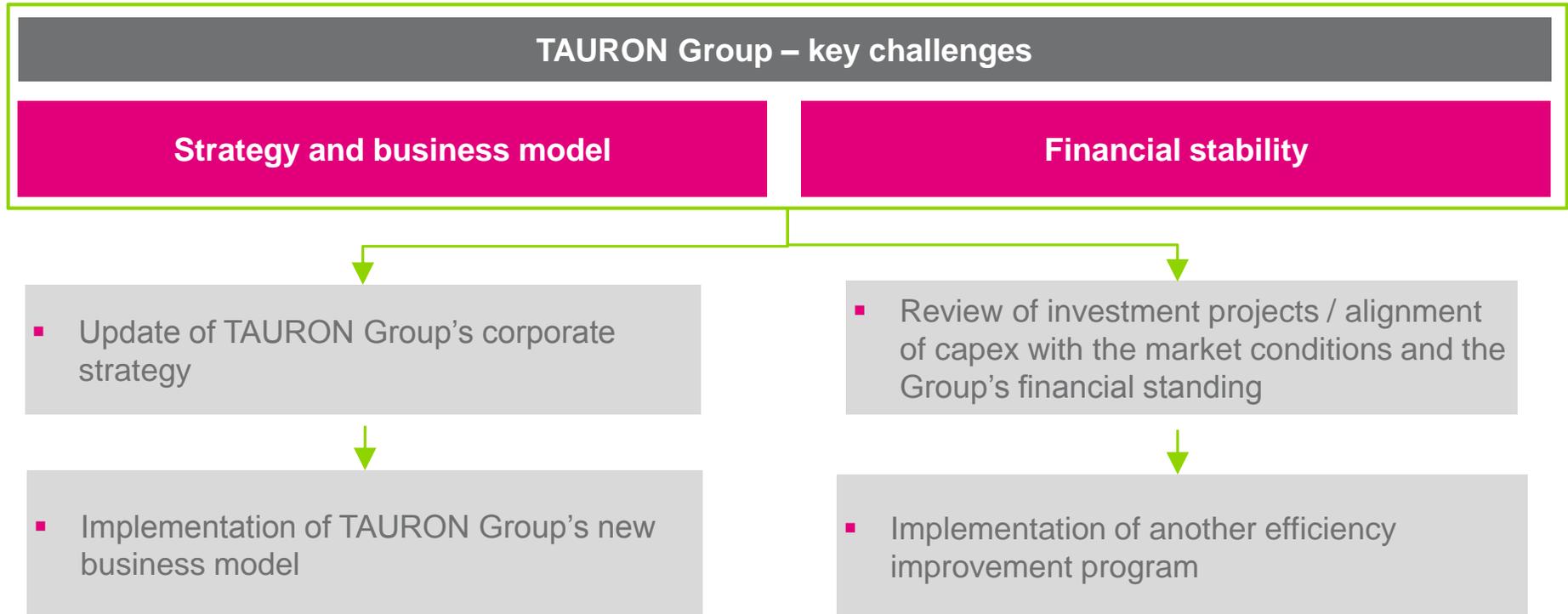
- In Q1 2016 under the Voluntary Redundancy TAURON Group's headcount was reduced by 118 FTEs. Savings resulting from redundancies, decreased by the costs incurred to generate these savings, are included in the amounts presented per segment

TAURON Group's new business model



| <i>Process streams</i> | Trade (Segment) | Mining (Segment) | Generation (Segment) | RES (Segment) | Heat (Segment) | Distribution (Segment) | Supply (Segment) |
|---|---|------------------|----------------------|---------------|----------------|------------------------|------------------|
| <i>Strategy</i> | <ul style="list-style-type: none"> Shaping external and internal environment, communications and setting expansion (growth) directions taking into account regulatory, business and technology changes Overseeing the implementation of the strategy in the organization | | | | | | |
| <i>Finance</i> | <ul style="list-style-type: none"> Group-wide finance, risk and IT management | | | | | | |
| <i>Asset Management and Development</i> | <ul style="list-style-type: none"> Coherent and efficient asset management aimed at ensuring the required efficiency rate in the most cost-efficient manner Fostering the Group's operations growth through research and development as well as innovations | | | | | | |
| <i>Customer and Trade</i> | <ul style="list-style-type: none"> Managing customer relations and experiences in interactions with Tauron Group Expanding cooperation between lines of business (in order to satisfy the customer needs and generate additional revenue streams/margin) Optimizing the Group's trading operations on the wholesale and retail markets | | | | | | |
| <i>Corporate Management/ Support</i> | <ul style="list-style-type: none"> Developing corporate governance and the Group's management principles Reorganizing (formal) and restructuring (operational) of the operations Supervision over quality and efficiency of the support processes | | | | | | |

Key challenges



Thank you – Q & A



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Electricity market price trends

| Electricity | | | | | | |
|------------------------------------|-----------------|--------------|-----------------------------|----------------|----------------------------------|---------------|
| Platforms: TGE, TFS, GFI, GPW-POEE | 2015 | | 2016 (until April 18, 2016) | | 2016/2015 (until April 18, 2015) | |
| | Price (PLN/MWh) | Volume (GWh) | Price (PLN/MWh) | Volume (GWh) | Price % | Volume % |
| Forward BASE (Y+Q+M) | 167.51 | 201 870 | 165.73 | 173 447 | -1.1% | -14.1% |
| Forward PEAK (Y+Q+M) | 215.96 | 17 866 | 210.30 | 19 894 | -2.6% | +11.4% |
| Forward (weighted average) | 171.45 | 219 737 | 170.31 | 193 341 | -0.7% | -12.0% |
| SPOT (TGE) | 156.40 | 25 102 | 159.91 (forecast) | 25 000 | +2.2% | -0.4% |
| Total weighted average | 169.90 | 244 839 | 169.12 | 218 341 | -0.5% | -10.8% |

| Property rights (PLN/MWh) | | | |
|--|---------------------------------|--------------------------------------|----------------|
| Certificate type | Market prices (Q1-2016 average) | Substitution fee and obligation for: | |
| | | 2015 | 2016 |
| RES (PMOZE_A) | 114.49 | 303.03 (14.0%) | 300.03 (15.0%) |
| Hard coal-fired cogeneration (PMEC-2015) | 10.79 | 11.00 (23.2%) | 11.00 (23.2%) |
| Gas-fired cogeneration (PMGM-2015) | 118.53 | 121.63 (4.9%) | 125.00 (6.0%) |
| Methane (PMMET-2015) | 62.23 | 63.26 (1.3%) | 63.00 (1.5%) |

| CO ₂ emission allowances (EUA/t) | |
|---|--------------------------|
| CO ₂ market analysts survey* (updated in April 2016) | Price (EUR/t) |
| 2016 average | 7.60 EUR/t |
| 2017 average | 8.00 EUR/t |
| 2018 average | 9.20 EUR/t |
| 2016 average forecast by TAURON (**updated in April 2016) | 6.00 – 6.30 EUR/t |

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

** Average price in the January - April 2016 + TPE analysts' adjustment

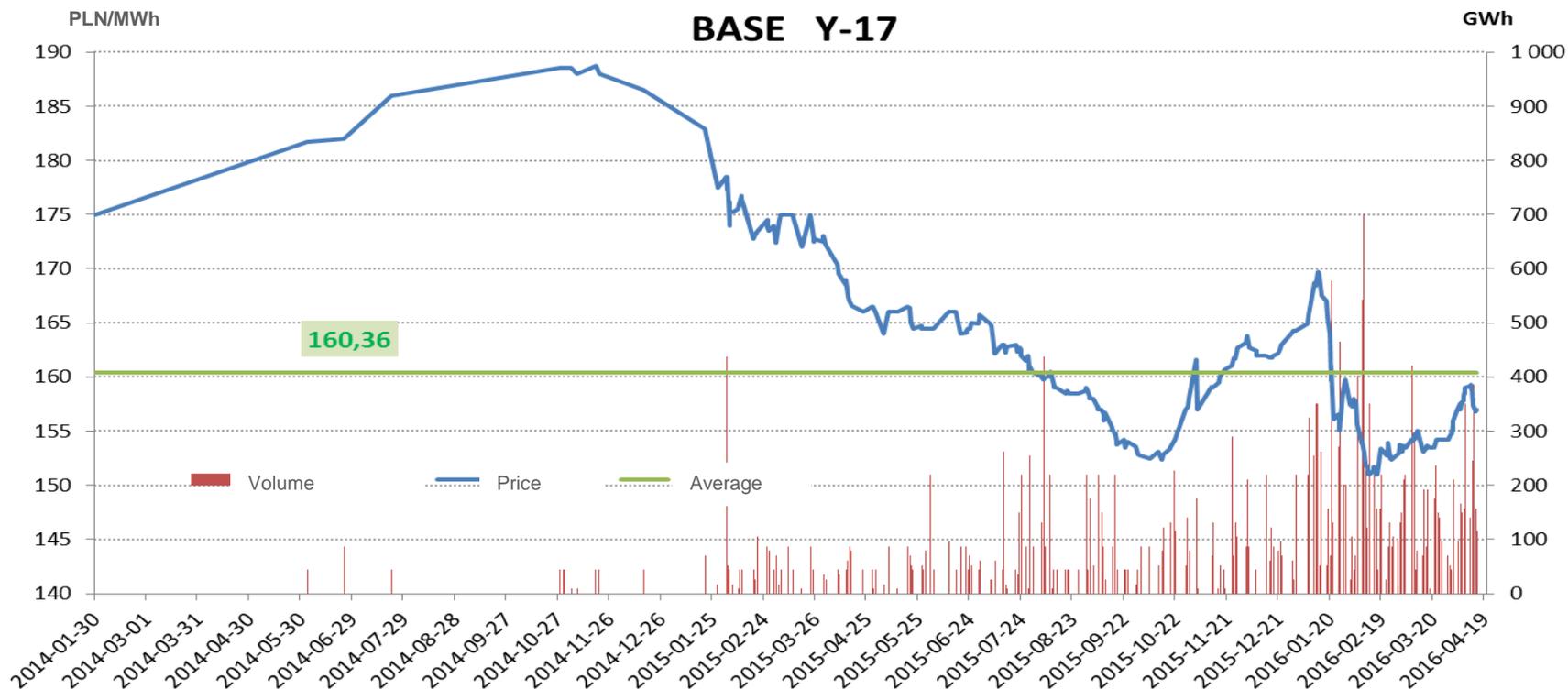
2016 BASE contracts



| | | Average price [PLN/MWh] | Volume [GWh] |
|-----------|---------|-------------------------|--------------|
| Total | | 166.47 | 147 923 |
| including | TGE | 166.12 | 115 729 |
| | non TGE | 167.70 | 32 193 |

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: PLN 171.06/MWh, total 2016 BASE and PEAK volume: 164 728 GWh

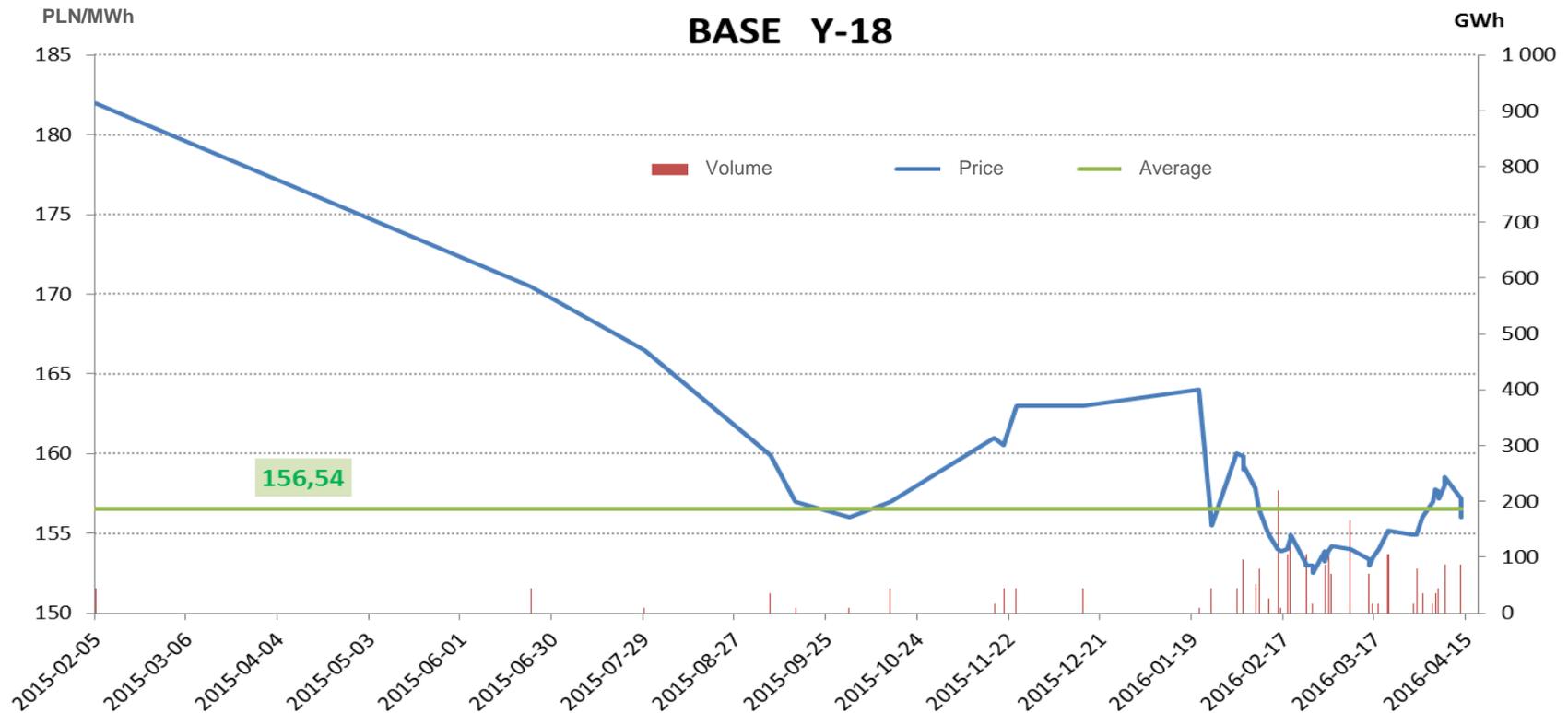
2017 BASE contracts



| | | Average price [PLN/MWh] | Volume [GWh] |
|-----------|---------|-------------------------|--------------|
| Total | | 160.36 | 32 167 |
| including | TGE | 159.13 | 20 604 |
| | non TGE | 162.54 | 11 563 |

Average electricity price that takes into account 2017 one year BASE and PEAK contracts: PLN 163.42/MWh, total 2017 BASE and PEAK volume: 34 320 GWh

2018 BASE contracts



| | | Average price [PLN/MWh] | Volume [GWh] |
|-----------|---------|-------------------------|--------------|
| Total | | 156.54 | 3 048 |
| including | TGE | 155.67 | 1 656 |
| | non TGE | 157.57 | 1 393 |

Average electricity price that takes into account 2018 one year BASE and PEAK contracts: PLN 160.09/MWh, total 2018 BASE and PEAK volume: 3 249 GWh

Analysts covering TAURON



| Institution | Analyst |
|--------------------------------|----------------------------|
| J.P. Morgan Cazenove | Michał Kuzawiński |
| DB Securities | Tomasz Krukowski |
| Dom Maklerski mBanku | Kamil Kliszczyk |
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