



TAURON Group's 2013 FY financial results

March 18, 2014

2013 key financial parameters

TAURON Group's results

[PLN m]	2013	
Sales revenue	19 131	(-22.7% yoy)
EBITDA	3 661	(-4.9% yoy)
Net profit	1 346	(-13.2% yoy)
CAPEX	3 780	(8.9% yoy)
Net debt/EBITDA	1.43	(up 0.25)

Key segments' 2013 results

[PLN m]	Distribution	Supply	Heat	Mining	Generation
Segment's revenue	5 997	18 018	1 189	1 398	4 723
EBITDA	2 208	899	232	166	32
EBIT	1 296	865	127	66	(475)
CAPEX	2 081	21	202	257	521

Q4 2013 key financial parameters

TAURON Group's Q4 2013 results

[PLN m]	Q4 2013	
Sales revenue	4 922	(-24.7% yoy)
EBITDA	665	(-13.7% yoy)
Net profit	86	(-60.6% yoy)
CAPEX	1 411	(-4.3% yoy)
Net debt/EBITDA	1.43	(up 0.25)

Key segments' Q4 2013 results

[PLN m]	Distribution	Supply	Heat	Mining	Generation
Segment's revenue	1 551	4 716	363	305	1 284
EBITDA	512	152	70	(2)	(88)
EBIT	276	144	44	(23)	(214)
CAPEX	889	6	86	83	118

2013/2014 events summary – TAURON (1)

Date	Event
January 15, 2013	Adoption by TAURON Group of the operational efficiency improvement program for 2013-2015. Estimated savings: approx. PLN 860m
January 24, 2013	Selection of the RAFAKO-Mostostal Warszawa consortium for the Jaworzno III 910 MW project. Estimated total project budget: PLN 6.2bn
March 1, 2013	Signature of the contract with Kompania Węglowa for hard coal supplies in 2013-2015
June 18, 2013	Payout of the PLN 350.5m dividend from the 2012 profit (dividend per share: PLN 0.20)
June 6, 2013	ERO President's decision on the G tariff's reduction by 4.55 percent for TAURON Supply in the second half of 2013. Impact on the Supply's revenue: - PLN 45.5m
July 5, 2013	Decision on the generation assets' impairment charge of PLN 236.5m
July 31, 2013	Signature of the agreements related to bond issues with the consortium of banks: ING Bank Śląski, Bank Polska Kasa Opieki, BRE Bank (offering value: up to PLN 5bn) and with Bank Gospodarstwa Krajowego (offering value: up to PLN 1bn)
September 2, 2013	ERO President's decision on the final adjustment of TAURON Generation's stranded costs. Impact on TAURON Group's earnings: - PLN 19m.
December 10, 2013	Resignation from the 135 MW CCGT unit's construction in Katowice (TAURON Heat)

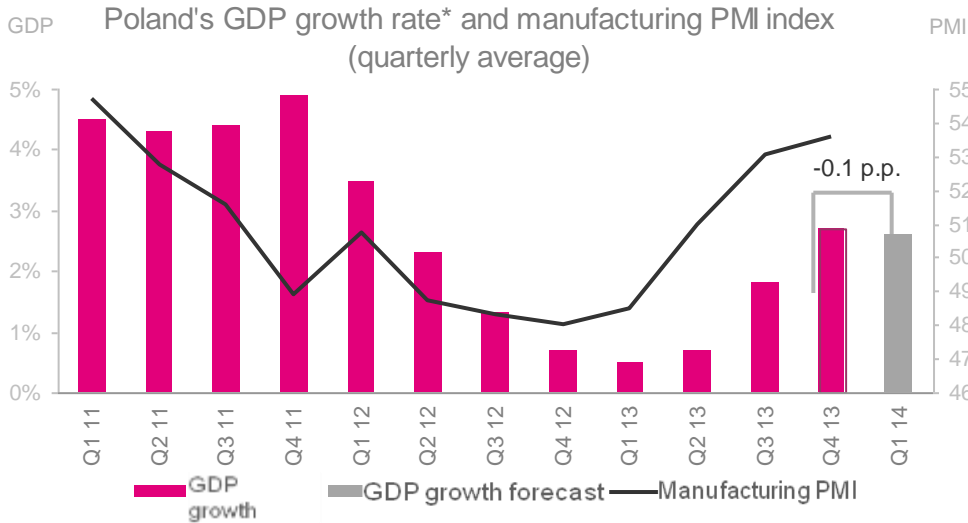
2013/2014 events summary – TAURON (2)

Date	Event
December 10, 2013	Acquisition from Kompania Węglowa of 47.52 percent of Południowy Koncern Węglowy's (PKW) shares. Deal value: PLN 310m. As a result TAURON owns 100 percent of shares and votes in PKW. On February 24, 2014 the change of PKW's name to TAURON Mining (TAURON Wydobywanie) was registered in the National Court Register (KRS)
December 17, 2013	<ul style="list-style-type: none">▪ ERO President's decision on the distribution tariff's increase by 2.69 percent for TAURON Distribution in 2014. Estimated impact on the Distribution's revenue: + PLN 132m▪ ERO President's decision on the G tariff's reduction by 6.19 percent for TAURON Supply in 2014. Impact on the Supply's revenue: - PLN 117m
December 30, 2013	Decision on suspending the CCGT unit's construction at Blachownia Power Plant (800 MW)
December 31, 2013	End of TAURON Polska Energia's involvement in the shale gas exploration and extraction project
2013	Commissioning of the following investment projects: <ul style="list-style-type: none">▪ Marszewo (82 MW) and Wicko (40 MW) wind farms▪ 50 MW_e/106 MW_t heat unit in Bielsko-Biała▪ 20 MW biomass-fired unit in Stalowa Wola and 40 MW biomass-fired unit in Tychy
January 28, 2014	Decision on setting up an additional PLN 270m provision for free of charge CO ₂ emission allowances not received in 2013. Negative impact on 2013 EBITDA: - PLN 270m
March 4, 2014	Resolution of the tender for providing the cold capacity reserve for intervention purposes (IRZ) service. The service will be provided by TAURON Generation's three 120 MW units (two at the Siersza Power Plant and one at the Stalowa Wola Power Plant)

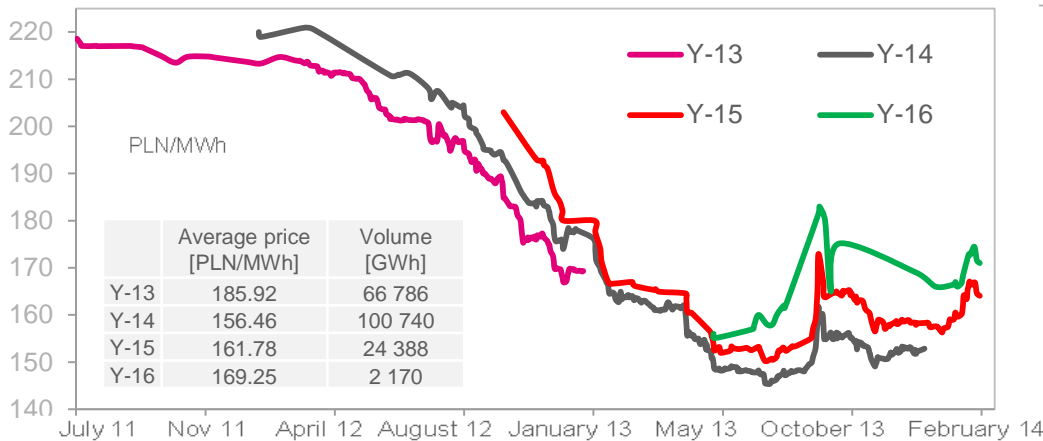
2013/2014 events summary – MARKET

Date	Event
January 2013	Expiration of the support system for high efficiency rate coal- and gas-fired co-generation. On January 24, 2014 Polish Parliament (Sejm) extended support for co-generation until 2018.
September 11, 2013	Coming into force of the amended Energy Law. Among others an obligation was introduced for gas trading companies to sell some gas via the public gas exchange
September 17, 2013	Ministry of Economy presents the draft RES law that includes a new proposal on the support system for renewable energy sources (auction system)
December 2013	<ul style="list-style-type: none">▪ ERO President's decision on the G tariff's reduction by between -6.5 percent and -6.2 percent in 2014▪ ERO President's decision on the distribution tariff's increase by between 0.6 percent and 6.6 percent in 2014
January 2014	Coming into force of the operational capacity reserve mechanism. Estimated annual budget of PSE S.A. is approx. PLN 400m
February 24, 2014	Coming into force of the backloading mechanism – EU's plan to temporarily reduce the number of emission allowances on the market. In 2014-2016 the EUA pool on the market will be reduced by 900m in total. As a consequence of this decision on February 24 the EUA price went up to approx. 7.3 EUR/t

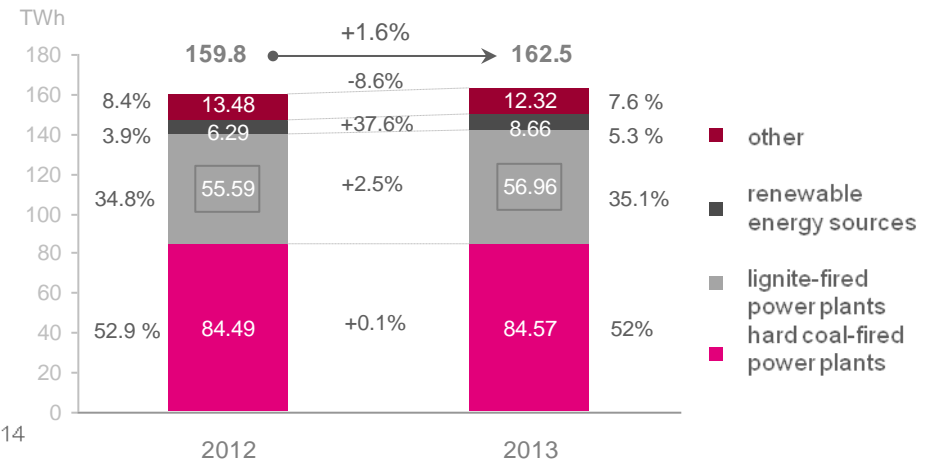
Macroeconomic and market situation



Yearly BASE contract prices on the Polish Power Exchange (TGE)

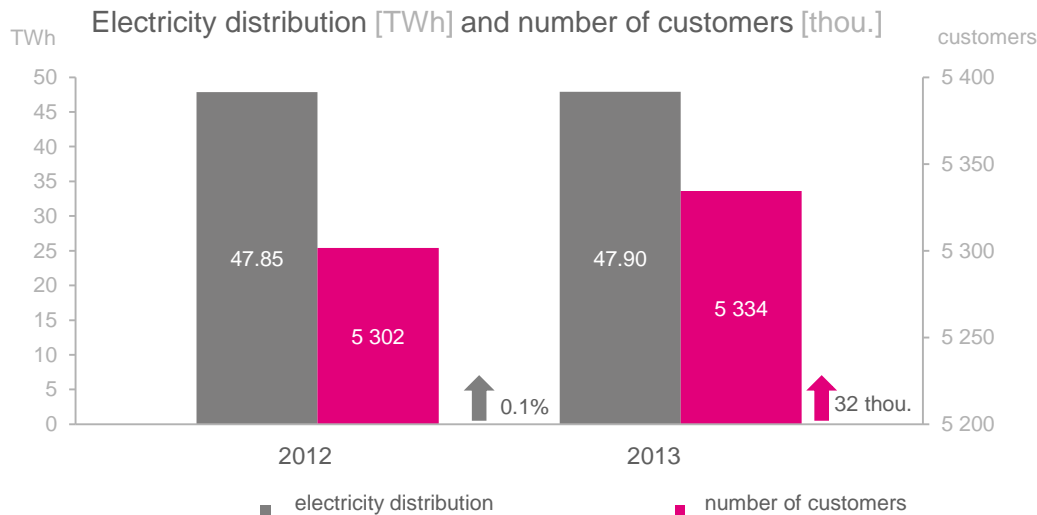
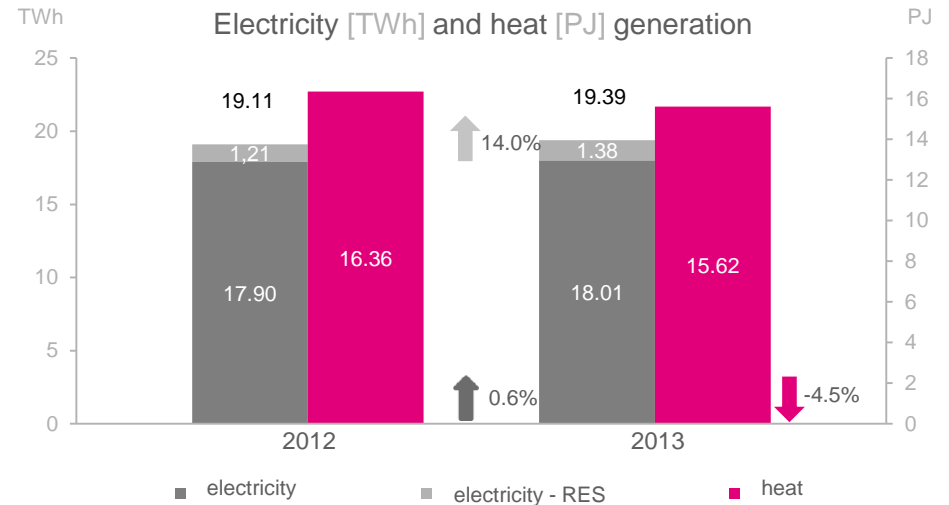
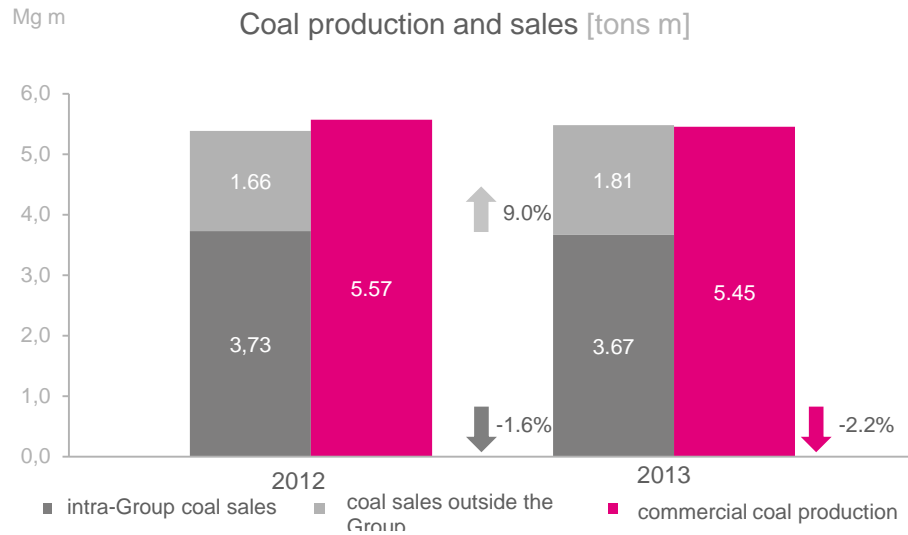


Structure of electricity production in Poland [TWh]

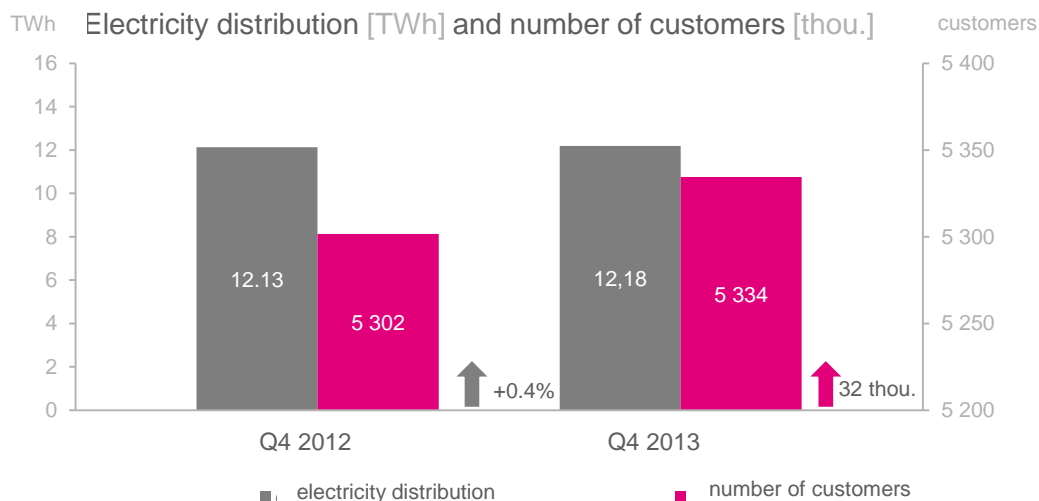
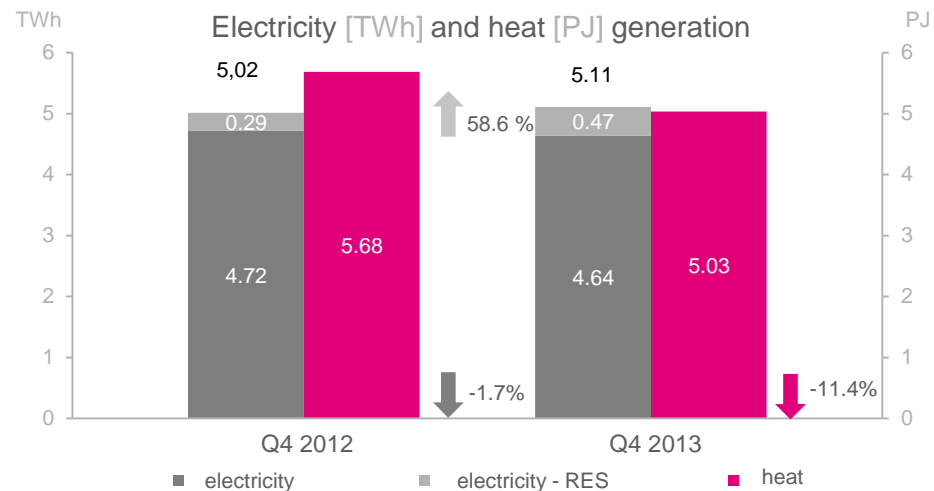
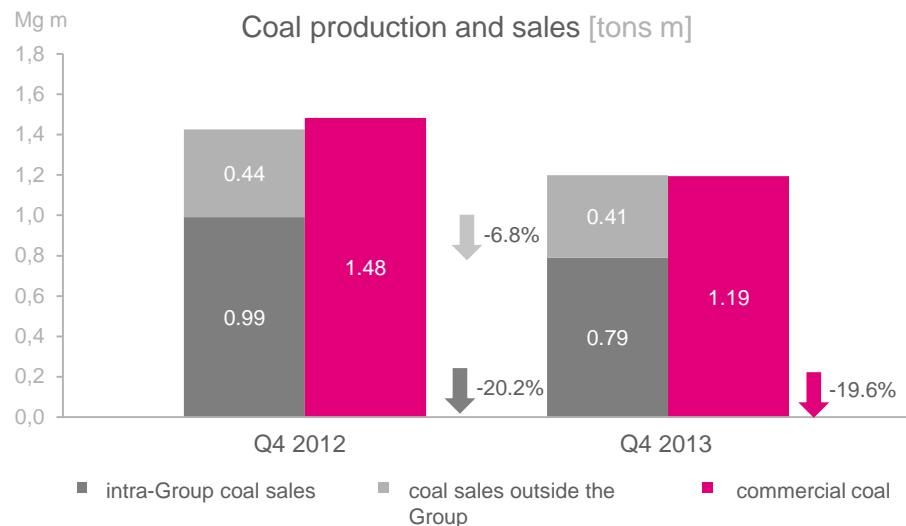


* Source: GUS, IBnGR (forecasts), PSE

2013 key operating data

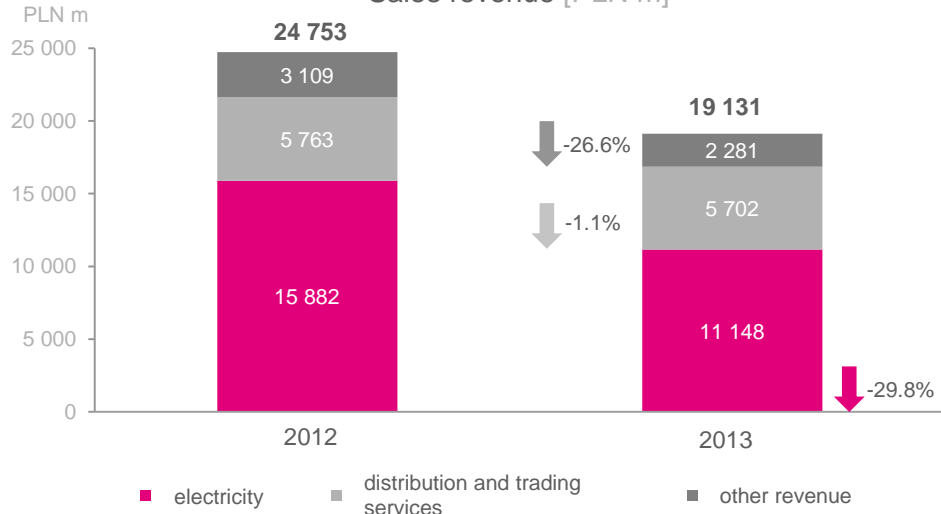


Q4 2013 key operating data

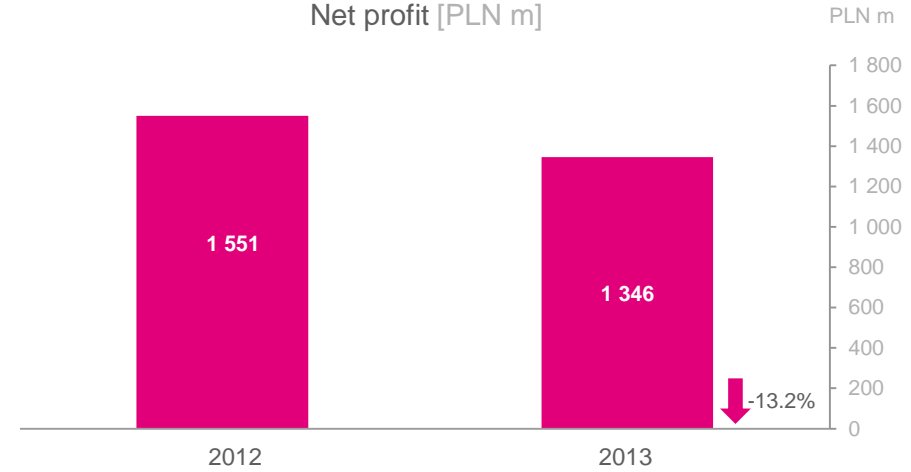


2013 key financial data

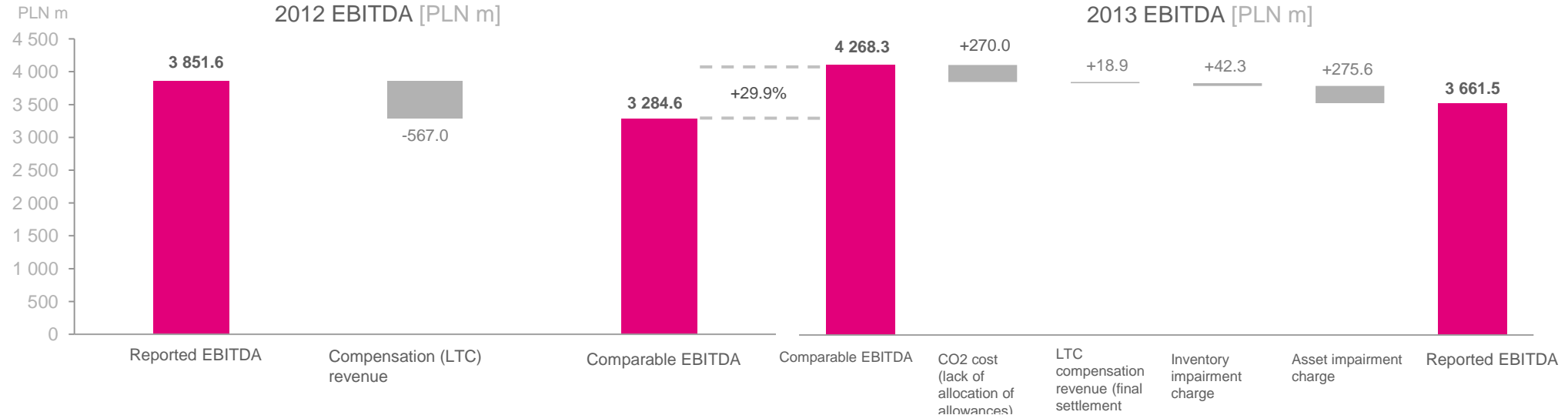
Sales revenue [PLN m]



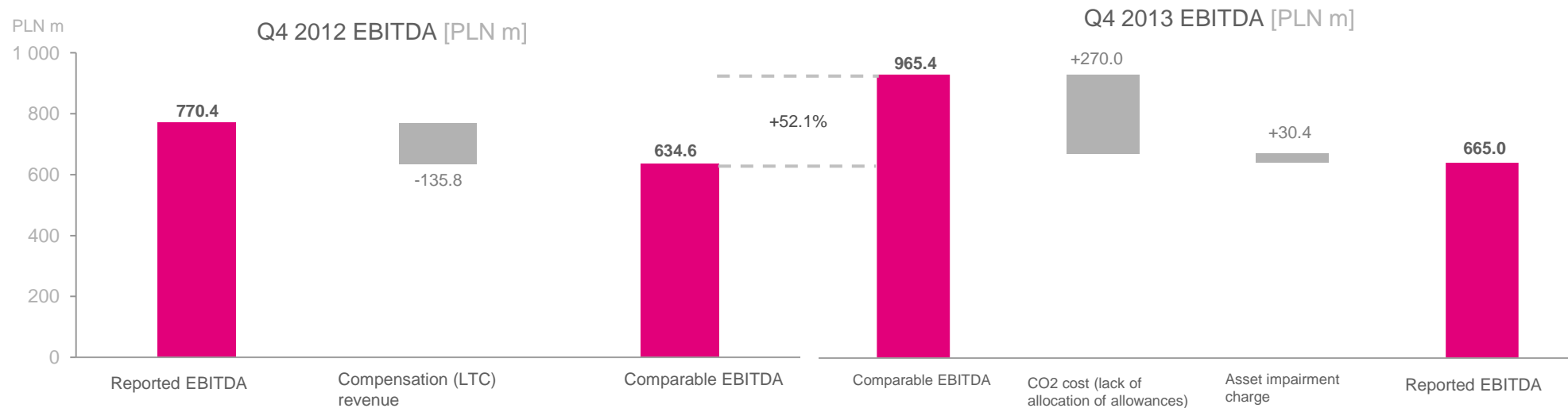
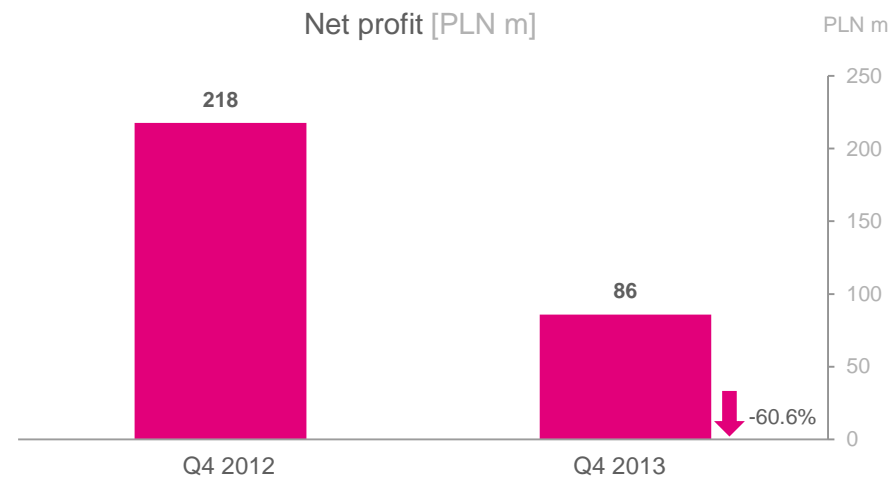
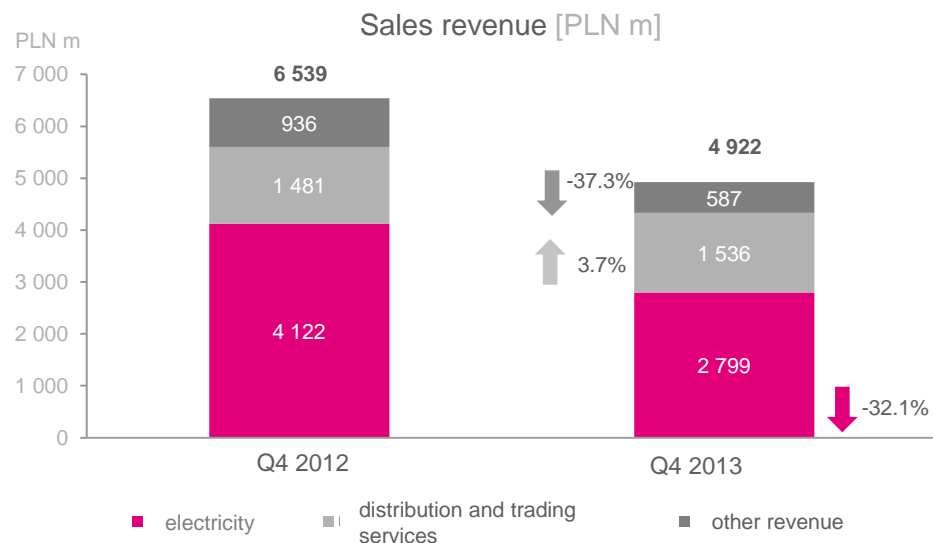
Net profit [PLN m]



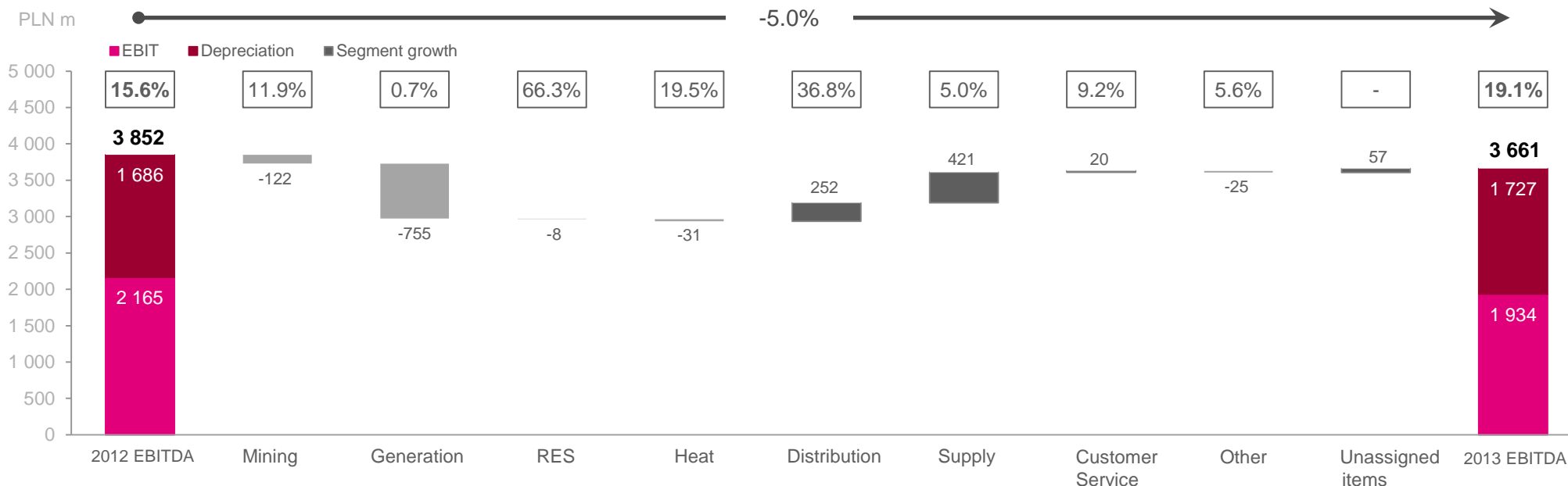
2012 EBITDA [PLN m]



Q4 2013 key financial data



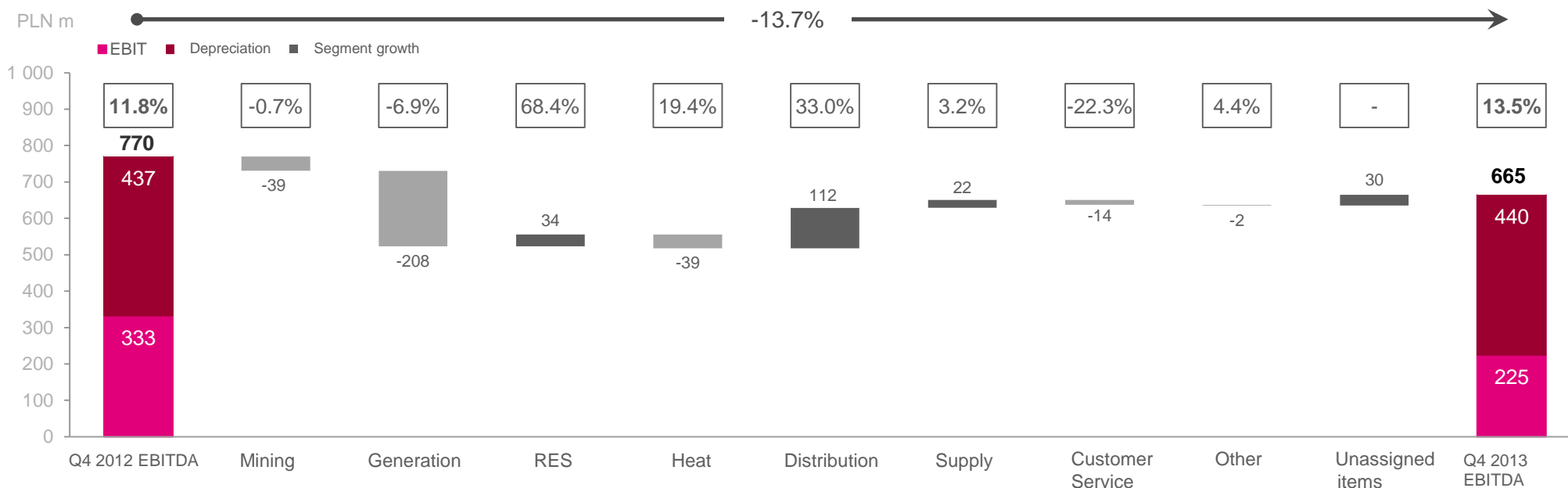
2013 EBITDA



Most important factors affecting EBITDA in 2013:

- Generation – no revenue from LTC compensations, assets' impairment charge, setting up a provision for the CO₂ emission allowances and lower wholesale market electricity prices
- Supply - declining cost of the obligation to redeem green, red and yellow certificates as a result of a drop of green property rights' market prices and lack of obligation to redeem cogeneration related property rights, large spread between retail and wholesale electricity prices
- Distribution – decline of the unit cost of purchasing distribution services (including: lower transmission charges, lower cost of purchasing electricity to cover the balancing difference due to the lower grid loss rate (factor) and lower costs of purchasing electricity)
- Mining – declining coal market prices

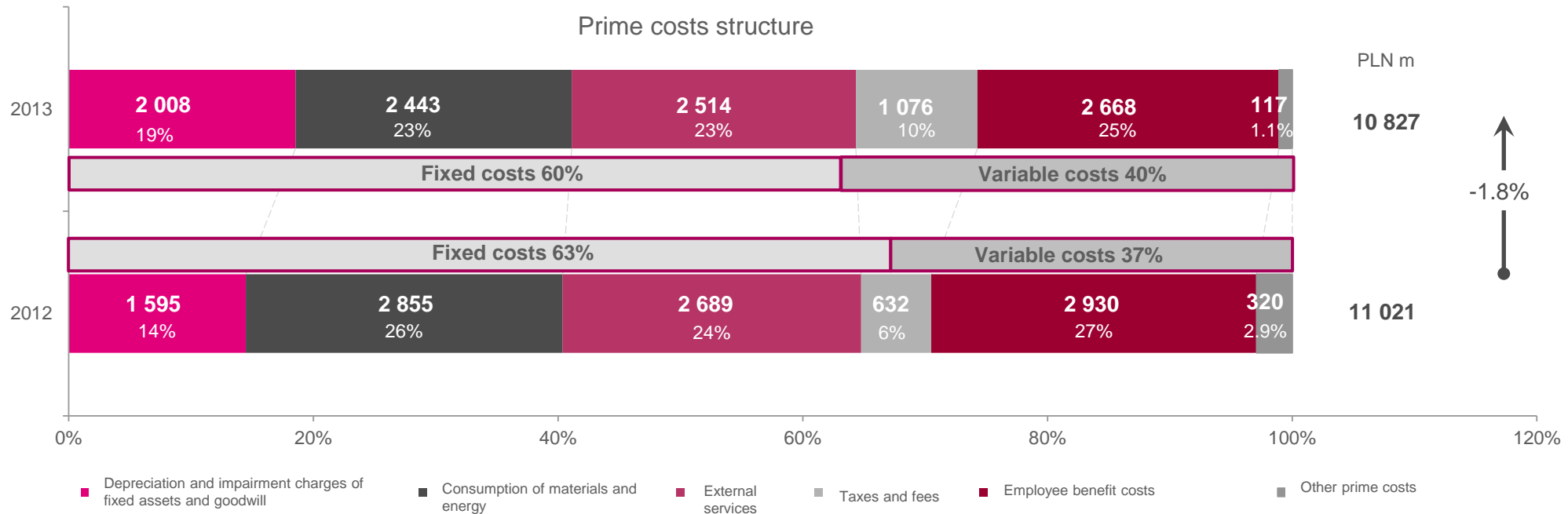
Q4 2013 EBITDA



Most important factors affecting EBITDA in Q4 2013:

- Generation – no revenue from LTC compensations, costs of the CO₂ emission allowances related provision and lower wholesale market electricity prices
- Supply - declining cost of the obligation to redeem green, red and yellow certificates as a result of a drop of green property rights' market prices and lack of obligation to redeem co-generation related property rights, large spread between retail and wholesale electricity prices
- Distribution – decline of the unit cost of purchasing distribution services (lower transmission charges, lower cost of purchasing electricity to cover the balancing difference)
- Mining – declining coal market prices, lower coal sales' volume
- Heat – costs of the CO₂ emission allowances related provision, sale of the CO₂ emission allowances' surplus in Q4 2012
- RES – larger volume of wind farm generated electricity and property rights' sales

2013 prime costs structure



Declining costs in 2013 are mainly due to:

- external services – including distribution and transmission services (yoy reduction of the TSO transmission charge)
- employee benefit costs – mainly the result of the Voluntary Redundancy Programs implemented and the lower headcount
- consumption of materials and energy – due to lower fuel costs

Increased costs in 2013 are mainly due to:

- depreciation (including generation assets' impairment charge of approx. PLN 276m)
- taxes and fees – costs of the provision set up for the CO₂ emission allowances

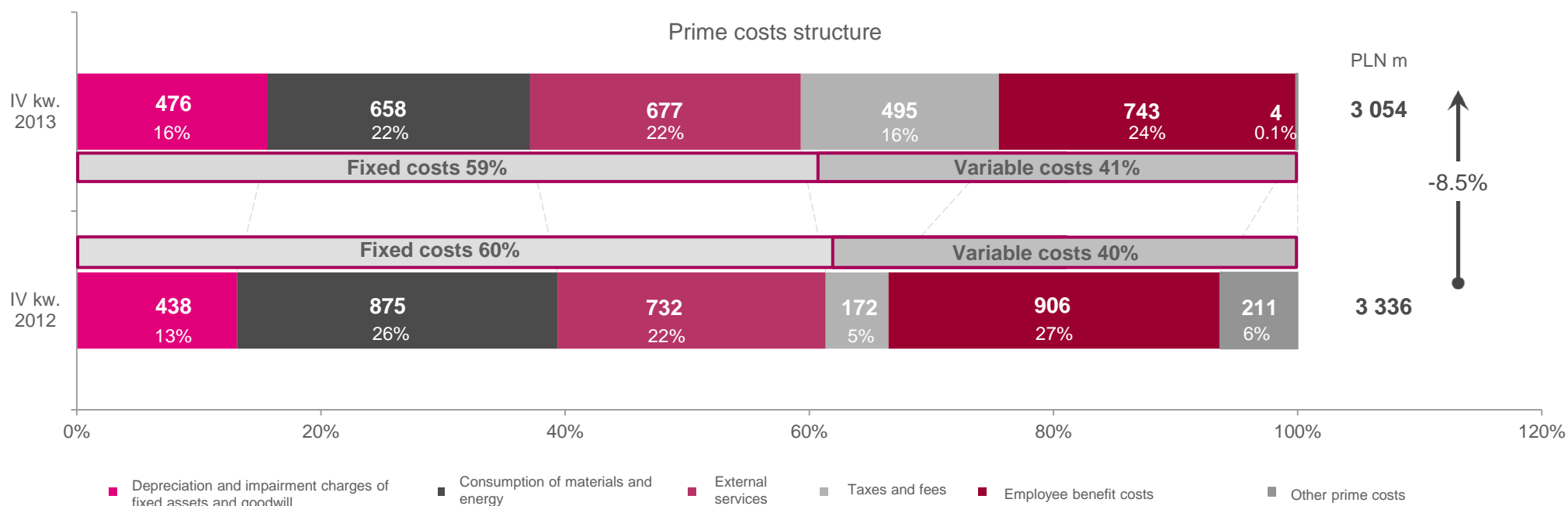
Cost structure:

- 2013: variable costs (excluding the value of goods and materials sold) approx. 40%, fixed costs approx. 60%
- 2012: variable costs approx. 37%, fixed costs approx. 63%

Change of structure caused by:

- Generation and Heat: reduction of variable costs (lower fuel costs), inclusion of the generation assets' impairment charge (in fixed costs)
- Distribution: lower transmission charge costs

Q4 2103 prime costs structure



Declining costs in Q4 2013 are mainly due to:

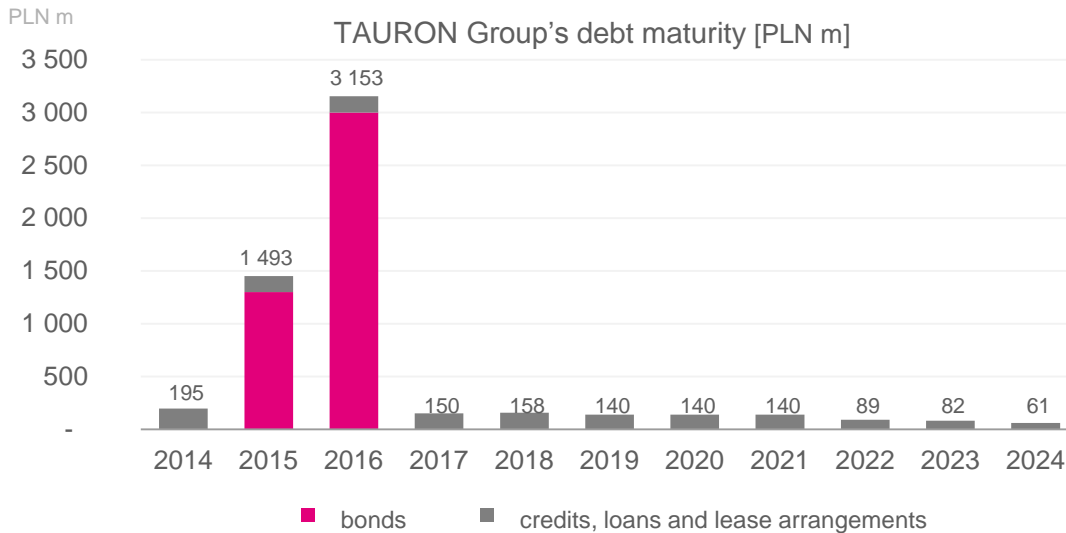
- consumption of materials (lower fuel costs)
- employee benefit costs – mainly the result of the Voluntary Redundancy Programs implemented and the lower headcount
- external services – including distribution and transmission services (yoy reduction of the TSO transmission charge)

Cost structure:

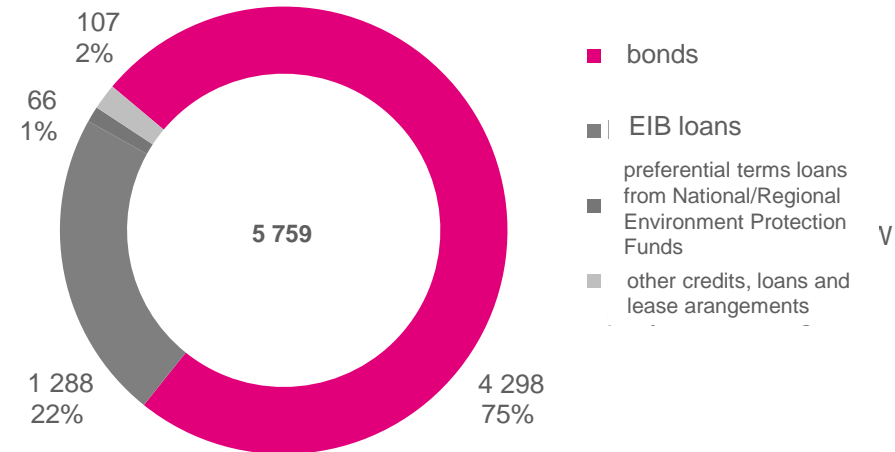
- Q4 2013: variable costs (excluding the value of goods and materials sold) approx. 41%, fixed costs approx. 59%
- Q4 2012: variable costs approx. 40%, fixed costs approx. 60%

In Q4 2013 the cost structure did not differ from the cost structure in Q4 2012, with fixed costs as well as variable costs declining in the given period

Debt and financing

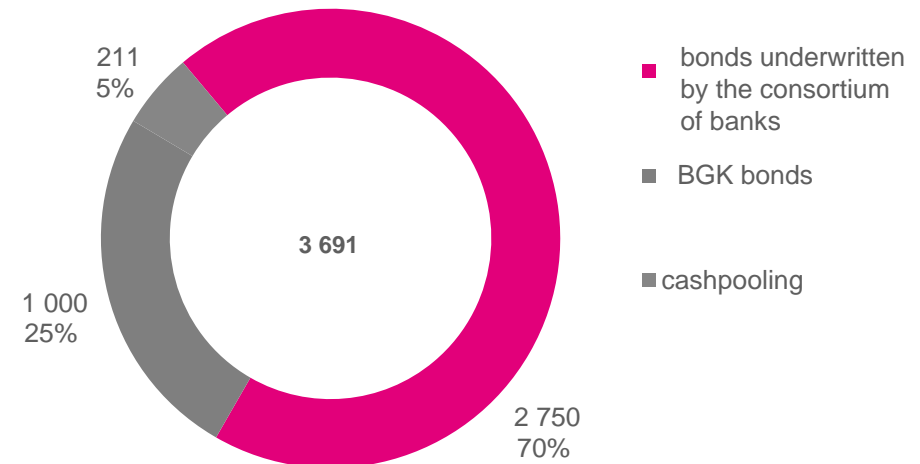


TAURON Group's long term debt structure [PLN m]



- financial debt as of December 31, 2013: PLN 5 759m
- net debt / EBITDA ratio: 1.19 (versus 1.18 at the end of 2012)
- average weighted debt maturity as of December 31, 2013:
 - excluding BGK bonds – 39 months
 - including BGK bonds – 53 months
- EUR debt constitutes 0.04% of the total debt
- structure of debt by interest rate
 - 22% – fixed interest rate, i.e. PLN 1 288m
 - 78% – floating interest rate, i.e. PLN 4 471m, including:
 - unsecured amount – PLN 1 031m
 - secured amount – PLN 3 440m

Financing available to TAURON Group [PLN m]

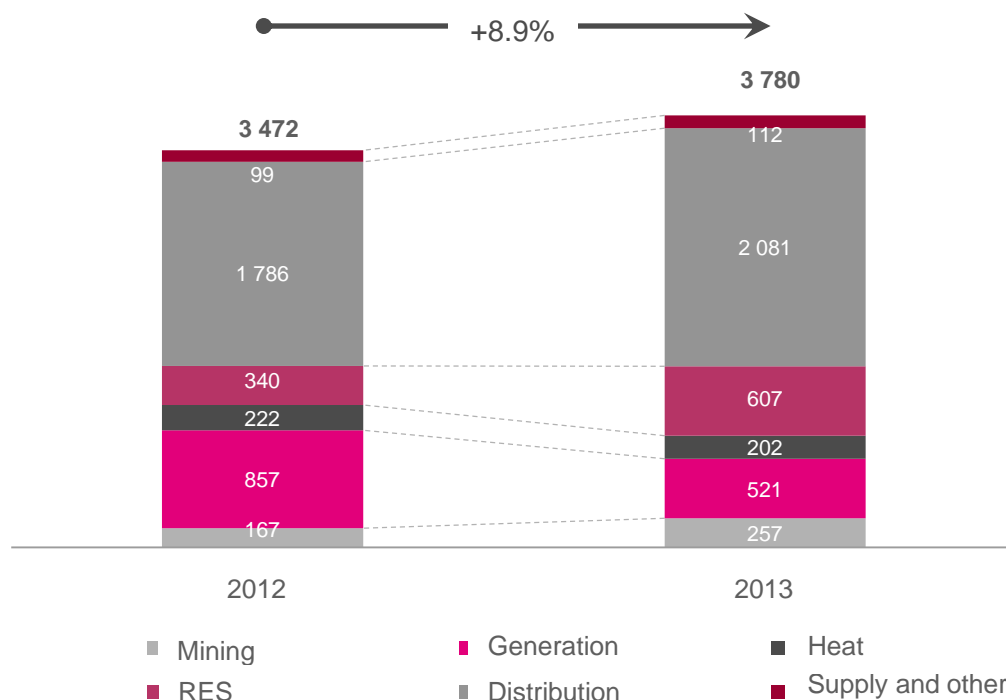


CAPEX – key projects (1)

Investment project	Capacity (MW _e)	Capacity (MW _t)	Project status	Progress (in %)	Planned completion date
Construction of the hard coal-fired unit at the Jaworzno III Power Plant	800-910	-	Preparations underway to sign the contract with the RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. consortium. Construction site is ready to be handed over to the contractor.	5 %	2019
Construction of the CCGT unit at the Stalowa Wola Combined Heat and Power Plant	450	240	Construction and installation works underway as well as deliveries of machines and equipment for individual technological nodes and unit's installations.	47 %	2015
Construction of the hard coal-fired co-generation unit at ZW Tychy	50	86	Contract with the general contractor - Elektrobudowa S.A., signed. Construction site handed over. Implementation works underway.	5 %	2016
Construction of the TG 50 ZW Nowa turbogenerator	50	-	Contract with the general contractor - Control Process S.A., signed.	15 %	2015
Upgrade of 6 boilers at the Jaworzno III Power Plant – installing the flue gas denitrification systems	-	-	Upgrade works underway. Works completed on three 200 MW units. Main objective of the project is to comply with the requirements with respect to NOx emissions' values to be permitted past 2018 (200 mg/Nm ³).	50 %	2016
Upgrade of 4 boilers at the Łaziska Power Plant – installing the flue gas denitrification systems	-	-	Upgrade works underway. Works completed on two 200 MW units. Main objective of the project is to comply with the requirements with respect to NOx emissions' values to be permitted past 2018 (200 mg/Nm ³).	75 %	2015
Construction of the CCGT unit at the Łagisza Power Plant	413	266	Works underway related to preparations for the selection of the unit's contractor and optimizing the gas fuel supply source.	-	2018
Construction of new RES capacity at the Stalowa Wola Power Plant	55	-	Documentation and rules of selecting the contractor to upgrade the unit's equipment prepared for the purpose of running the tender proceeding.	3 %	2015
Construction of the 800m level at the Janina coal mine	-	-	Janina VI shaft deepening and upgrading of the Hard Coal Mechanical Processing Unit commenced.	6 %	2019
Construction of the Grzegorz shaft at the Sobieski coal mine	-	-	Design works and preparation of the construction site underway.	10 %	2022

CAPEX – per segment (2)

CAPEX per segment [PLN m]



Main investment projects completed in 2013:

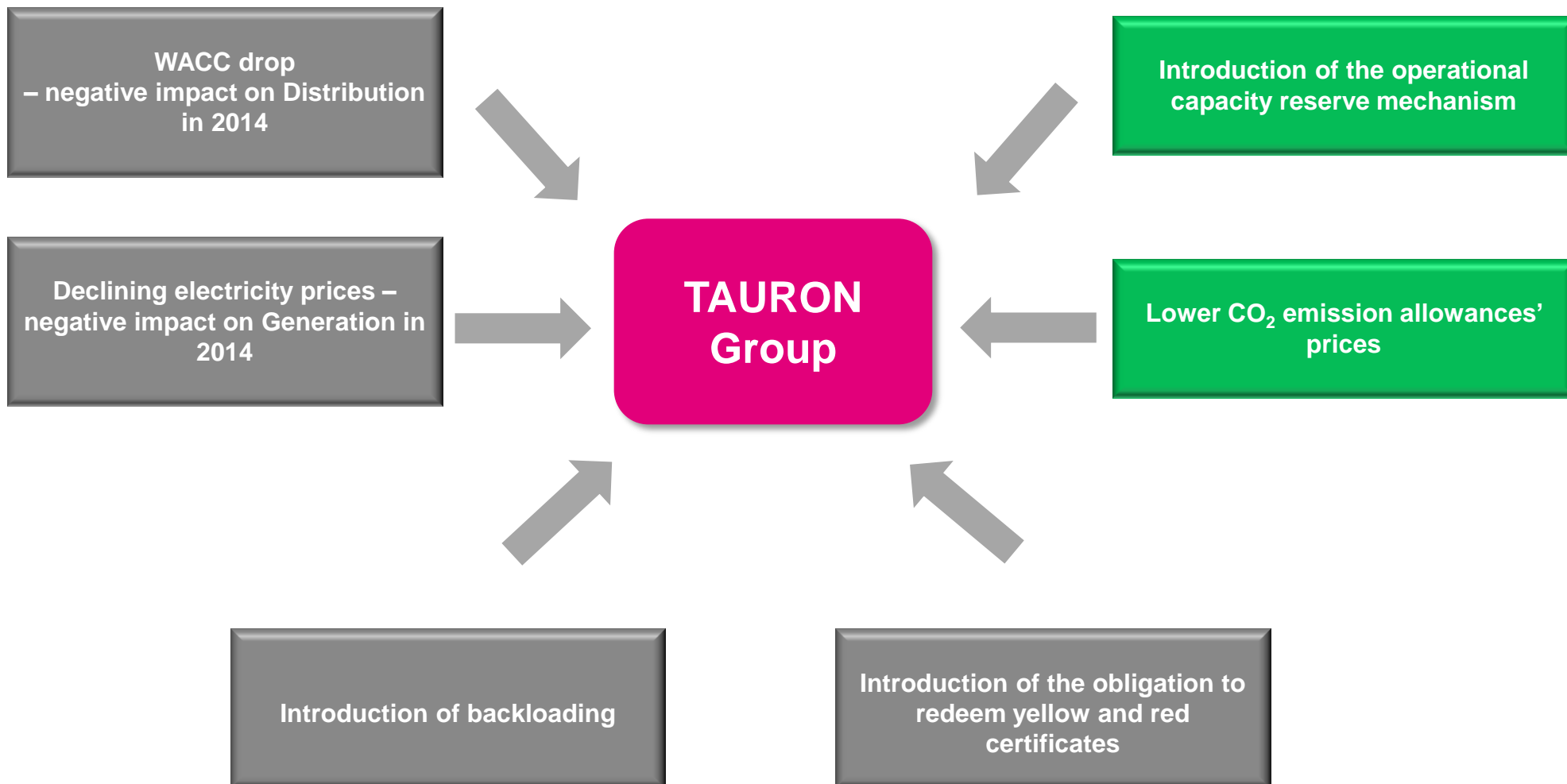
- Distribution – construction of new connections (PLN 516m) and upgrade and restoration of grid assets (PLN 1 318m)
- RES – construction of the Marszewo and Wicko wind farms (PLN 517m)
- Generation – construction of new generation capacity (PLN 118m) and construction of the NOx emission reduction system (PLN 224m)
- Mining – investment projects related to gaining access to hard coal deposits (PLN 257m)
- Heat – construction and upgrades of the heat transmission pipeline networks (PLN 104m)

OPEX reduction program

Segment	Savings realized in Q1-Q4 2013	Savings planned for 2013-2015	Progress %	Main initiatives
Distribution	PLN 130m	PLN 416m	31%	<ul style="list-style-type: none"> Implementation of the ultimate business model, elimination of the redundant functions Change of the way expenses are classified as CAPEX or OPEX Optimization of the balancing difference IT processes optimization Integration of business functions in the support (maintenance) area Optimization of external services Employment restructuring and process optimization
Generation (including RES)	PLN 145m	PLN 387m	37%	<ul style="list-style-type: none"> Reduction of upgrades (maintenance) for the least efficient units Overhead cost optimization Outsourcing of some functions, mainly in the maintenance area Improvement of the devices' efficiency, optimization of the production volume and operating expenses at hydroelectric power plants Reduction of the costs of support and maintenance of the wind farm's operation Employment restructuring Compressed air losses reduction
Heat	PLN 20m	PLN 33m	60%	<ul style="list-style-type: none"> Asset restructuring External services' costs optimization Procurement policy optimization Nitrogen production system construction
Mining	PLN 15m	PLN 28m	54%	<ul style="list-style-type: none"> Coal sludge (slurry) dewatering station expansion Potable water treatment Electronic auctions in public procurement Use of the mechanical lining when drilling headings
Other segments	PLN 10m			<ul style="list-style-type: none"> End of maintaining EPOK, End of maintaining TS GZE's website, employment restructuring, reduction of external services' costs
Total	PLN 320m	PLN 864m	37%	

- In Q1-Q4 2013 the voluntary redundancy program covered 304 persons. Over that period employment contracts were terminated with 733 persons (3 227 persons in total since the program's launching in 2010). Savings resulting from redundancies, decreased by costs incurred to generate those savings, are included in the amounts presented per segment.
- No threat for the plan's implementation is envisaged.
- Structure of savings in Q1-Q4 2013: 58% comes from employment restructuring, 42% from the other initiatives.
- Estimated structure of savings in the 2013-2015 time frame: 73% to come from employment restructuring, 27% from the other initiatives.

Summary – growth drivers in 2014



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Thank you – Q&A

Investor Relations Office

Marcin Lauer

marcin.lauer@tauron-pe.pl

tel. + 48 32 774 27 06

Paweł Gaworzyński

pawel.gaworzynski@tauron-pe.pl

tel. + 48 32 774 25 34

Magdalena Wilczek

magdalena.wilczek@tauron-pe.pl

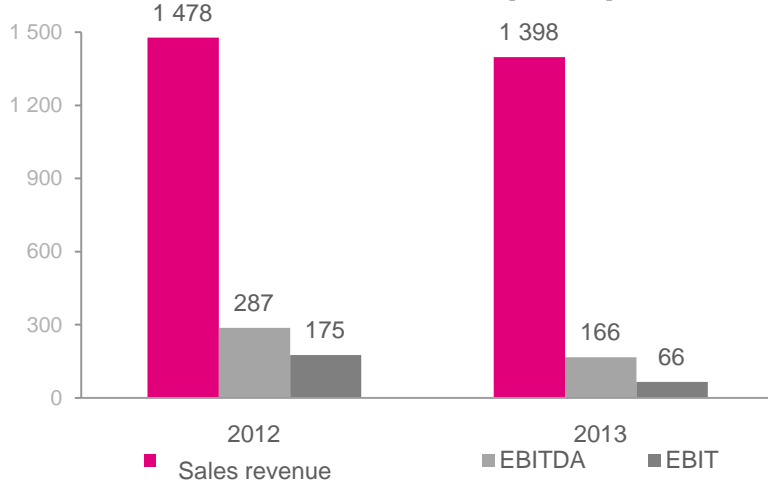
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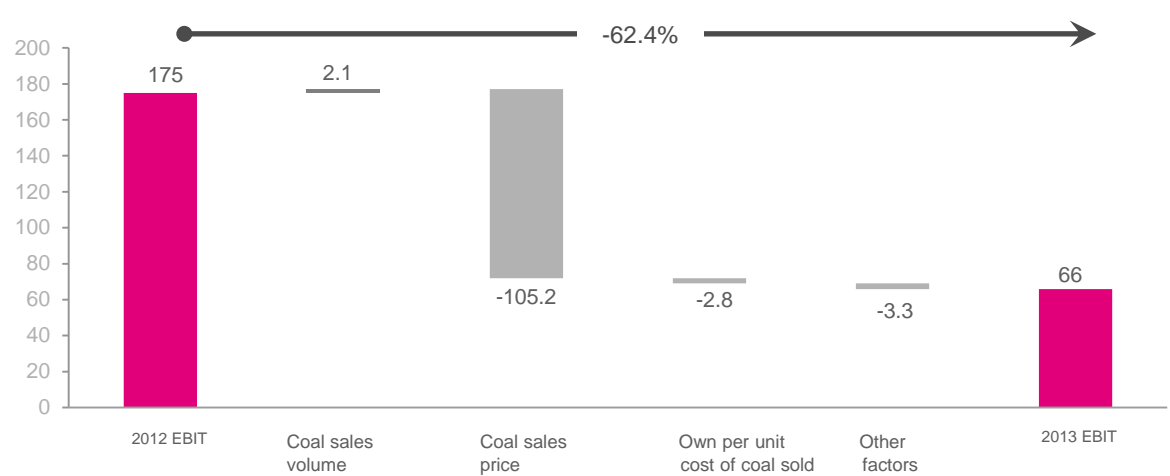
Key financial ratios

Ratio	Definition	2013	2012	2011
PROFITABILITY				
EBIT margin	Operating profit / Sales revenue	10.11%	8.75%	7.93%
EBITDA margin	EBITDA / Sales revenue	19.14%	15.56%	14.73%
Net profitability	Net profit / Sales revenue	7.04%	6.27%	6.10%
Return on equity (ROE)	Net income/ Shareholders equity at the end of period	7.57%	9.23%	7.85%
LIQUIDITY				
Current liquidity ratio	Current assets/ Current liabilities	0.90	1.07	1.05
DEBT				
Debt ratio	Total debt / Total assets	0.45	0.46	0.43
Net debt / EBITDA	(Interest bearing liabilities – cash or cash equivalents) / EBITDA	1.43	1.18	1.32
OTHER INDICATORS				
Earnings per share (EPS)	Net profit / number of ordinary shares	0.75	0.84	0.72

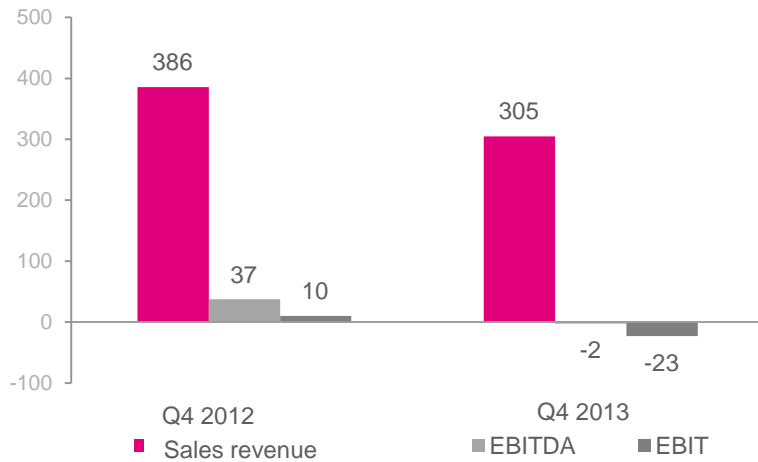
2013 financial data [PLN m]



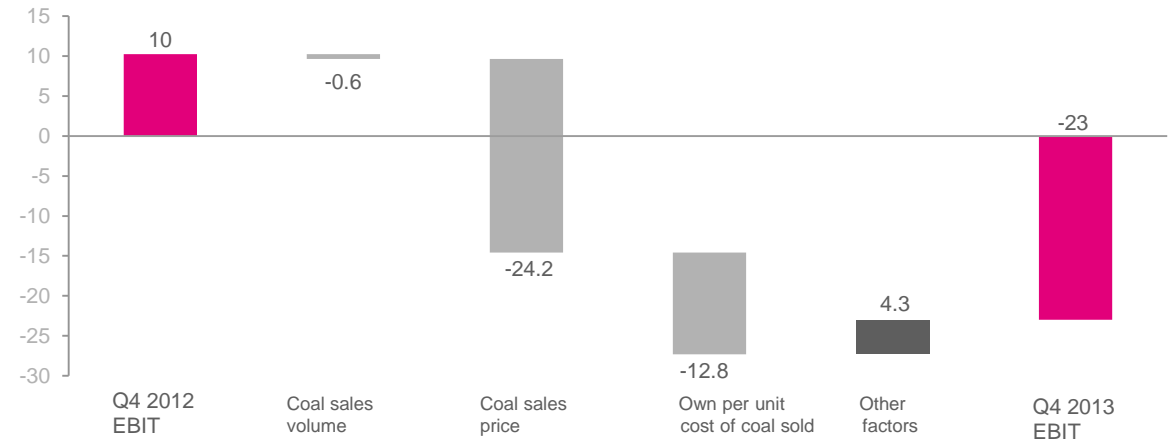
2013 EBIT bridge [PLN m]



Q4 2013 financial data [PLN m]

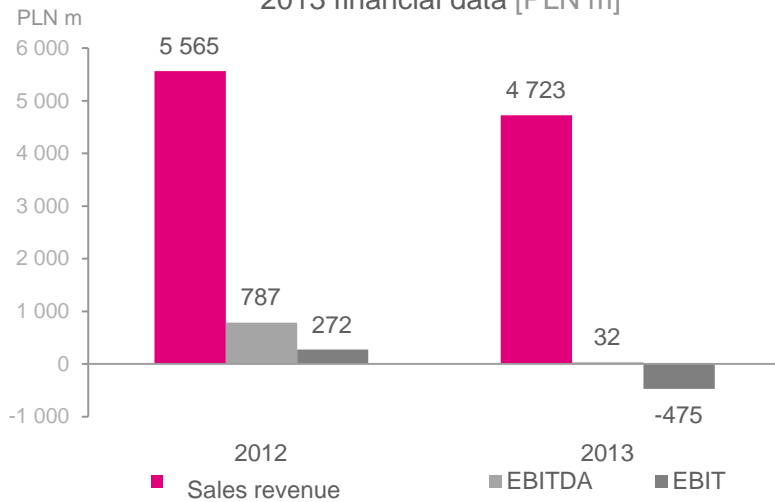


Q4 2013 EBIT bridge [PLN m]

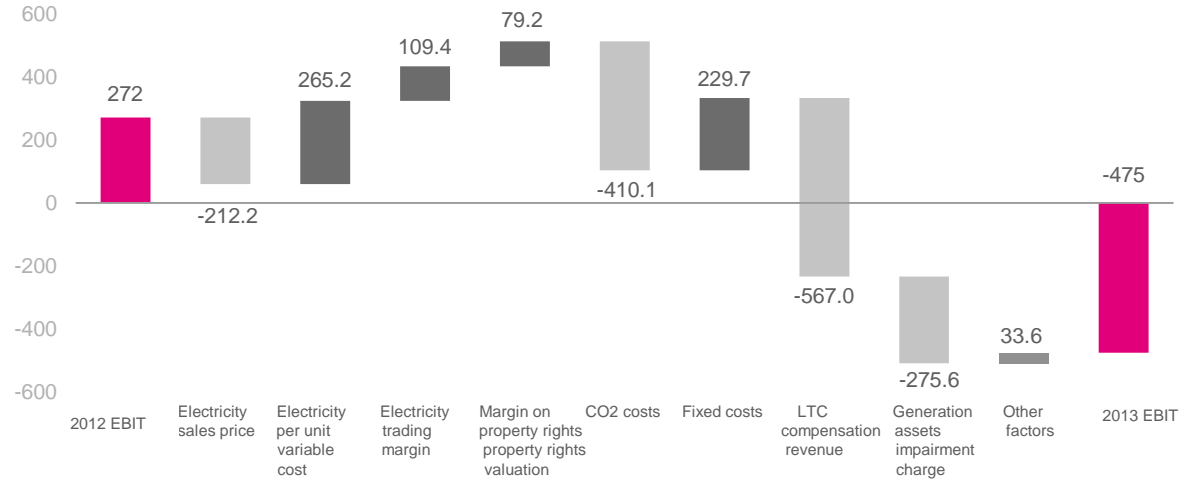


Generation (conventional sources)

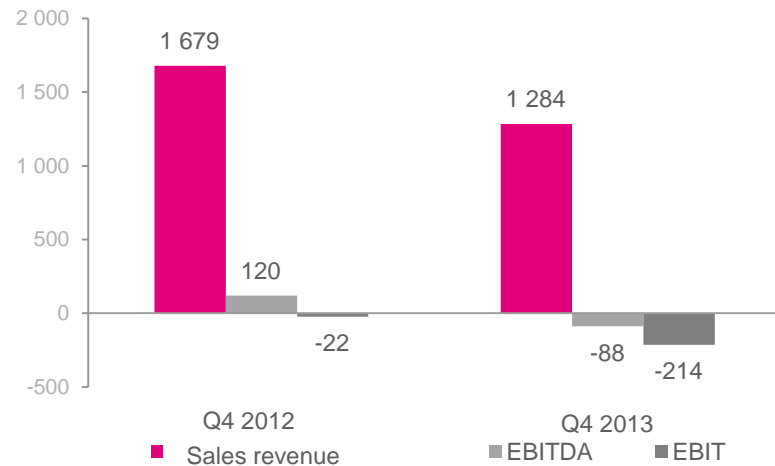
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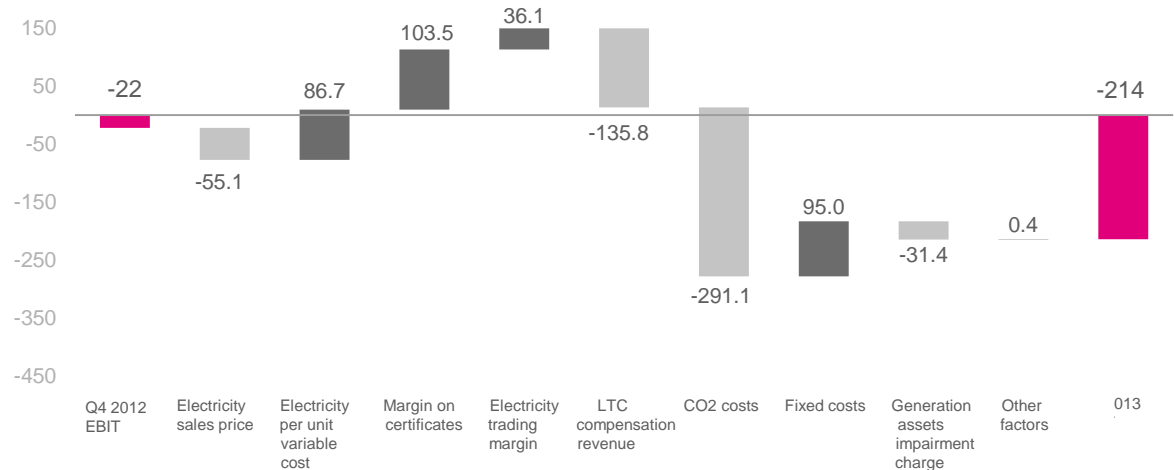
2013 EBIT bridge [PLN m]



Q4 2013 financial data [PLN m]

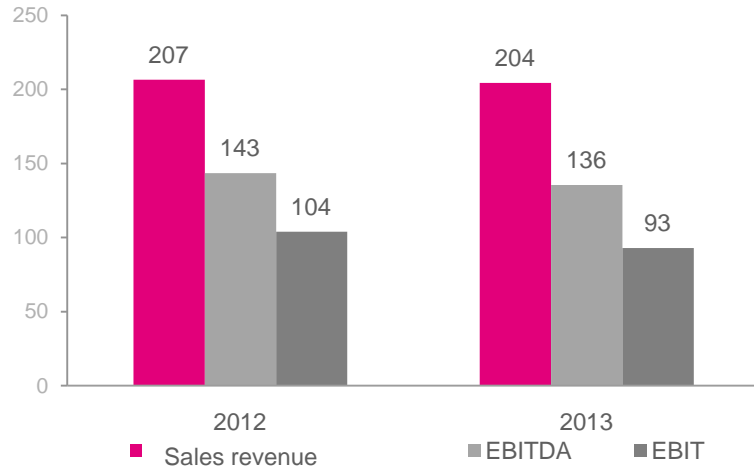


Q4 2013 EBIT bridge [PLN m]

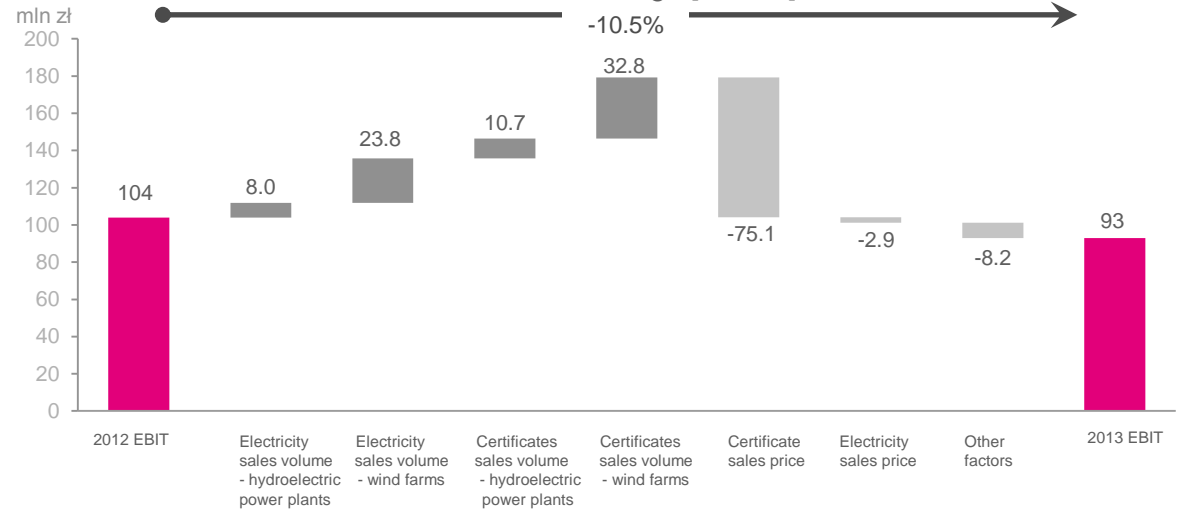


Renewable Energy Sources (RES)

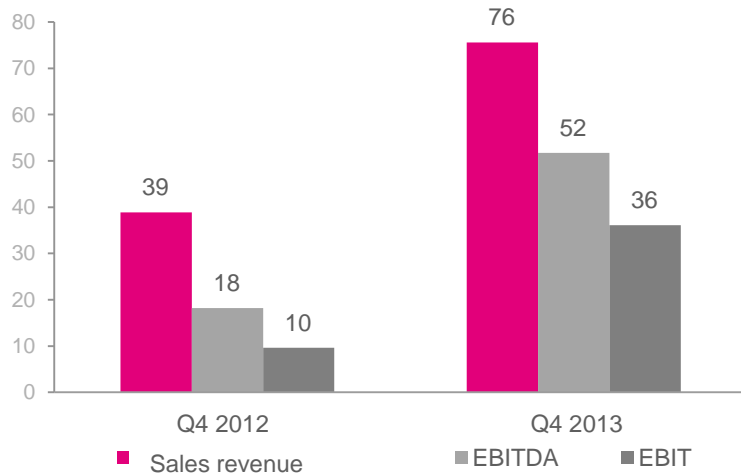
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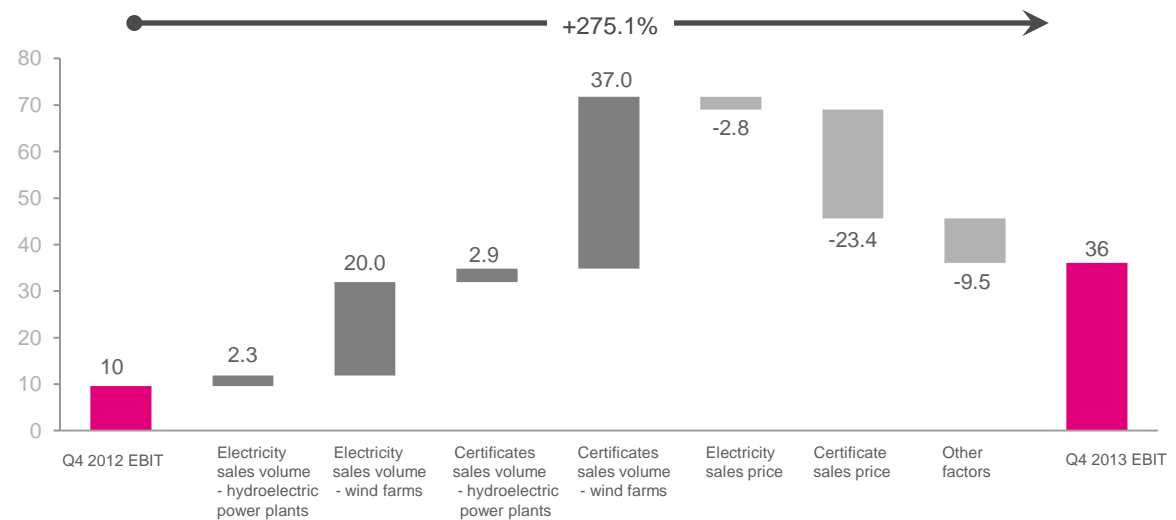
2013 EBIT bridge [PLN m]



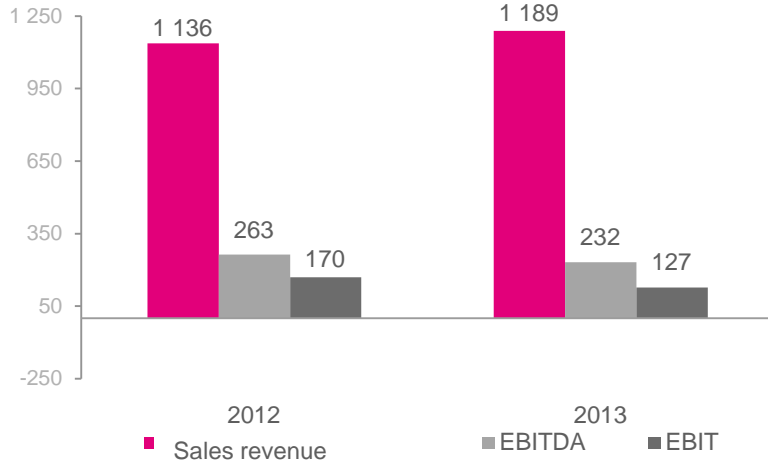
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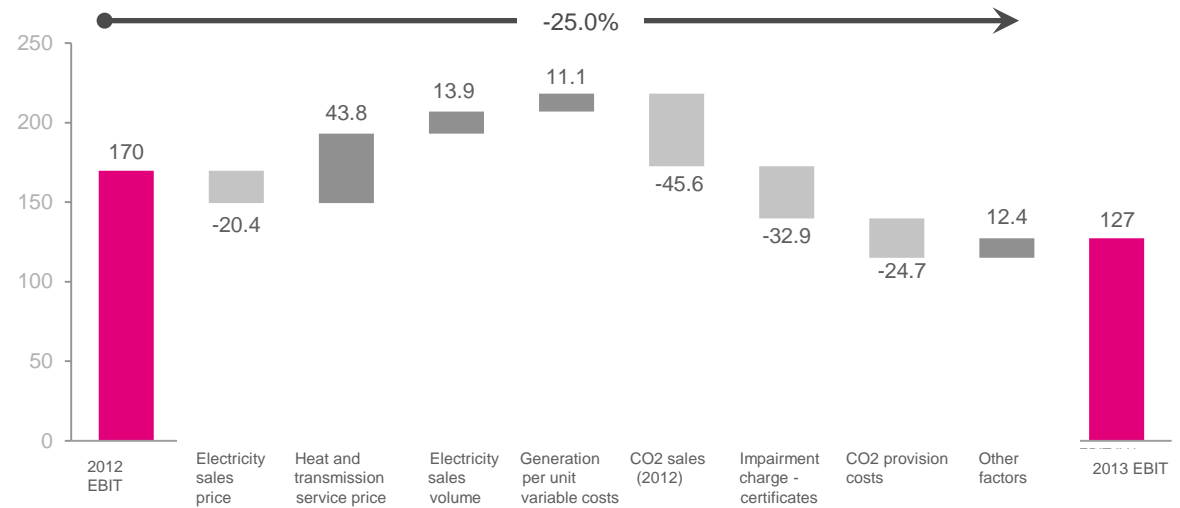
Q4 2013 EBIT bridge [PLN m]



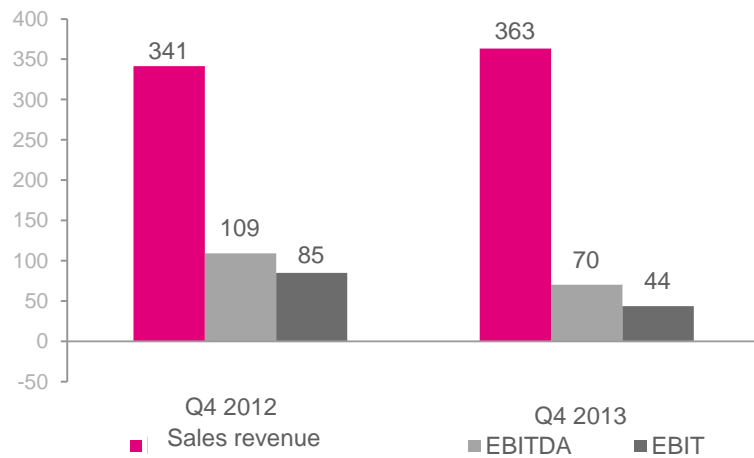
2013 financial data [PLN m]



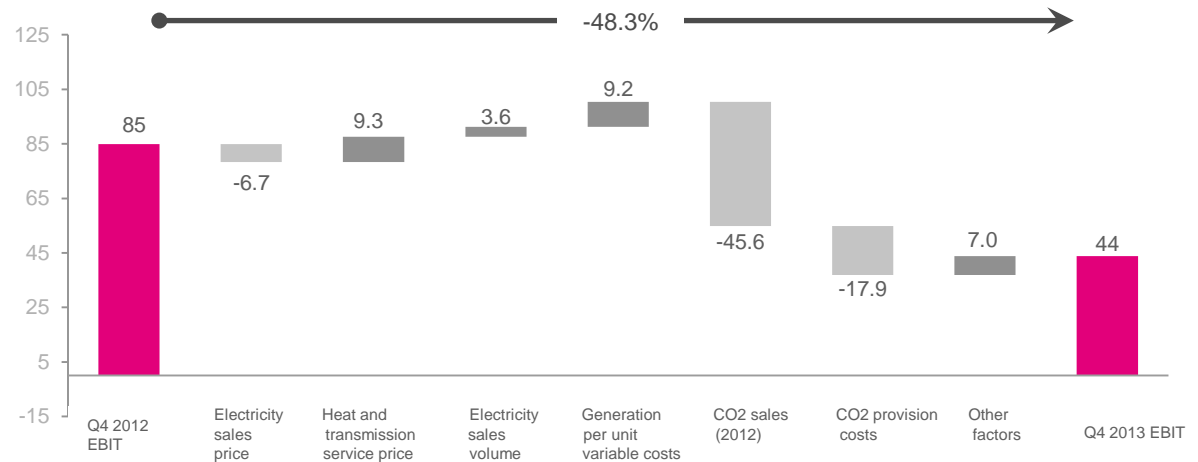
2013 EBIT bridge [PLN m]



Q4 2013 financial data [PLN m]

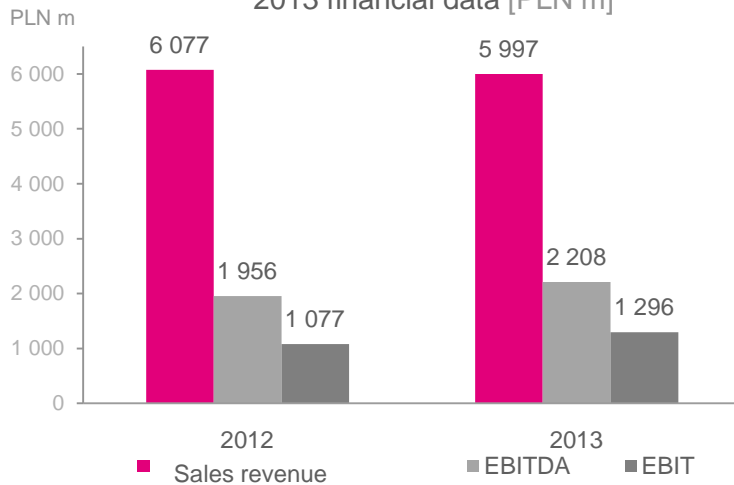


Q4 2013 EBIT bridge [PLN m]

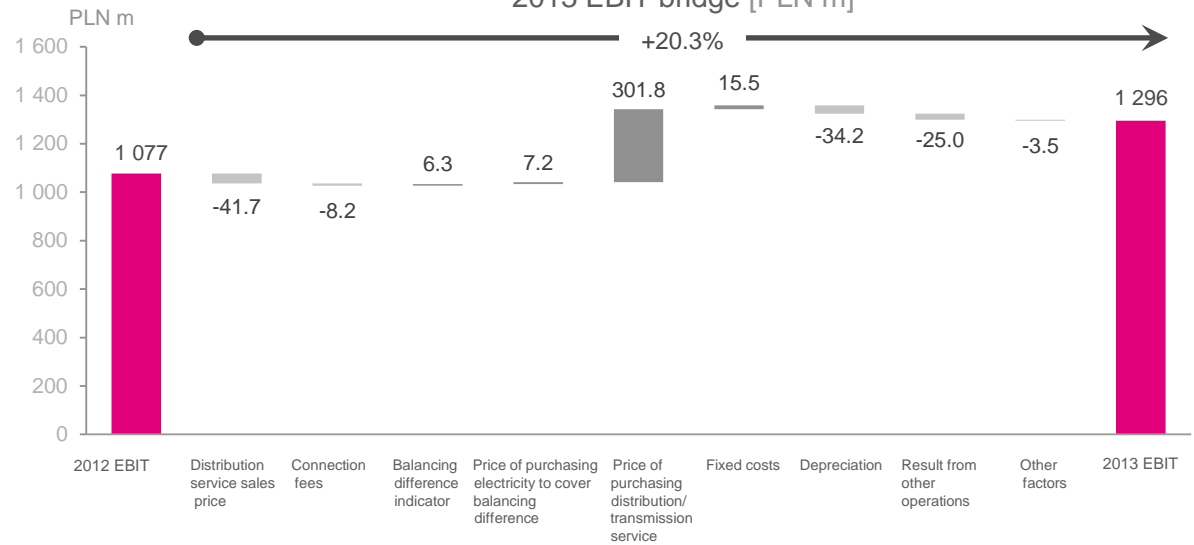


Distribution

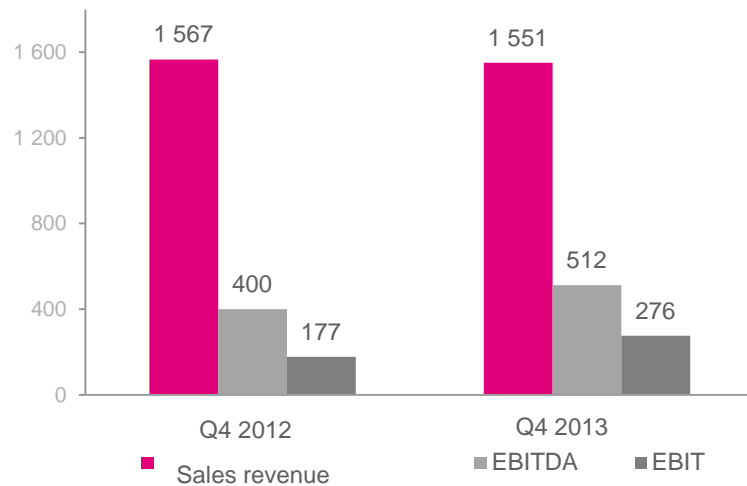
2013 financial data [PLN m]



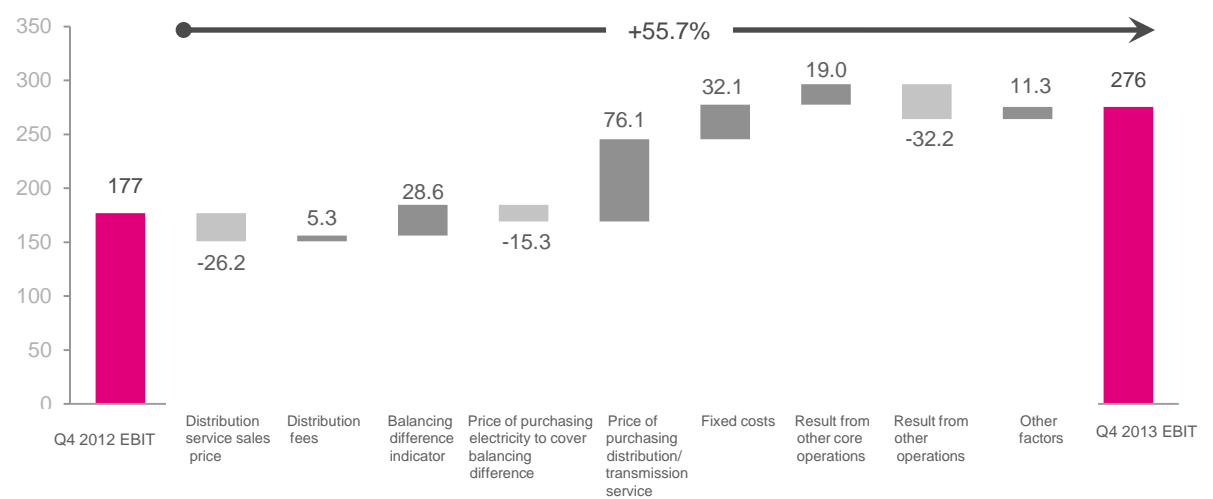
2013 EBIT bridge [PLN m]



Q4 2013 financial data [PLN m]

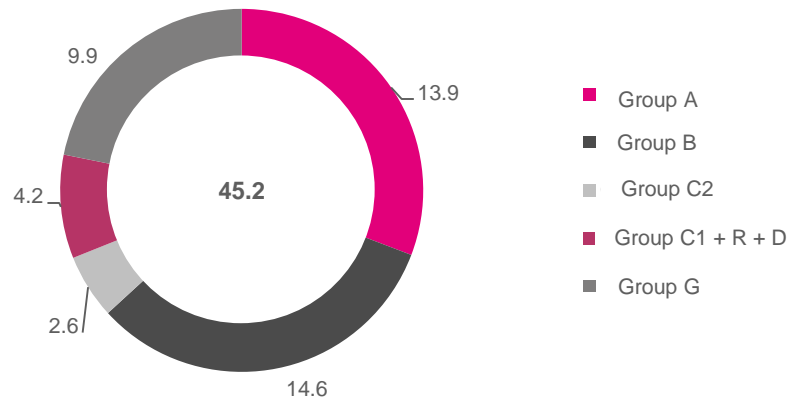


Q4 2013 EBIT bridge [PLN m]

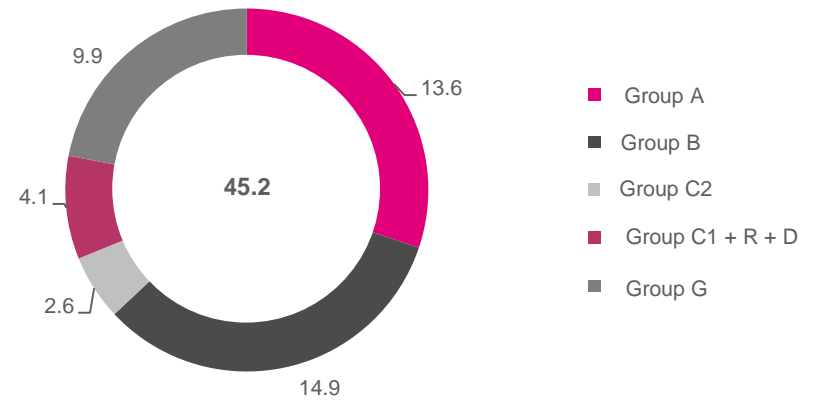


Distribution – key elements

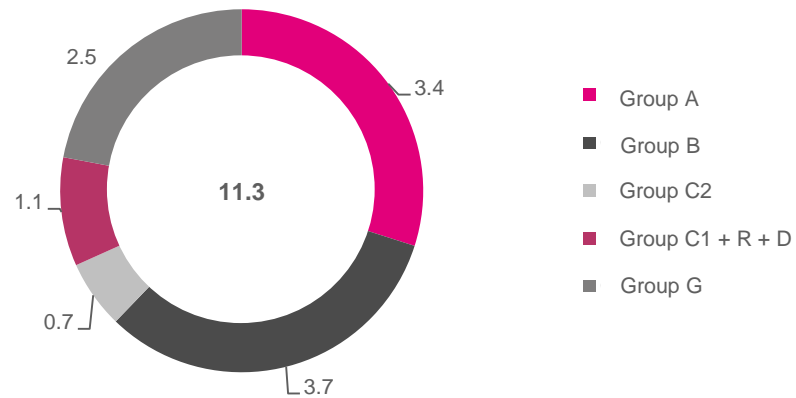
2012 electricity distribution [TWh]



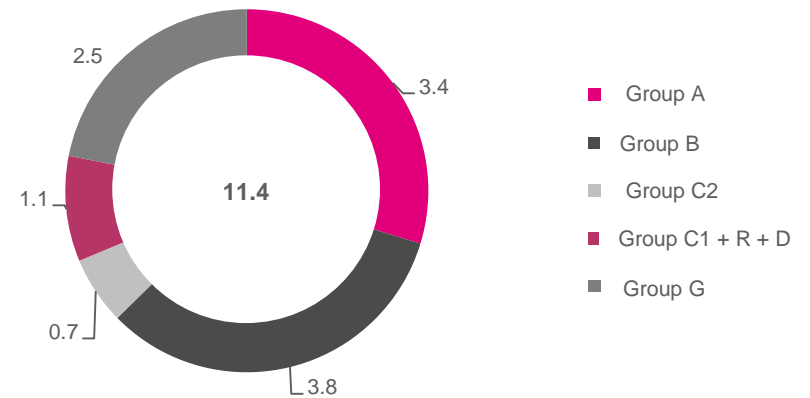
2013 electricity distribution [TWh]



Q4 2012 electricity distribution [TWh]

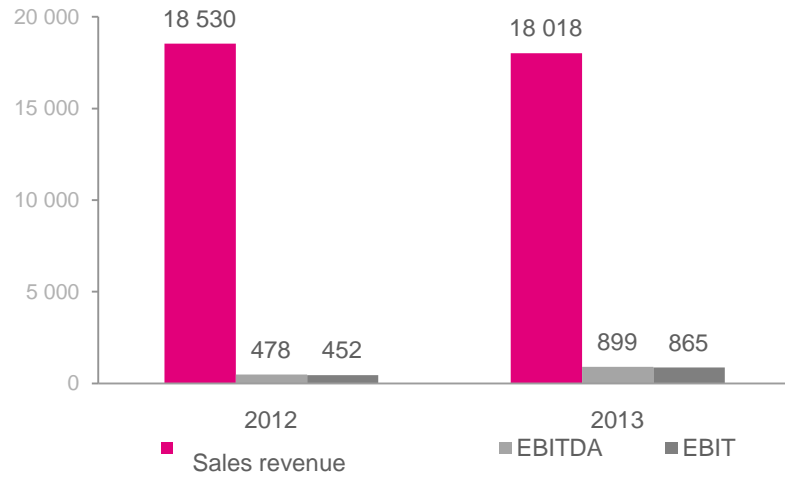


Q4 2013 electricity distribution [TWh]

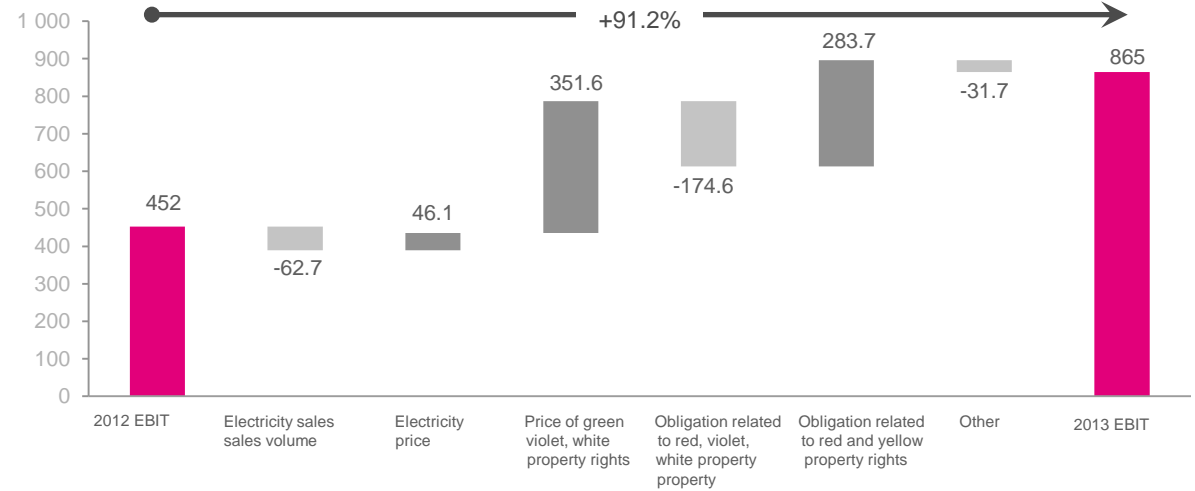


Data is related to the distribution of electricity to end users

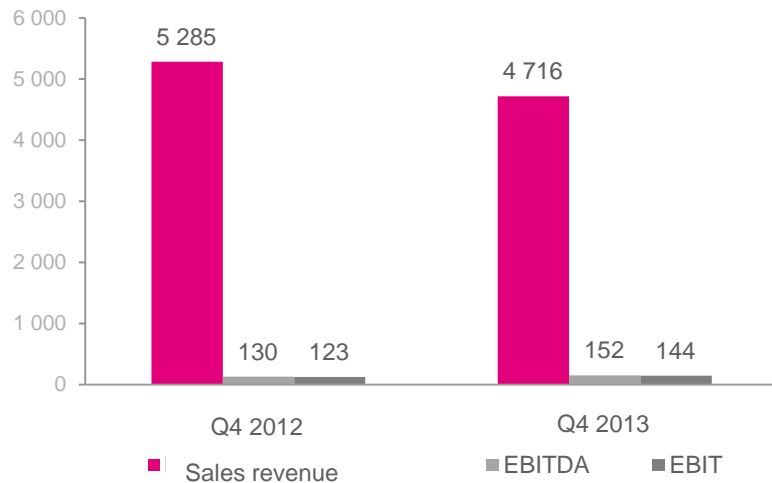
2013 financial data [PLN m]



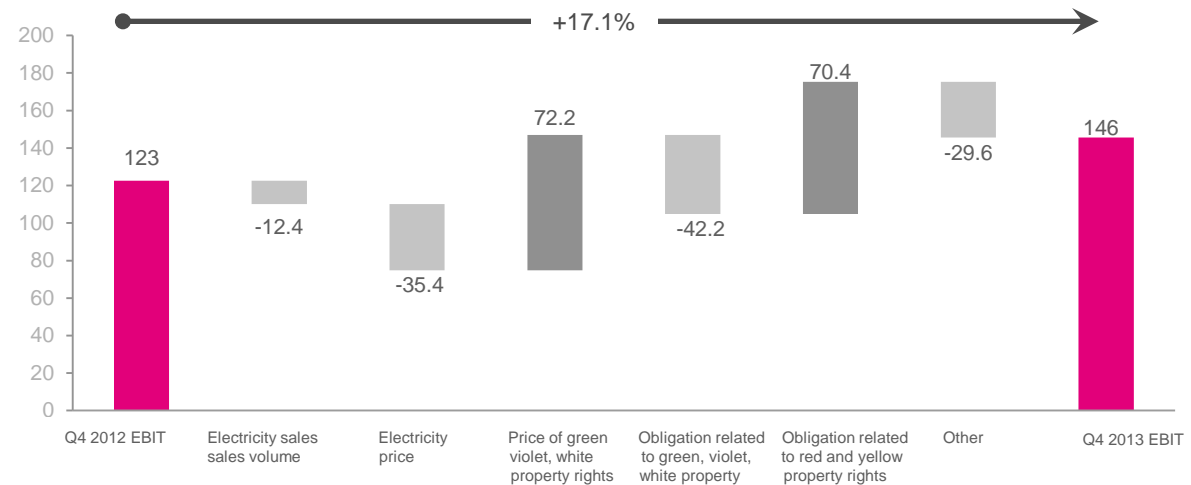
2013 EBIT bridge [PLN m]



Q4 2013 financial data [PLN m]

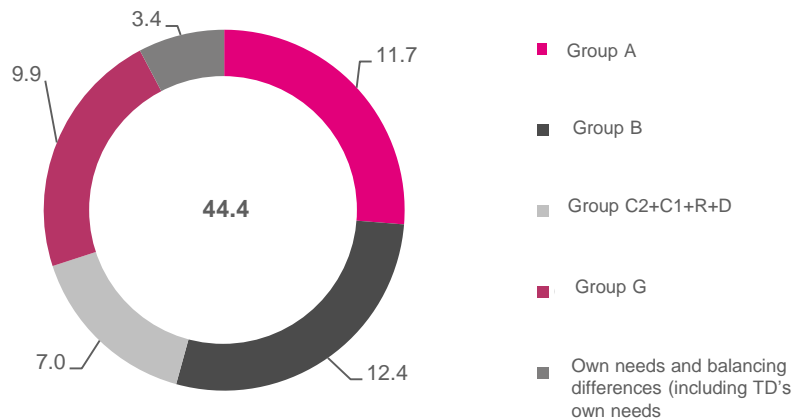


Q4 2013 EBIT bridge [PLN m]

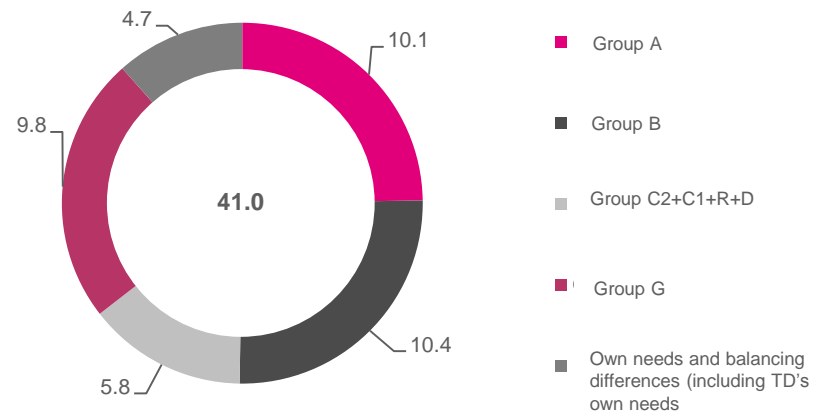


Supply – key elements

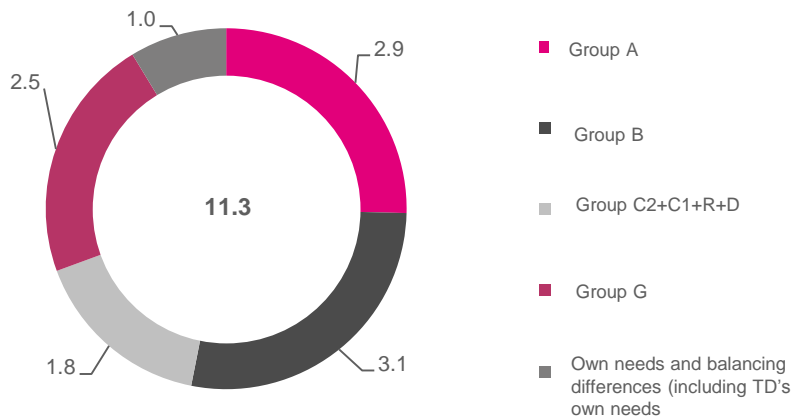
2012 electricity supply [TWh]



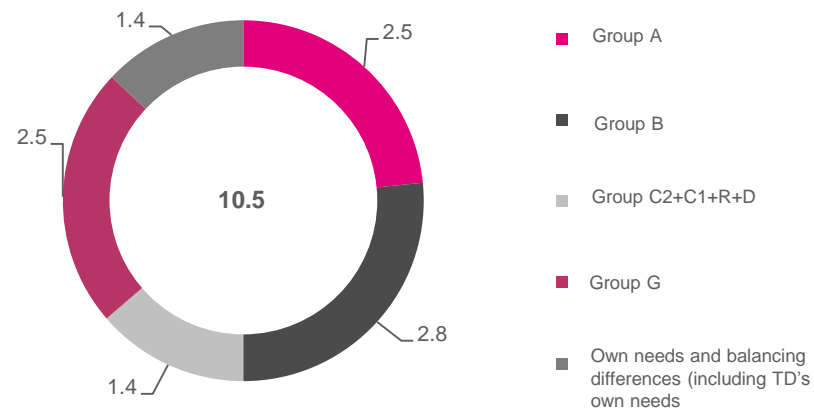
2013 electricity supply [TWh]



Q4 2012 electricity supply [TWh]

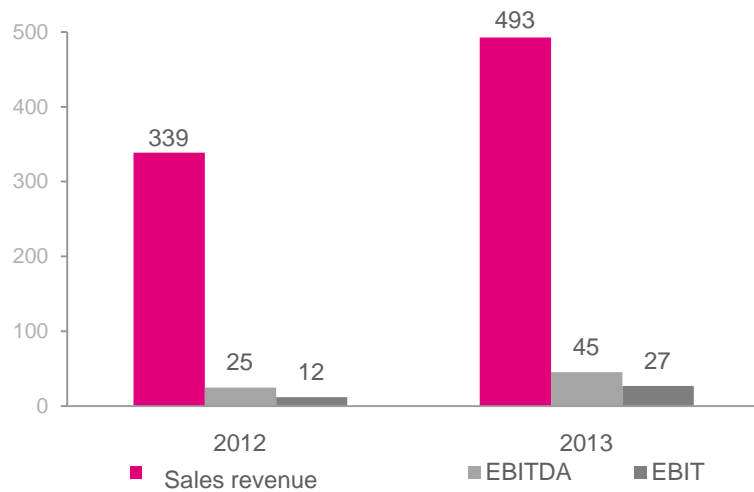


Q4 2013 electricity supply [TWh]

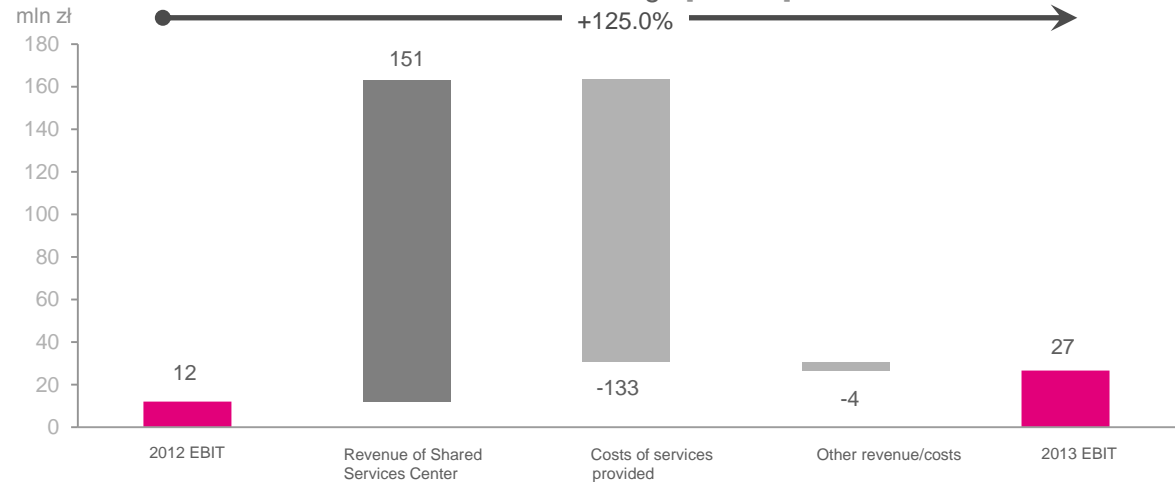


Customer Service

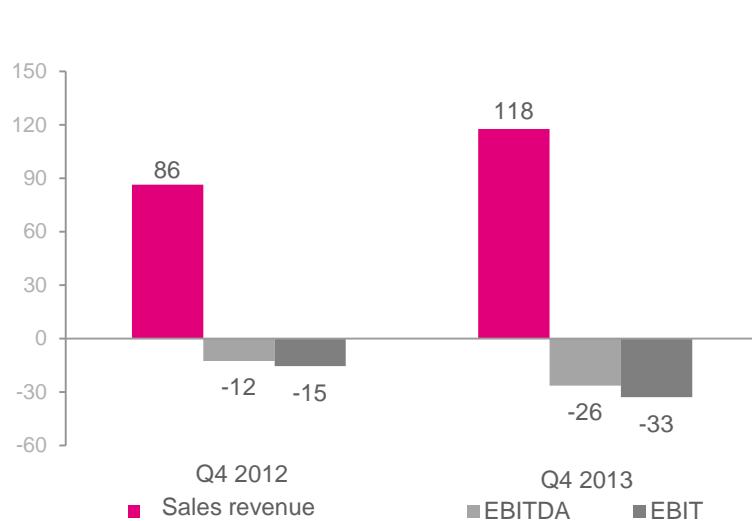
2013 financial data [PLN m]



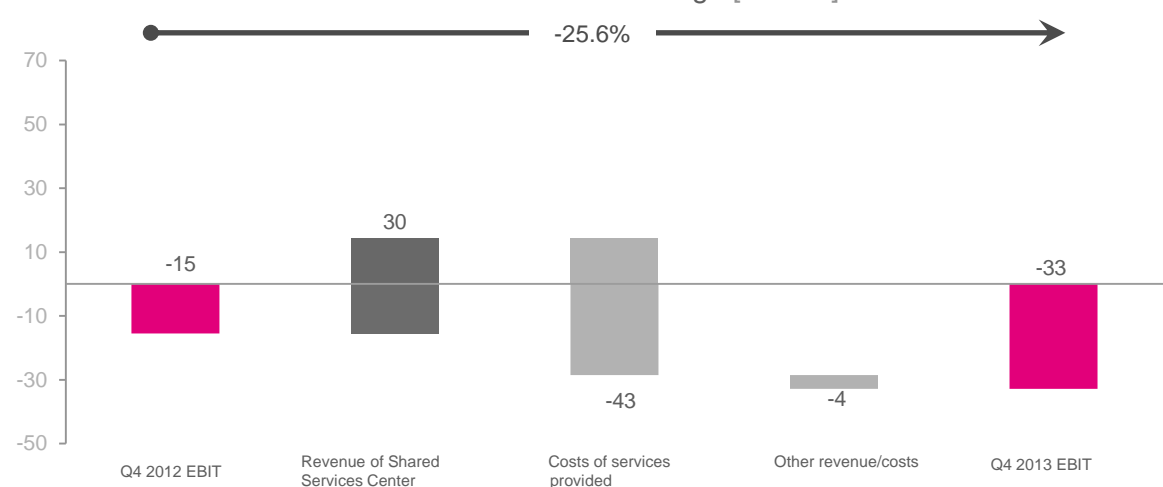
2013 EBIT bridge [PLN m]



Q4 2013 financial data [PLN m]



Q4 2013 EBIT bridge [PLN m]



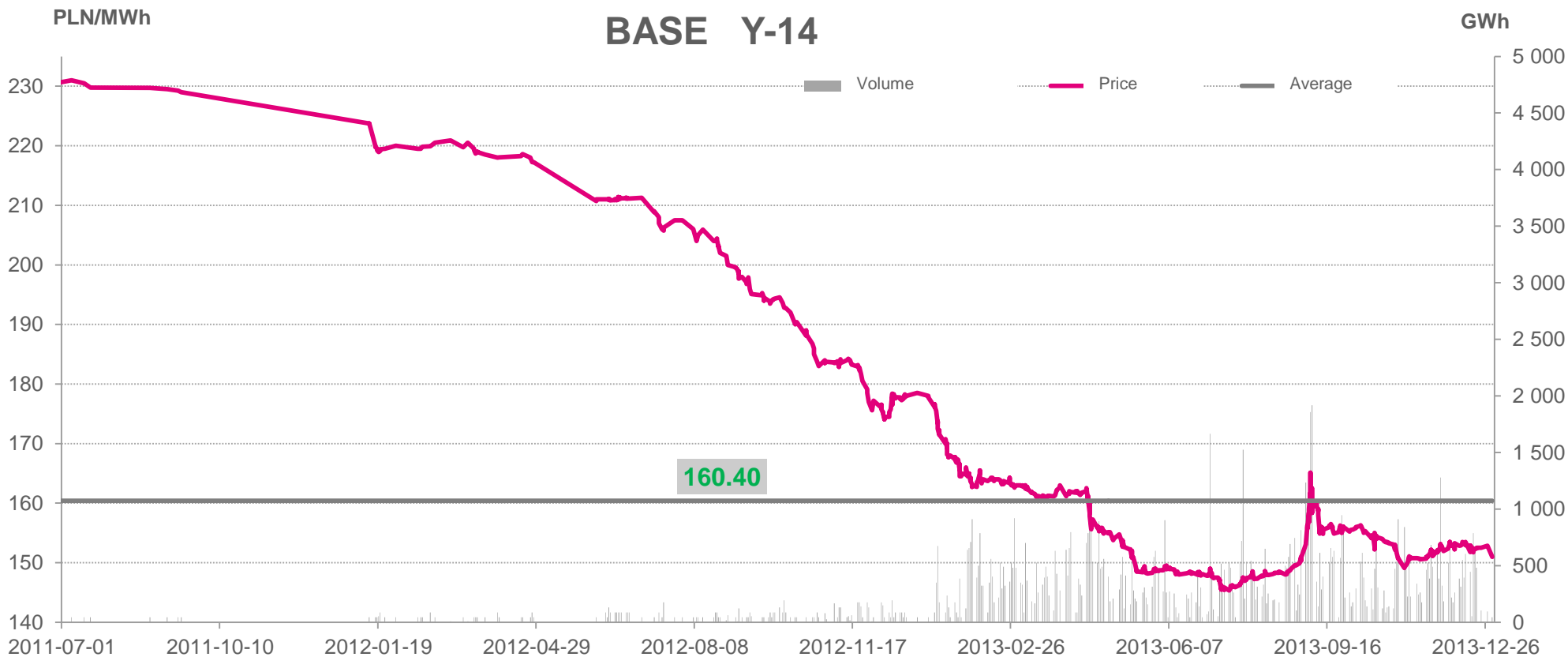
Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2013		2014 (until 24-02-2014)		2014/2013	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	184,92	140 488	159,66	160 353	-13.7%	+14.1%
Forward PEAK (Y+Q+M)	204,35	14 855	181,05	17 035	-11.4%	+14.7%
Forward (weighted average)	186,78	155 343	161,71	177 389	-13.4%	+14.2%
SPOT (TGE)	153,91	19 930	155,00 (Forecast)	20 000 (Forecast)	+0.7%	+0.4%
Weighted average total	183.04	175 273	161.03	197 389	-12.0%	+12.6%

CO ₂ emission allowances (EUA/t)		Property rights (PLN/MWh)		
CO ₂ market analysts' survey*	Price (EUR/t)	Certificate type	Market prices (2014 average) (until 24-02-2014)	Substitution fee and obligation for 2014
2013 average	4.48 EUR/t	RES (green)	230.24	300.03 (13.0%)
2014 average	6.0 – 8.0 EUR/t	Hard coal-fired cogeneration (red)	No transactions	Not announced (draft: 23.2%)
2015 average	8.0 – 10.0 EUR/t	Gas-fired cogeneration (yellow)	No transactions	Not announced (draft: 3.9%)
Average 2014 EUA price forecast by TAURON	6.5 – 8.0 EUR/t	Methane (violet)	59.64	63.26 (1.1%)

* Sources: Point Carbon, Societe Generale, TAURON

2014 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		160.40	142 841
including	TGE	156.46	100 740
	non TGE	169.83	42 101

Average electricity price that takes into account 2014 one year BASE and PEAK contracts: PLN 162.40/MWh, total 2014 BASE and PEAK volume: 158 565 GWh

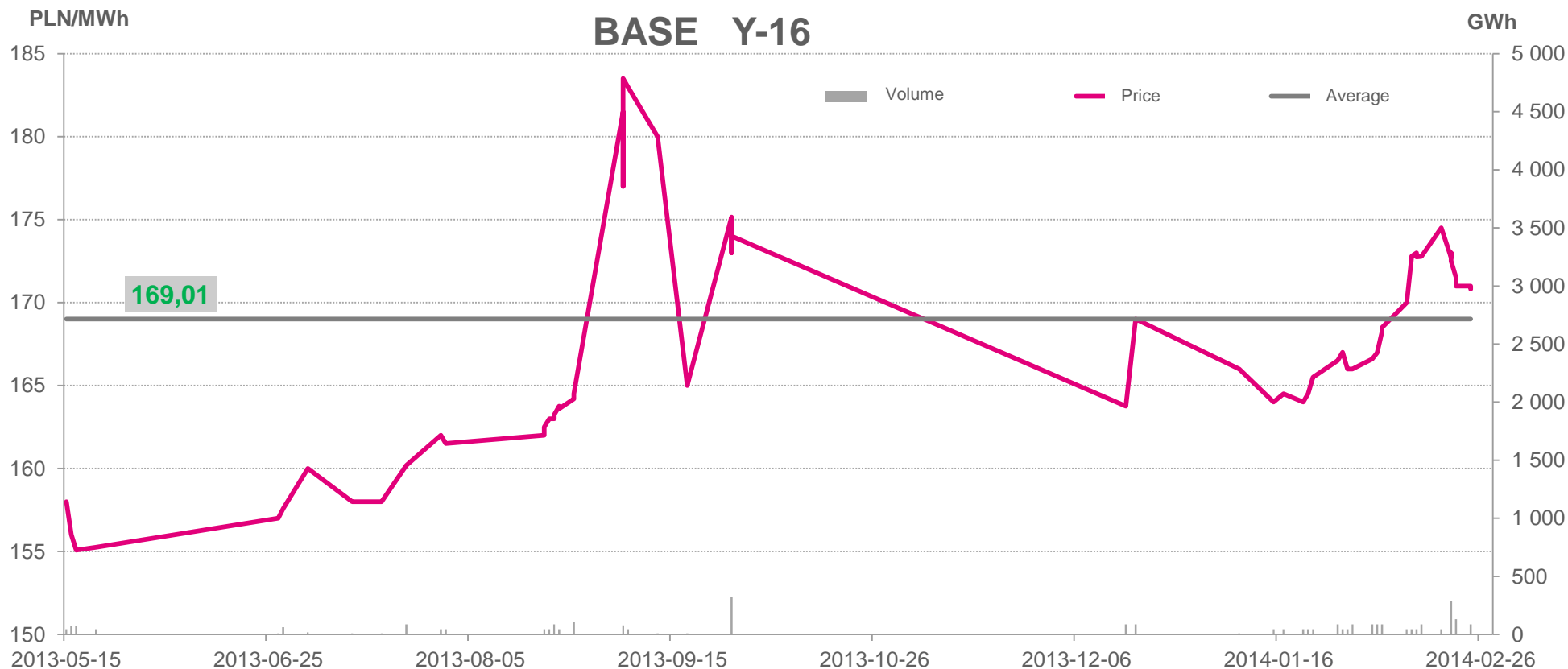
2015 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		161,95	36 573
including	TGE	161,78	24 388
	non TGE	162,30	12 185

Average electricity price that takes into account 2015 one year BASE and PEAK contracts: PLN 163.46/MWh, total 2015 BASE and PEAK volume: 38 291 GWh

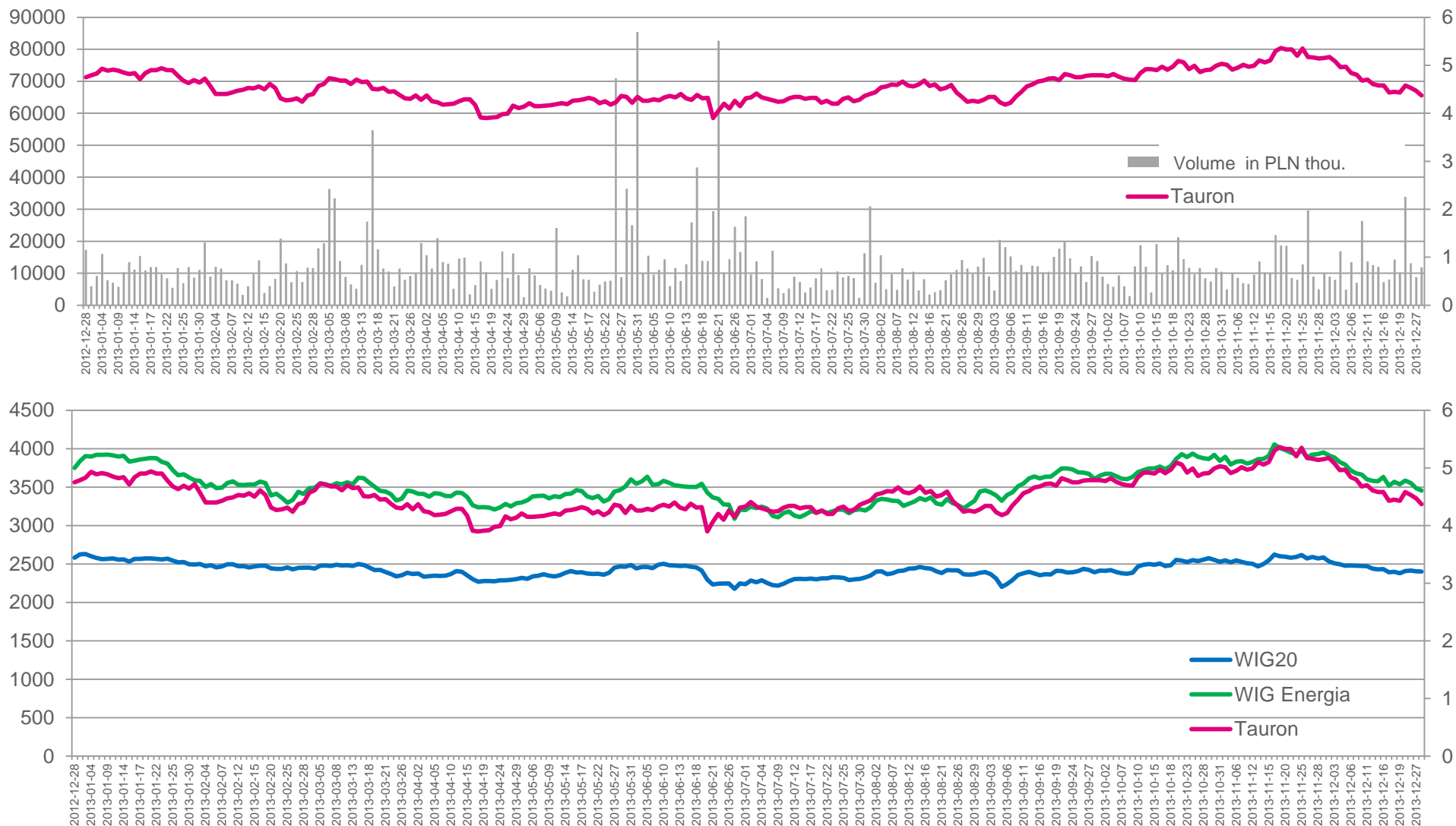
2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		169,01	4 208
including	TGE	169,25	2 170
	non TGE	168,75	2 038

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: PLN 169.34/MWh, total 2016 BASE and PEAK volume: 4 246 GWh

TAURON Polska Energia share price in 2013



TAURON's coverage by analysts

Institution	Analyst
DB Securities	Tomasz Krukowski
Dom Inwestycyjny mBanku	Kamil Kliszcz
Dom Maklerski Banku Handlowego	Piotr Dzięciołowski
Dom Maklerski BZ WBK	Paweł Puchalski
Dom Maklerski PKO BP	Stanisław Ozga
J.P. Morgan Cazenove	Michał Kuzawiński
Erste Group	Petr Bartek
Espirito Santo Investment Poland	Maria Mickiewicz
Goldman Sachs	Fred Barasi
HSBC	Dmytro Konovalov
ING Securities	Milena Olszewska

Institution	Analyst
Ipopema Securities	Piotr Zielonka, Tomasz Ściesiek
Raiffeisen Centrobank	Teresa Schinwald
Renaissance Capital	Vladimir Sklyar
Societe Generale	Leszek Iwaszko
UBS Investment Research	Michał Potyra
	Patrick Hummel
	Tomasz Walkowicz
UniCredit CAIB	Flawiusz Pawluk
WOOD & Company	Bram Buring
DM IDMSA	Andrzej Bernatowicz