



# TAURON Group's Q1-Q3 2013 financial results

November 14, 2013

# Key financial parameters

## TAURON Group's results

[PLN m]	1-3Q 2013		3Q 2013	
Sales revenue	14 209	(-22% y/y)	4 537	(-23% y/y)
EBITDA	2 996	(-3% y/y)	944	(-6% y/y)
Net profit	1 261	(-5% y/y)	370	(-16% y/y)
CAPEX	2 368	(+18% y/y)	1 018	(+32% y/y)
Net debt/EBITDA	1,19	-	1,19	-

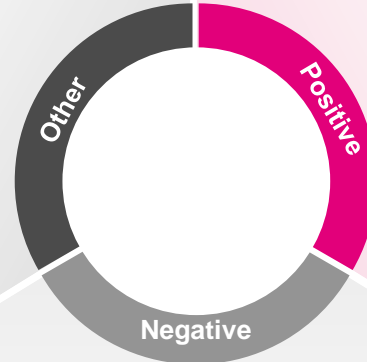
## Selected segments' Q1-Q3 2013 results

[PLN m]	Distribution	Supply	Mining	Generation
Segment's revenue	4 447	13 301	1 093	3 440
EBITDA	1 696	747	168	121
Net profit	1 020	721	89	(262)
CAPEX	1 192	15	173	403

# Q3 2013 summary

- Extension until December 31, 2013 of the validity of the bid of the RAFAKO - MOSTOSTAL WARSZAWA S.A. consortium as part of the tender proceeding aimed at selecting the contractor for the construction of a 910 MW unit at Elektrownia Jaworzno III
- Cancellation of the tender for the construction of a 135 MW<sub>e</sub> / 90 MW<sub>t</sub> CCGT unit in Katowice (TAURON Heat)

- Increase of electricity consumption in Poland year on year by 2.1% in Q3 2013
- Commissioning of the 82 MW Marszewo wind farm
- Commissioning of the 40 MW Wicko wind farm
- Signature of the agreement with ING Bank Śląski, Bank Polska Kasa Opieki and BRE Bank related to the bond issue program for up to PLN 5bn
- Signature of agreements with Bank Gospodarstwa Krajowego related to the TAURON Polska Energia S.A. bond issue program for up to PLN 1bn
- Final settlement of the LTC compensations. Total inflow of cash to TAURON in conjunction with the settlement of LTCs was approximately PLN 477m



- Historical futures contracts price lows for delivery in 2014 (Base Y-14) – approx. PLN 145/MWh. By the end of Q3 III 2013 the prices rebounded to approx. PLN 155/MWh
- 4.55% decline of electricity sales prices for the 2nd half of 2013 for the G tariff customers

# Wicko and Marszewo wind farms



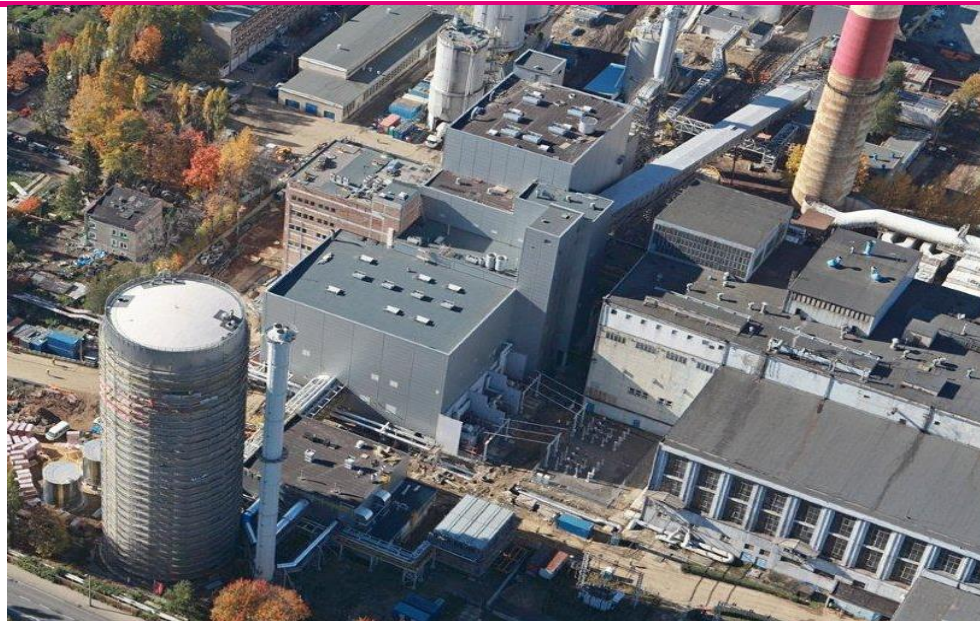
## Wicko (Pomerania Region)

Capacity	40 MW
Number of turbines	20
Turbine model	Vestas V90, 90 m diameter
Turbine's power rating	2 MW
Planned production output:	approx. 87 GWh/year

## Marszewo (Pomerania Region)

Capacity	82 MW
Number of turbines	41
Turbine model	Vestas V80, 80 m diameter Vestas V90, 90 m diameter
Turbine's power rating	2 MW
Planned production output:	approx. 180 GWh/year

# 50 Mw<sub>e</sub> /106 MW<sub>t</sub> unit in Bielsko-Biała

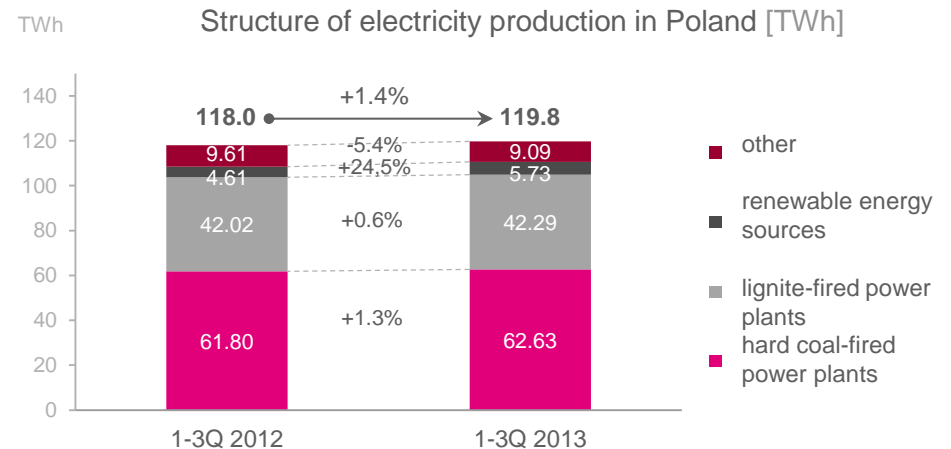
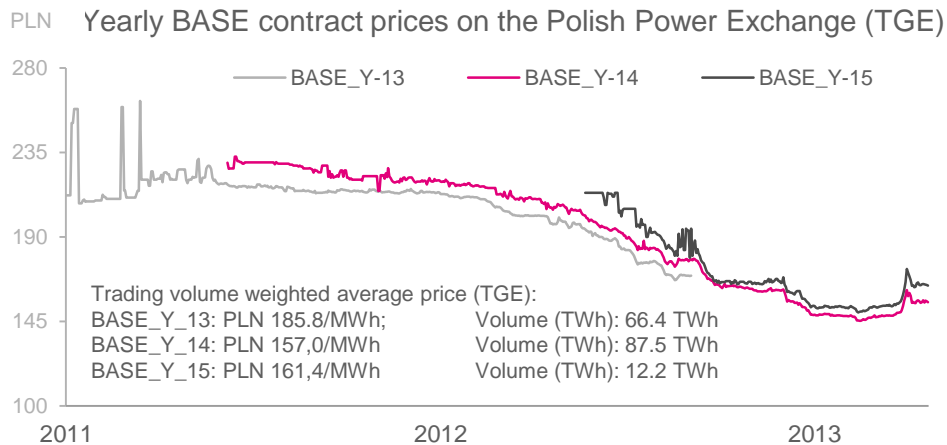
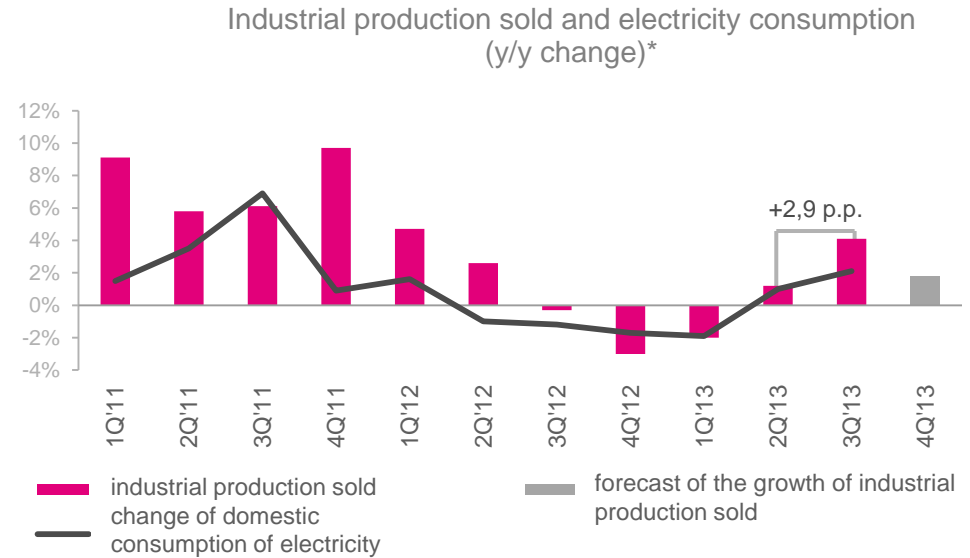
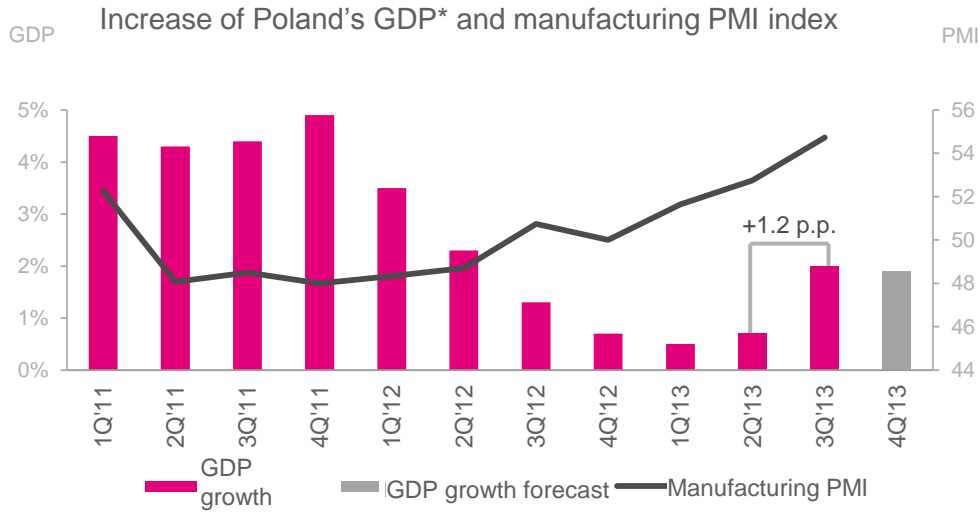


## Bielsko-Biała (Silesia Region)

Main fuel	Hard coal
Unit's gross capacity	50.82 MW <sub>e</sub>
Heat unit's capacity	106 MW <sub>t</sub>
Efficiency of conversion to electricity and heat	89.6% (gross)
Project's implementation	2008 – 2013

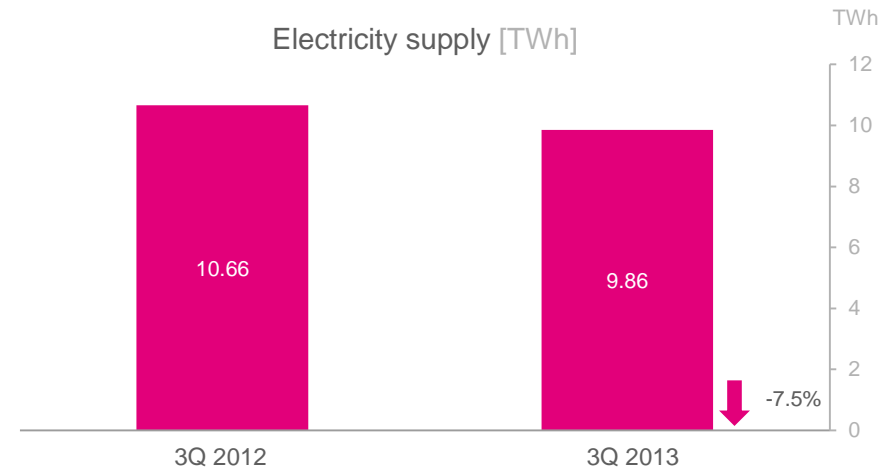
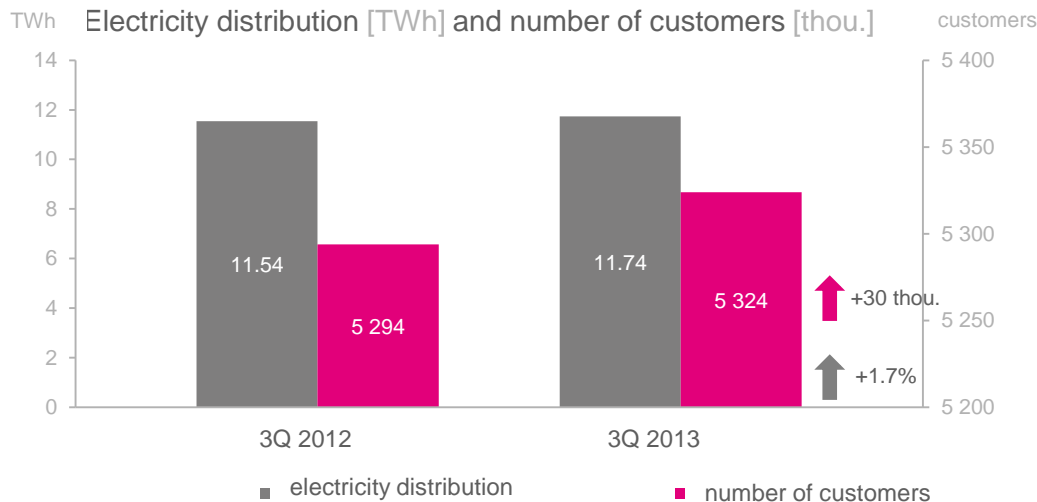
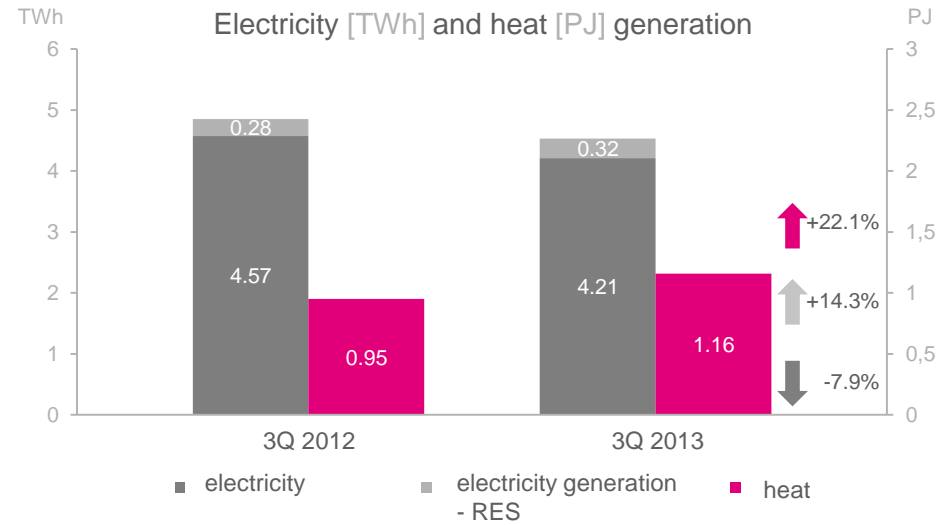
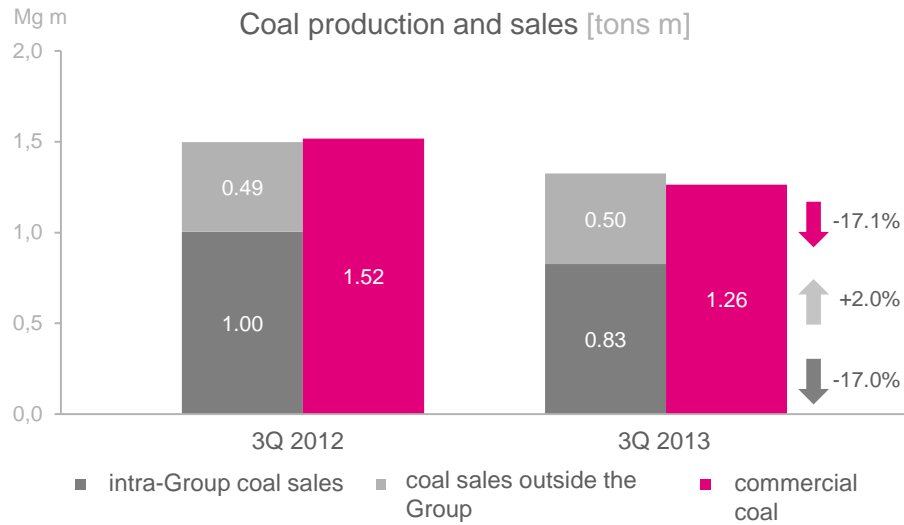
Generation efficiency	Up approx. 26%
CO <sub>2</sub> emission	Down approx. 25%
Dust emission	Down more than 17 times
SO <sub>2</sub> emission	Down 10 times
NO <sub>x</sub> emission	Down 3 times

# Macroeconomic and market situation

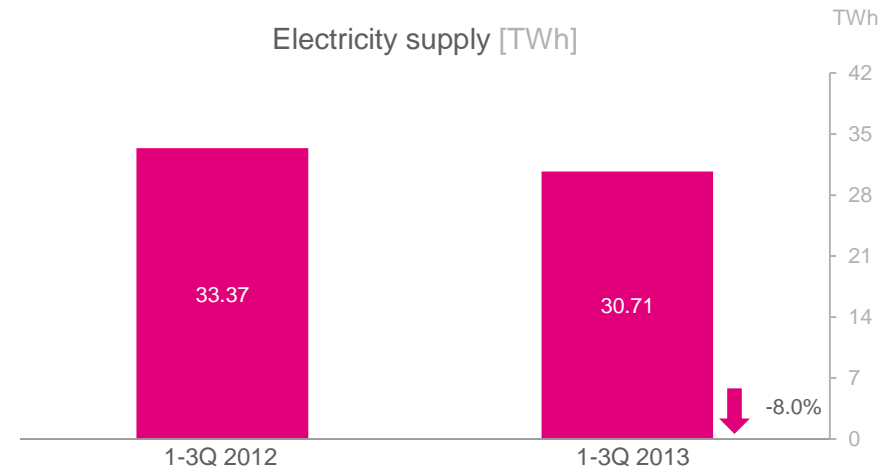
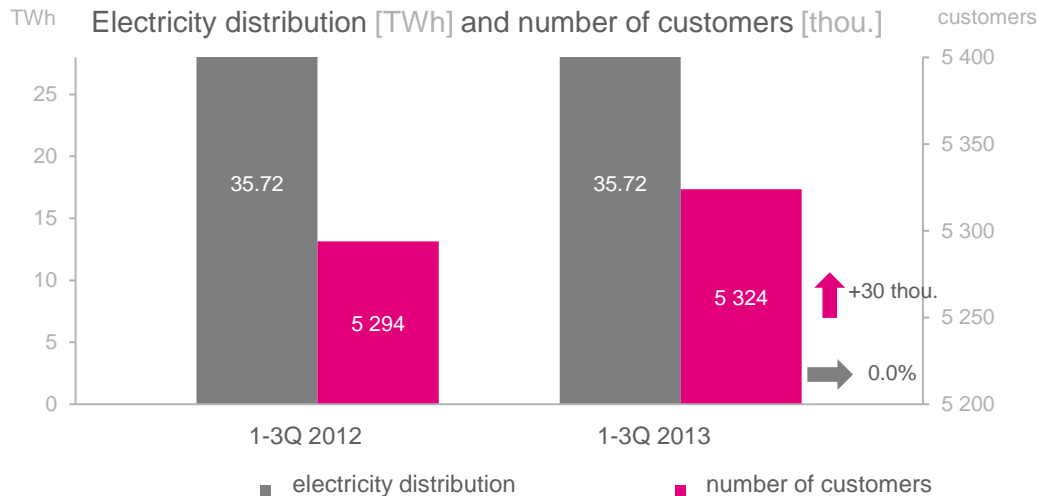
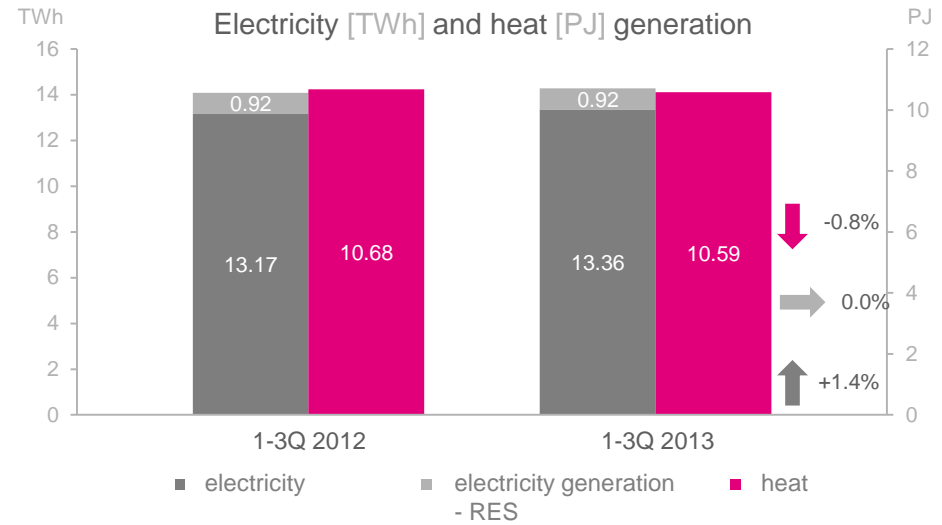
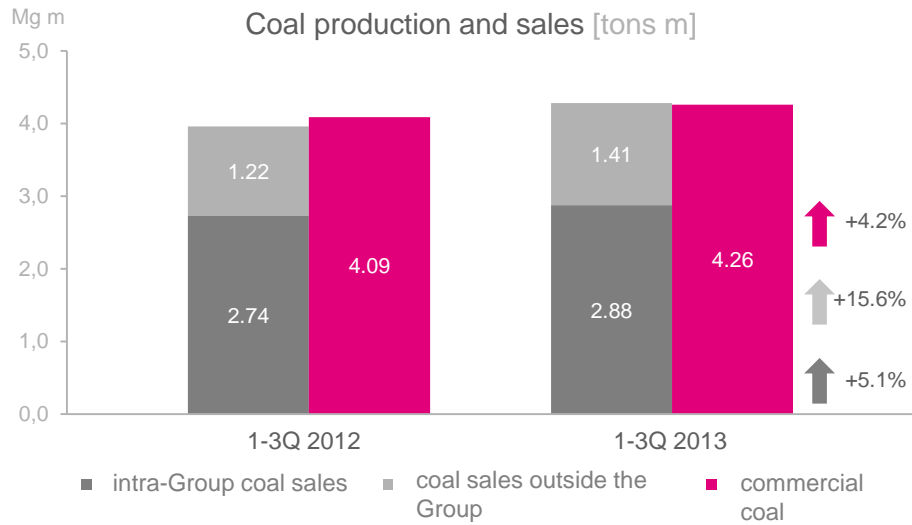


\* Source: GUS, IBnGR (forecasts), PSE

# Key operating data – Q3 2013

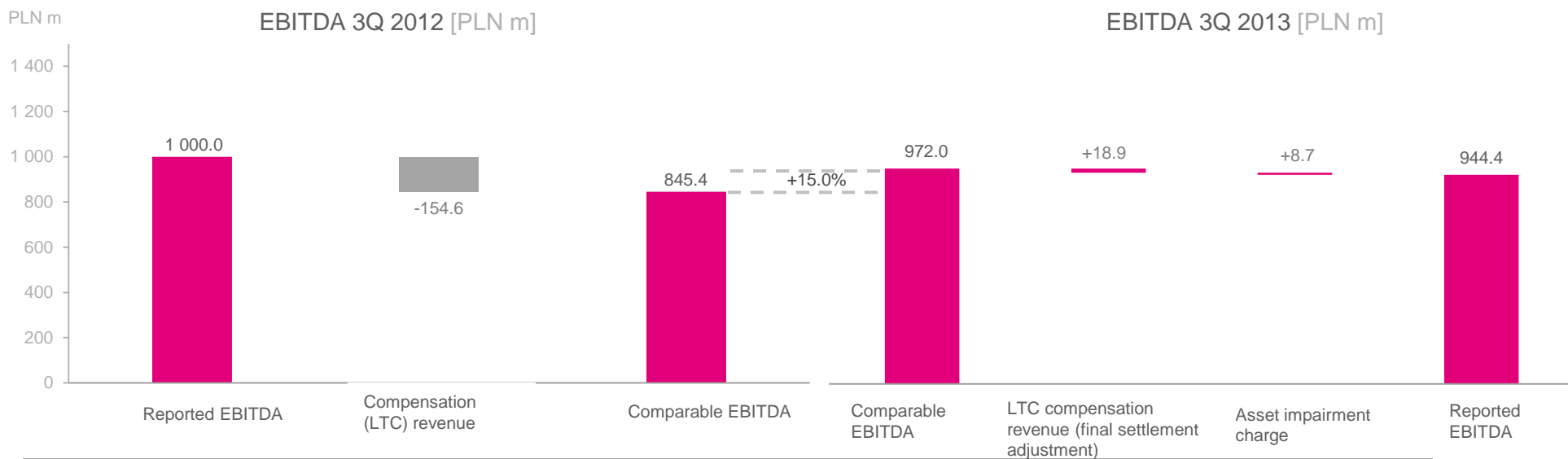
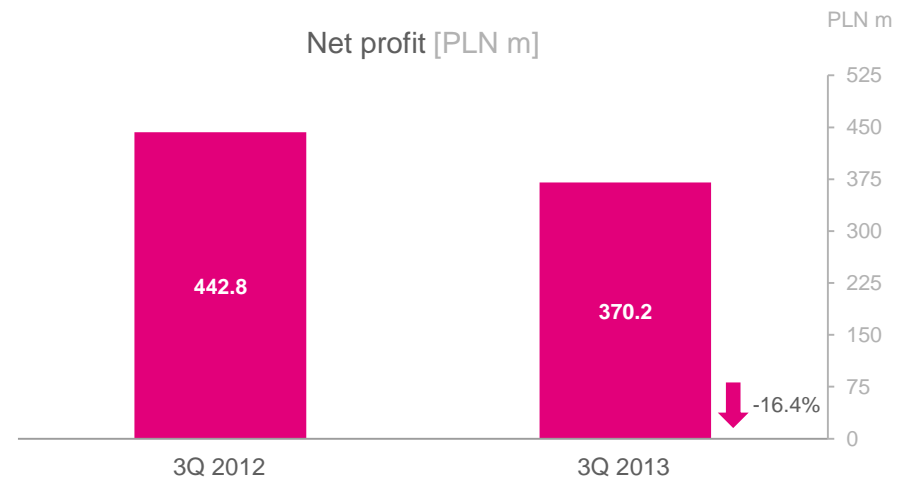
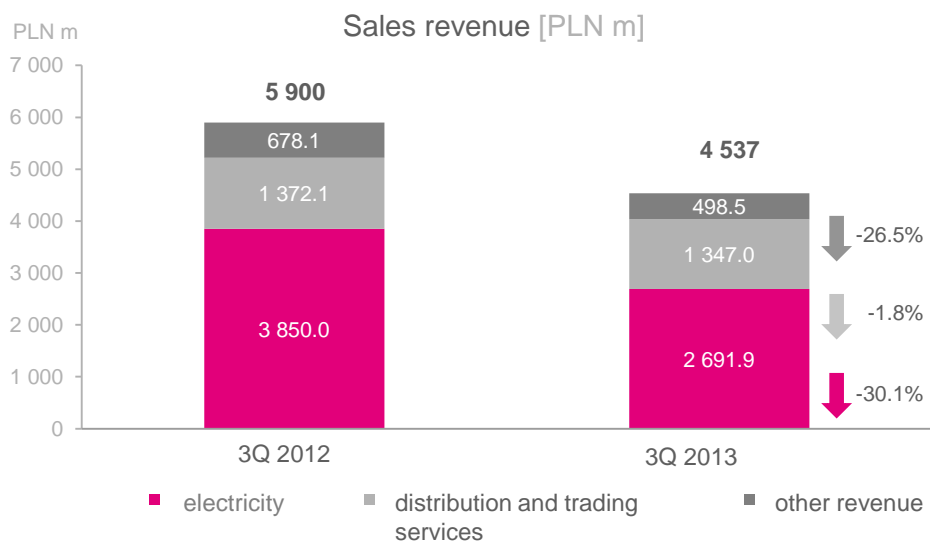


# Key operating data Q1-Q3 2013



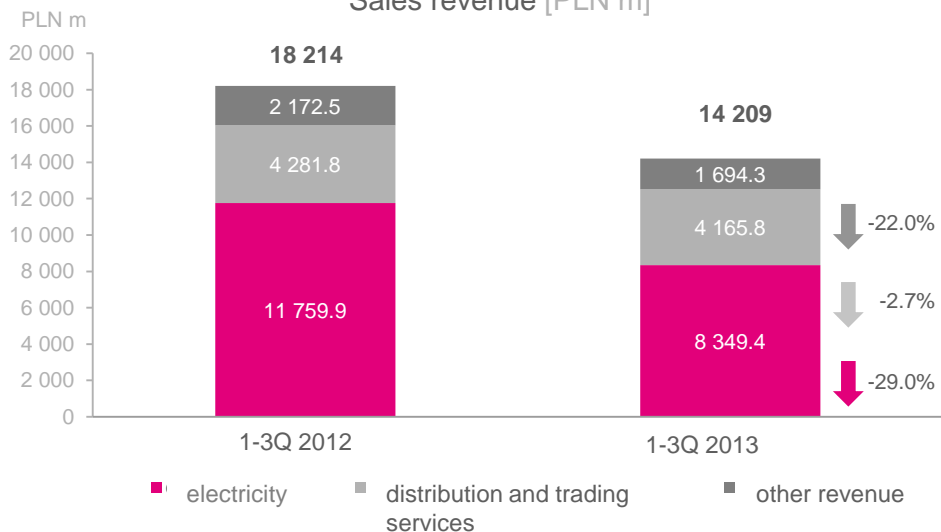


# Key financial data – Q3 2013

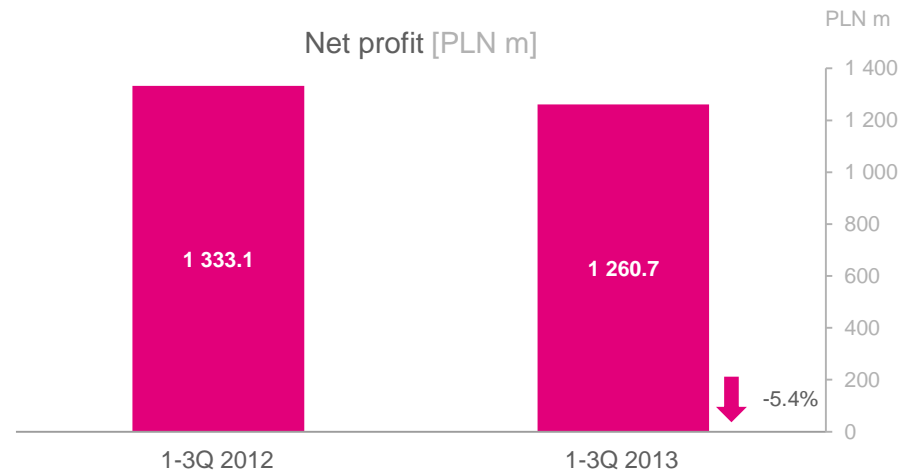


# Key financial data Q1-Q3 2013

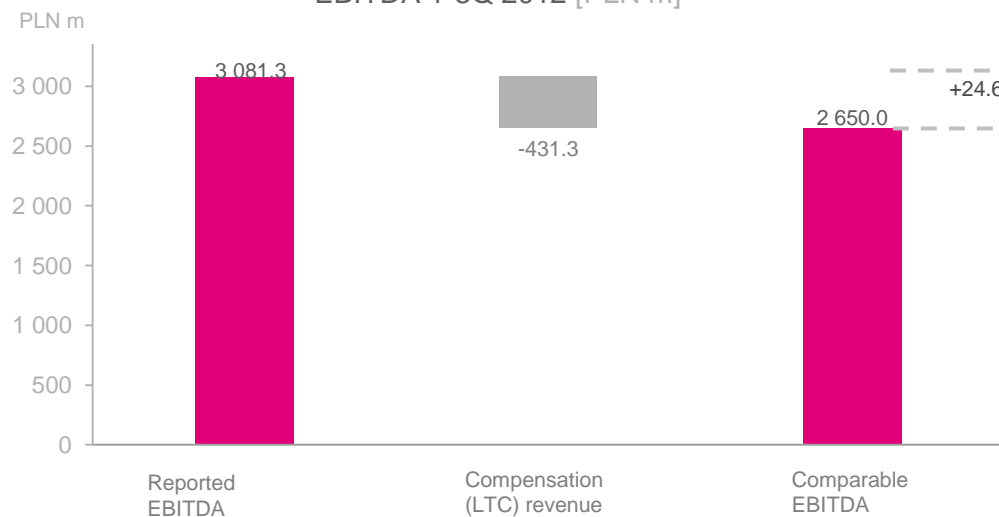
Sales revenue [PLN m]



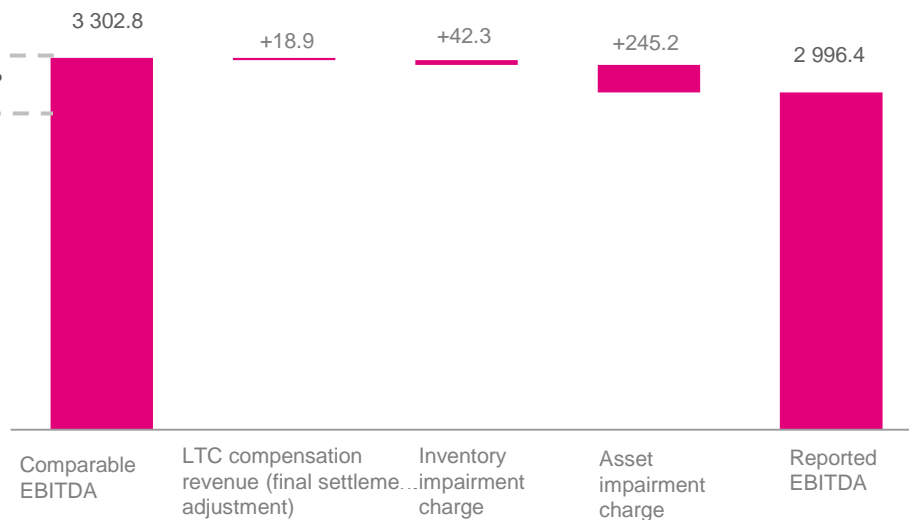
Net profit [PLN m]



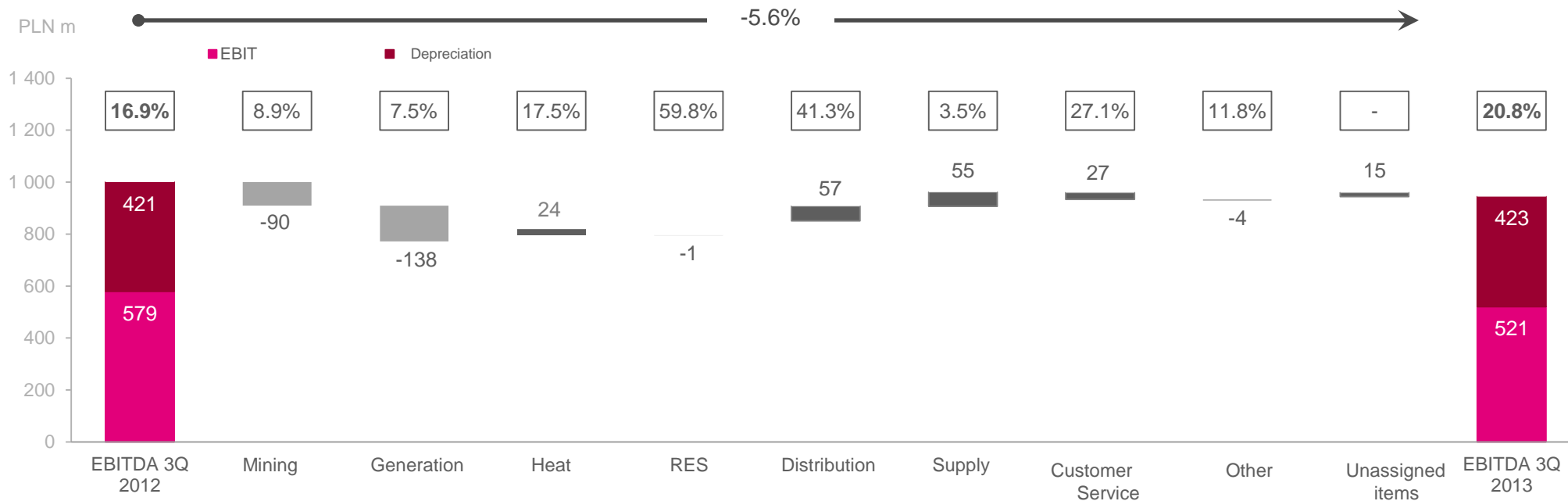
EBITDA 1-3Q 2012 [PLN m]



EBITDA 1-3Q 2013 [PLN m]



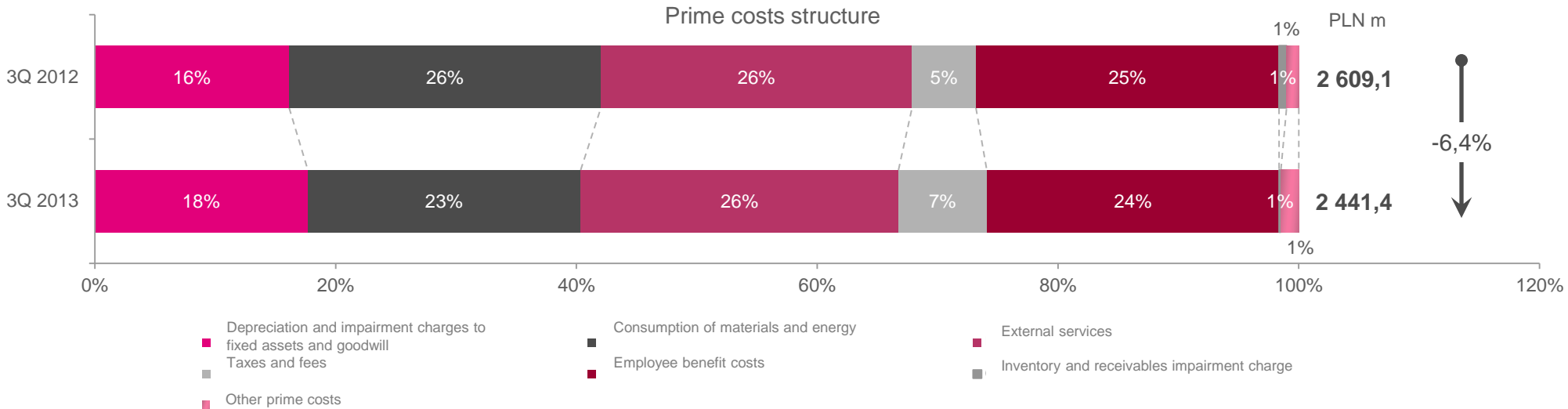
# EBITDA Q3 2013



## Most important factors affecting EBITDA:

- Mining – declining coal market prices
- Generation – no revenue from LTC compensations, assets' impairment charge and lower wholesale market 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)
- Supply:
  - declining cost of the obligation to redeem green certificates (significant drop of green certificates' market prices)
  - lack of obligation to redeem cogeneration related property rights (certificates)
  - continued high spread between retail and wholesale electricity prices

# Prime costs structure Q3 2013



Declining costs in Q3 2013 are mainly due to:

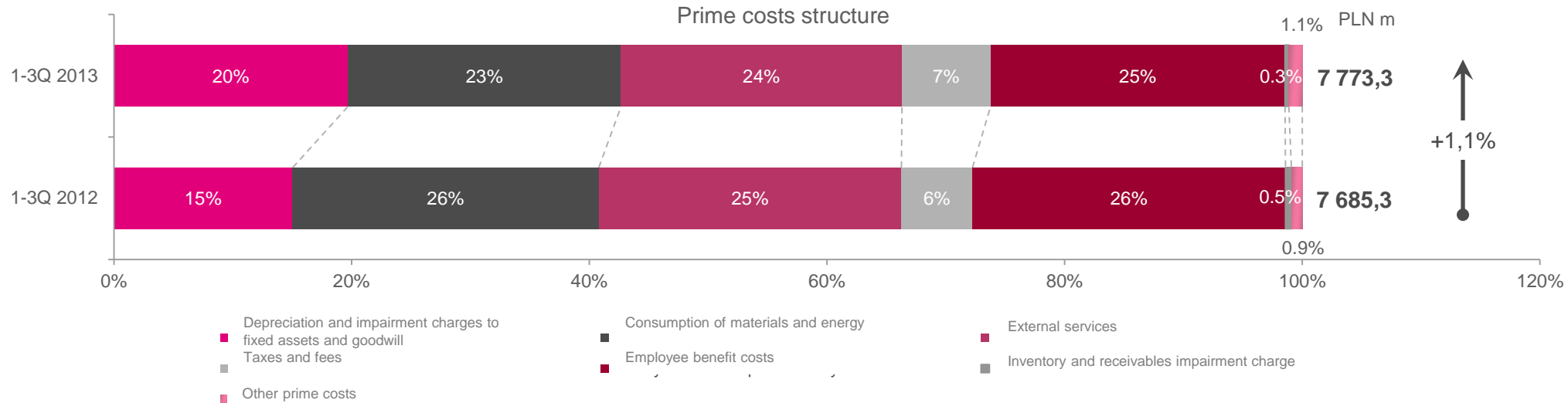
- consumption of materials (lower fuel costs)
- external services – including distribution and transmission services (y/y reduction of the TSO transmission fee)
- employee benefit costs – mainly the result of the Voluntary Redundancy Programs implemented and the lower headcount

Cost structure:

- Q3 2013: variable costs (excluding the value of goods and materials sold) approx. 41%, fixed costs approx. 59%
- Q3 2012: variable costs approx. 40%, fixed costs approx. 60%

In Q3 2013 cost structure did not differ ent than in comparable period of 2012, both variable and fixed costs decreasing in the period under consideration

# Prime costs structure Q1-Q3 2013



Increased costs in Q1-Q3 2013 are mainly due to:

- depreciation (including generation assets' impairment charge of approx. PLN 237m)
- taxes and fees – costs of the provision set up for the CO<sub>2</sub> emission allowances

Declining costs in Q1-Q3 2013 are mainly due to:

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

Cost structure:

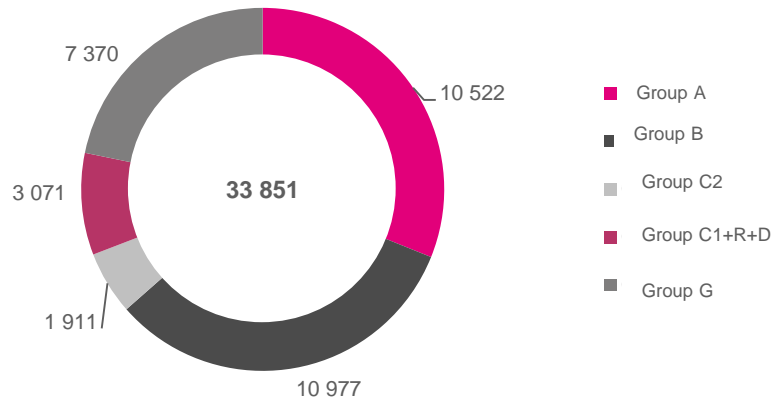
- Q1-Q3 2013: variable costs (excluding the value of goods and materials sold) approx. 37%, fixed costs approx. 63%
- Q1-Q3 2012: variable costs approx. 42%, fixed costs approx. 58%

Change of structure caused by:

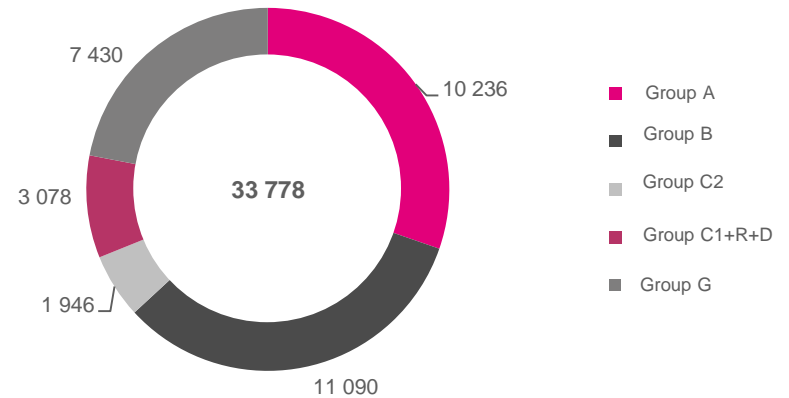
- Generation and Heat: reduction of variable costs (lower fuel costs), inclusion of generation assets' impairment (in fixed costs)
- Distribution: lower transmission fee costs niższe

# Distribution – key elements

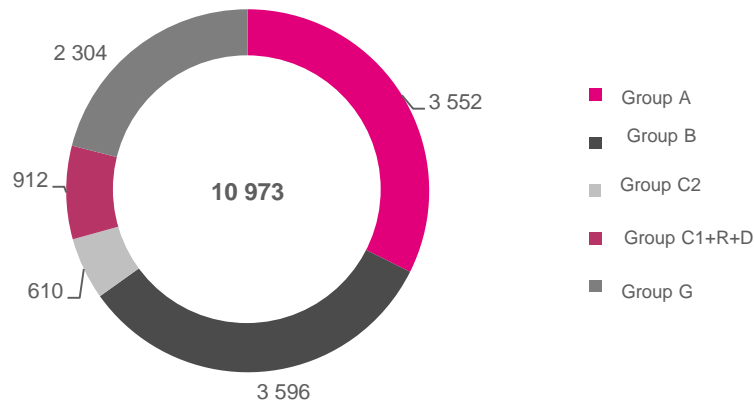
Electricity distribution [GWh] in Q1-Q3 2012



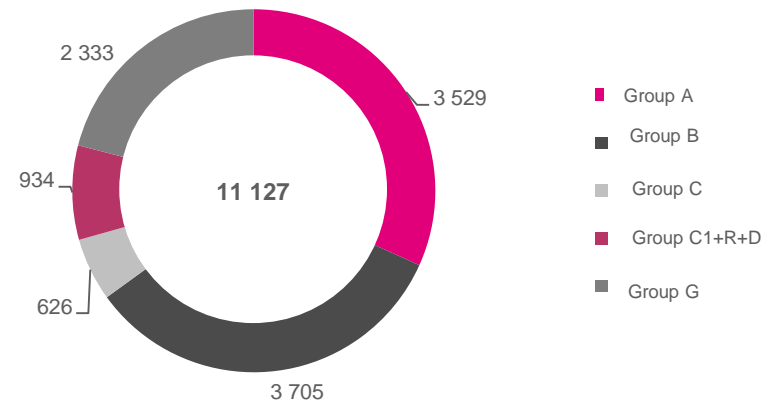
Electricity distribution [GWh] in Q1-Q3 2013



Electricity distribution [GWh] in Q3 2012

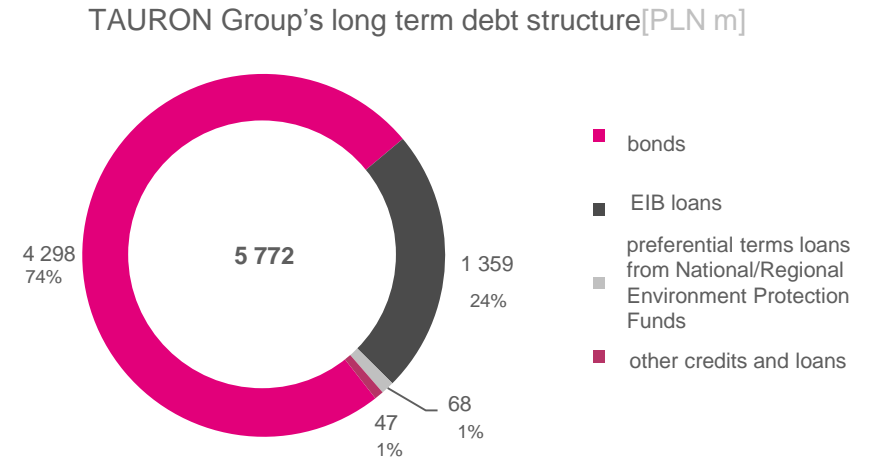
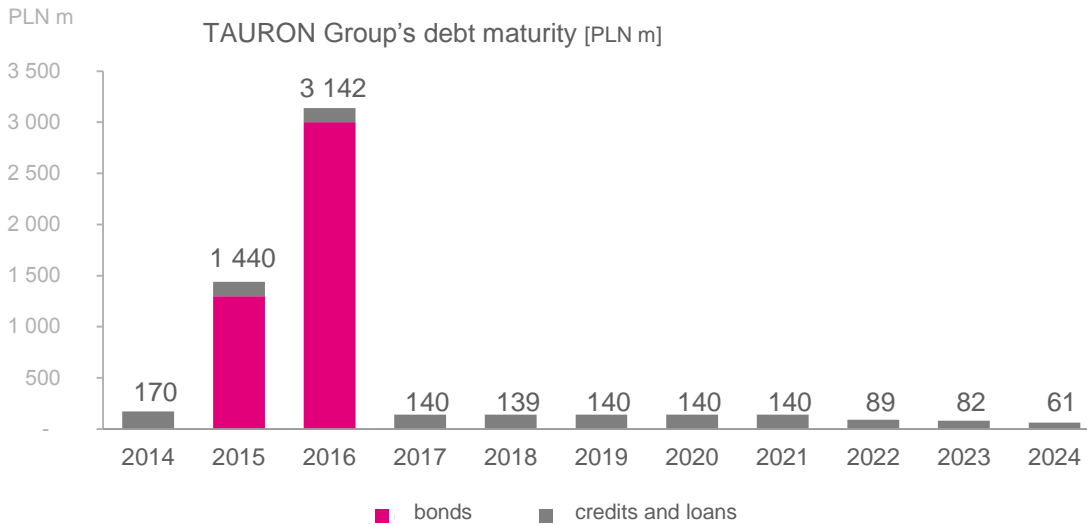


Electricity distribution [GWh] in Q3 2013

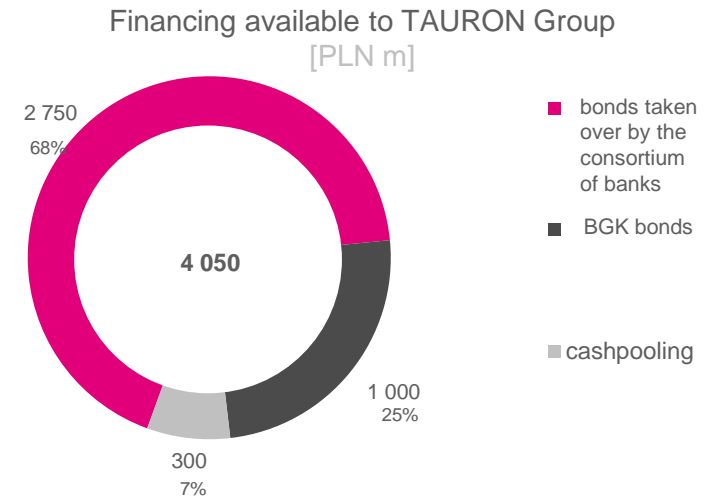


Data on electricity distribution to end users

# Debt and financing



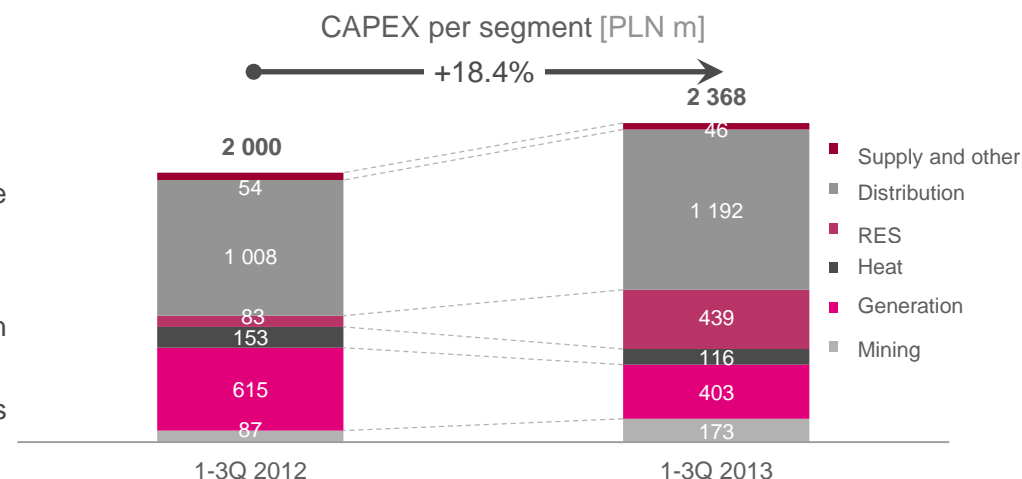
- long term debt as of September 30, 2013: PLN 5 772m
- net debt / EBITDA ratio: 1.19 (versus 1.18 at the end of 2012)
- Average weighted debt maturity as of September 30, 2013:
  - excluding BGK bonds – 42 months
  - including BGK bonds – 55 months
- EUR debt constitutes 0.06% of the total debt
- structure of debt by interest rate
  - 24% – fixed interest rate, i.e. PLN 1 359m
  - 76% – floating interest rate, i.e. PLN 4 413m, including:
    - unsecured amount – PLN 973m
    - secured amount – PLN 3 440m



Investment project	Type	TAURON's share	Capacity (MW <sub>t</sub> )	Capacity (MW <sub>e</sub> )	Progress
Elektrownia Jaworzno III	hard coal fired unit	100%		910	Preparations underway to sign the contract with the RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. consortium. Planned completion date: 2018
Elektrownia Stalowa Wola	CCGT unit	50%	240	450	Construction works underway. Planned completion date: 2015.
ZW Tychy	cogeneration unit	100%	86	50	Contract with the general contractor, Elektrobudowa S.A., signed. Planned completion date: 2016.
ZW Nowa	turbogenerator TG 50	100%		50	Contract with the general contractor, Control Process S.A., signed. Planned completion date: 2015.
Elektrownia Jaworzno III	upgrade of 6 boilers	100%			Upgrade works underway. Works completed on three units. Planned completion date: 2016.
Elektrownia Łaziska	upgrade of 4 boilers	100%			Upgrade works underway. Works completed on two units. Planned completion date: 2015.
Wicko	wind farm	100%		40	Project completed.
Marszewo	wind farm	100%		82	Project completed.
Elektrownia Blachownia	CCGT unit	50%		850	Project optimization underway.
ZW Katowice	CCGT unit	100%	90	135	Tender cancelled. Actions undertaken in order to withdraw from the project.
<b>Total</b>			<b>416</b>	<b>2 567</b>	

### Main investment projects carried out in Q1-Q3 2013:

- Distribution – construction of new connections (PLN 347m) and upgrade and restoration of the grid assets (PLN 747m)
- RES – construction of the Marszewo and Wicko wind farms (PLN 370m)
- Generation – construction of new capacity (PLN 100m) and construction of the NOx emission reduction system (PLN 156m)
- Mining – construction of underground headings and purchase of devices (PLN 171m)



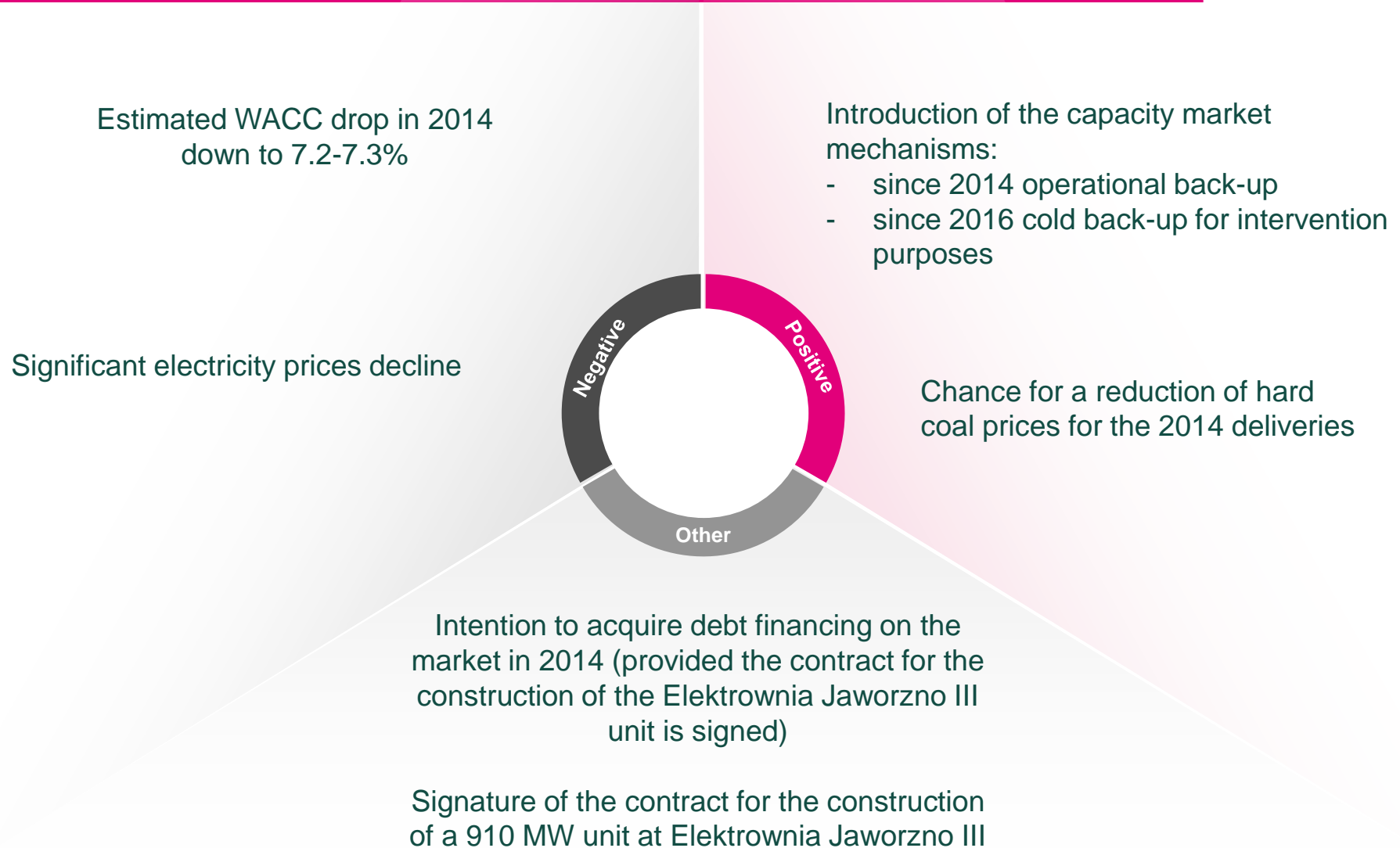


# OPEX reduction program

Segment	Savings realized in Q1-Q3 2013	Savings planned for 2013-2015	Progress %	Main initiatives
<b>Distribution</b>	PLN 93m	PLN 416m	22%	<ul style="list-style-type: none"> <li>Implementation of the ultimate business model, elimination of the redundant functions</li> <li>Change of the way expenses are classified as CAPEX or OPEX</li> <li>Optimization of the balancing difference</li> <li>IT processes optimization</li> <li>Integration of business functions in the support (maintenance) area</li> <li>Optimization of external services</li> </ul>
<b>Generation (including RES)</b>	PLN 96m	PLN 387m	25%	<ul style="list-style-type: none"> <li>Employment restructuring and process optimization</li> <li>Reduction of upgrades (maintenance) for the least efficient units</li> <li>Overhead cost optimization</li> <li>Outsourcing of some functions, mainly in the maintenance area</li> <li>Improvement of the devices' efficiency, optimization of the production volume and operating expenses at hydroelectric power plants</li> <li>Reduction of the costs of support and maintenance of the wind farm's operation</li> </ul>
<b>Heat</b>	PLN 15m	PLN 33m	46%	<ul style="list-style-type: none"> <li>Employment restructuring</li> <li>Compressed air losses reduction</li> <li>Asset restructuring</li> <li>External services' costs optimization</li> <li>Procurement policy optimization</li> </ul>
<b>Mining</b>	PLN 10m	PLN 28m	35%	<ul style="list-style-type: none"> <li>Nitrogen production system construction</li> <li>Coal sludge (slurry) dewatering station expansion</li> <li>Potable water treatment</li> <li>Electronic auctions in public procurement</li> <li>Use of the mechanical lining when drilling headings</li> </ul>
<b>Total</b>	<b>PLN 214m</b>	<b>PLN 864m</b>	<b>25%</b>	

- In Q1-Q2 2013 the voluntary redundancy program covered 262 persons. Over that period employment contracts were terminated with 557 persons (3 051 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 in 2013 is envisaged.
- Structure of savings in Q1-Q3 2013: 59% results from employment restructuring, 41% 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 – key factors



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# Thank you – Q&A

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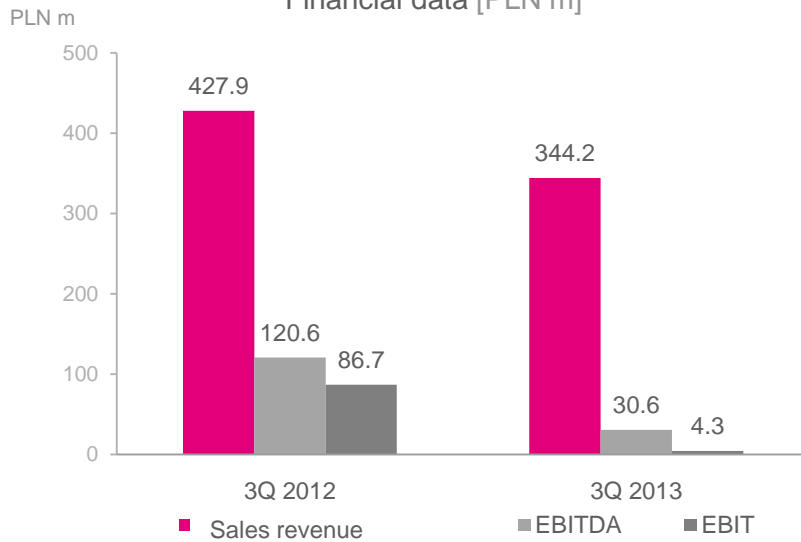
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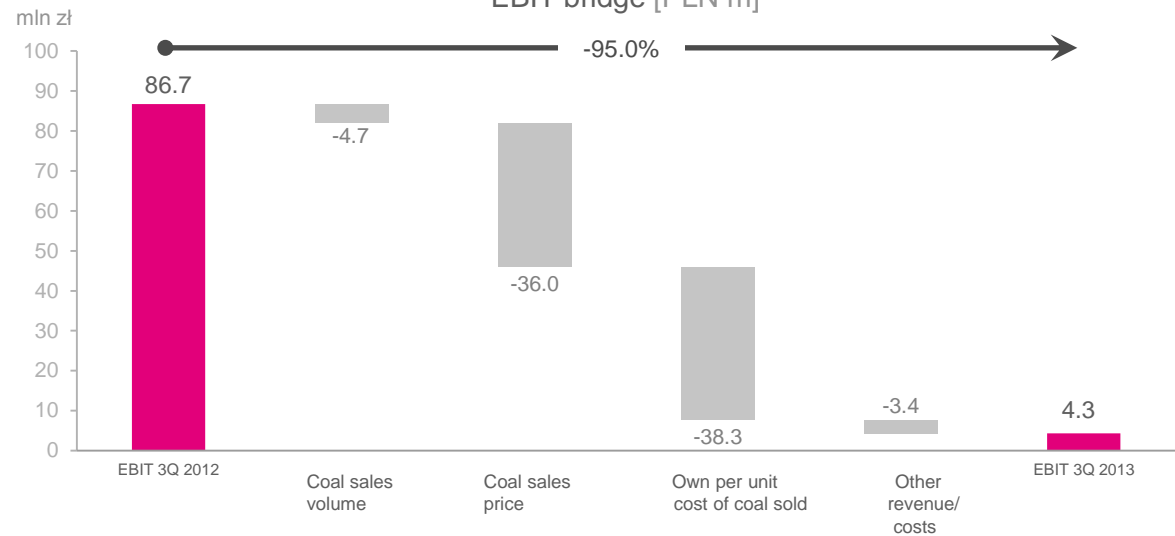
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Financial data [PLN m]

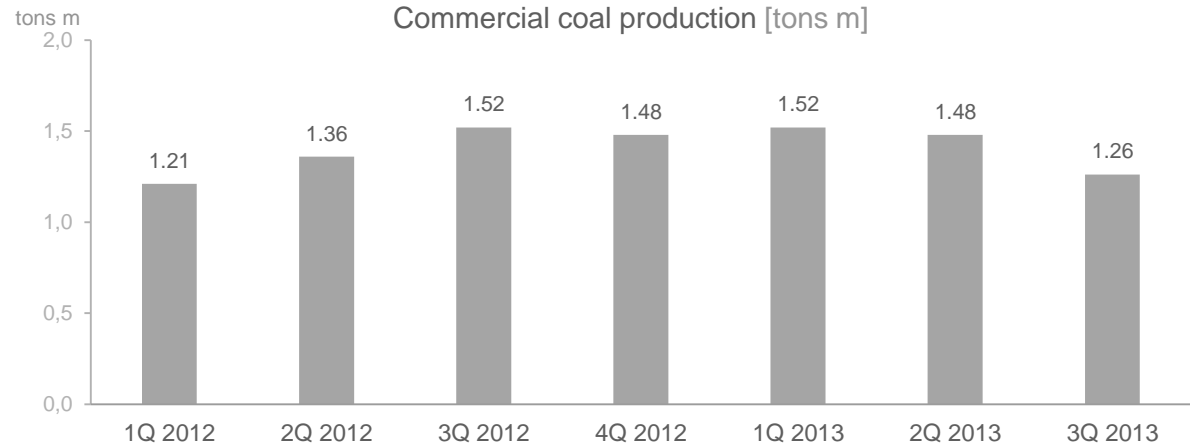


EBIT bridge [PLN m]

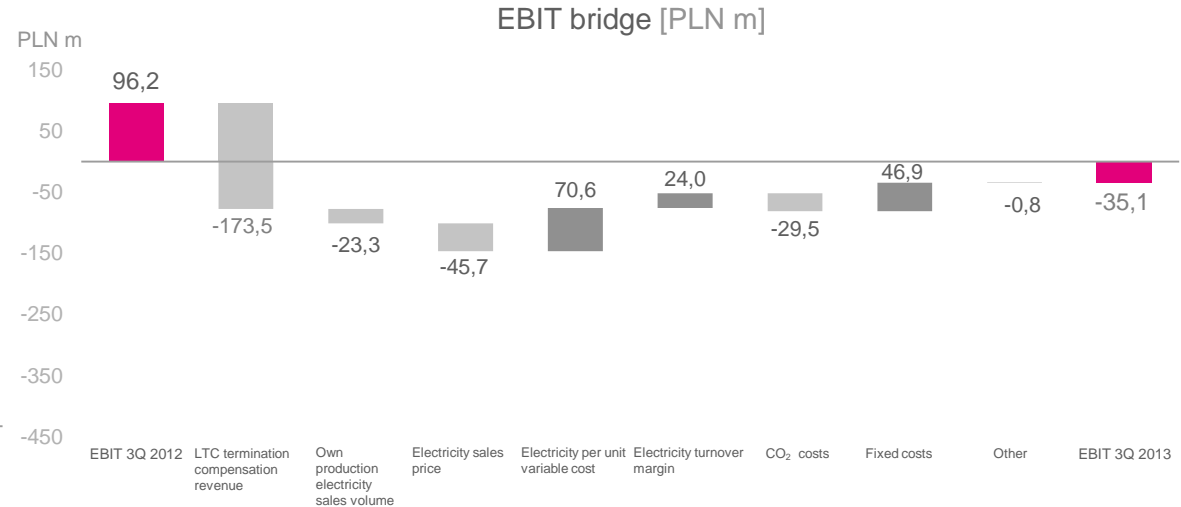
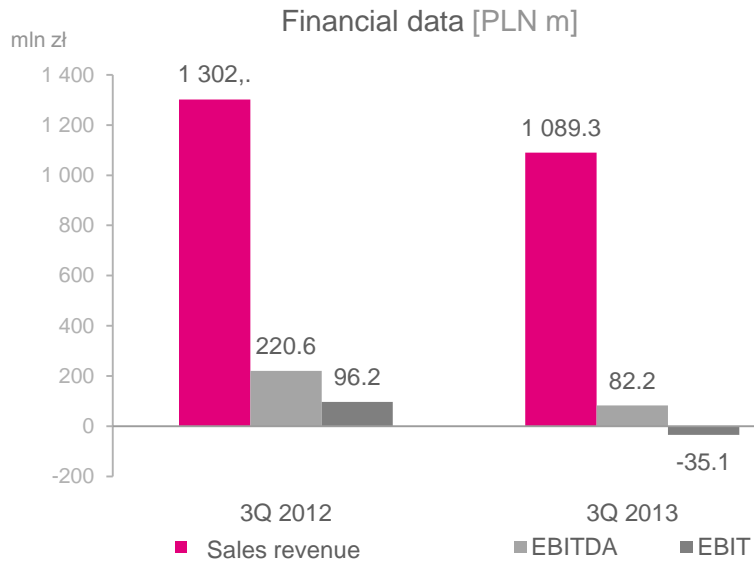


- lower average hard coal sales price, mainly declining price of coal sludges sold intra-Group
- drop in the coal sales volume (-11,3% Q/Q) as a consequence of the declining output (-17,1% Q/Q)
- coal production costs at a similar level as last year – in reference to the lower sales increased costs per a ton of coal sold

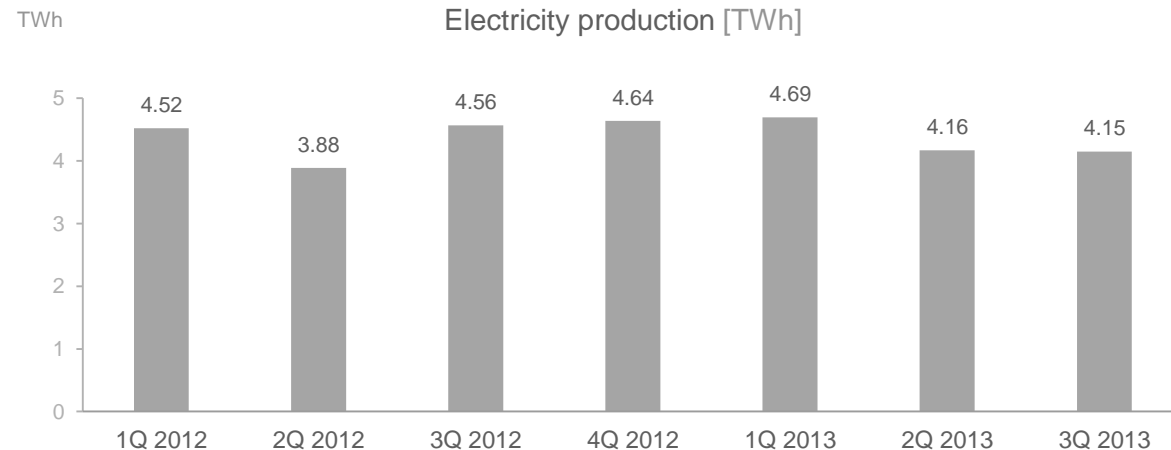
Commercial coal production [tons m]



# Generation (conventional sources)

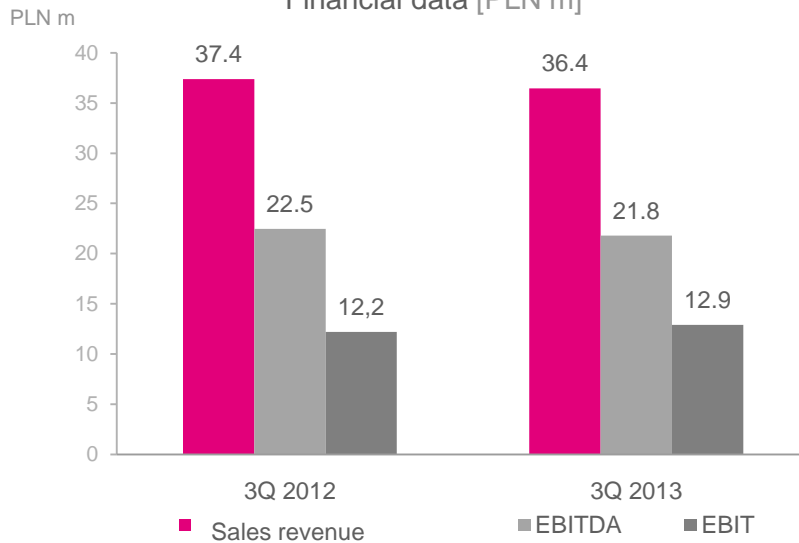


- no revenue from LTCs (in Q3 2012: PLN 154.6m. At the same time in Q3 2013 in connection with the decision of the President of ERO with respect to the amount of the final stranded costs adjustment the revenue adjustment of PLN 18.9m was recognized)
- drop of electricity volume and sales price
- inclusion of the costs of the provision for the shortage of the CO<sub>2</sub> emission allowances
- positive impact of the other operations related factors (electricity sales volume, per unit cost of generation and fixed costs)

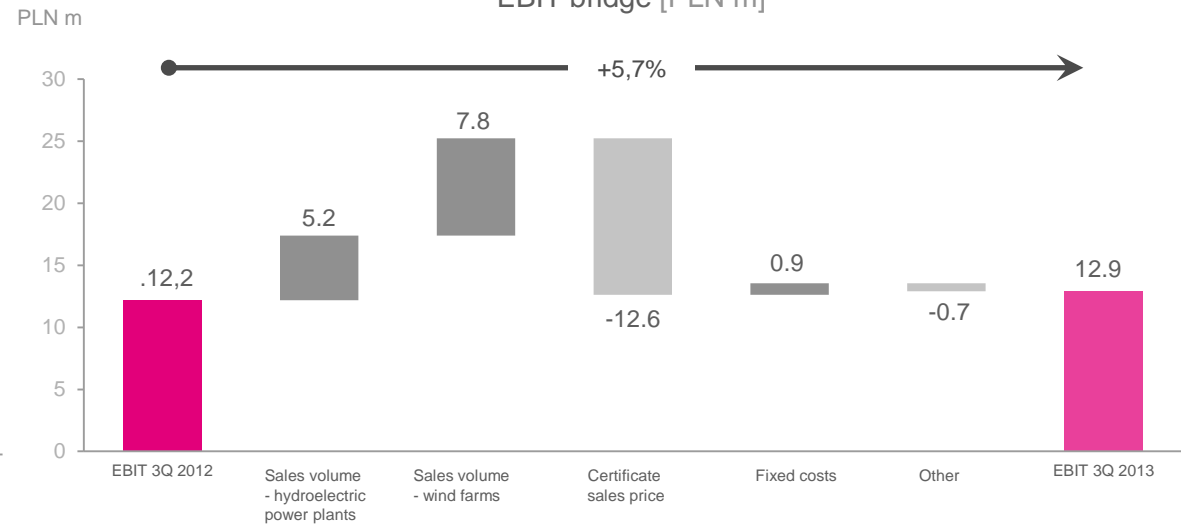


# Renewable Energy Sources (RES)

Financial data [PLN m]

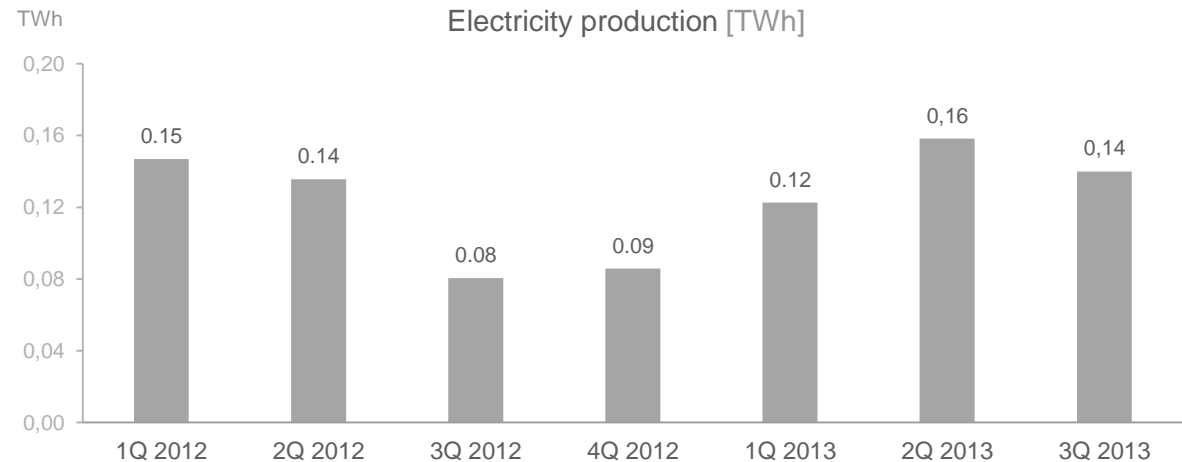


EBIT bridge [PLN m]

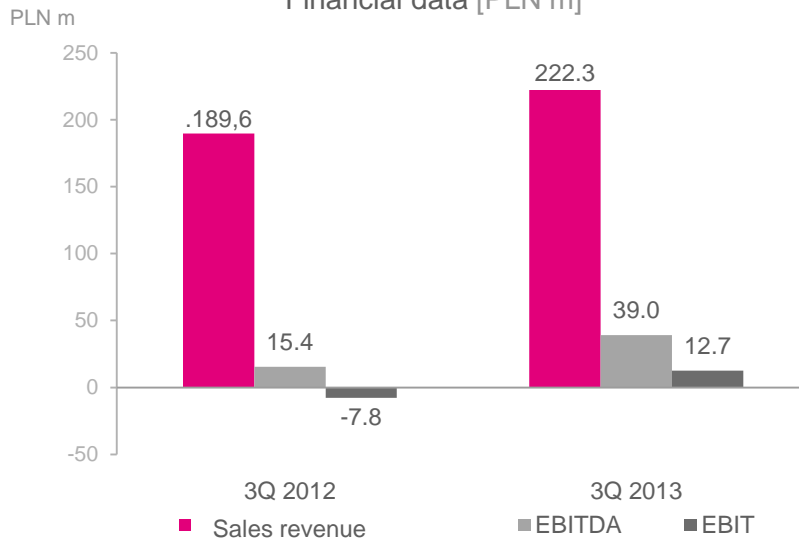


- increased hydroelectric power plants' production (favorable hydrological conditions)
- higher wind farm production (startup of the Wicko and Marszewo wind farms)
- lower green certificates sales price

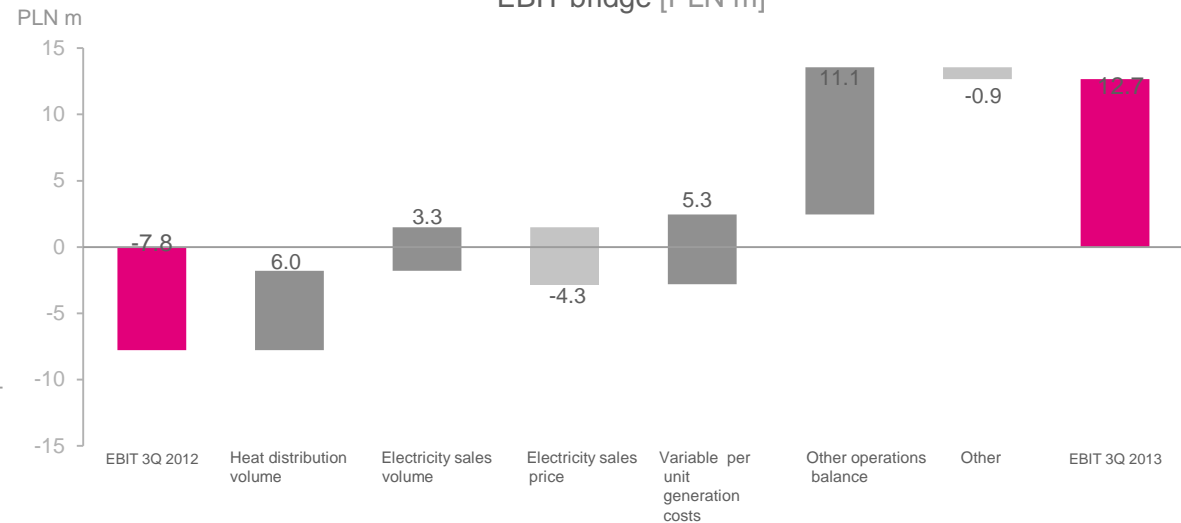
Electricity production [TWh]



Financial data [PLN m]

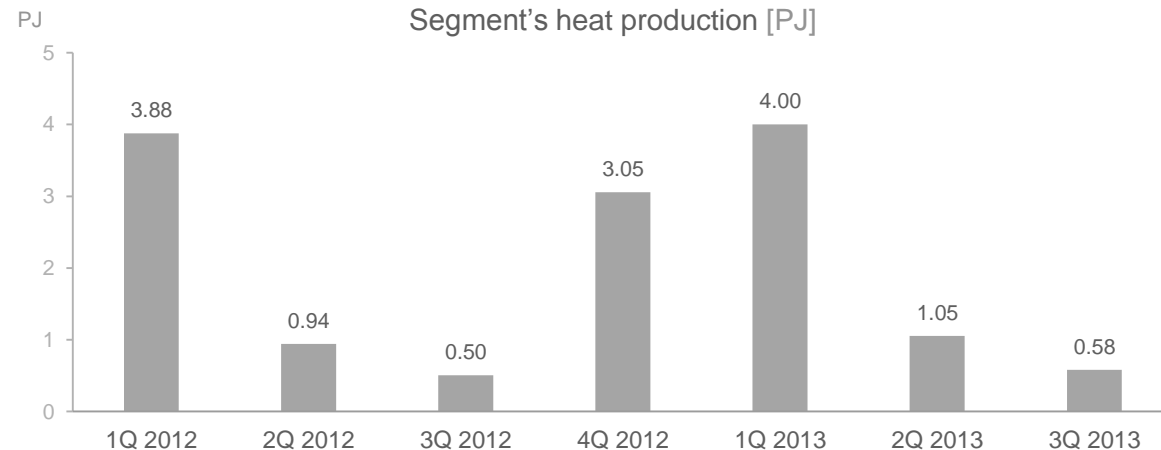


EBIT bridge [PLN m]



- higher heat distribution and electricity supply volume
- lower electricity sales prices
- lower unit variable costs of generation (falling fuel prices)
- higher balance of the other operations (mainly due to significantly higher costs of provisions set up in order to finalize the legal status of the real estate in Q3 2012)

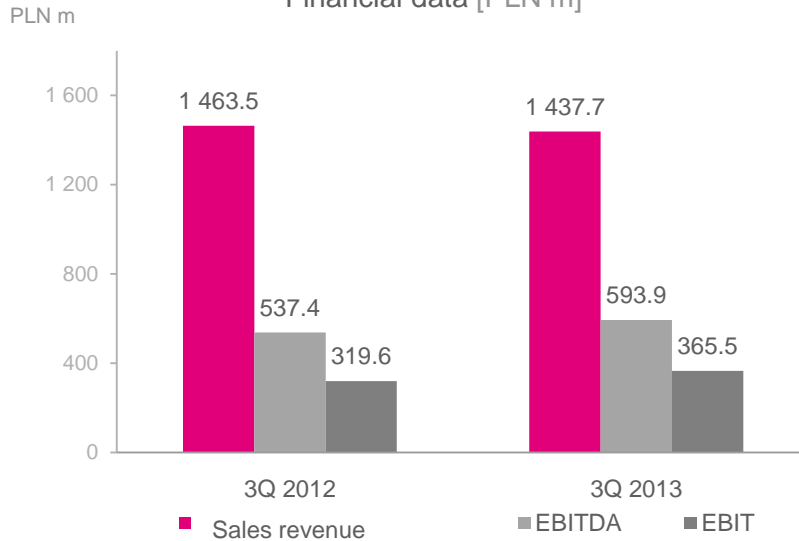
Segment's heat production [PJ]



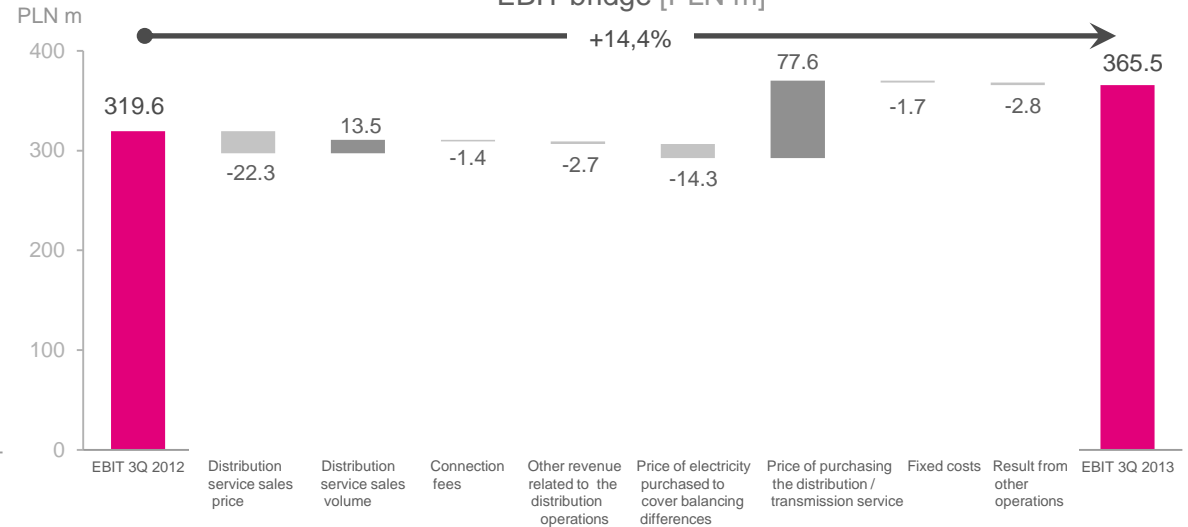


# Distribution

Financial data [PLN m]

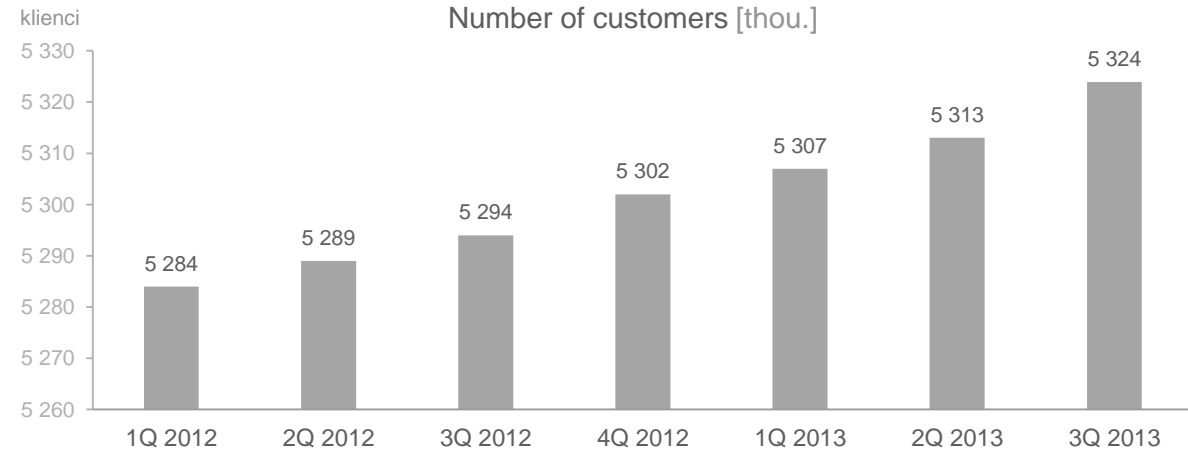


EBIT bridge [PLN m]

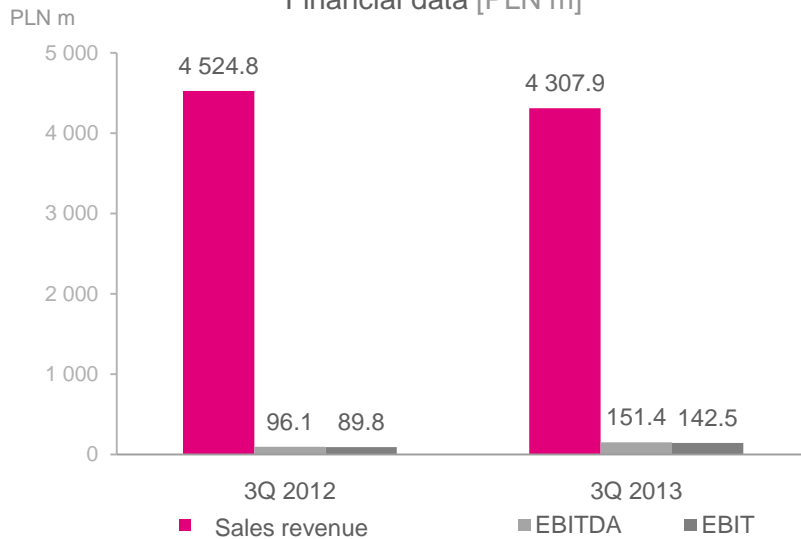


- reduction of the distribution services' sales price and of the connection fees revenue
- reduction of the transit fee for the Transmission System Operator
- rising prices of electricity purchased to cover the balancing difference and growing fixed costs related to the customer service purchased

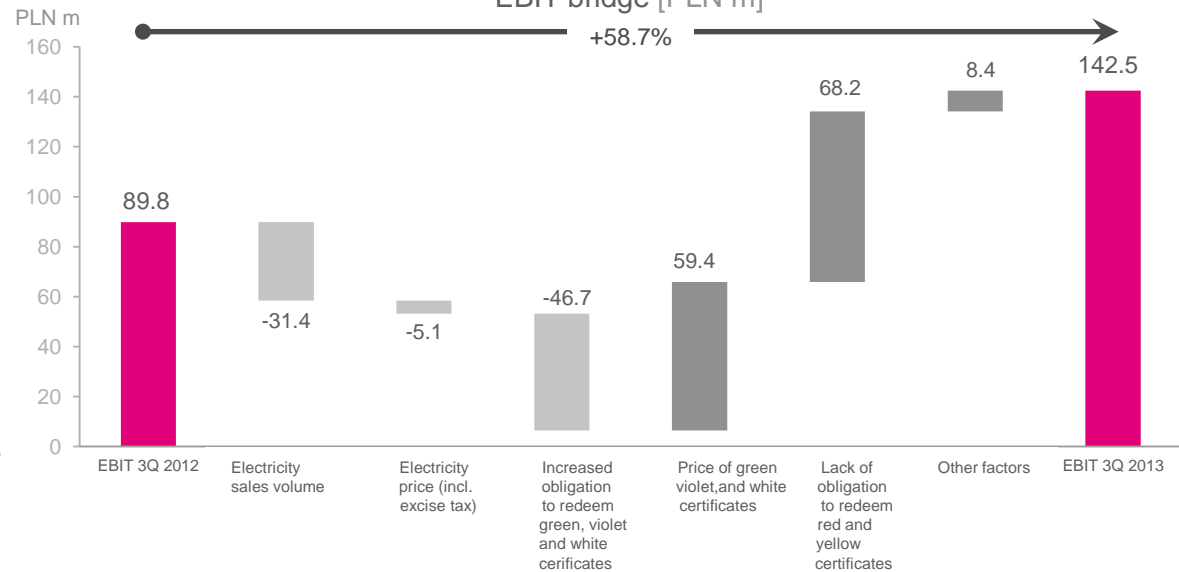
Number of customers [thou.]



Financial data [PLN m]

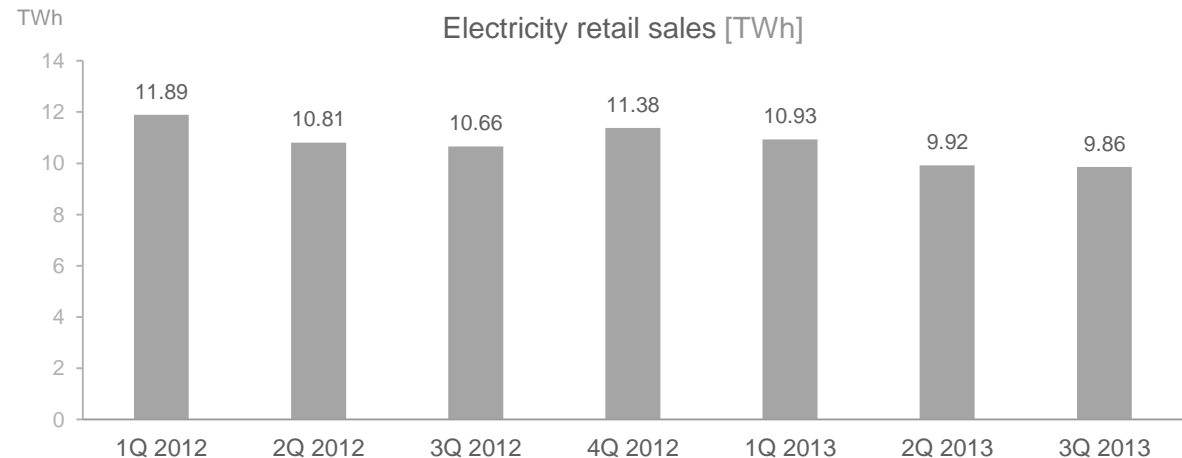


EBIT bridge [PLN m]



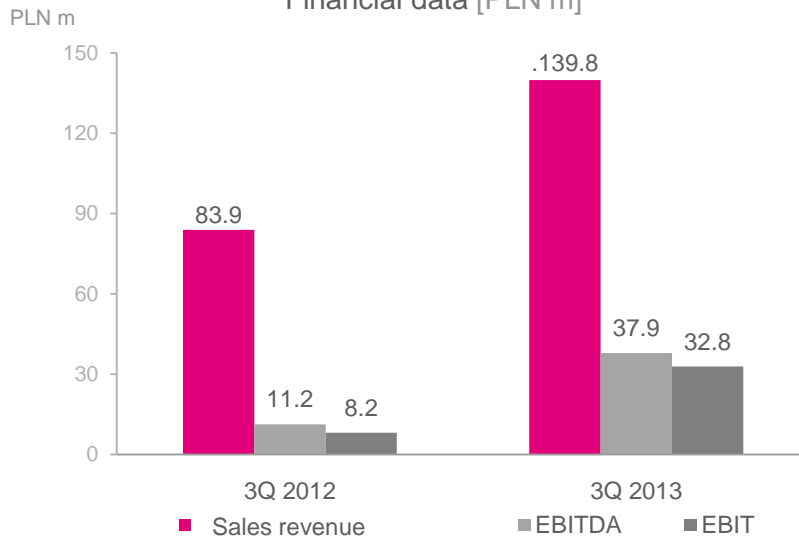
- lower electricity sales volume, in particular to the A and B group customers (in the TS and TS GZE subsidiaries), partly compensated by increased sales to TAURON's strategic (key) customers
- increased obligation to redeem green and violet certificates, obligation to redeem white certificates
- declining prices of green certificates
- lack of legal regulations with respect to redeeming red and yellow certificates

Electricity retail sales [TWh]

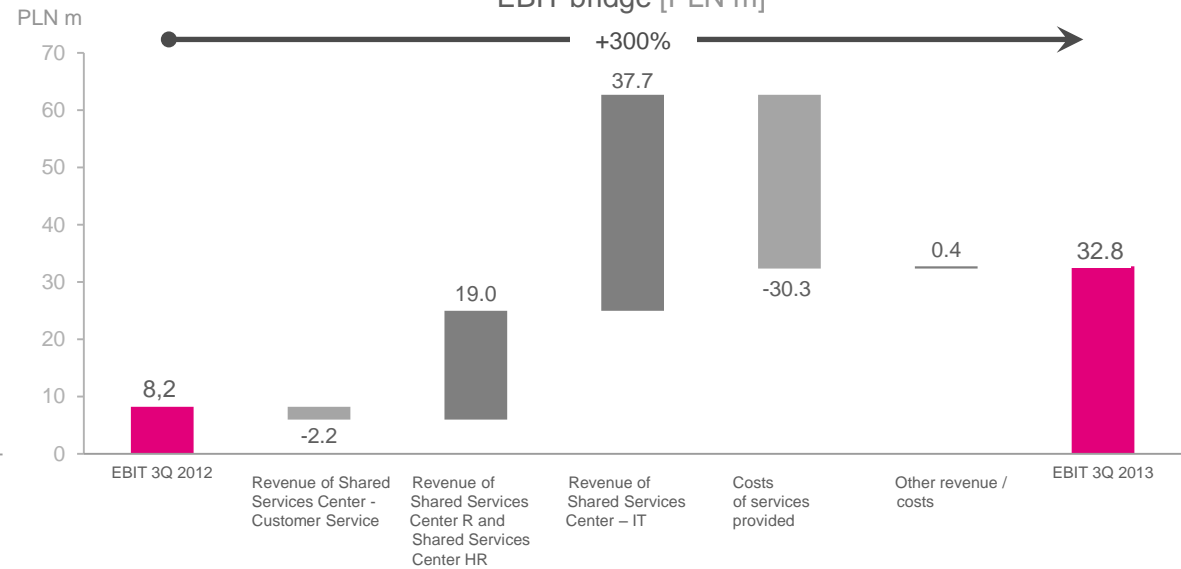


# Customer Service

Financial data [PLN m]

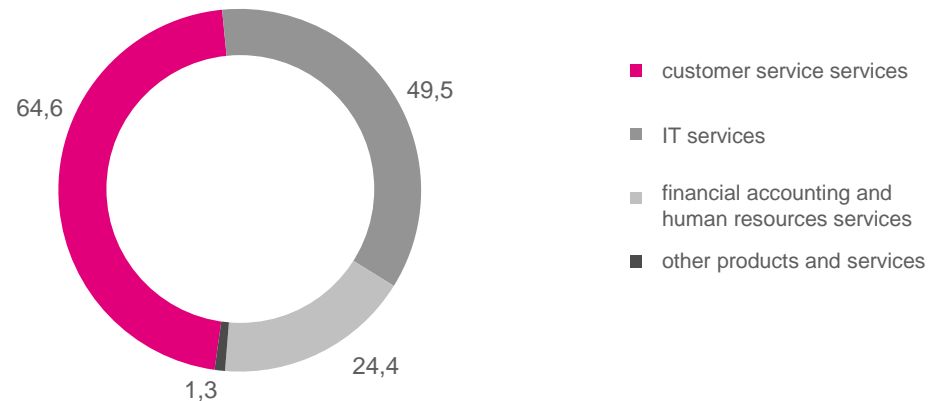


EBIT bridge [PLN m]



Sales structure in Q3 2013 [PLN m]

- increased intra-Group revenue stemming from the expansion of the range of services rendered, as a result of centralizing the support functions and migrating the resources from TAURON Group's other subsidiaries
- rising costs caused by the above factors (headcount growth by 794 persons)



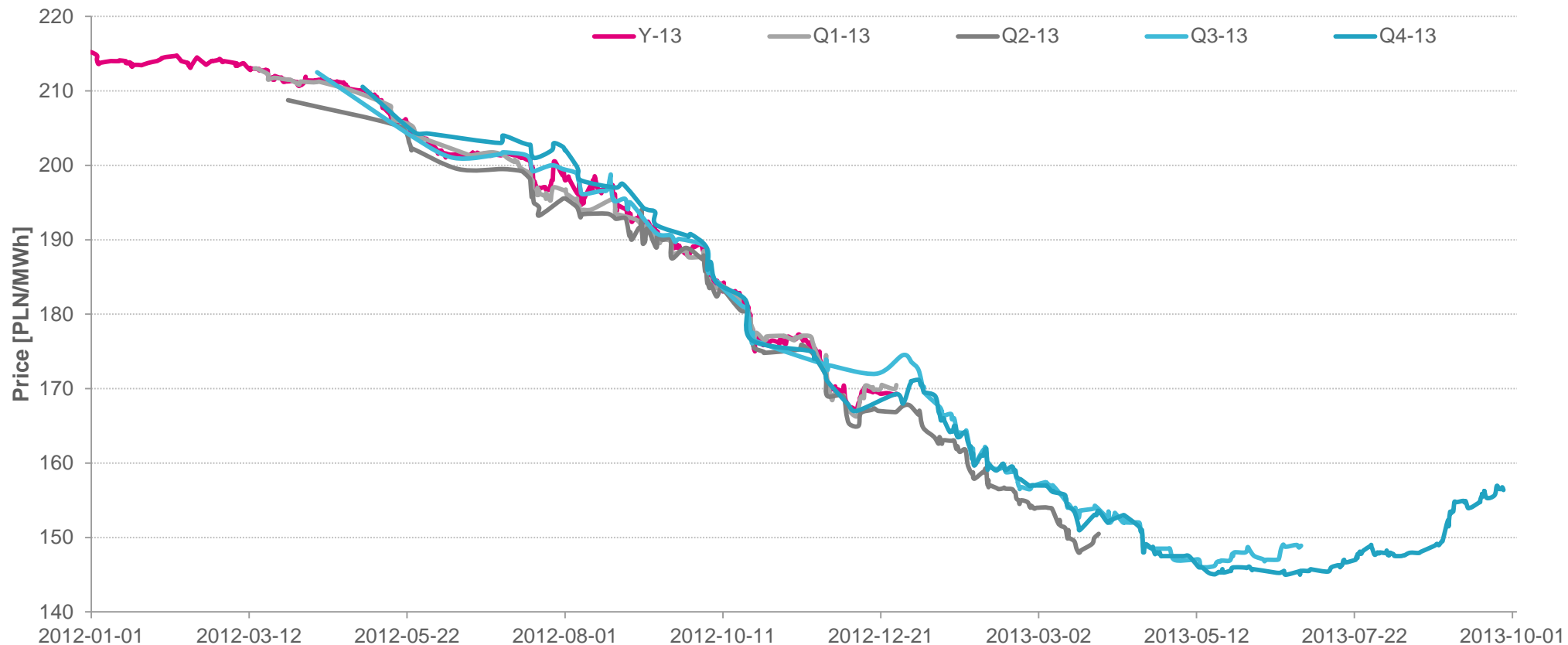
# Price trends on energy market

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2012		2013 (until July 2013)		2013/2012	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	200.08	139 358	185.15	139 623	- 7.5%	+ 0.2%
Forward PEAK (Y+Q+M)	225.56	17 161	204.53	14 742	- 9.3%	- 14.1%
Forward (weighted average)	202.88	156 519	187.01	154 365	- 7.8%	- 1.4%
SPOT (TGE+GPW-POEE)	173.58	20 388	158.00 (forecast)	20 500 (forecast)	- 9.0%	+ 0.5%
Weighted average total	199.50	176 907	<b>183.61</b>	174 865	- 8.0%	- 1.2%

CO <sub>2</sub> emission allowances (EUE/t)		Property rights (PLN/MWh)		
CO <sub>2</sub> market analysts' survey*	Price (EUR/t)	Certificate type	Market prices (average in July 2013)	Substitution fee and obligation for 2013)
Average in 2013	4.5 – 5.5 EUR/t	RES (green)	192.59	297.35 (12.0%)
Average in 2014.	6.0 – 8.0 EUR/t	Hard coal-fired cogeneration (red)	No transactions	29.84 (not announced)
Average in 2015	8.0 – 10.0 EUR/t	Gas-fired cogeneration (yellow)	Gas-fired cogeneration (yellow)	No transactions
Average EUA price in 2013 forecast by TAURON	<b>4.5 – 5.0 EUR/t</b>	Methane (violet)	<b>Methane (violet)</b>	57.99

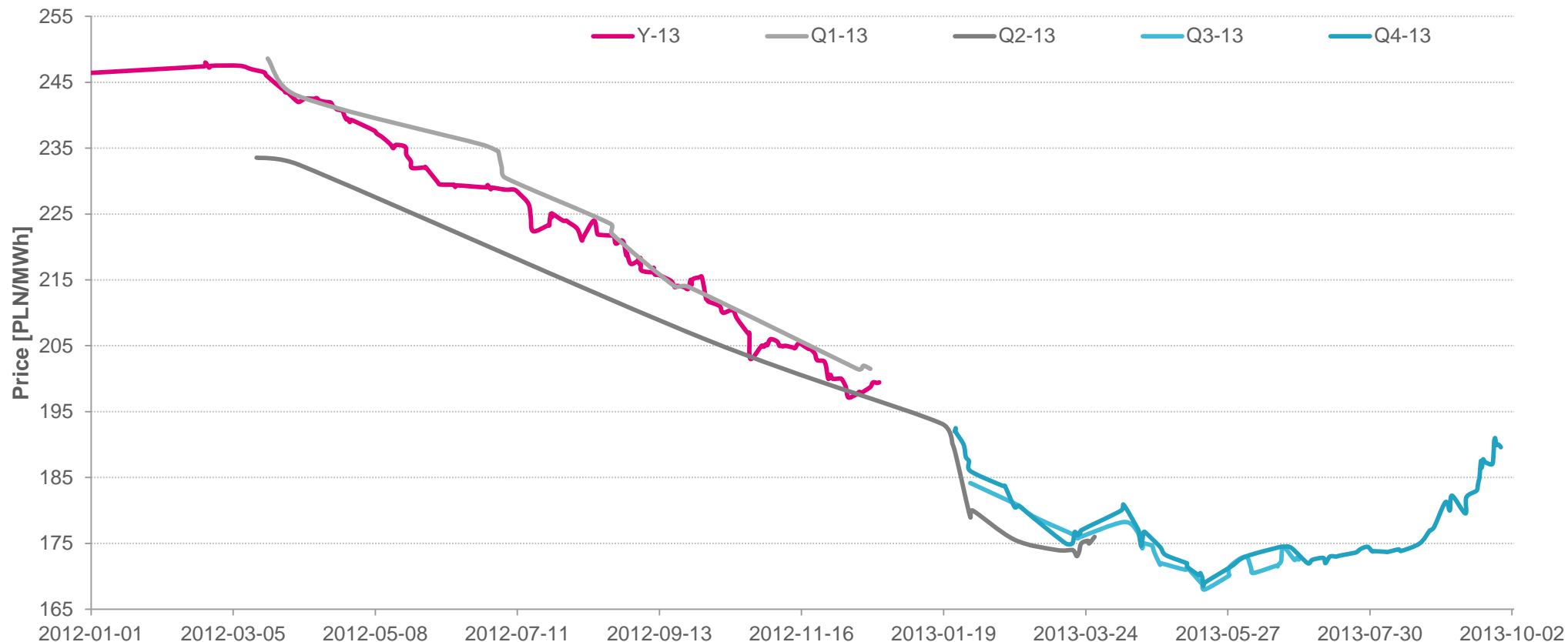
\* Sources: Deutsche Bank, Barclays Capital, Point Carbon

# BASE contracting for 2013



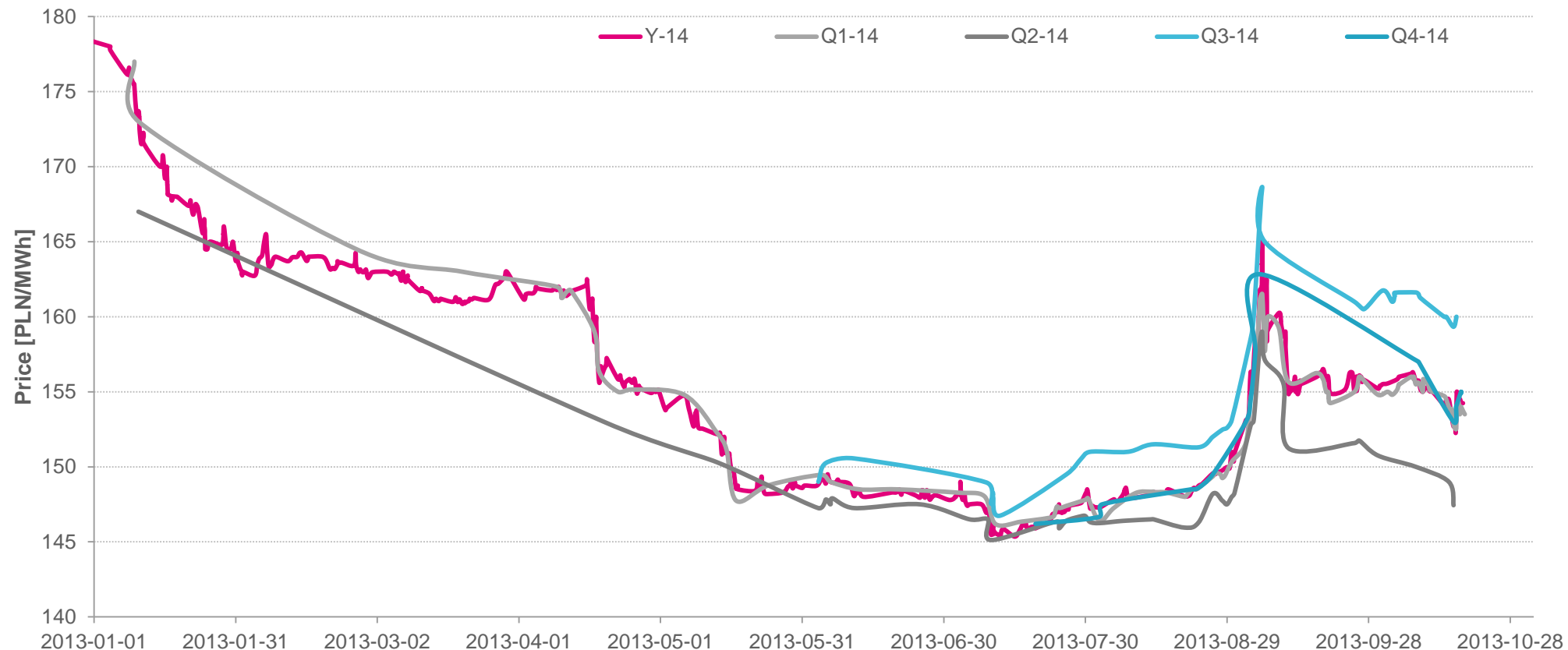
	Average price of transactions concluded [PLN/MWh]:	Volume [GWh]
Yearly	191.60	108 861
Quarterly	165.23	21 948
Monthly	155.30	8 815
<b>TOTAL</b>	<b>185.16</b>	<b>139 623</b>

# PEAK contracting for 2013



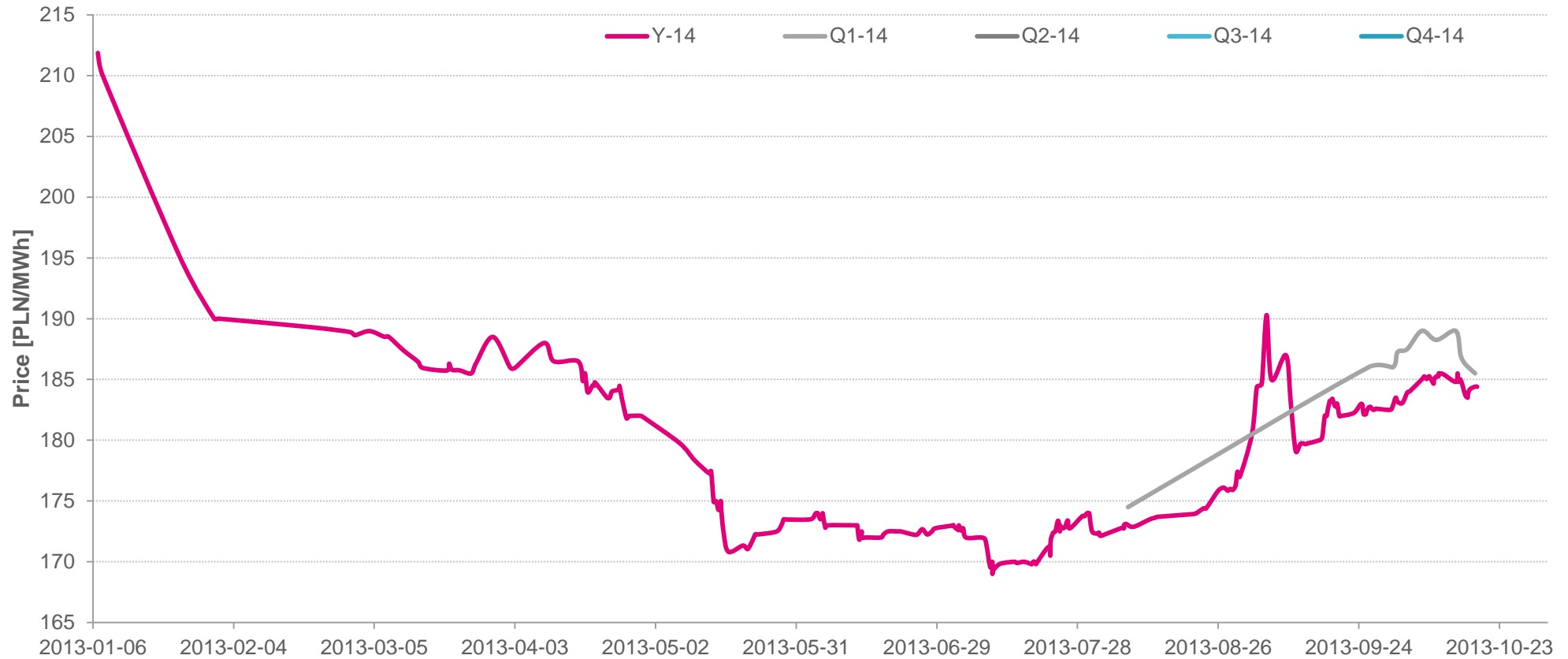
	Average price of transactions concluded [PLN/MWh]:	Volume [GWh]
Yearly	209.09	12 037
Quarterly	183.92	1 688
Monthly	184.77	1 017
<b>TOTAL</b>	<b>204.53</b>	<b>14 742</b>

# BASE contracting for 2014



	Average price of transactions concluded [PLN/MWh]:	Volume [GWh]
Yearly	161.90	121 352
Quarterly	153.17	5 401
Monthly	156.00	22
<b>TOTAL</b>	<b>161.52</b>	<b>126 776</b>

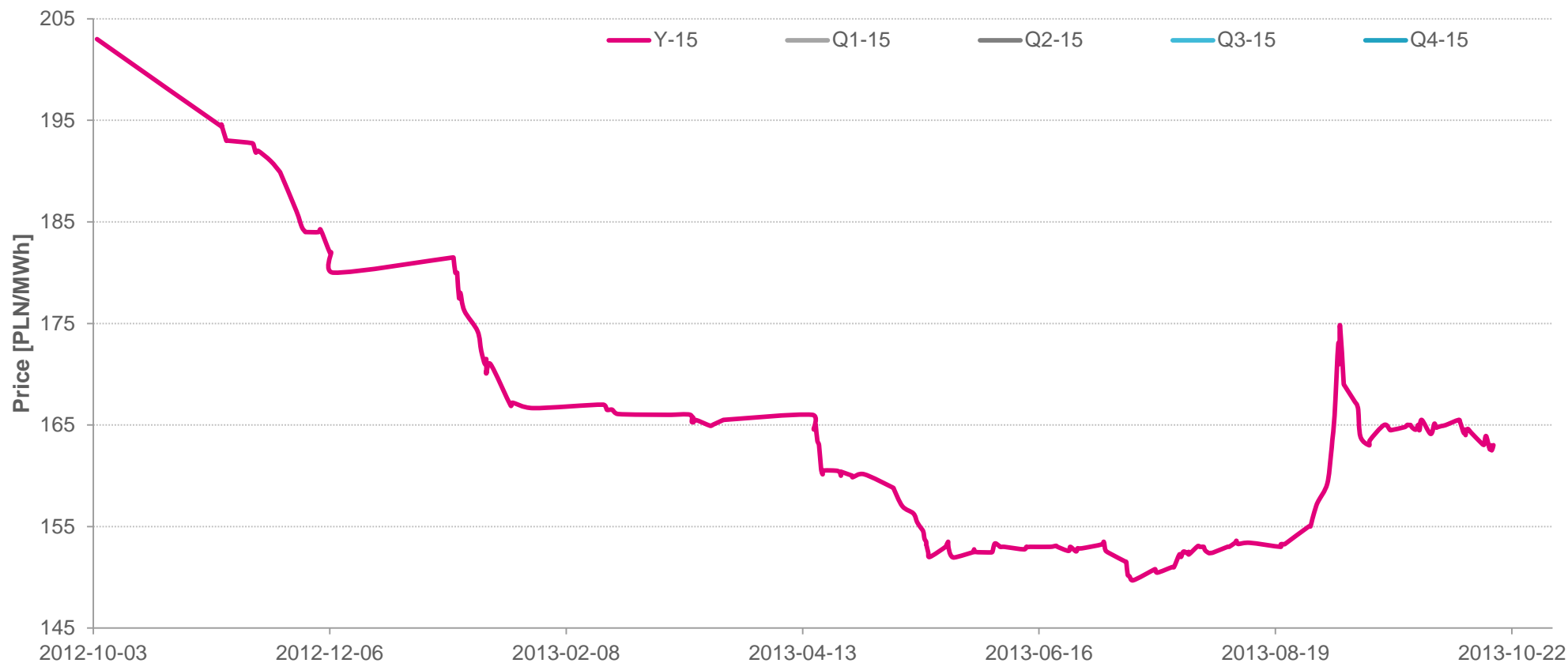
# PEAK contracting for 2014



	Average price of transactions concluded [PLN/MWh]:	Volume [GWh]
Yearly	178.78	10 902
Quarterly	185.30	106
Monthly		
<b>TOTAL</b>	<b>178.84</b>	<b>11 008</b>

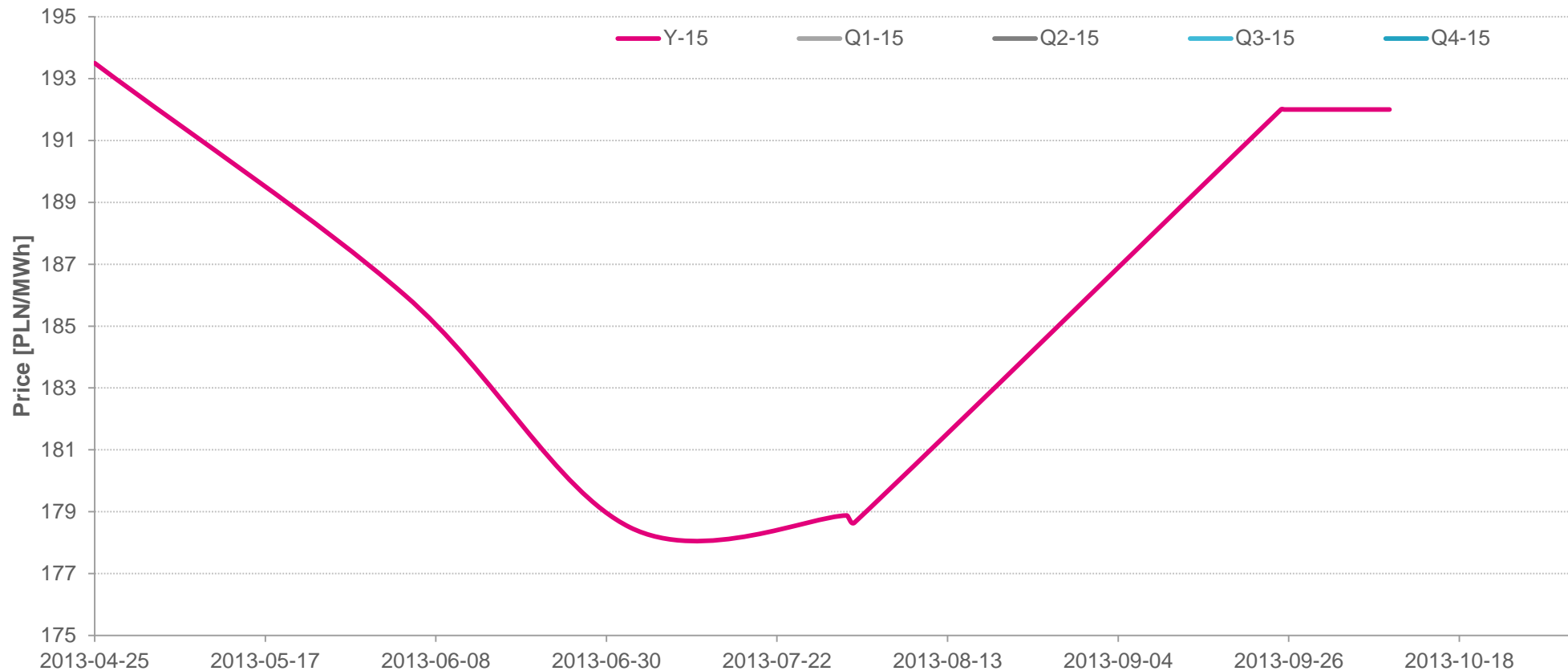


# BASE contracting for 2015



	Average price of transactions concluded [PLN/MWh]:	Volume [GWh]
Yearly	162,15	18 746
Quarterly		
Monthly		
<b>TOTAL</b>	<b>162,15</b>	<b>18 746</b>

# PEAK contracting for 2015



	Average price of transactions concluded [PLN/MWh]:	Volume [GWh]
Yearly	184.68	179
Quarterly		
Monthly		
<b>TOTAL</b>	<b>184.68</b>	<b>179</b>

# TAURON's coverage by analysts

<b>Institution</b>	<b>Analyst</b>
DB Securities	Tomasz Krukowski
Dom Inwestycyjny BRE Banku	Kamil Kliszcz
Dom Maklerski Banku Handlowego	Piotr Dzięciołowski
Dom Maklerski BZ WBK	Paweł Puchalski
Dom Maklerski PKO BP	Stanisław Ozga
Erste Group	Petr Bartek
Espirito Santo Investment Poland	Maciej Hebda
Goldman Sachs	Fred Barasi
HSBC	Dmytro Konovalov
ING Securities	Milena Olszewska

<b>Institution</b>	<b>Analyst</b>
Ipopema Securities	Piotr Zielonka
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