



TAURON Group's H1 2014 financial results

August 21, 2014

H1 2014 key financial parameters

TAURON Group's H1 2014 financial results

[PLN m]	H1 2014	
Sales revenue	9 226	(-4.9% yoy)
EBITDA	1 995	(-2.9% yoy)
Net profit*	730	(-14.0% yoy)
CAPEX	1 250	(-7.4% yoy)
Net debt/EBITDA	1.68x	(up 0.26)

Key segments' H1 2014 results

[PLN m]	Distribution	Supply	Heat	Generation	Mining
Segment's revenue	3 049	7 575	718	1 473	529
EBITDA	1 170	392	165	127	28
EBIT	700	374	92	(111)	(24)
CAPEX	841	0,8	98	126	82

* Net profit attributable to the parent company's shareholders

Q2 2014 key financial parameters

TAURON Group's Q2 2014 financial results

[PLN m]	Q2 2014	
Sales revenue	4 339	(-4.5% yoy)
EBITDA	906	(9% yoy)
Net profit*	334	(15.3% yoy)
CAPEX	685	(-15.4% yoy)
Net debt/EBITDA	1.68x	(up 0.26)

Key segments' Q2 2014 results

[PLN m]	Distribution	Supply	Heat	Generation	Mining
Segment's revenue	1 491	3 479	291	717	281
EBITDA	612	153	36	60	8
EBIT	376	145	(0.3)	(59)	(17)
CAPEX	462	0,7	59	81	38

* Net profit attributable to the parent company's shareholders

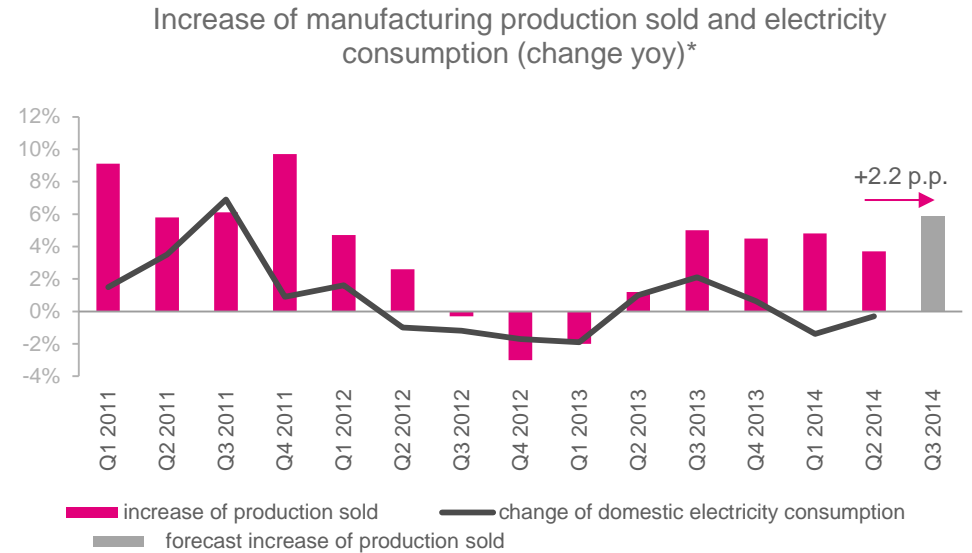
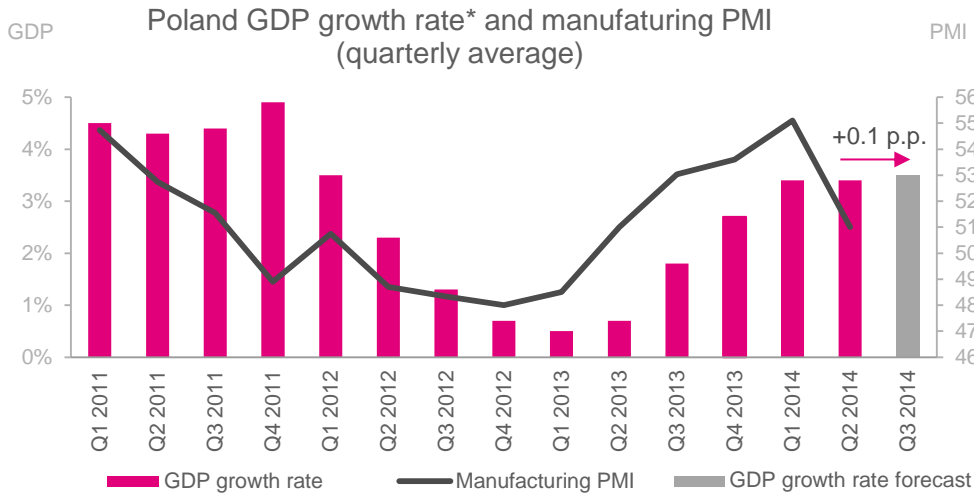
TAURON

Date	Event
May 15	GM's decision on allocating approx. PLN 333m from 2013 net profit to pay out as dividend to the shareholders (PLN 0.19 per share)
June 2	Publishing of "TAURON Group's Corporate Strategy for 2014-2017 with an outlook until 2023"
July 18	TAURON Polska Energia's rating affirmed by Fitch
July 22	Signature of a PLN 295m loan agreement with the European Investment Bank on investments in renewable energy sources and distribution
August 11	Signature of the TAMEH Holding joint venture's shareholders agreement with ArcelorMittal – a company set up to carry out operational and investment tasks in industrial power generation area

MARKET

Date	Event
May 1	Reinstatement of the support mechanism for cogeneration (red and yellow certificates). The support was extended until 2018
July 8	Submission to the Polish Parliament (Sejm) of the government's draft law on renewable energy sources (RES) that envisages, among others, an introduction of the auction based RES support mechanism
August 4	Signature by the President of the Republic of Poland of the amended Environment Protection Law aimed at reducing pollution emissions by industrial plants. The amendment shall implement the EU directive (IED) on reducing industrial emissions into the Polish regulations

Macroeconomic and market situation

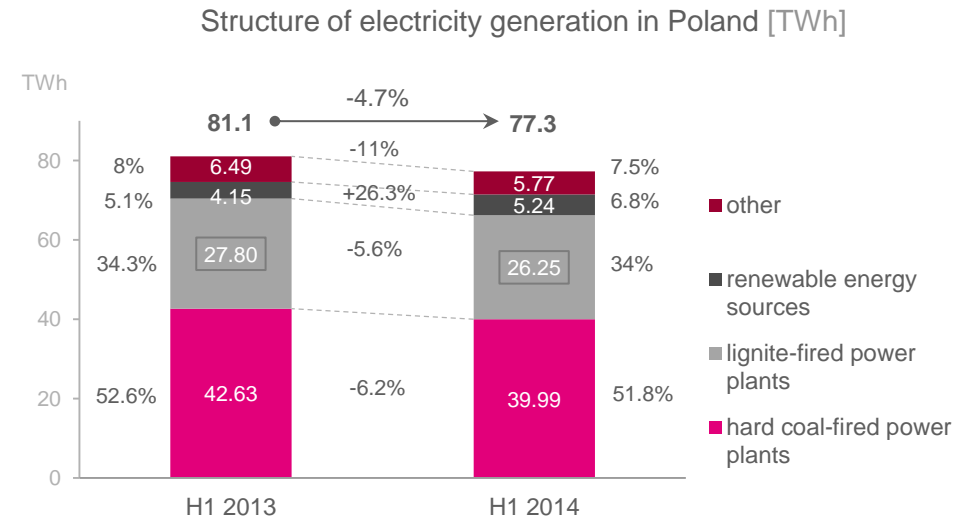


Yearly BASE contract prices on the Polish Power Exchange (TGE)

	Average price [PLN/MWh]	Volume [GWh]
Y-13	182.75	184 615
Y-14	163.49	214 584
Y-15	168.13	102 524
Y-16	172.84	13 005

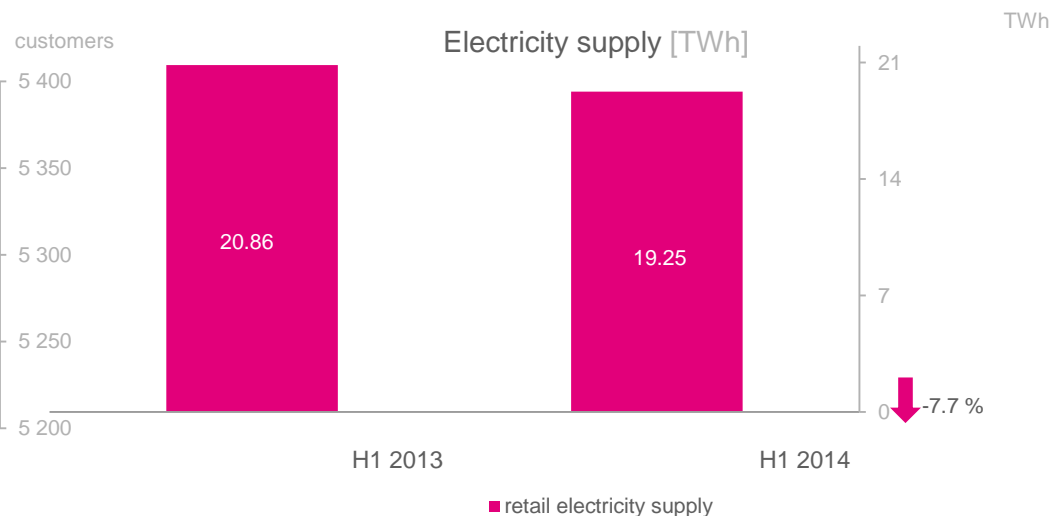
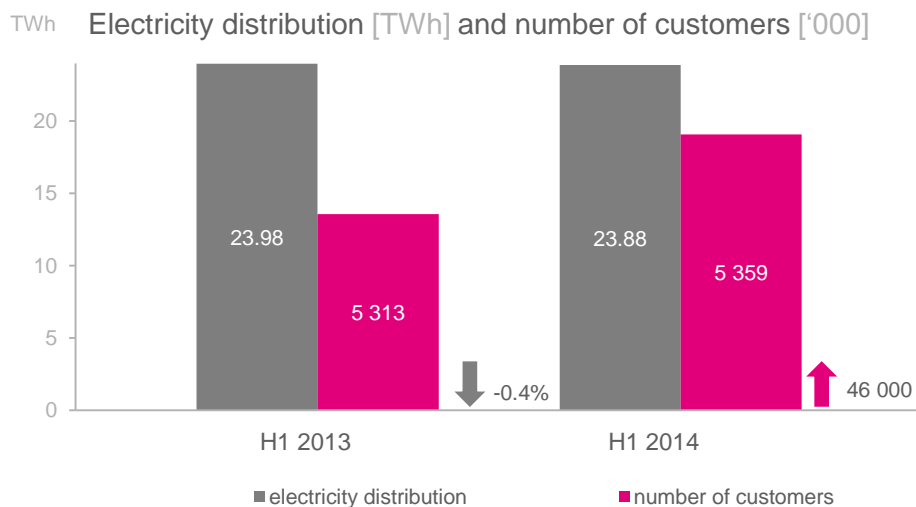
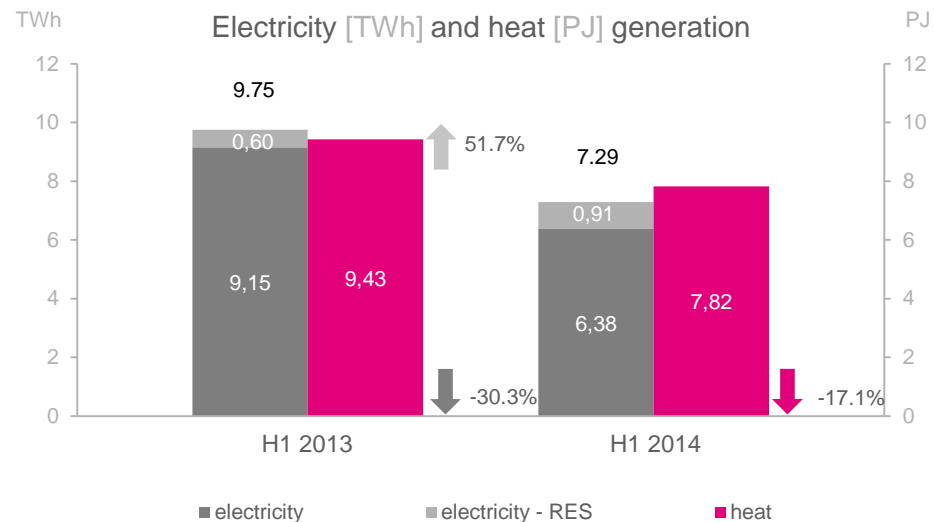
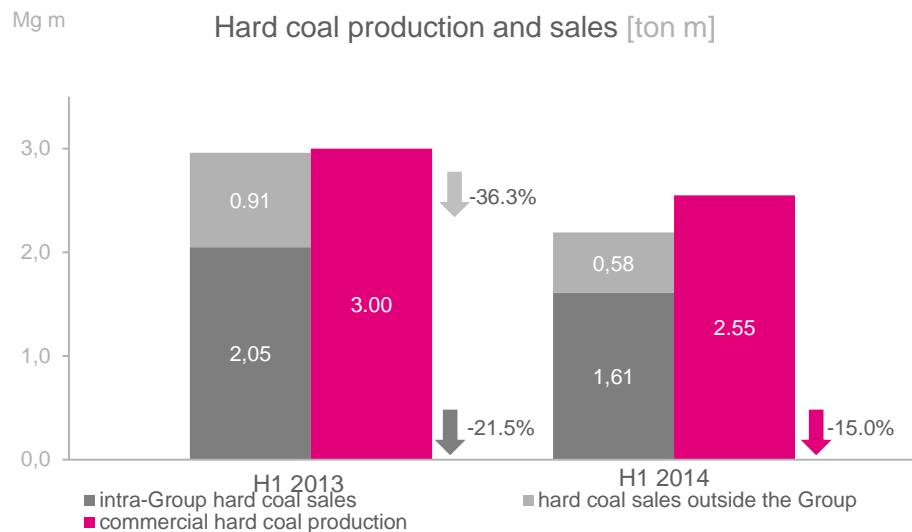
Average electricity sales prices on the competitive market (acc. to ERO):

- 2011: PLN 198.30/MWh
- 2012: PLN 201.36/MWh
- 2013: PLN 181.55/MWh

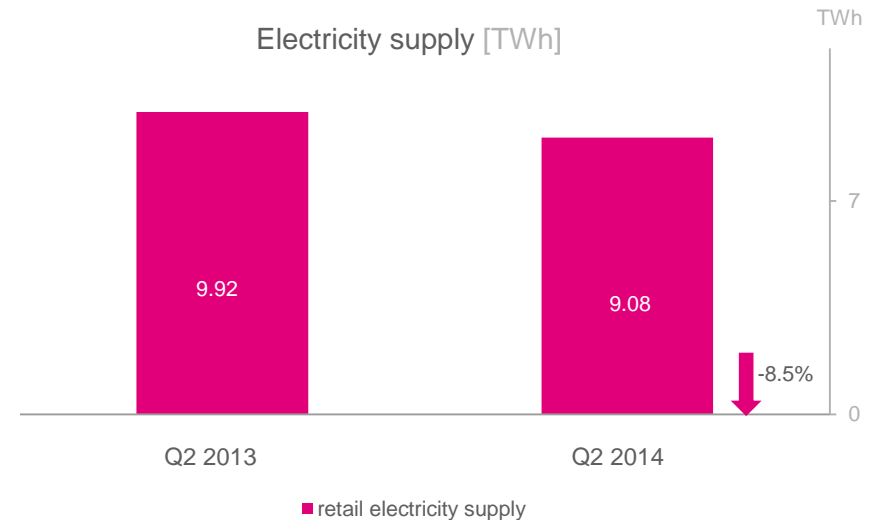
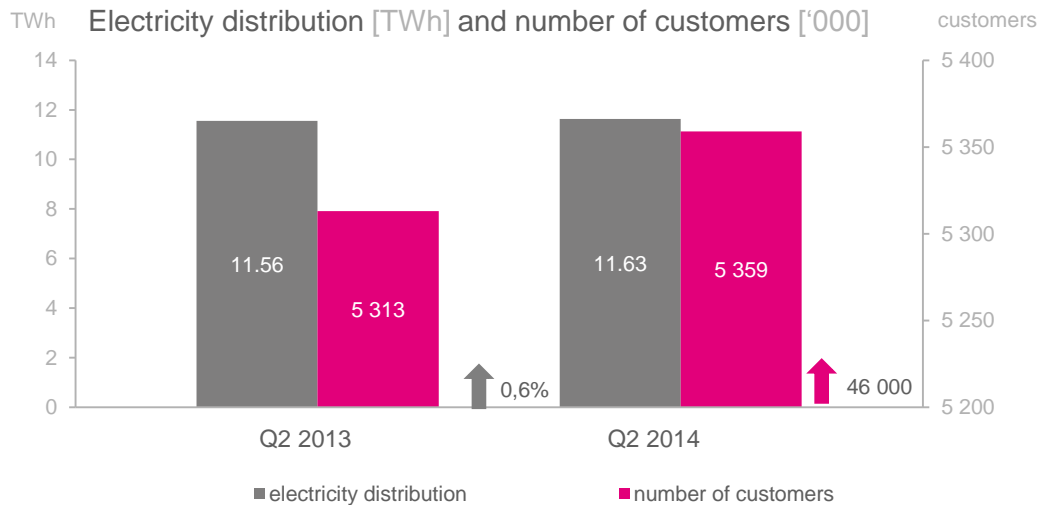
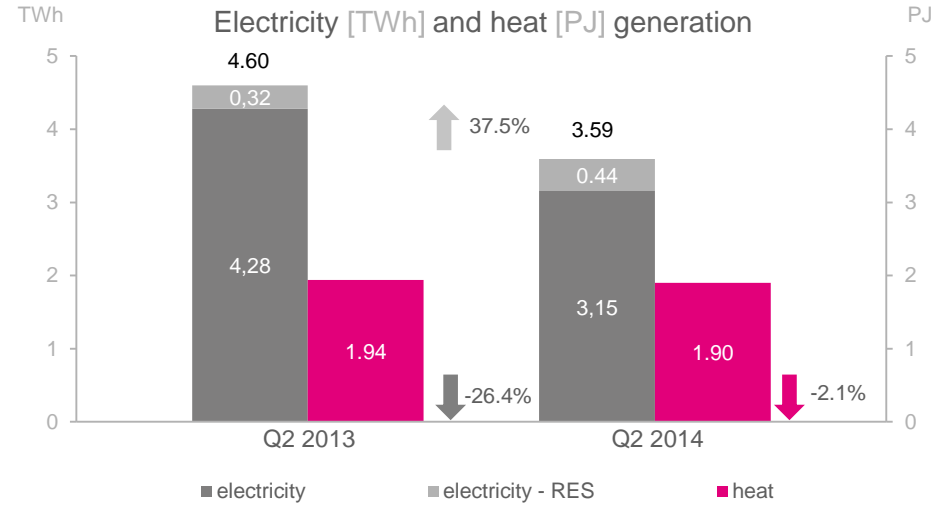
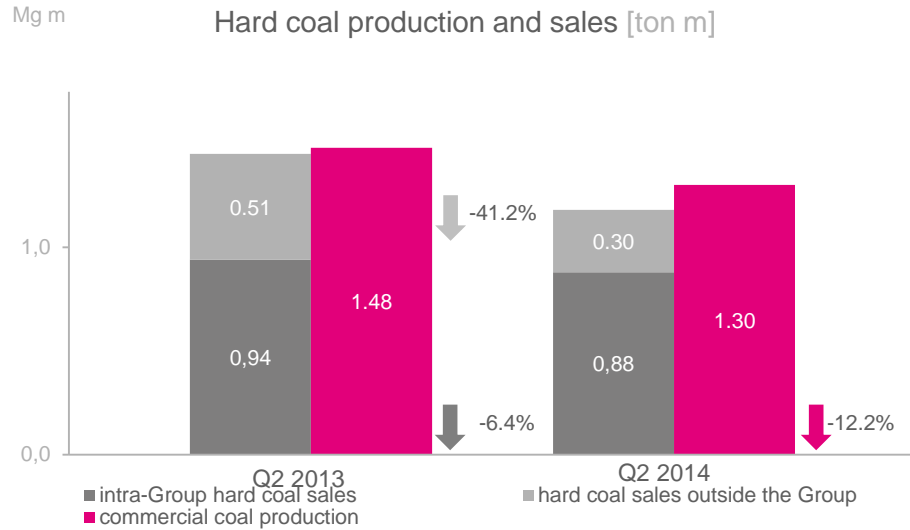


* Source: GUS, IBnGR (forecasts), PSE (TSO)

H1 2014 key operating data

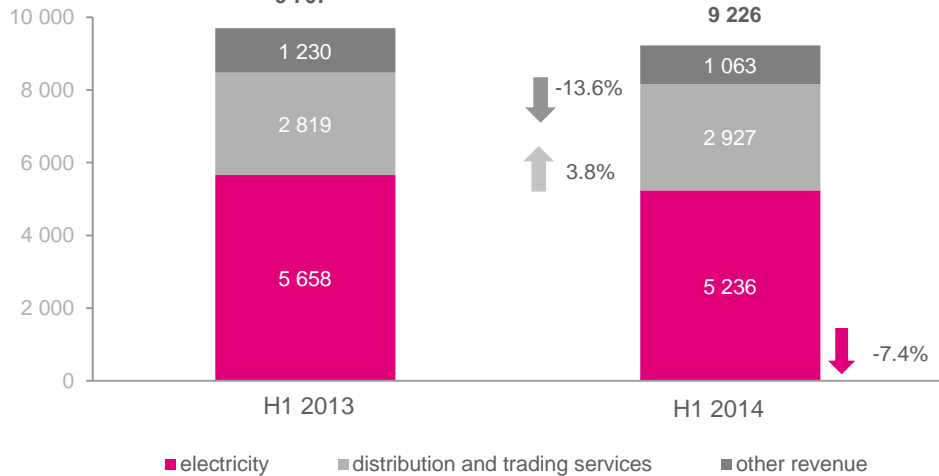


H1 2014 key operating data

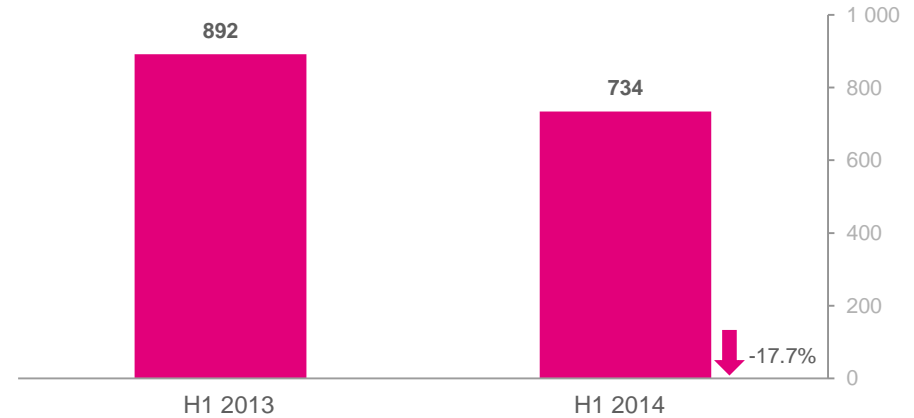


H1 2014 key financial data

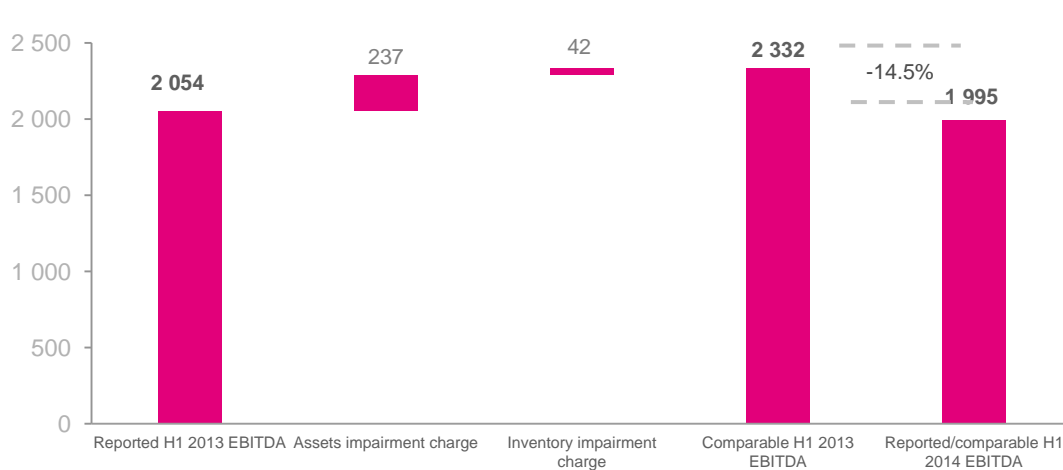
Sales revenue [PLN m]



Net profit [PLN m]

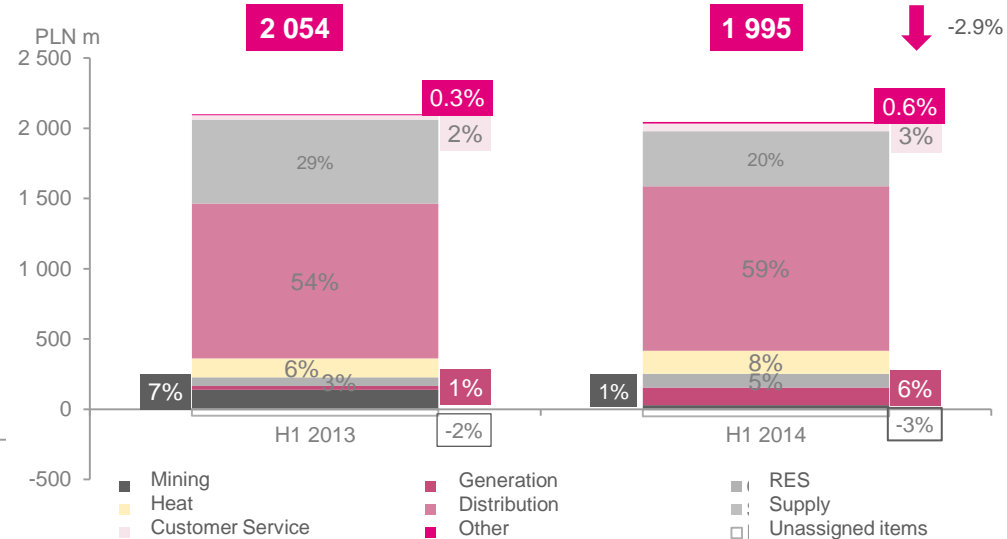


H1 2013 vs H1 2014 EBITDA [PLN m]



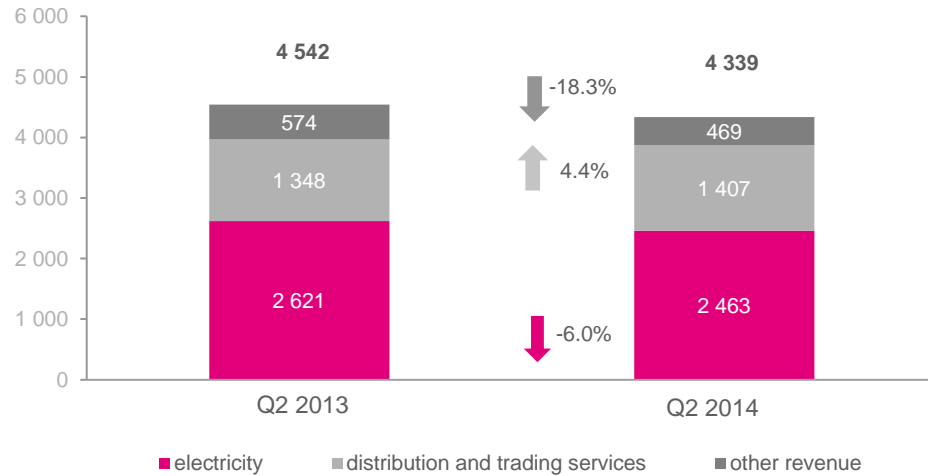
No one-off events occurred in H1 2014

H1 2014 EBITDA structure

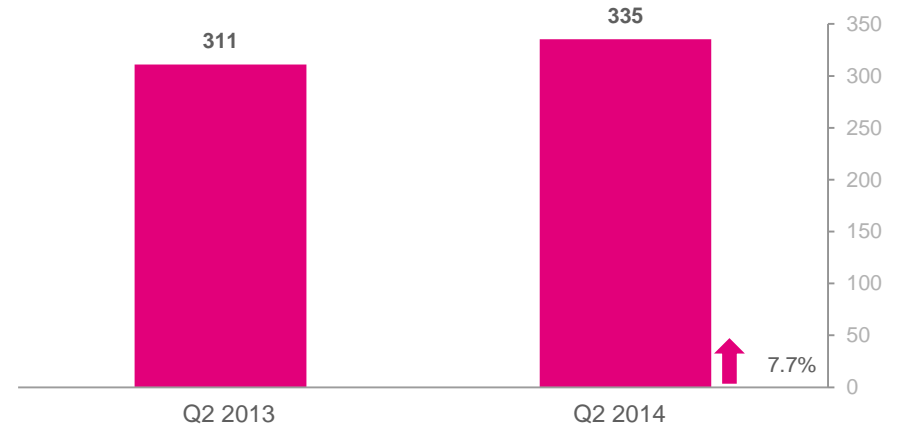


Q2 2014 key financial data

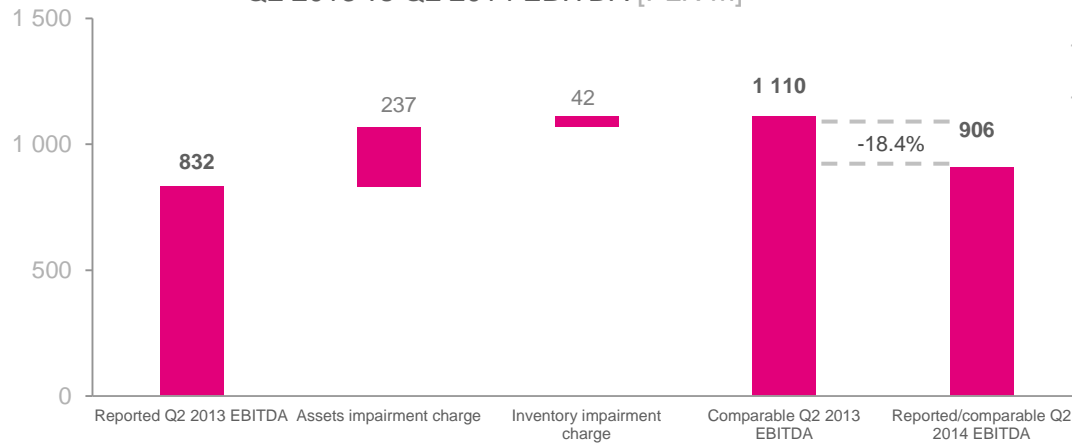
Sales revenue [PLN m]



Net profit [PLN m]

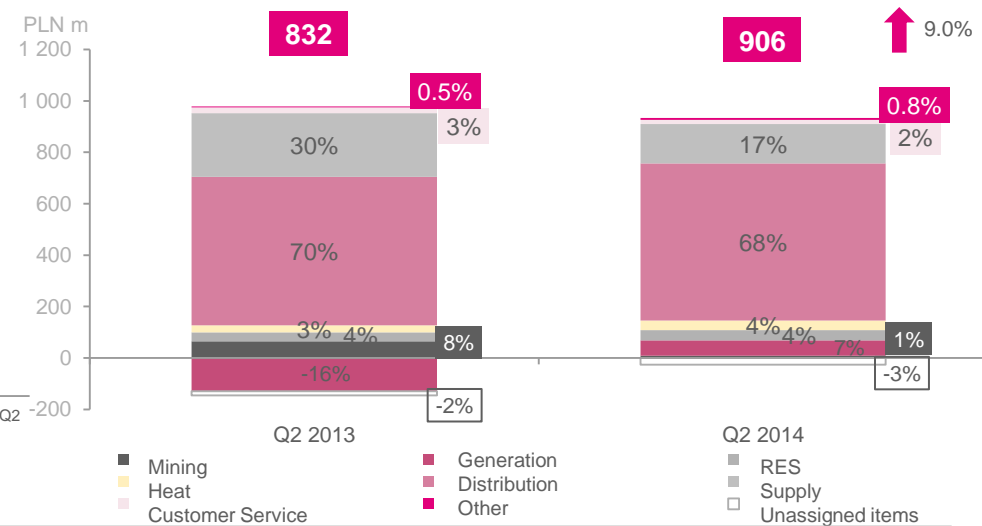


Q2 2013 vs Q2 2014 EBITDA [PLN m]

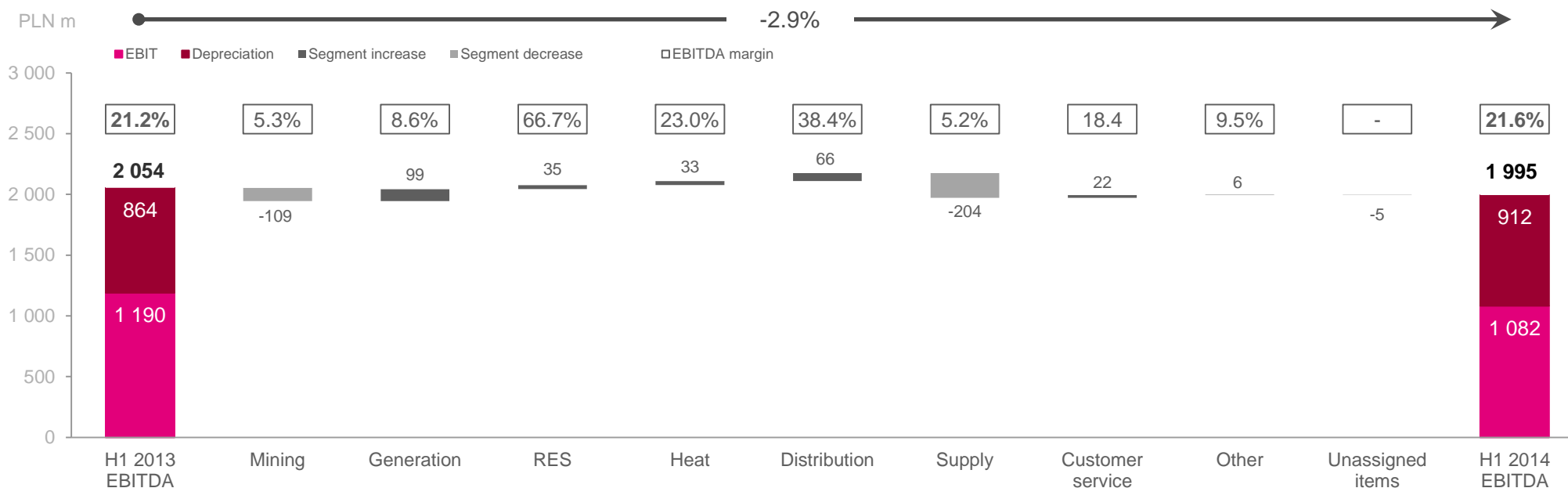


No one-off events occurred in Q2 2014

Q2 2014 EBITDA structure



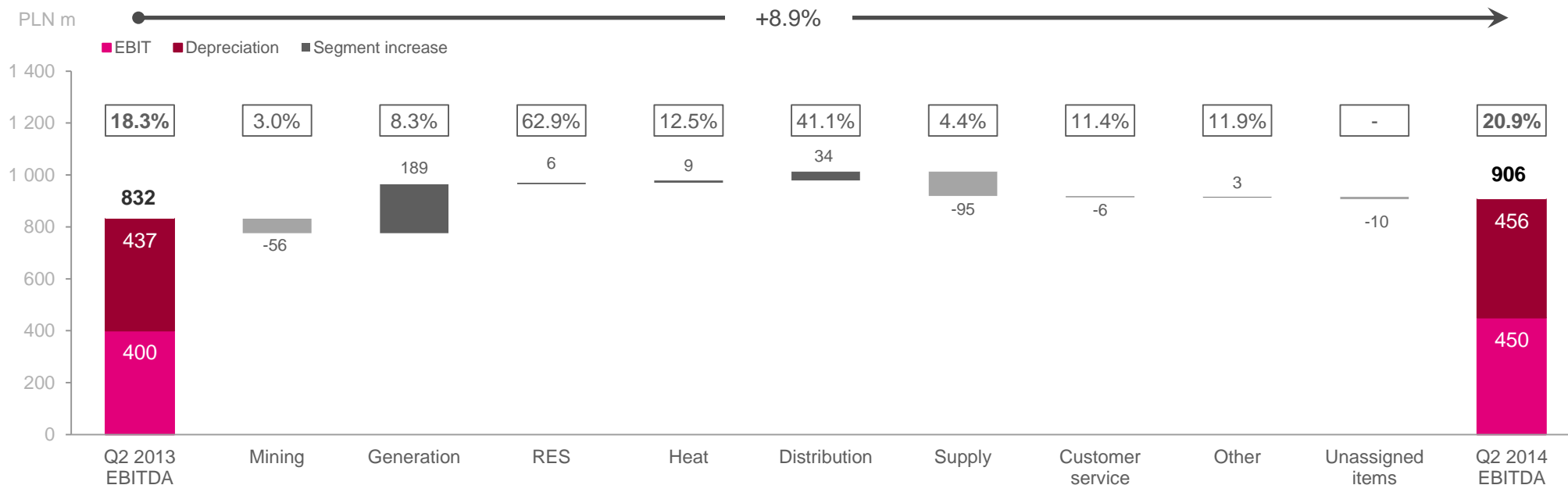
H1 2014 EBITDA



Most important factors affecting H1 2014 EBITDA:

- Mining – lower thermal coal sales price and volume along with the declining own cost of hard coal sold
- Generation – lower electricity wholesale market prices, lower electricity and heat sales volumes, lower CO₂ provision costs, lower unit variable cost (lower fuel prices), higher revenue from RUS (Regulatory System Services) and operational reserve, assets impairment charge in H1 2013
- Distribution – lower balancing differences factor and lower cost of purchasing electricity to cover the balancing difference, higher price and volume of the distribution service sales
- RES – higher volumes of sales of electricity and property rights from wind farms' generation
- Heat – higher margin on certificates, red and yellow property rights' impairment charge in H1 2013
- Supply – lower volume and lower retail electricity sales price, higher redemption obligation and prices of green, violet and white property rights, reinstatement of the obligation to redeem red and yellow certificates; positive impact of the lower wholesale electricity purchase price

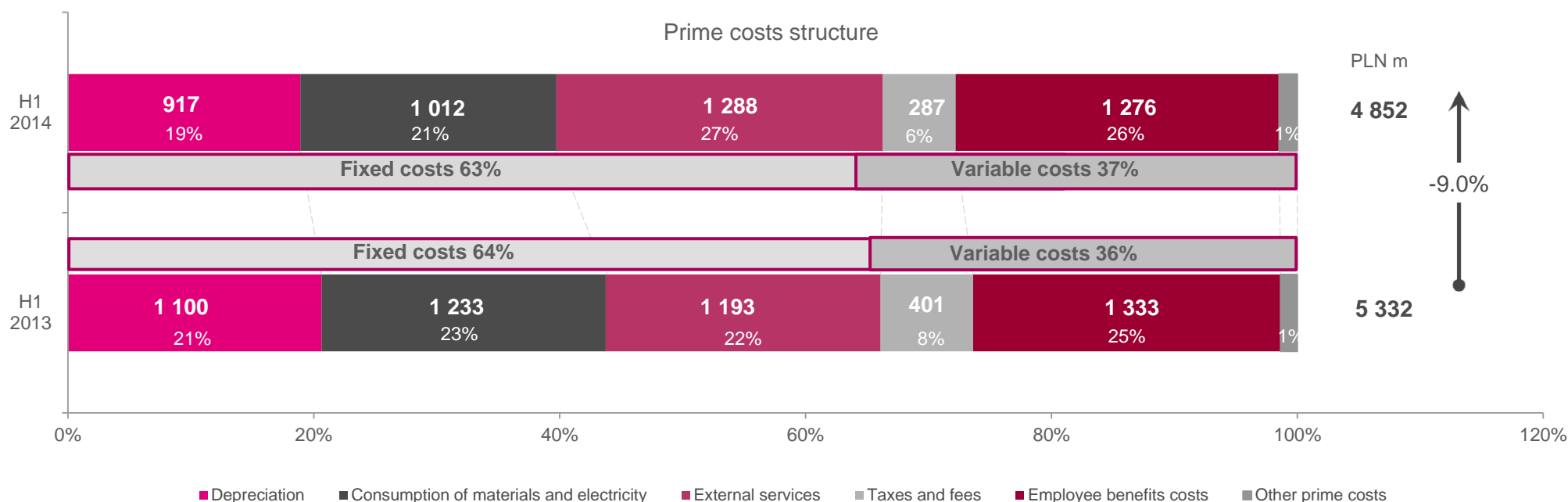
Q2 2014 EBITDA



Most important factors affecting Q2 2014 EBITDA:

- Generation – lower electricity wholesale market prices, lower electricity and heat sales volumes, lower CO₂ provision costs, higher revenue from RUS (Regulatory System Services) and operational reserve, assets impairment charge in Q2 2013
- Distribution – lower cost of purchasing electricity to cover the balancing difference, higher price and volume of the distribution service sales
- Supply – lower volume and lower retail electricity sales price, higher redemption obligation and prices of green and violet property rights, reinstatement, as of May this year, of the obligation to redeem red and yellow certificates
- Mining – declining hard coal market prices, lower hard coal sales volume

H1 2014 prime costs structure



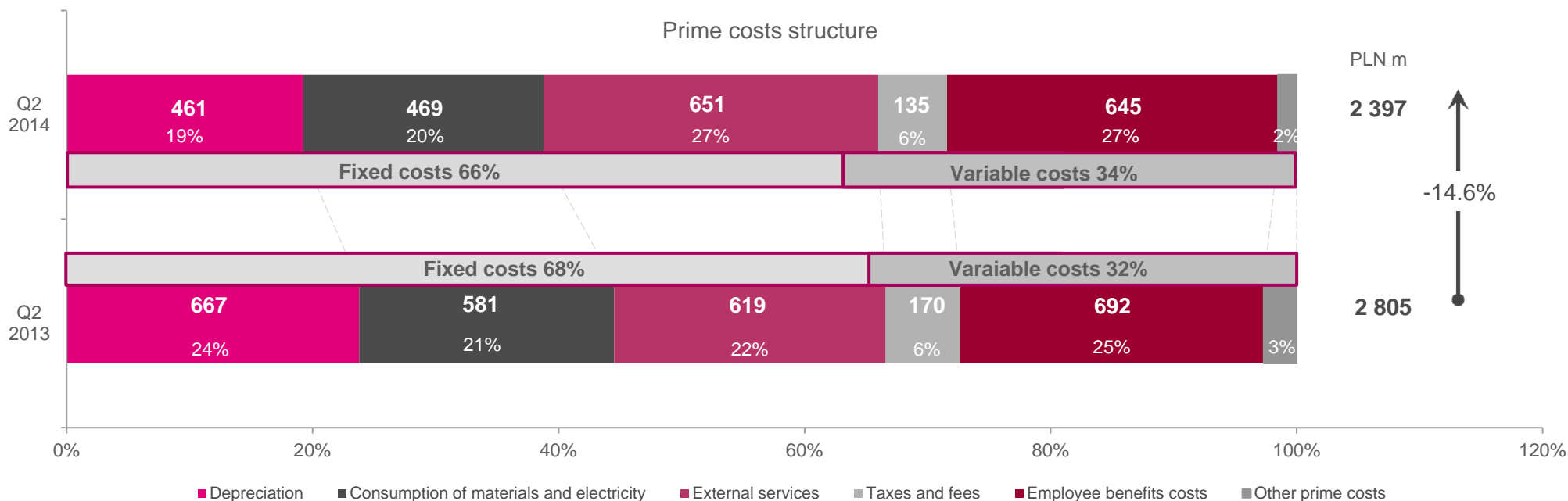
Declining costs in Q1 2014 are mainly due to:

- consumption of materials (lower fuel costs)
- depreciation along with impairment charges
- employee benefit costs – mainly the result of the Voluntary Redundancy Programs implemented and the lower headcount
- taxes and fees

Cost structure:

- H1 2014: variable costs (excluding the value of goods and materials sold) approx.37%, fixed costs approx. 63%
- H1 2013: variable costs (excluding the value of goods and materials sold) approx.36%, fixed costs approx. 64%

Q2 2014 prime costs structure



Declining costs in Q2 2014 are mainly due to:

- depreciation including impairment charges
- consumption of materials (lower fuel costs)
- employee benefit costs – mainly the result of the Voluntary Redundancy Programs implemented and the lower headcount
- taxes and fees

Cost structure:

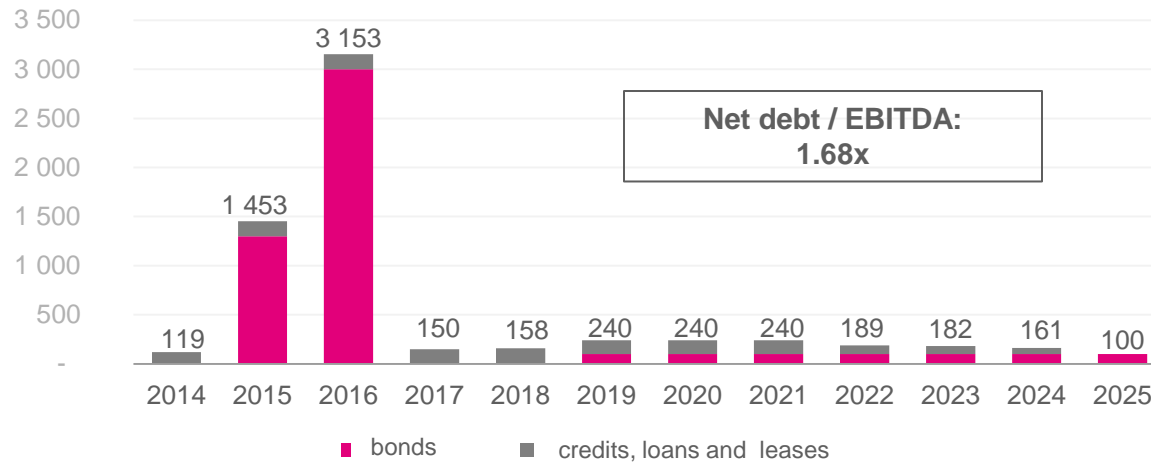
- Q2 2014: variable costs (excluding the value of goods and materials sold) approx.34%, fixed costs approx. 66%
- Q2 2013: variable costs (excluding the value of goods and materials sold) approx.32%, fixed costs approx. 68%

Change of the structure caused by:

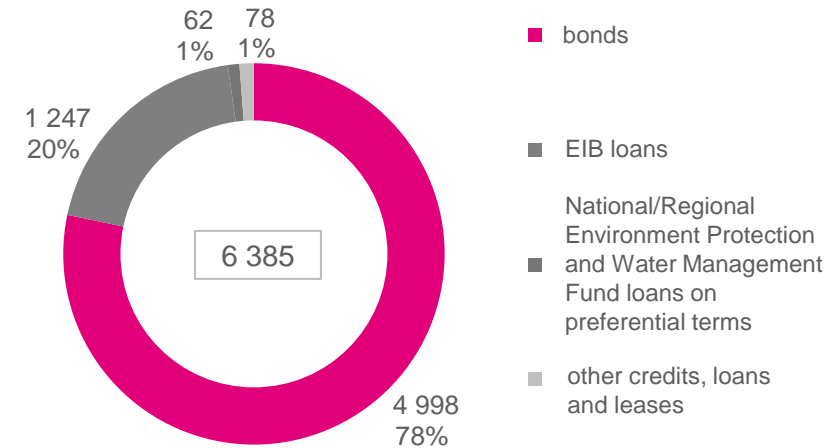
lower costs of fuel used by the Generation and Heat subsidiaries,
lower costs of purchasing electricity for trading by the Supply subsidiaries

Debt and financing

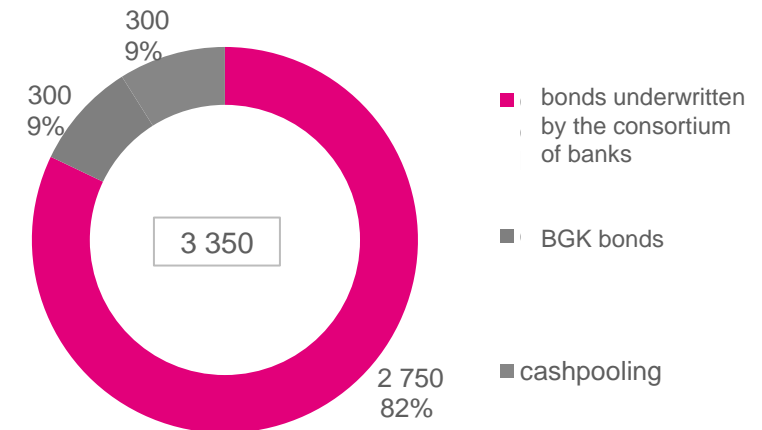
TAURON Group's debt maturity [PLN m]



Structure of TAURON Group's debt [PLN m]



Financing available to TAURON [PLN m]



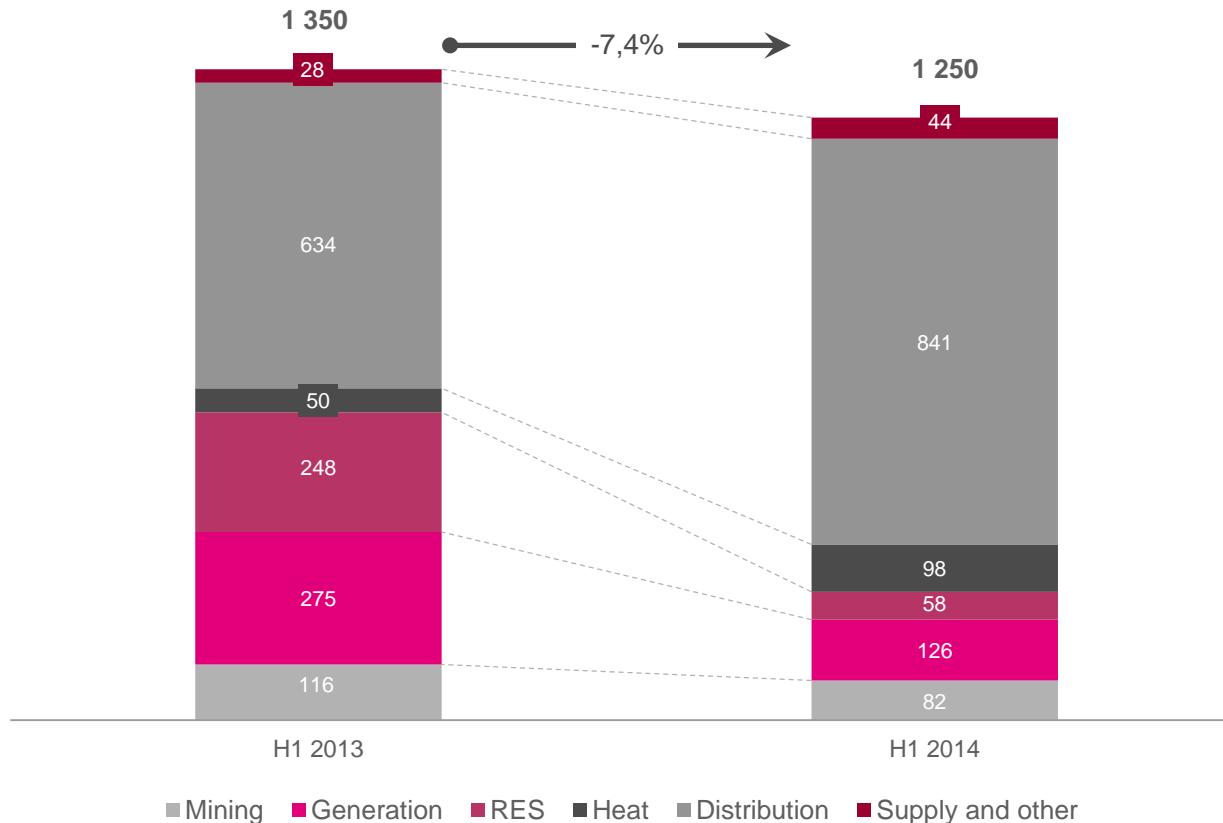
- financial debt (debt due to investment loans, credits, leases and bonds) as of June 30, 2014: PLN 6 385m
- average weighted debt maturity as of June 30, 2014:
 - including BGK bonds – 46 months
- EUR debt constitutes 0.07% of the total debt
- structure of debt by interest rate:
 - 20% – fixed interest rate, i.e. PLN 1,247m
 - 80% – floating interest rate, i.e. PLN 5,138m, including:
 - unsecured amount – PLN 1,698m
 - secured amount – PLN 3,440m
- Additionally, on July 22 this year, signature of a PLN 295m loan agreement with EIB on investments in renewable energy sources and distribution

CAPEX – key projects' work progress

Investment project	Capacity (MW _e)	Capacity (MW _t)	Project status	Work progress	Planned completion date
Construction of the hard coal-fired unit at Jaworzno III Power Plant	910	-	Works underway on the unit's basic design. Services with respect to the construction of the unit's auxiliary systems and installations are being contracted. Contract's engineer selected - Energopomiar Gliwice	6%	2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant	450	240	Construction and installation works as well as deliveries of components for technological systems within the basic unit, power take off points, fuel installations, the unit's auxiliary systems continued	59%	2015
Construction of the hard coal-fired co-generation unit at ZW Tychy	50	86	Boiler's steel structure's installation completed, boiler drum's water tests conducted. General contractor is carrying out successive stages of the works	16%	2016
Construction of the TG 50 ZW Nowa turbogenerator	50	-	Turbine's delivery completed. Turbine set's foundation accepted. Construction works underway. Project carried out in line with the schedule	45%	2015
Jaworzno III Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	Project carried out in line with the schedule. Upgrade works completed on four of the six units. Works on the other two units (units no. 1,5) will be carried out in 2014-15	55%	2016
Łaziska Power Plant – – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	Upgrade of the last one (no. 9) of the four units commenced. Units will comply with the requirements with respect to the values of permitted NOx emissions past 2018 (200 mg/Nm ³)	81%	2015
Construction of the CCGT unit at Łagisza Power Plant	413	266	Project's investment advisor selected. Procedures required to obtain the construction permit and select the contract's engineer commenced	1%	2018
Construction of new RES capacity at Stalowa Wola Power Plant (biomass)	55	-	Following the cancellation of the proceeding on selecting the contractor to construct new RES capacity due to the value of the submitted bids the evaluation and analyses of the project's business case are underway	3%	2015
Construction of the 800m level at Janina coal mine	-	-	Janina VI shaft deepening underway, Hard Coal Mechanical Processing Unit's upgrade accepted	9%	2019
Construction of Grzegorz shaft at Sobieski coal mine	-	-	Basic design accepted, construction site access road completed, drilling of the test exploration borehole continued	12%	2022

CAPEX – by segment

CAPEX by segment [PLN m]



Main investment projects completed in H1 2014:

- Distribution – construction of new connections (PLN 214m) and upgrade and restoration of grid assets (PLN 544m)
- RES – construction of the Marszewo wind farm’s 2nd stage (PLN 20m), upgrade of hydroelectric power plants (PLN 34m)
- Generation – construction of the NOx emission reduction system (PLN 73m)
- Heat – construction and upgrades of the heat transmission pipeline networks (PLN 34m) and restoration of ZW Tychy’s capacity (PLN 30m)
- Mining – construction of the 800 m level and launch of the fourth coal face at the Janina coal mine (PLN 36m)

* CAPEX does not include PLN 310m spent to purchase TAURON Mining shares

OPEX reduction program

Segment	Savings realized In 2013 and in Q1-Q2 2014	Savings planned in 2013-2015	Progress %	Main initiatives
Distribution	PLN 213m	PLN 416m	51%	<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
Generation (including RES)	PLN 238m	PLN 387m	61%	<ul style="list-style-type: none"> ▪ Employment restructuring and process optimization ▪ 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
Heat	PLN 29m	PLN 33m	88%	<ul style="list-style-type: none"> ▪ Employment restructuring ▪ Compressed air losses reduction ▪ Asset restructuring ▪ External services' costs optimization ▪ Procurement policy optimization
Mining	PLN 20m	PLN 28m	73%	<ul style="list-style-type: none"> ▪ Nitrogen production system construction ▪ 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 22m			<ul style="list-style-type: none"> ▪ Employment restructuring, reduction of external services' costs
Total	PLN 522m	PLN 864m	60%	

- In 2013 and H1 2014 the voluntary redundancy program covered 522 persons. Over that period employment contracts were terminated with 994 persons (3 488 persons in total since the program's launch 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 2013 and H1 2014: 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.

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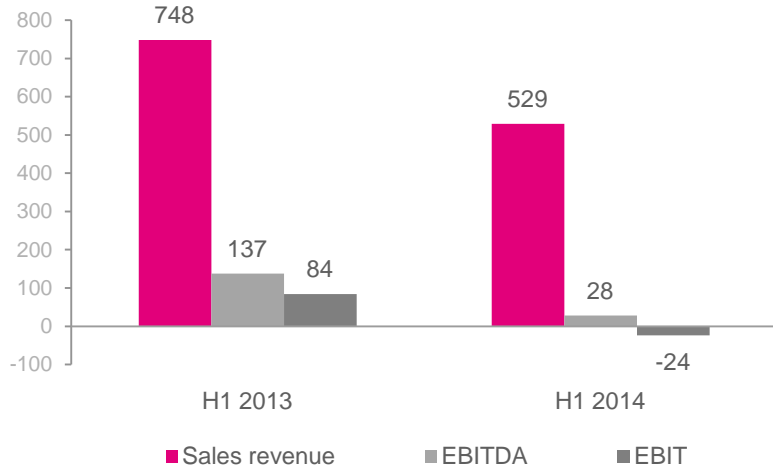
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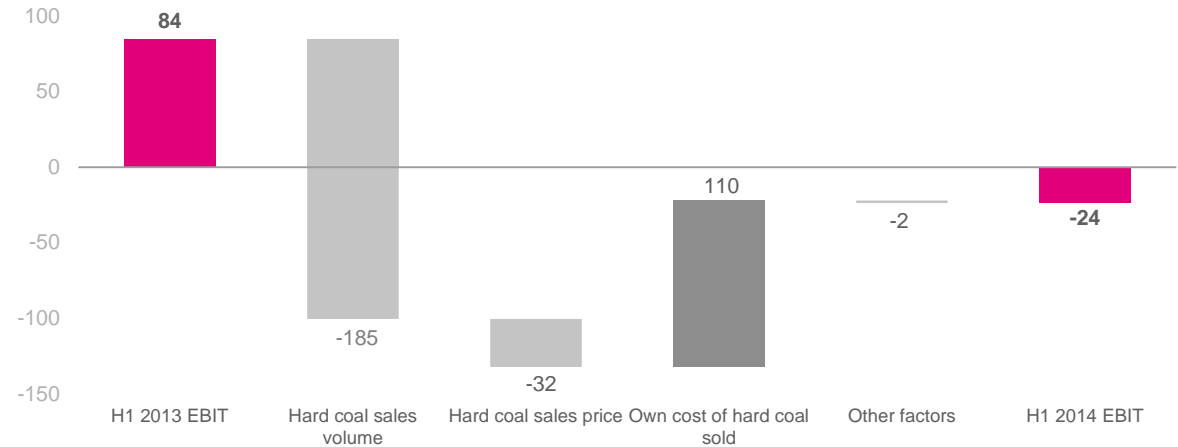
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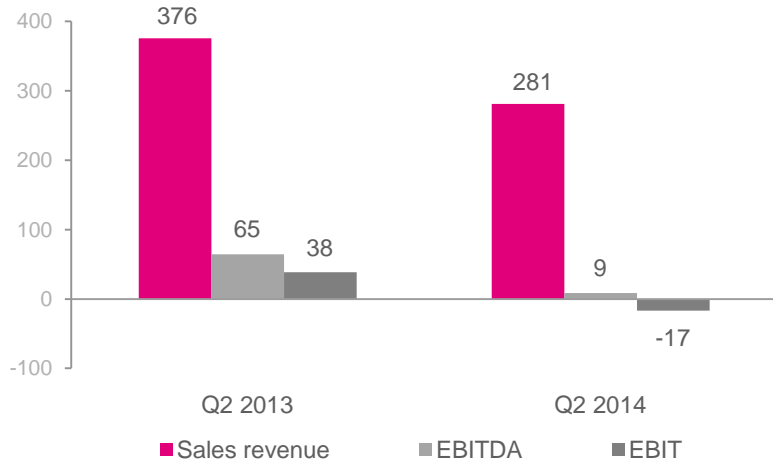
H1 2014 financial data [PLN m]



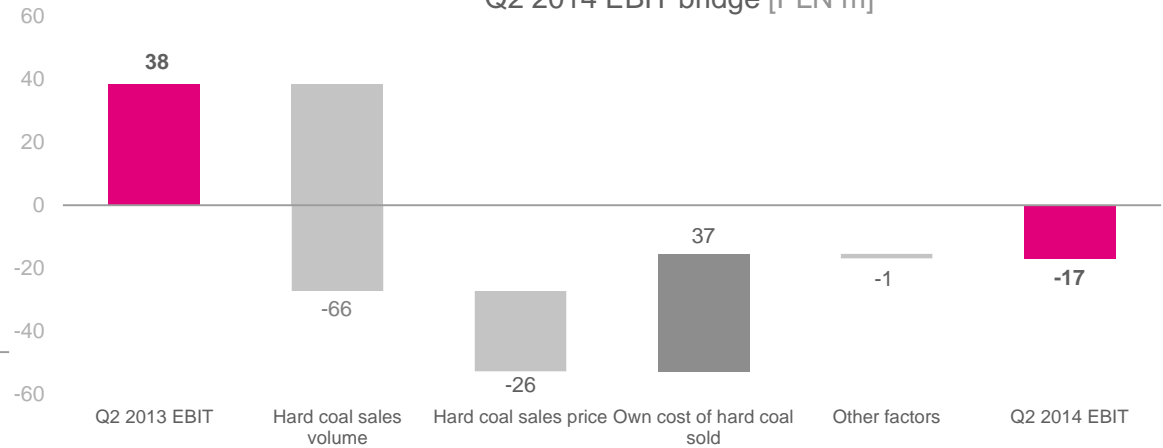
H1 2014 EBIT bridge [PLN m]



Q2 2014 financial data [PLN m]

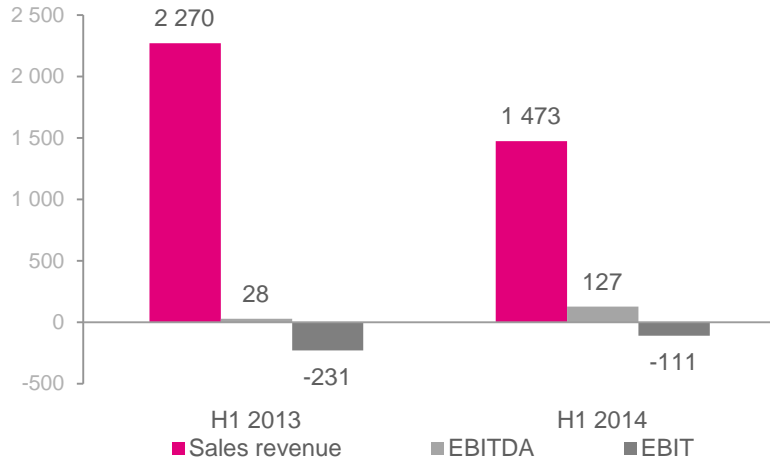


Q2 2014 EBIT bridge [PLN m]

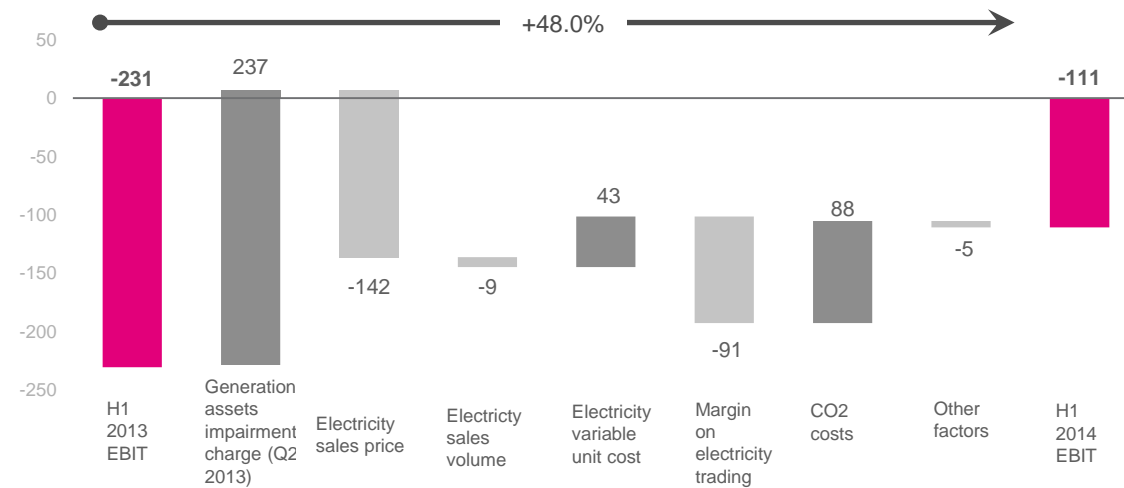


Generation (conventional sources)

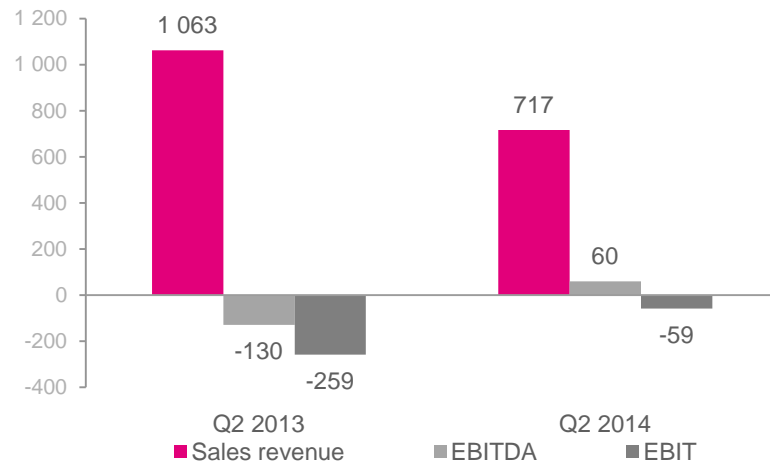
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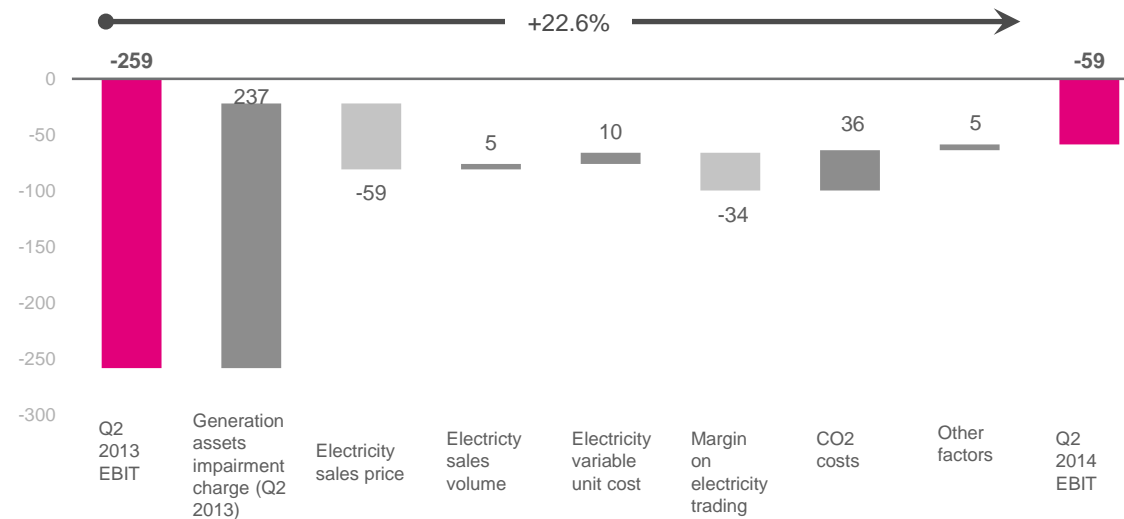
H1 2014 EBIT bridge [PLN m]



Q2 2014 financial data [PLN m]

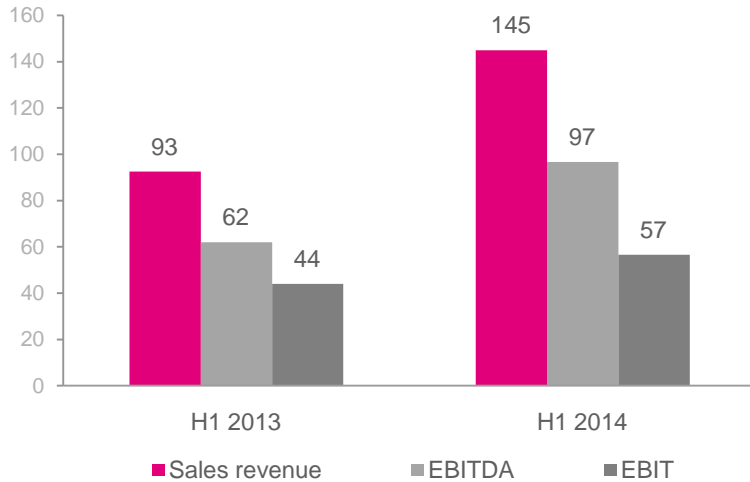


Q2 2014 EBIT bridge [PLN m]

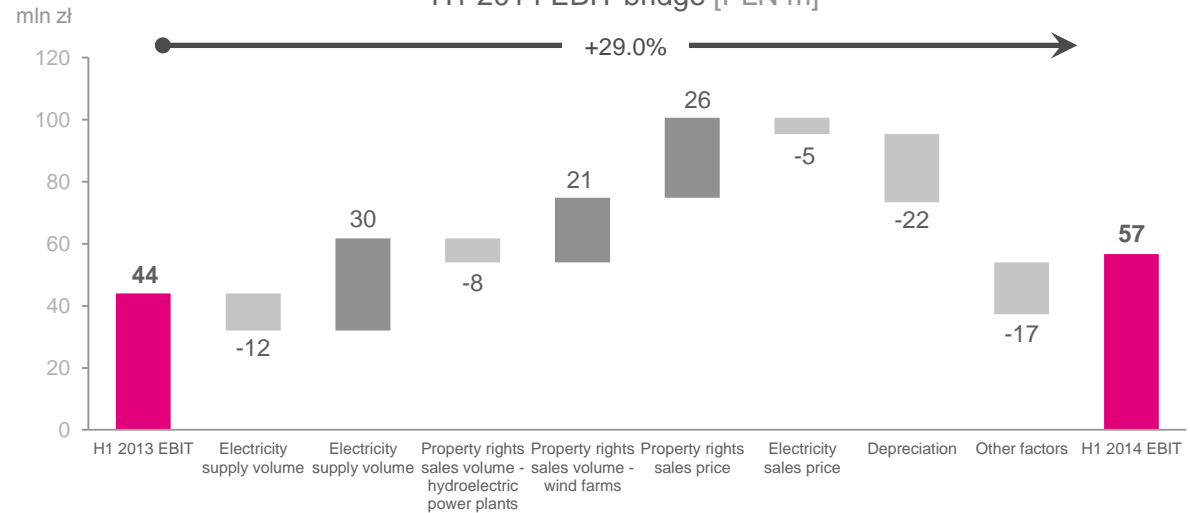


Renewable Energy Sources (RES)

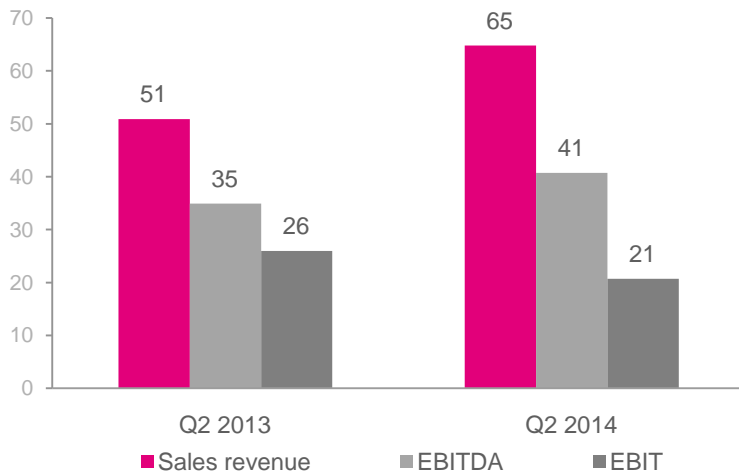
H1 2014 financial data [PLN m]



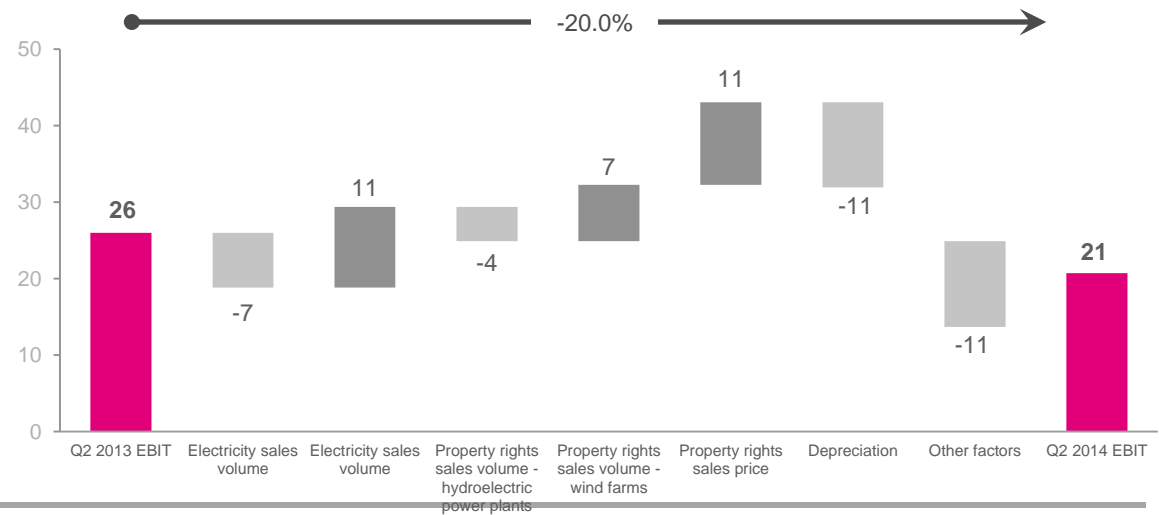
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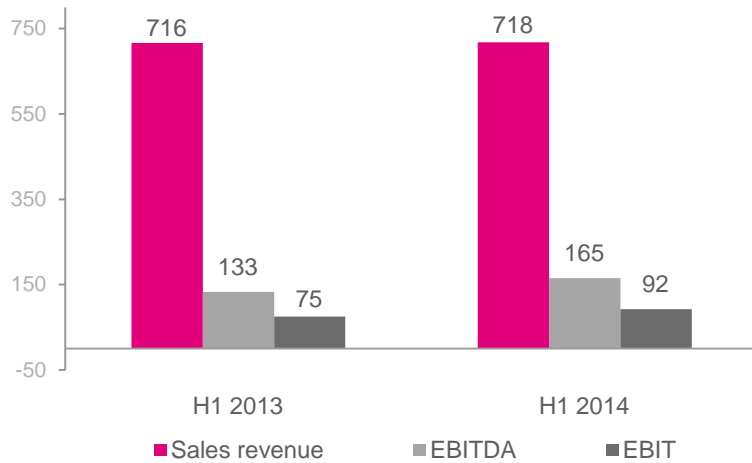
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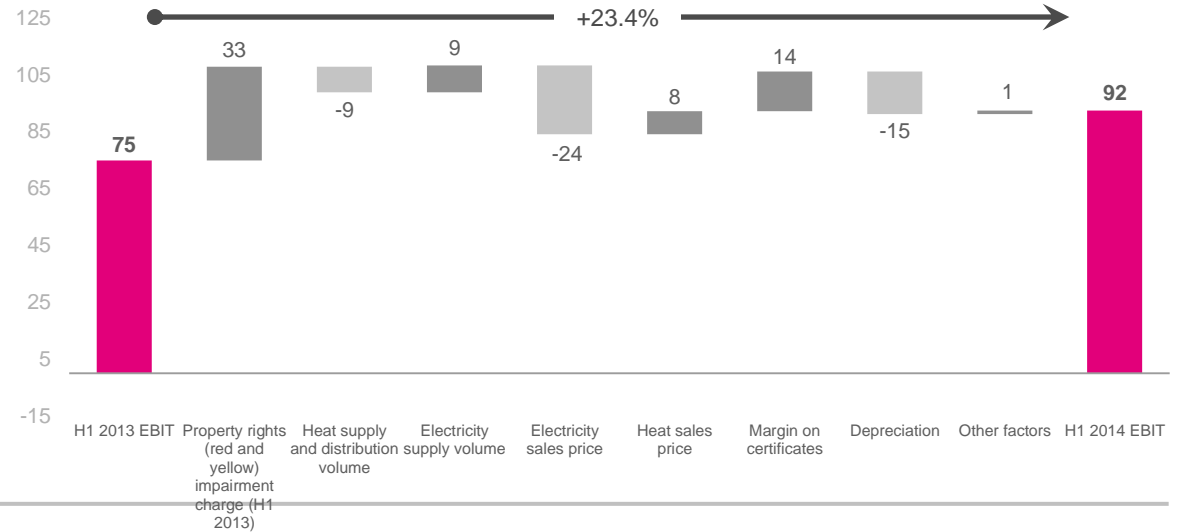
Q2 2014 EBIT bridge [PLN m]



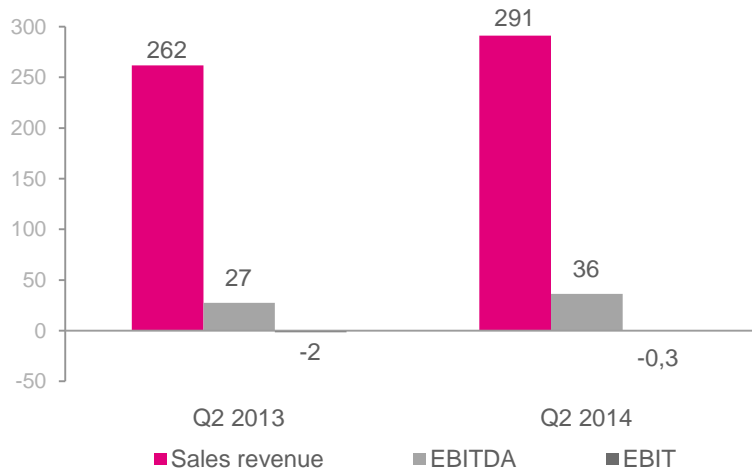
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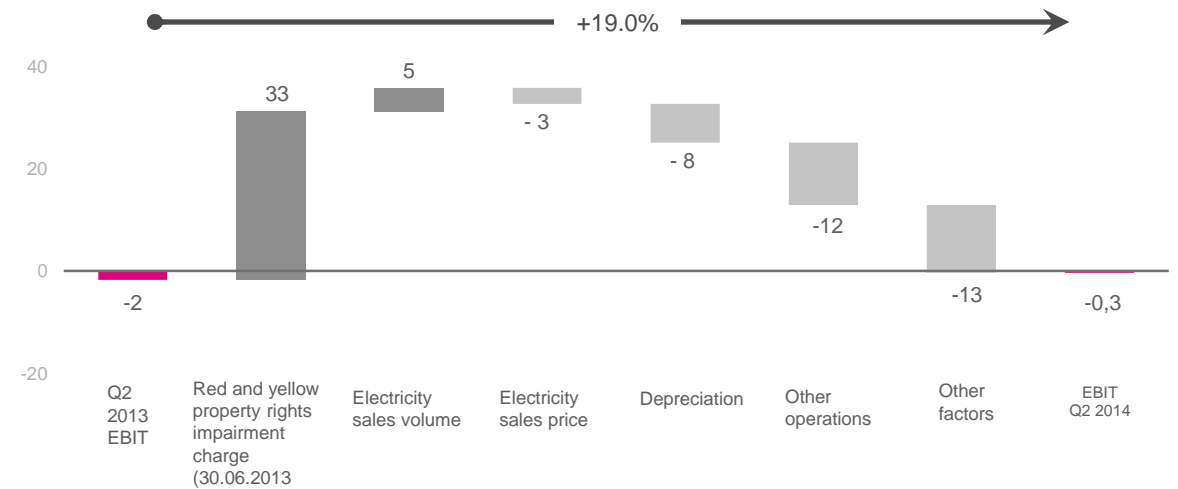
H1 2014 EBIT bridge [PLN m]



Q2 2014 financial data [PLN m]

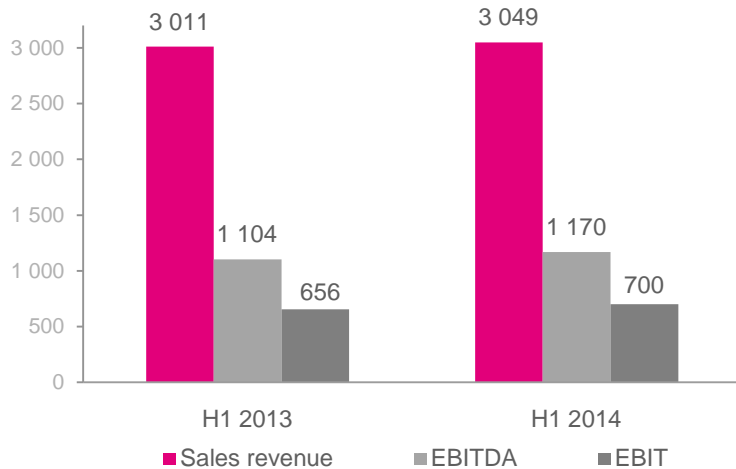


Q2 EBIT bridge 2014 [PLN m]

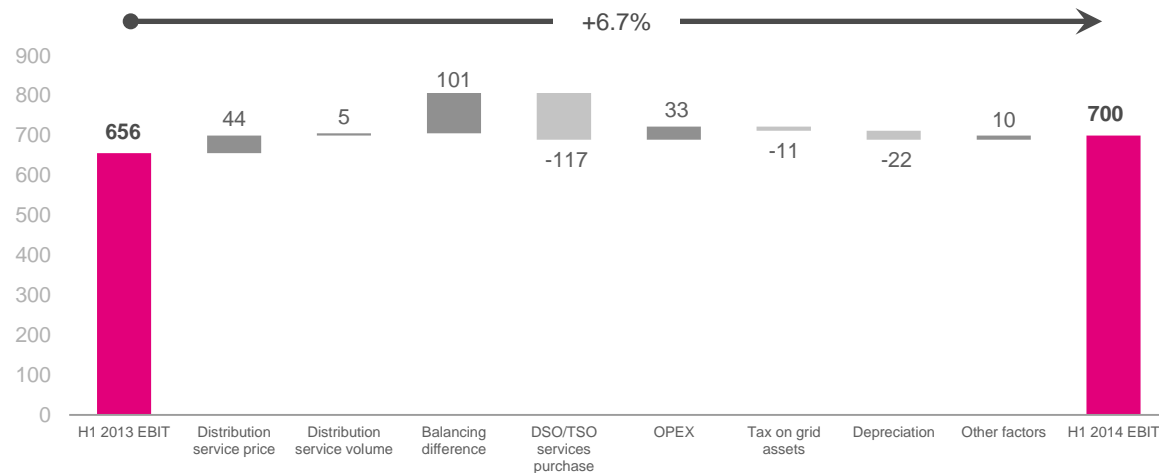


Distribution

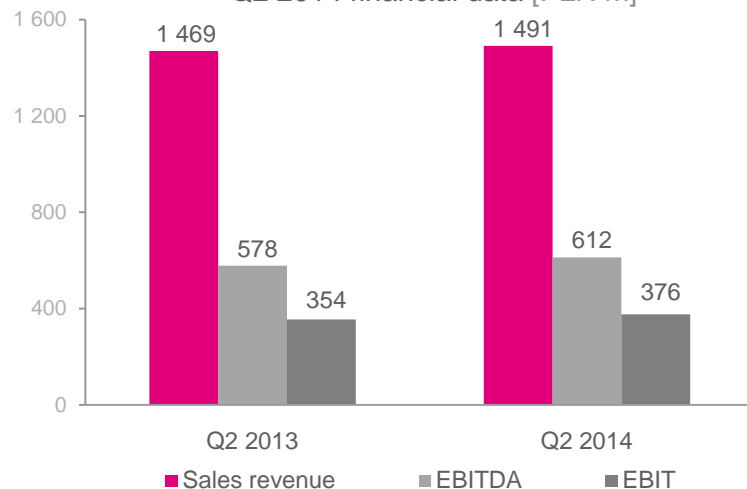
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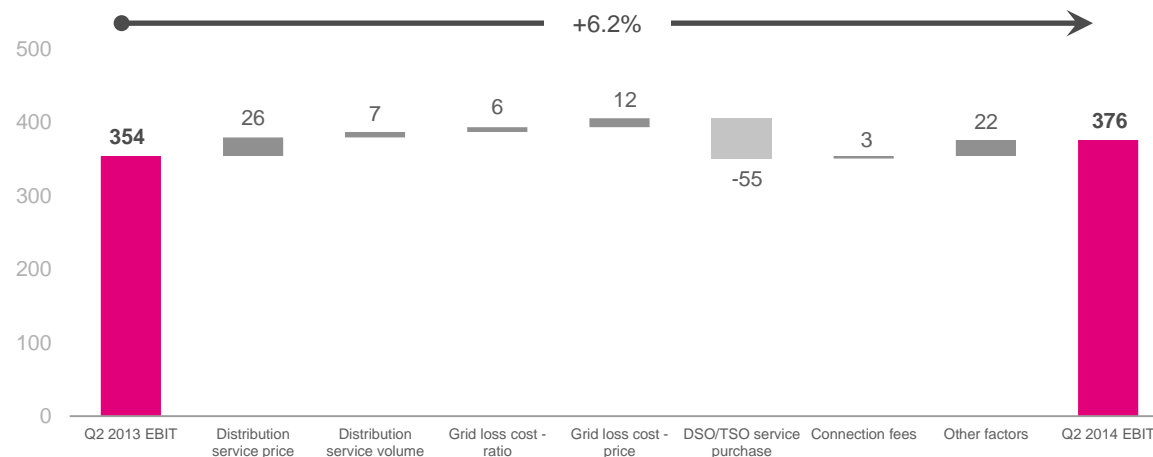
H1 2014 EBIT bridge [PLN m]



Q2 2014 financial data [PLN m]

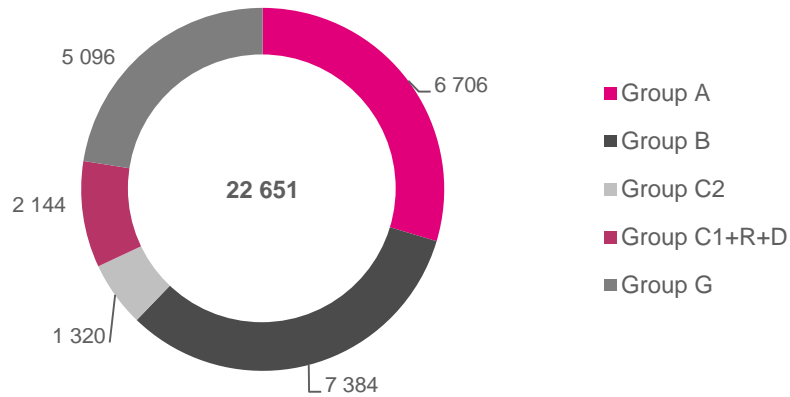


Q2 2014 EBIT bridge [PLN m]

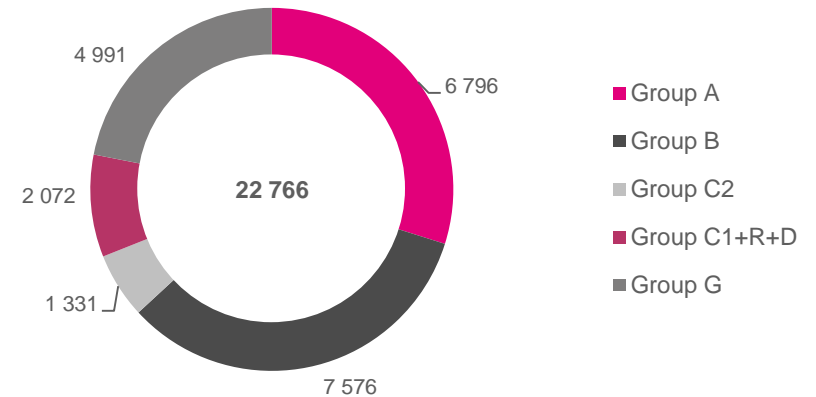


Distribution – volumes

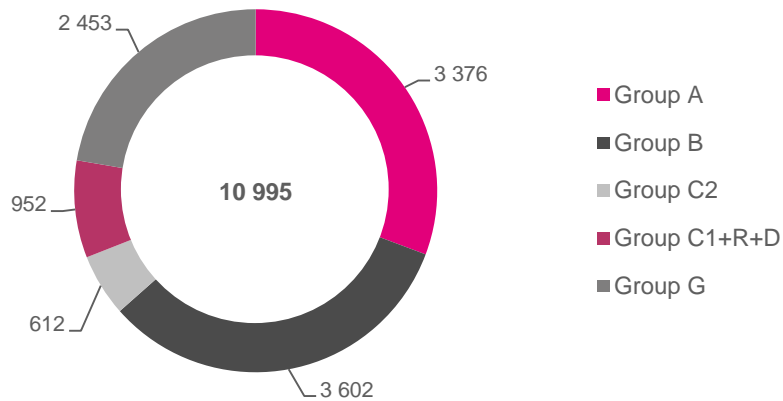
H1 2013 electricity distribution [GWh]



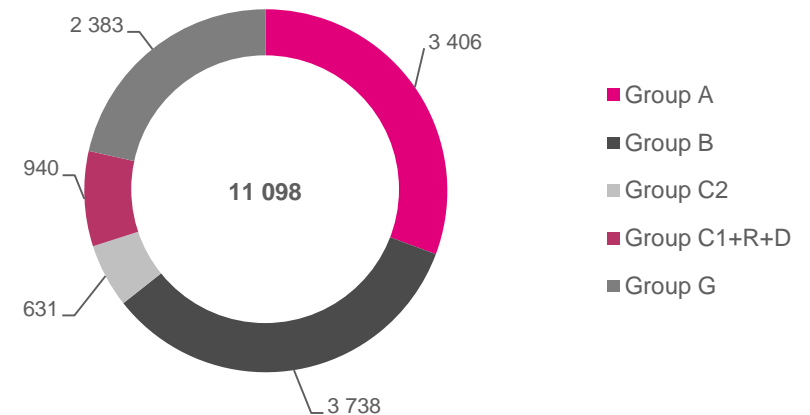
H1 2014 electricity distribution [GWh]



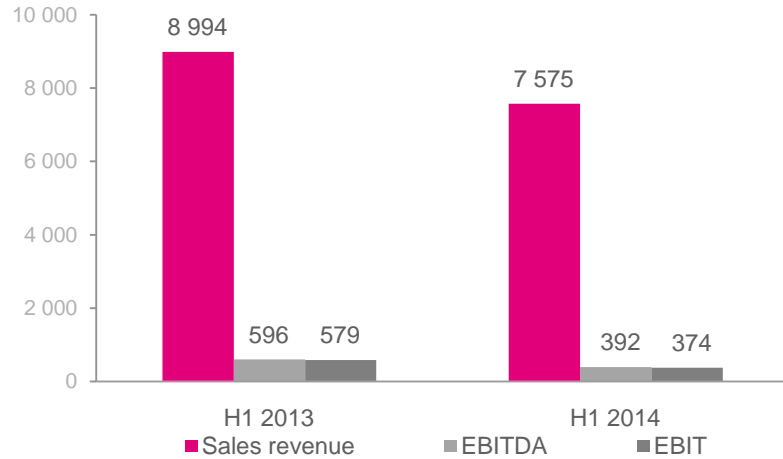
Q2 2013 electricity distribution [GWh]



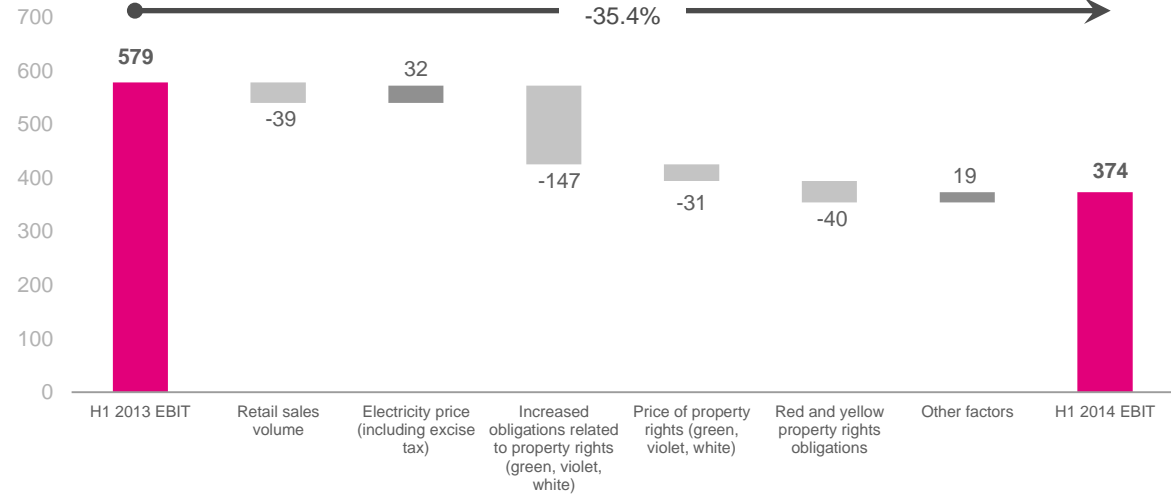
Q2 2014 electricity distribution [GWh]



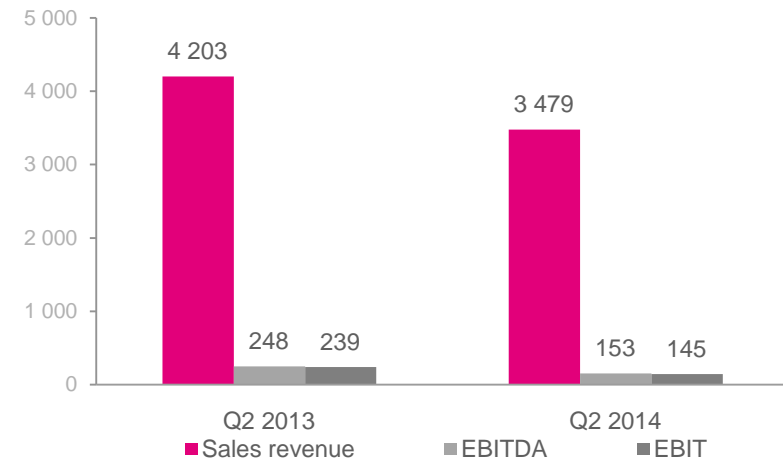
H1 2014 financial data [PLN m]



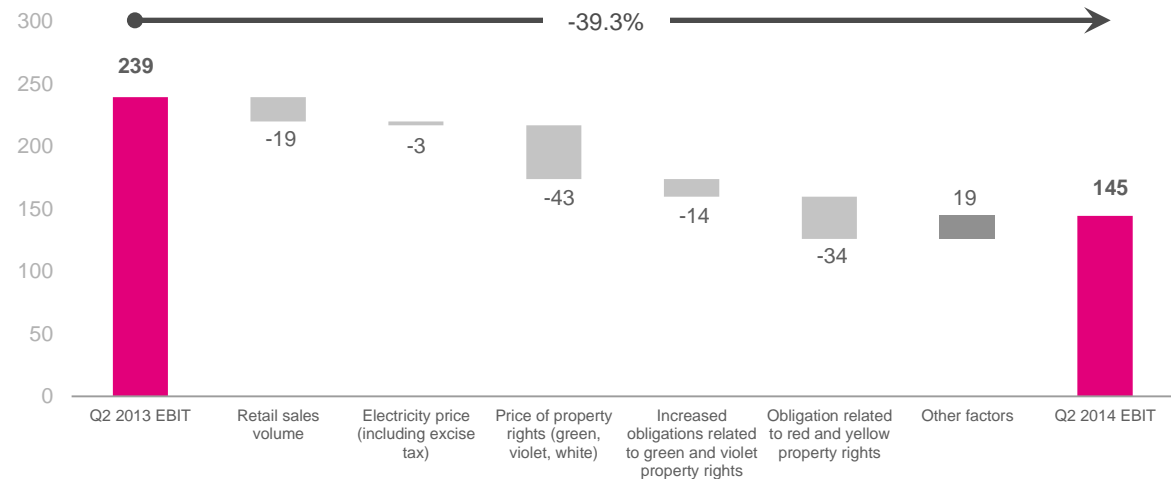
H1 2014 EBIT bridge [PLN m]



Q2 2014 financial data [PLN m]

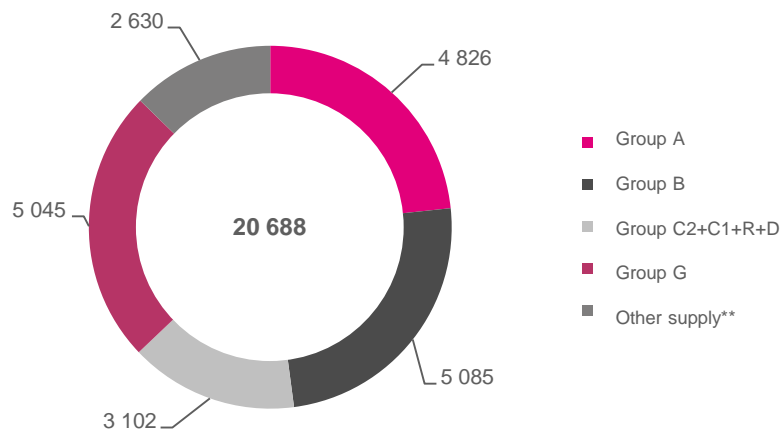


Q2 2014 EBIT bridge [PLN m]

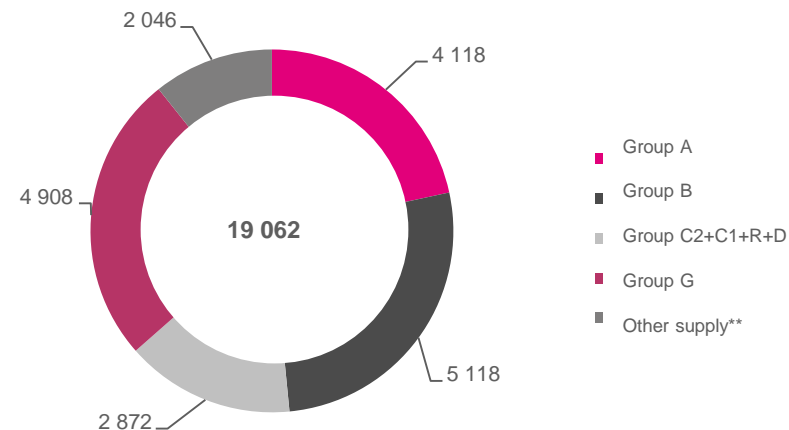


Supply – volumes

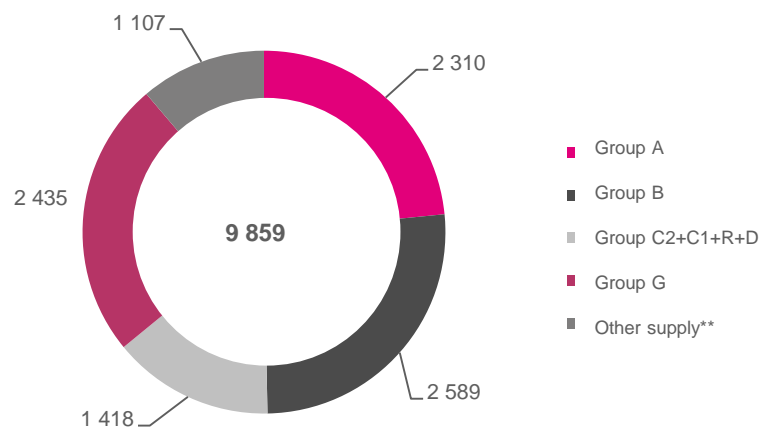
H1 2013 electricity supply [GWh]*



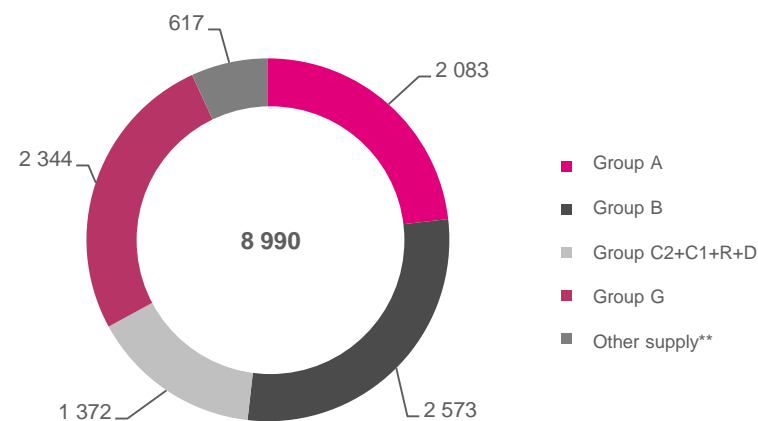
H1 2014 electricity supply [GWh]*



Q2 2013 electricity supply [GWh]*



Q2 2014 electricity supply [GWh]*

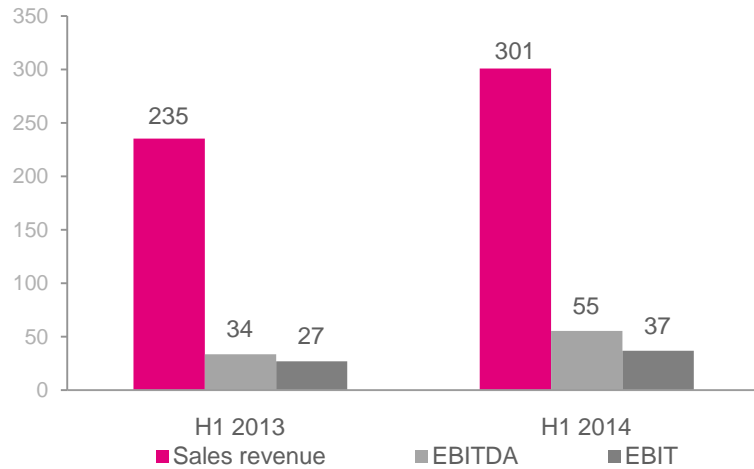


* Volumes of electricity supply to the strategic customers (key accounts) of TAURON Polska Energia S.A. are included in groups A and B

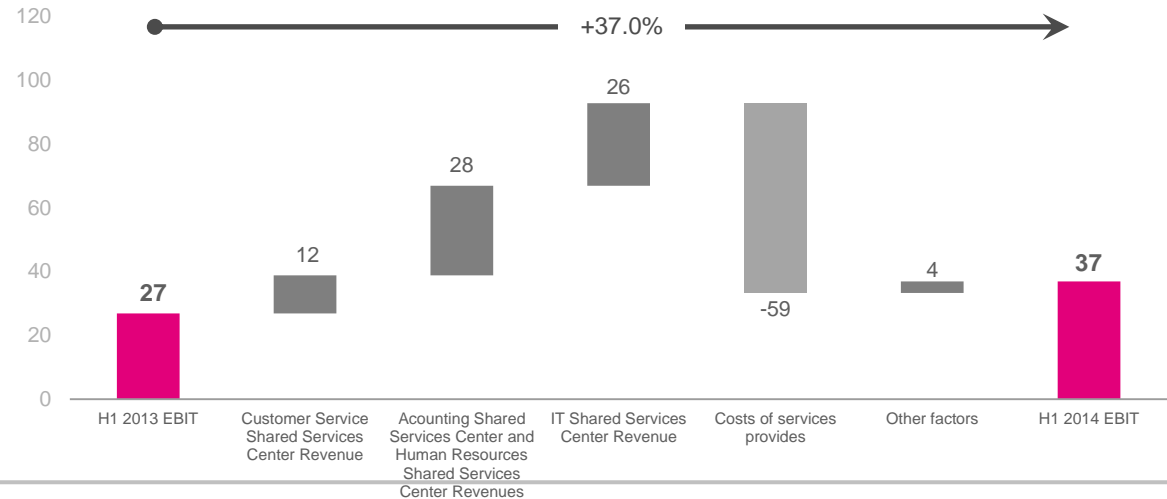
** Group's subsidiaries' own needs and balancing differences, balancing differences to other DSOs, other

Customer service

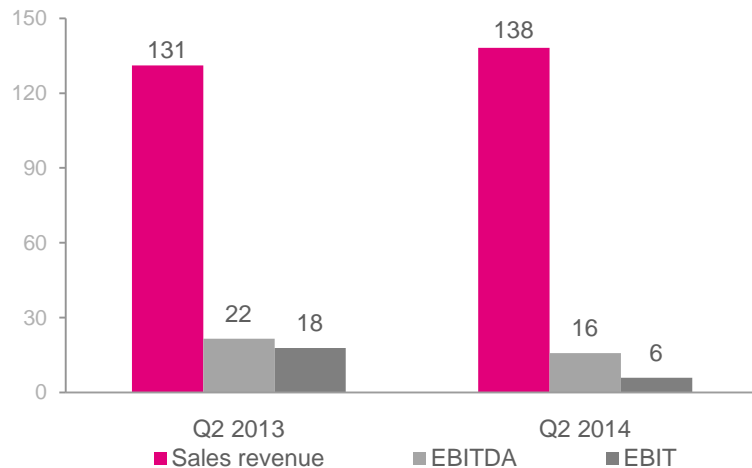
H1 2014 financial data [PLN m]



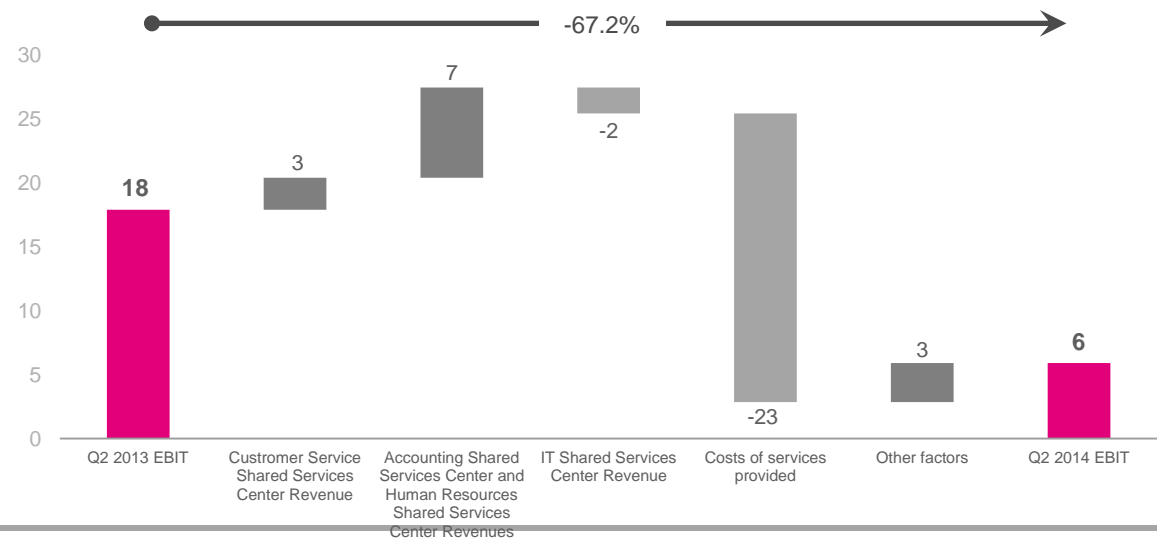
H1 2014 EBIT bridge [PLN m]



Q2 2014 financial data [PLN m]



Q2 2014 EBIT bridge [PLN m]



Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2013		2014. (until 1.08.2014)		2014/2013	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	184.92	140 488	160.79	182 816	-13.0%	30.1%
Forward PEAK (Y+Q+M)	204.35	14 855	183.21	18 461	-10.3%	24.3%
Forward (weighted average)	186.78	155 343	162.85	201 276	-12.8%	29.6%
SPOT (TGE)	153.91	19 930	176 (forecast)	20 500 (forecast)	+14.4%	2.9%
Weighted average total	183.04	175 273	164.07	221 776	-10.4%	26.5%

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 1.08.2014)	Substitution fee and obligation for 2014
2013 average	EUR 4.48/t	RES (green)	193.48	300.03 (13.0%)
2014 average	EUR 6.0 – 8.0/t	Hard coal-fired cogeneration (red)	Brak transakcji	11.00 (23.2%)
2015 average	EUR 8.0 – 10.0/t	Gas-fired cogeneration (yellow)	101.14	110.00 (3.9%)
Average 2014 EUA price forecast by TAURON	EUR 6.5 – 8.0/t	Methane (violet)	59.10	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		165.47	95 265
including	TGE	165.50	70 395
	non TGE	165.38	24 870

Average electricity price that takes into account 2015 one year BASE and PEAK contracts: PLN 168.12/MWh, total 2015 BASE and PEAK volume: 101 207 GWh

2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		172.20	12 869
including	TGE	172.70	8 283
	non TGE	171.28	4 585

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: PLN 172.84/MWh, total 2016 BASE and PEAK volume: 13 005 GWh

TAURON's coverage by analysts

Institution	Analyst
DB Securities	Tomasz Krukowski
Dom Maklerski 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	Bartłomiej Kubicki
UBS Investment Research	Michał Potyra Patrick Hummel Tomasz Walkowicz
UniCredit CAIB	Flawiusz Pawluk
WOOD & Company	Bram Buring
DM BOŚ	Andrzej Bernatowicz