



TAURON Group's Q1 2014 financial results

May 14, 2014

Q1 2014 key financial parameters

TAURON Group's Q1 2014 financial results

[PLN m]	Q1 2014	
Sales revenue	4 887	(-5.4% yoy)
EBITDA	1 088	(-11% yoy)
Net profit	399	(-31.4% yoy)
CAPEX	565	(4.5% yoy)
Net debt/EBITDA	1.68	(up 0.26)

Key segments' Q1 2014 results

[PLN m]	Distribution	Supply	Heat	Generation	Mining
Segment's revenue	1 558	4 096	427	756	248
EBITDA	558	238	129	67	20
EBIT	324	229	93	(52)	(7)
CAPEX	380	0.1	39	45	44

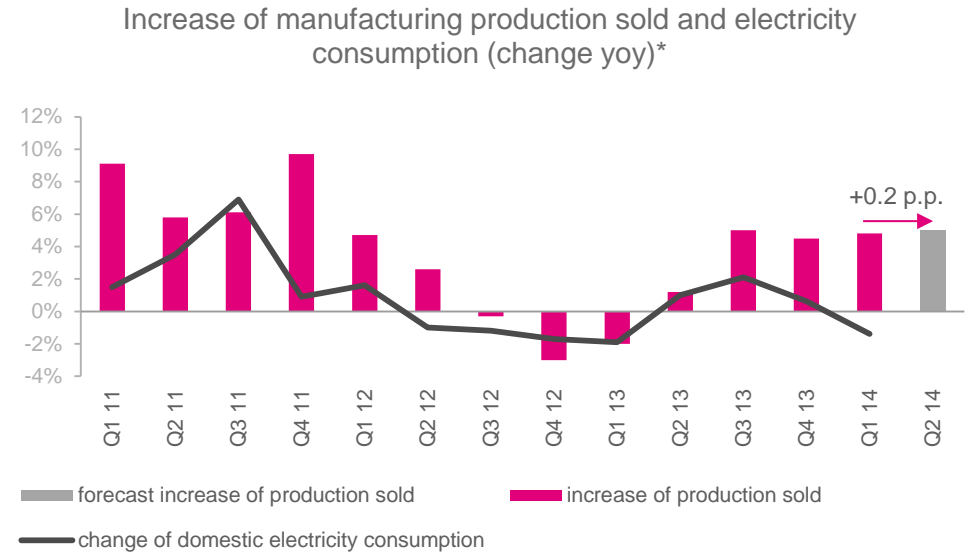
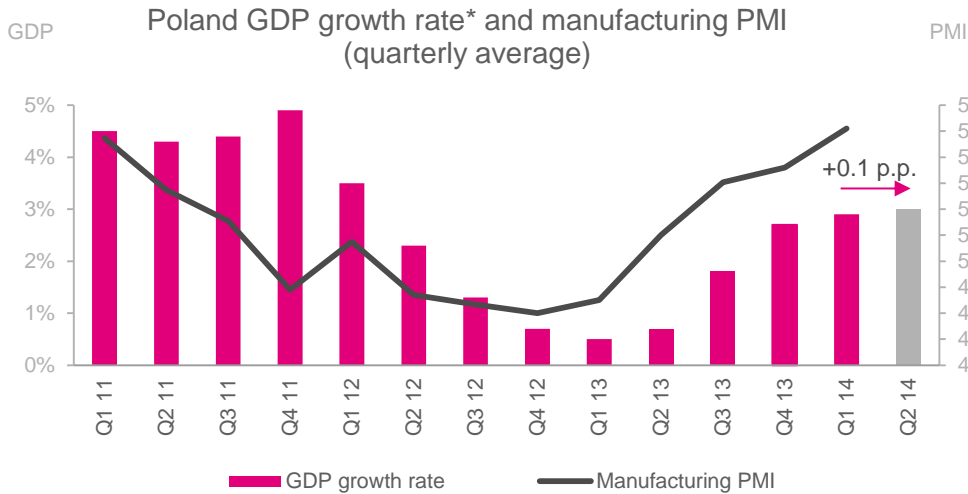
TAURON

Date	Event
March 20	Signature of agreement with Polish Investments for Development (Polskie Inwestycje Rozwojowe-PIR) on financing the construction of a 415 MW CCGT unit at Łagisza Power Plant. PIR's maximum involvement in the project: PLN 750m
March 26	Signature of agreement with PSE (TSO) for the provision of the cold reserve for intervention purpose service (Interwencyjna Rezerwa Zimna - IRZ) in 2016-2017 with an extension option until 2019. The service will be provided by TAURON Generation's three units with total capacity of 376 MW (two units at Siersza Power Plant and one unit at Stalowa Wola Power Plant)
April 17	Signature of agreement with Rafako-Mostostal Warszawa consortium for the construction of a 910 MW unit at Jaworzno III Power Plant

MARKET

Date	Event
January 1	Introduction of the operational capacity reserve mechanism in 2014-2015. PSE S.A.'s (TSO) estimated annual budget is approx. PLN 400m
February 24	Implementation of backloading – EU's plan to temporarily reduce the number of free CO ₂ emission allowances on the market (EUA). In 2014-2016 the EUA pool to be auctioned will be reduced by 900m allowances in total
March 14	Polish Parliament (Sejm) extended support for electricity production using coal and gas co-generation until 2018. The law came into force as of April 30, 2014
April 8	Adoption by the Council of Ministers of the draft law on renewable energy sources that envisages, among others, introduction of an auction system, limiting support for biomass co-firing and liquidating support for hydroelectric power plants with capacity of more than 5 MW
April 10	Publishing of the Ordinance of the Council of Ministers defining the allocations of CO ₂ emission allowances for electricity generation installations in 2013-2019

Macroeconomic and market situation

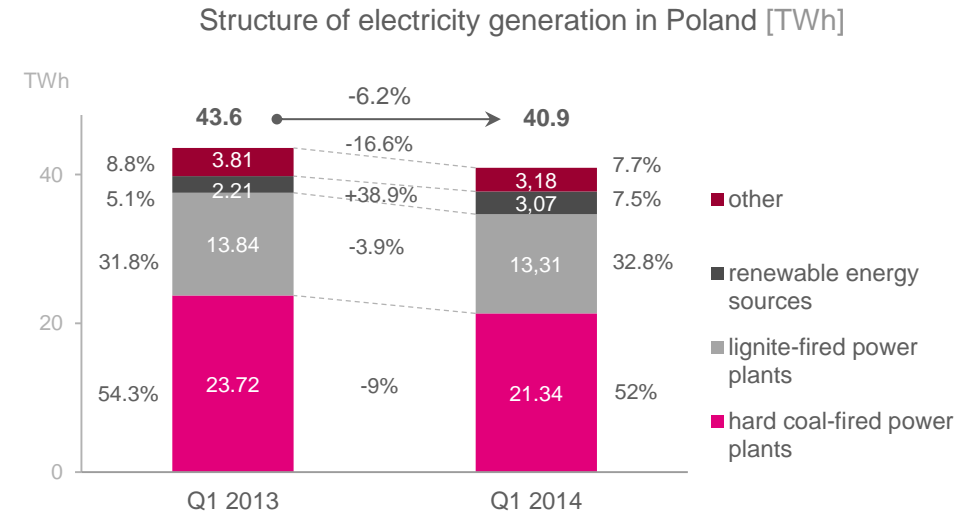


Yearly BASE contract prices on the Polish Power Exchange (TGE)

	Average price [PLN/MWh]	Volume [GWh]
Y-13	185.92	66 786
Y-14	156.46	100 740
Y-15	162.97	42 092
Y-16	169.77	5 209

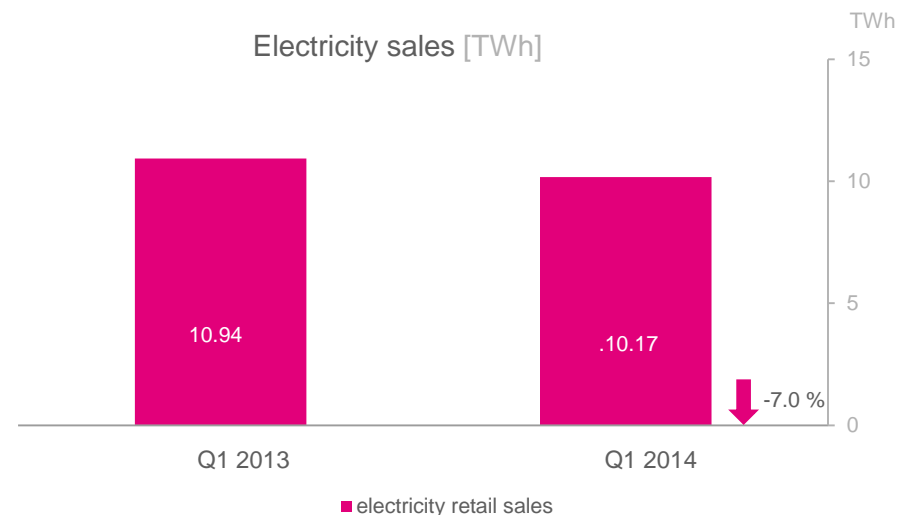
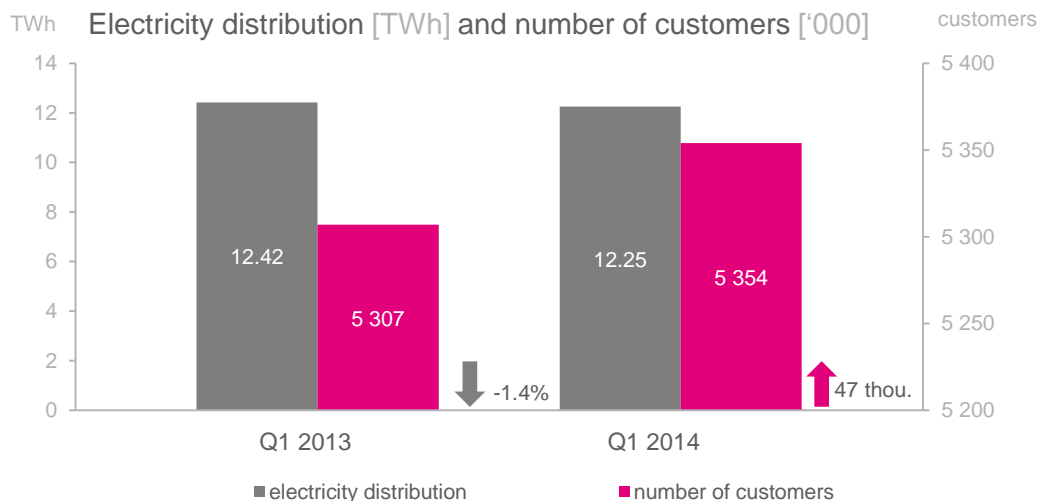
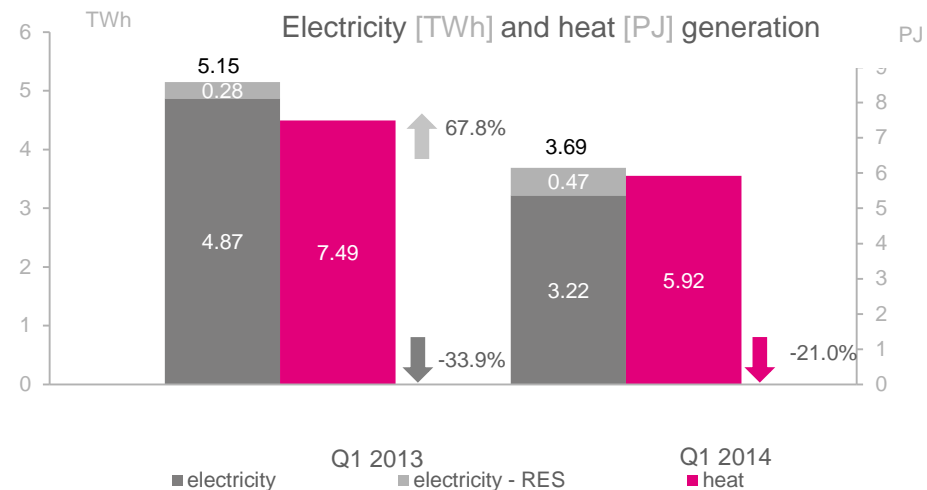
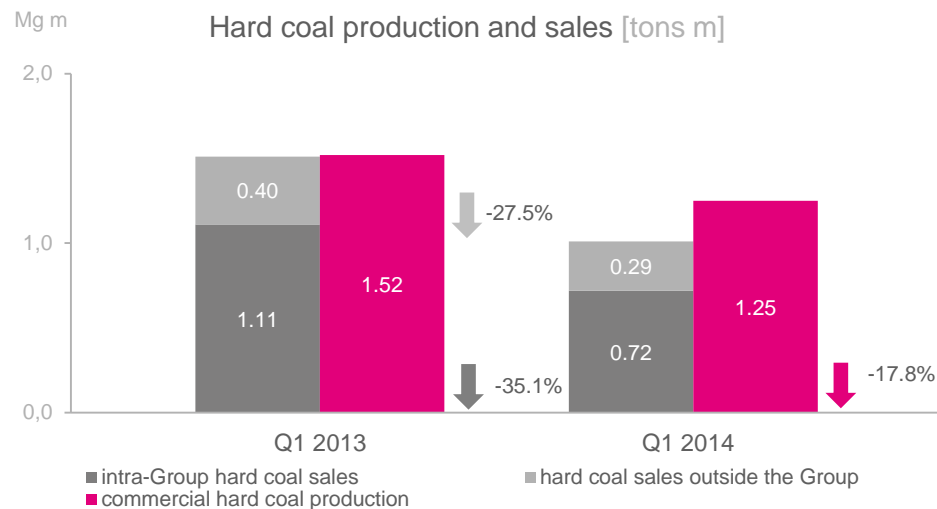
Average electricity sales prices on the competitive market (acc. to ERO):

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



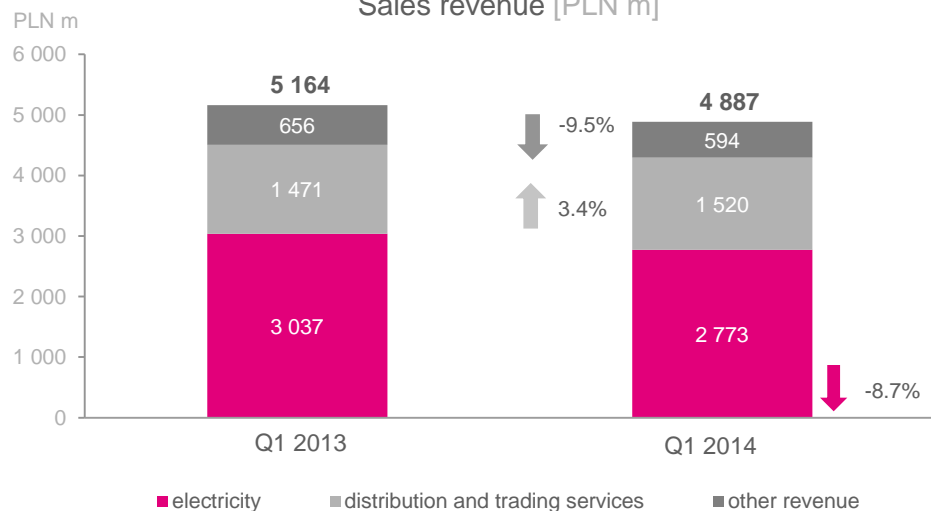
* Source: GUS, IBnGR (forecasts), PSE

Q1 2014 key operating data

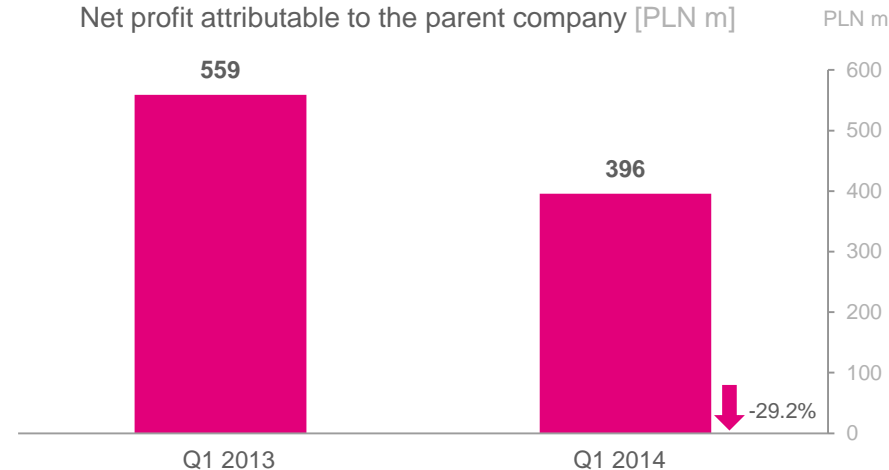


Q1 2014 key financial data

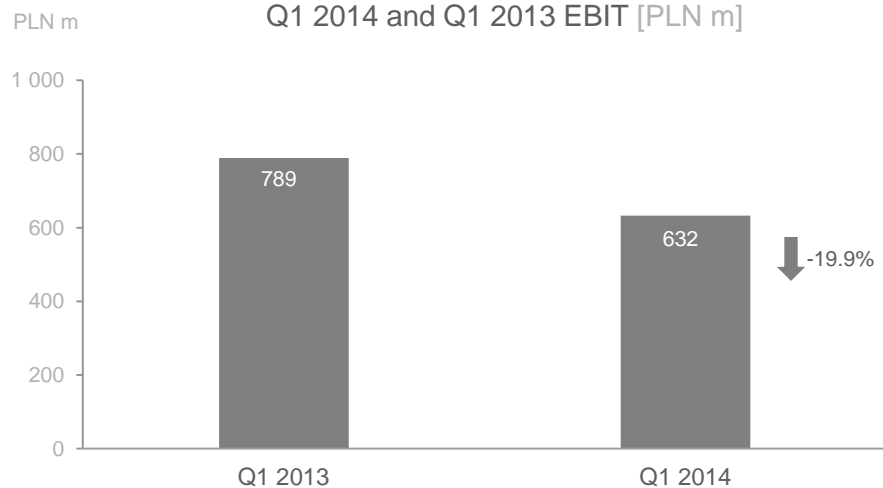
Sales revenue [PLN m]



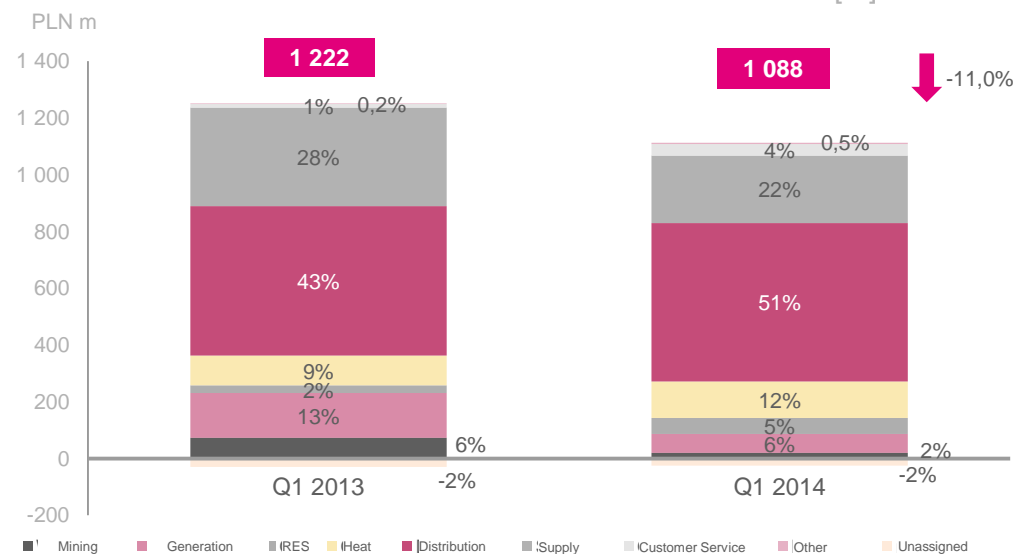
Net profit attributable to the parent company [PLN m]



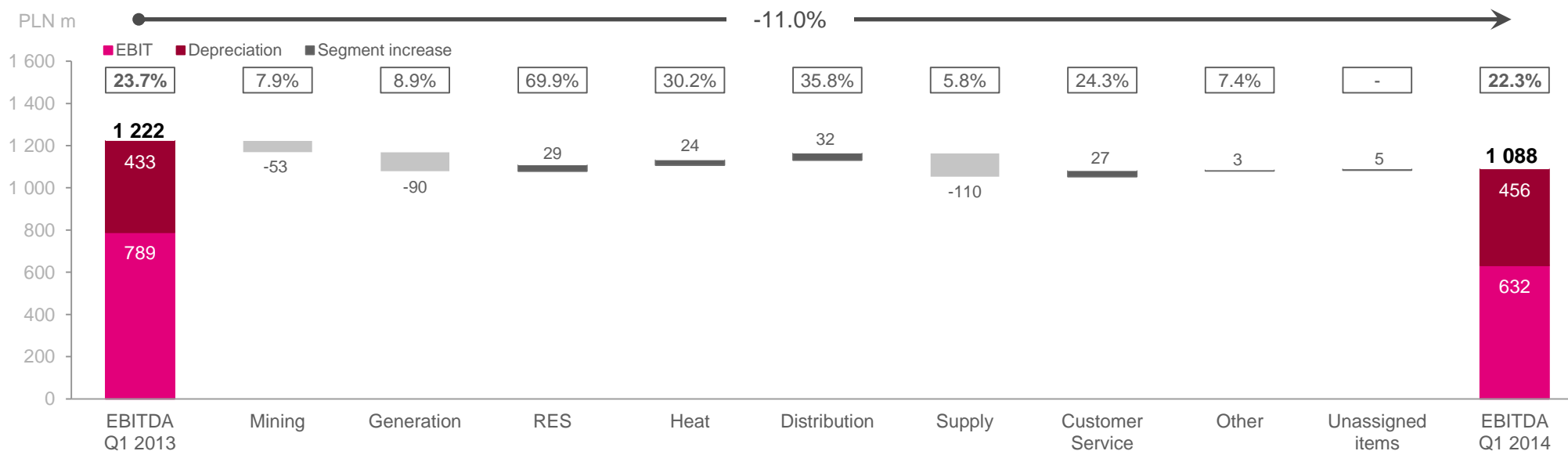
Q1 2014 and Q1 2013 EBIT [PLN m]



Q1 2014 and Q1 2013 EBITDA structure [%]



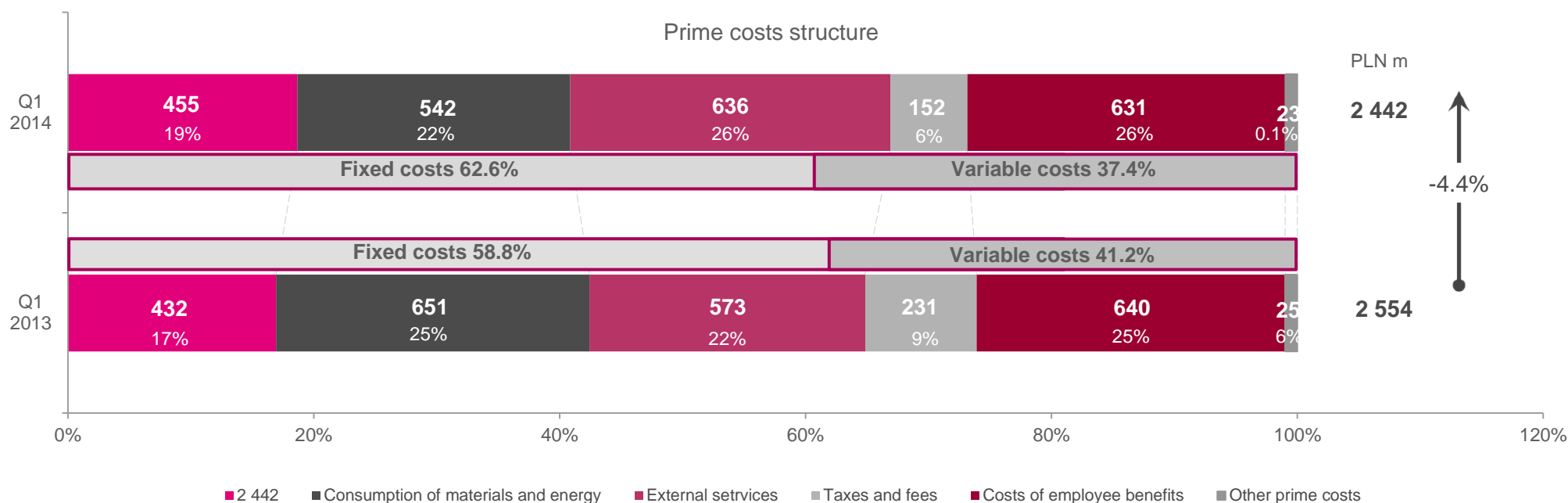
Q1 2014 EBITDA



Most important factors affecting Q1 2014 EBITDA:

- Supply – lower electricity supply volume yoy, higher obligation and prices of property rights related to the origin of electricity from RES
- Generation – lower electricity sale prices, lower electricity production and sales, primarily as a consequence of the market situation (declining demand from the National Power System (KSE), falling electricity generation nationwide, in particular using hard coal) and high temperatures in Q1 2014,
- Mining – declining hard coal sales volume due to the very warm winter and lower electricity production,
- Distribution – lower balancing losses level (factor) and lower electricity purchase costs, higher rates for distribution services
- RES – rising electricity and property rights sales volume, primarily due to the operation of the Wicko and Marszewo wind farms
- Customer Service – expansion of the range of services provided, higher revenue, costs will be accounted for in a later period,
- Heat – higher heat sale prices, lower costs of the provision set up for the deficit of the CO₂ allowances and lower fuel costs, adverse impact of the falling demand for heat

Q1 2014 prime costs structure



Declining costs in Q1 2014 are mainly due to:

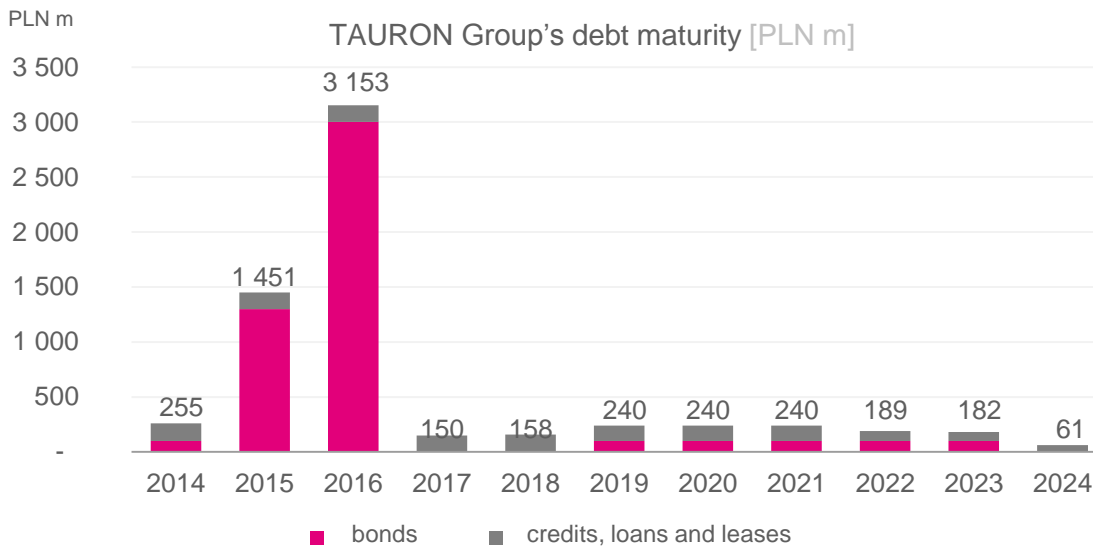
- consumption of materials (lower fuel costs)
- taxes and fees
- employee benefit costs – mainly the result of the Voluntary Redundancy Programs implemented and the lower headcount

Cost structure:

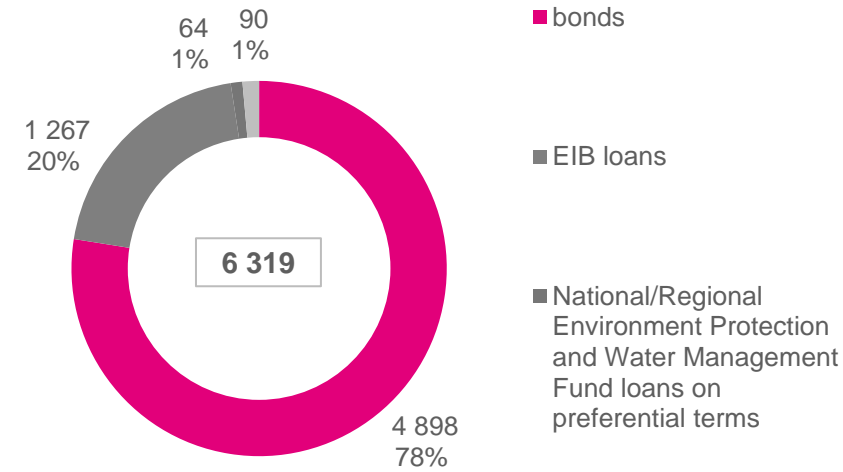
- Q1 2014: variable costs (excluding the value of goods and materials sold) approx. 37%, fixed costs approx. 63%
- Q1 2013: variable costs approx. 41%, fixed costs approx. 59%

The reasons for the change to the cost structure are primarily lower fuel costs due to lower electricity and heat production volumes and lower costs of the CO₂ provision.

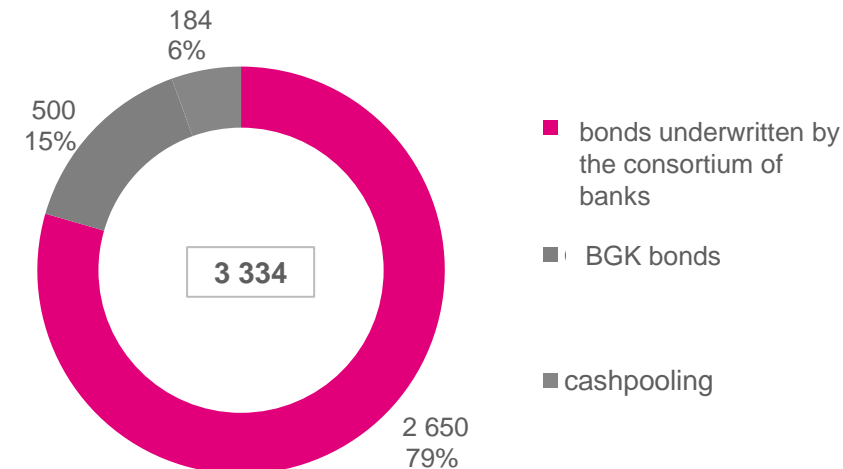
Debt and financing



Structure of TAURON Group's long term debt [PLN m]



Financing available to TAURON Group [PLN m]



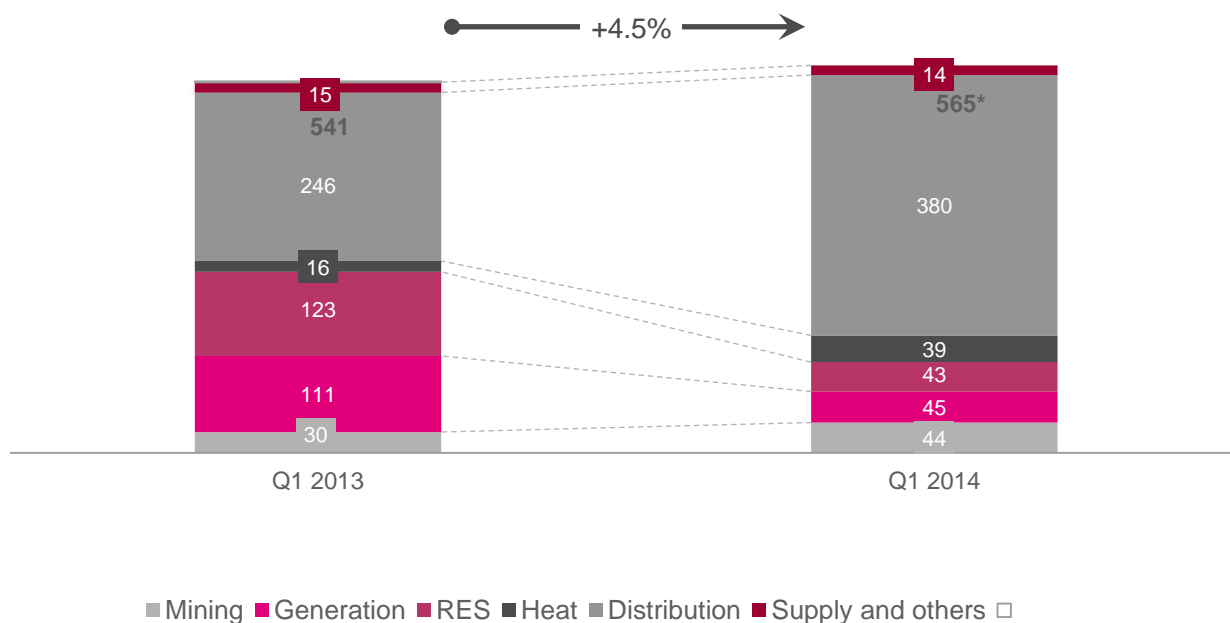
- financial debt (debt due to investment loans, credits, leases and bonds) as of March 31, 2014: PLN 6 319m
- average weighted debt maturity as of March 31, 2014:
 - including BGK bonds – 49 months
- EUR debt constitutes 0.03% of the total debt
- structure of debt by interest rate:
 - 20% – fixed interest rate, i.e. PLN 1,267m
 - 80% – floating interest rate, i.e. PLN 5,052m, including:
 - unsecured amount – PLN 1 612m
 - secured amount – PLN 3 440m
- net debt / EBITDA ratio as of March 31, 2014 was 1.68x

CAPEX - key projects' work progress

Investment project	Capacity (MW _e)	Capacity (MW)	Project status	Work progress	Planned completion date
Construction of the hard coal-fired unit at Jaworzno III Power Plant	910	-	On April 17, 2014 the contract with RAFAKO S.A. – Mostostal Warszawa S.A. for the construction of a power generation unit was signed. Works are underway in individual technological nodes not covered by the contract	5%	2019
Construction of the CCGT unit at 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	52%	2015
Construction of the hard coal-fired co-generation unit at ZW Tychy	50	86	General contractor (Elektrobudowa S.A.) is carrying out successive stages of the works in accordance with the scope and schedule of the project	9%	2016
Construction of the TG 50 ZW Nowa turbogenerator	50	-	General contractor (Elektrobudowa S.A.) is carrying out successive stages of the works in accordance with the scope and schedule of the project	30%	2015
Jaworzno III Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	Upgrade works underway. Works completed on three of the six units. Upgrade of the successive units is planned in 2014-2016. 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).	53%	2016
Łaziska Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	Works completed on three of the four units to be upgraded. Upgrade of the last unit is planned in 2014. 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 Łagisza Power Plant	413	266	Works underway related to preparations for the process of selecting the contract's engineer and the unit's contractor. Connection agreement with GAZ-SYSTEM signed.	1%	2018
Construction of new RES capacity at Stalowa Wola Power Plant	55	-	In March 2014 the Management Board of TAURON Generation made the decision to cancel the proceeding. The reason for the cancellation was too high prices of bids submitted by potential contractors	3%	2015
Construction of the 800m level at Janina coal mine	-	-	Janina VI shaft deepening and upgrading of the Hard Coal Mechanical Processing Unit continued	8%	2019
Construction of Grzegorz shaft at Sobieski coal mine	-	-	Design works and preparation of the construction site underway, drilling of the test exploration borehole commenced	12%	2022

CAPEX – by segment (2)

CAPEX by segment [PLN m]



Main investment projects completed in Q1 2014:

- Distribution – construction of new connections (PLN 84m) and upgrade and restoration of grid assets (PLN 261m)
- RES – construction of the Marszewo wind farm’s 2nd stage (PLN 20m), upgrade of hydroelectric power plants (PLN 22m)
- Generation – construction of the NOx emission reduction system (PLN 34m)
- Heat – construction and upgrades of the heat transmission pipeline networks (PLN 15m) and restoration of ZW Tychy’s capacity (PLN 16m)

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

OPEX reduction program

Segment	Savings realized in 2013 and Q1 2014	Savings planned in 2013-2015	Progress	Main initiatives
Distribution	PLN 170m	PLN 416m	41%	<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 189m	PLN 387m	49%	<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 25m	PLN 33m	76%	<ul style="list-style-type: none"> Employment restructuring Compressed air losses reduction Asset restructuring External services' costs optimization Procurement policy optimization
Mining	PLN 17m	PLN 28m	62%	<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 16m			<ul style="list-style-type: none"> Employment restructuring, reduction of external services' costs
Total	PLN 418m	PLN 864m	48%	

- In 2013 and Q1 2014 the voluntary redundancy program covered 418 persons. Over that period employment contracts were terminated with 867 persons (3 361 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 Q1 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.

Legal disclaimer

This presentation serves for information purposes only and should not be treated as investment-related advice.

This presentation has been prepared by TAURON Polska Energia S.A. ("the Company").

Neither the Company nor any of its subsidiaries shall be held accountable for any damage resulting from the use of this presentation or a part thereof, or its contents or in any other manner in connection with this presentation.

The recipients of this presentation shall bear exclusive responsibility for their own analyses and market assessment as well as evaluation of the Company's market position and its potential results in the future based on information contained in herein.

To the extent this presentation contains forward-looking statements related to the future, in particular such terms as "designed", "planned", "anticipated", or other similar expressions (including their negation), they shall be connected with the known and unknown risks, uncertainty and other factors which might result in actual results, financial situation, actions and achievements being materially different from any future results, actions or achievements expressed in such forward-looking statements.

Neither the Company nor any of its subsidiaries shall be obliged to provide the recipients of this presentation with any additional information or to update this presentation

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

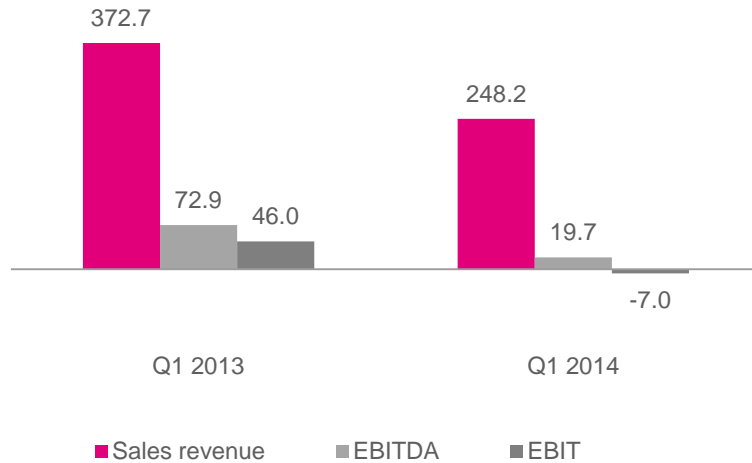
Magdalena Wilczek

magdalena.wilczek@tauron-pe.pl

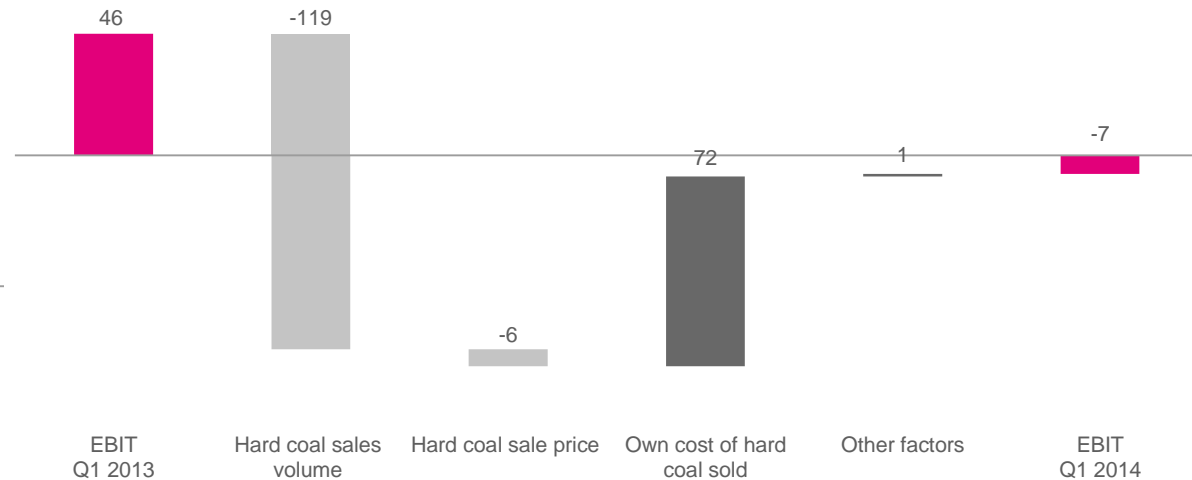
tel. + 48 32 774 25 38



Financial data [PLN m]



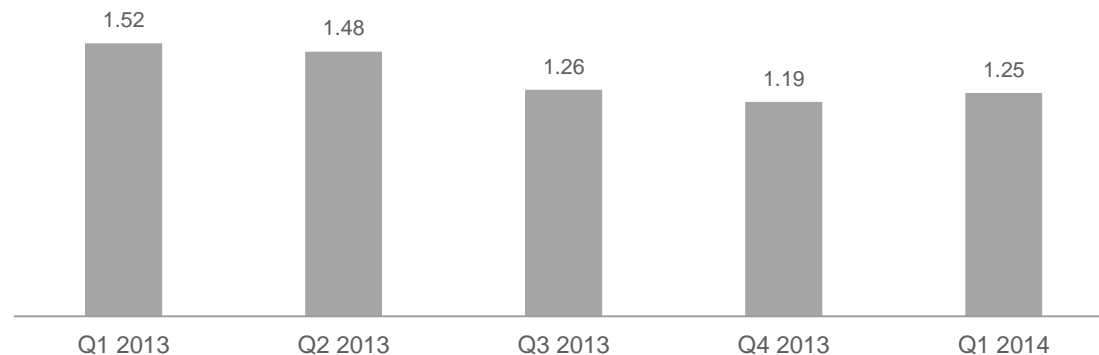
EBIT bridge [PLN m]



Comments to Q1 2014 results

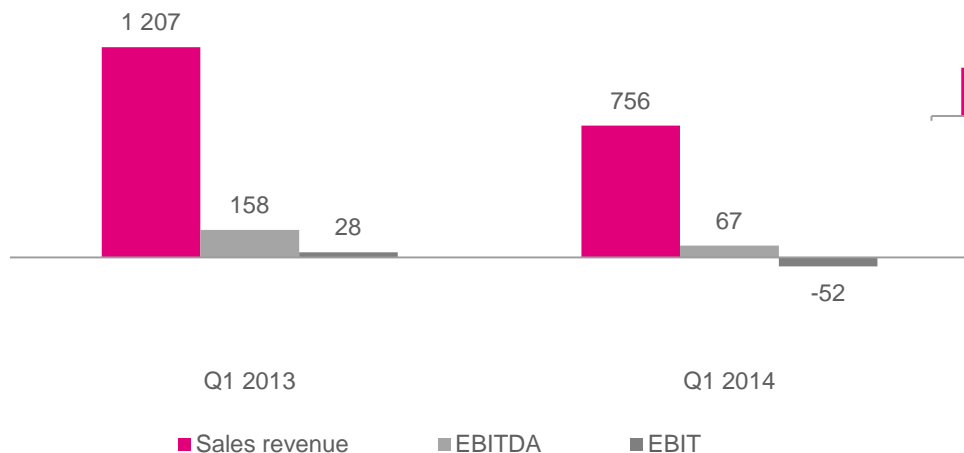
- sales volume drop (by 32.9%),
- average sale price decline by 2.1%, primarily due to the falling price of the coal dust sold intra-Group and higher prices of large and medium size lump coal sold outside the Group
- declining own cost of the coal sold caused by overproduction versus the sales volume and lower variable costs (lower shipping service costs, lower energy costs)

Commercial coal production [tons m]



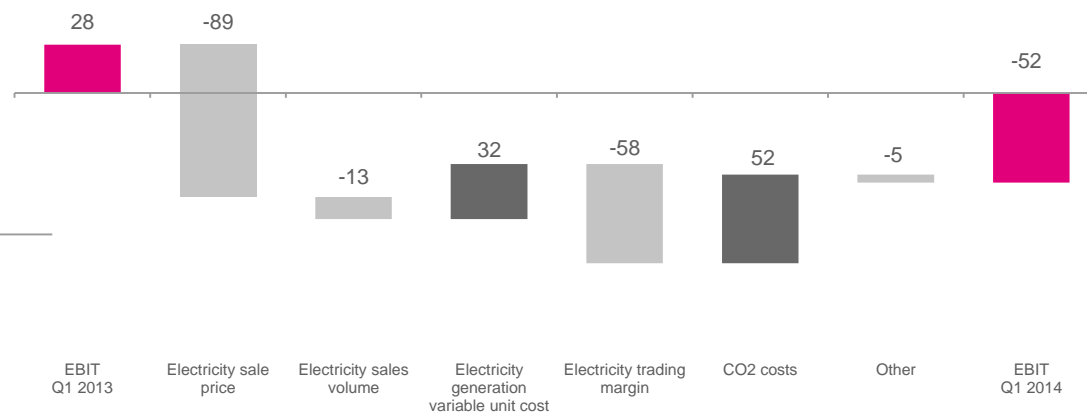
Generation (conventional sources)

Financial data [PLN m]



PLN m

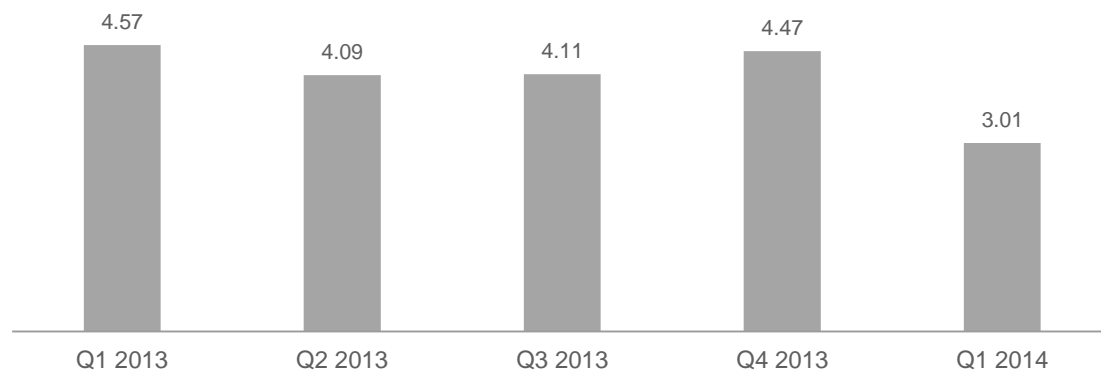
EBIT bridge [PLN m]



Comments to Q1 2014 results

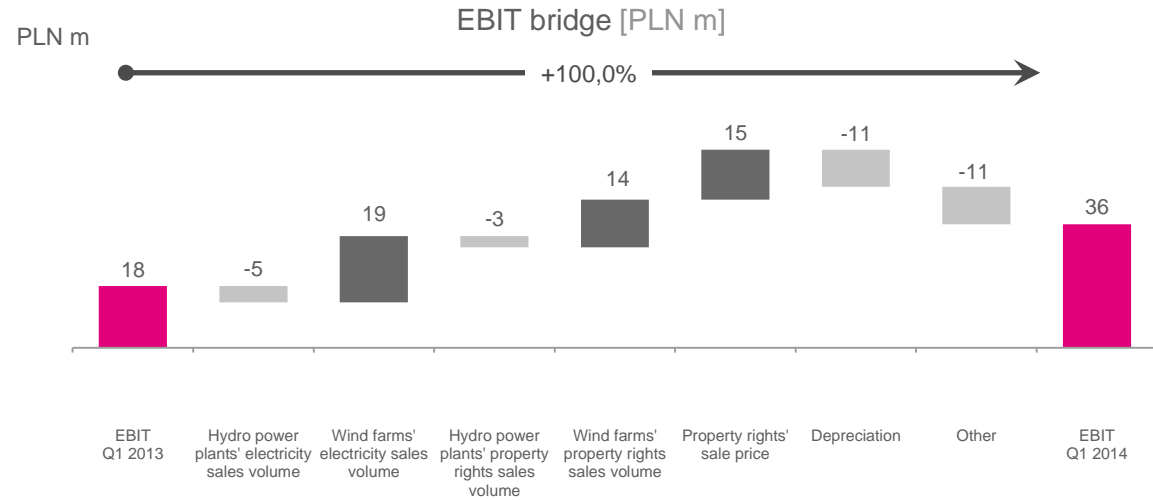
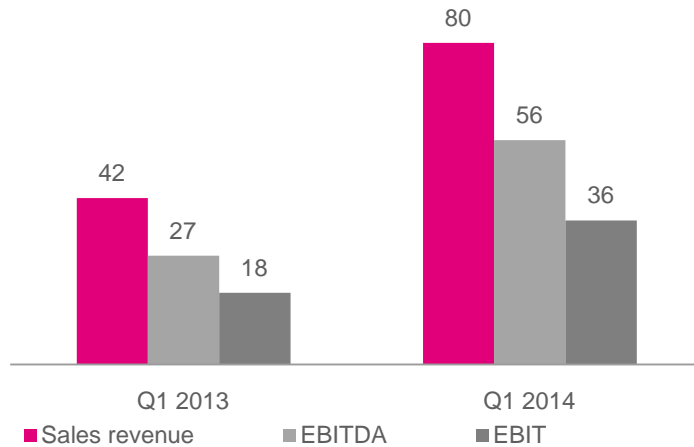
- lower electricity sale price
- lower electricity supply volume (compensated by the Operational Capacity Reserve revenue)
- lower electricity trading margin
- lower costs of the provision set up due to the deficit of the CO₂ allowances
- lower generation variable unit costs (hard coal prices)

Electricity production [TWh]



Renewable Energy Sources (RES)

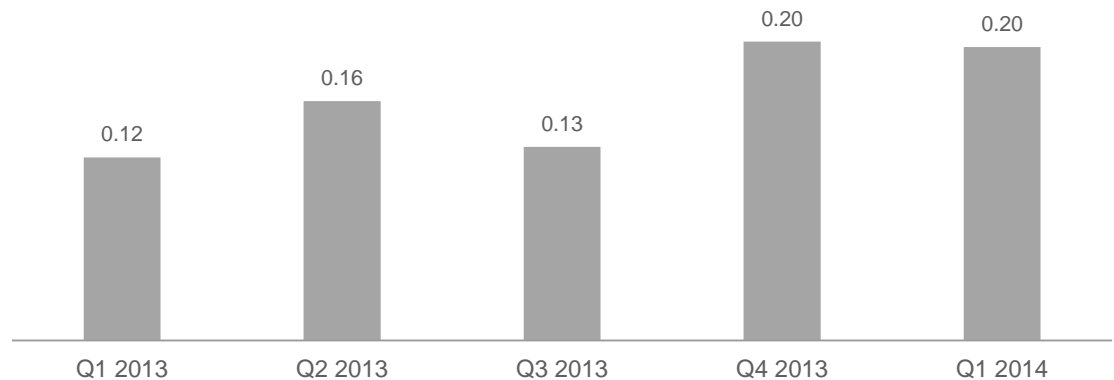
Financial data [PLN m]



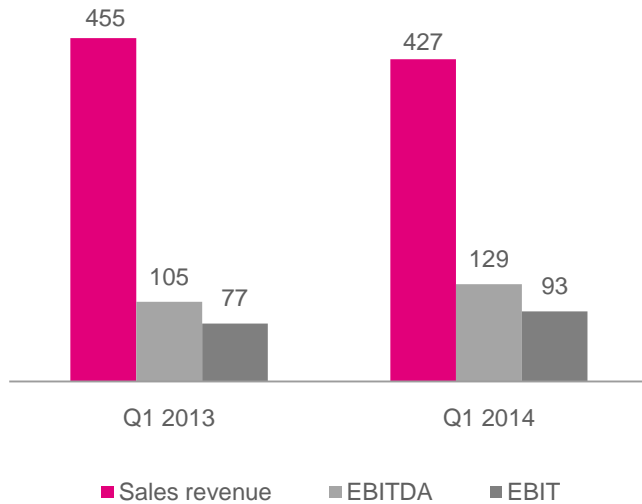
Comments to Q1 2014 results

- increased wind farms' (Wicko and Marszewo) electricity and property rights sales volume
- decreased wind hydroelectric plants' electricity and property rights sales volume
- higher RES' property rights sales price
- higher depreciation costs (impact of the new farms - Wicko and Marszewo)

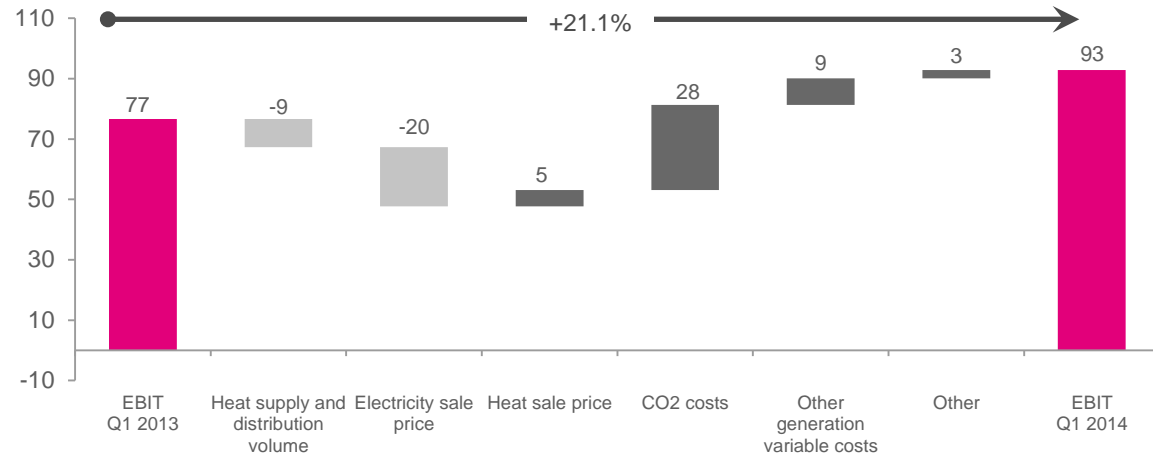
Electricity production [TWh]



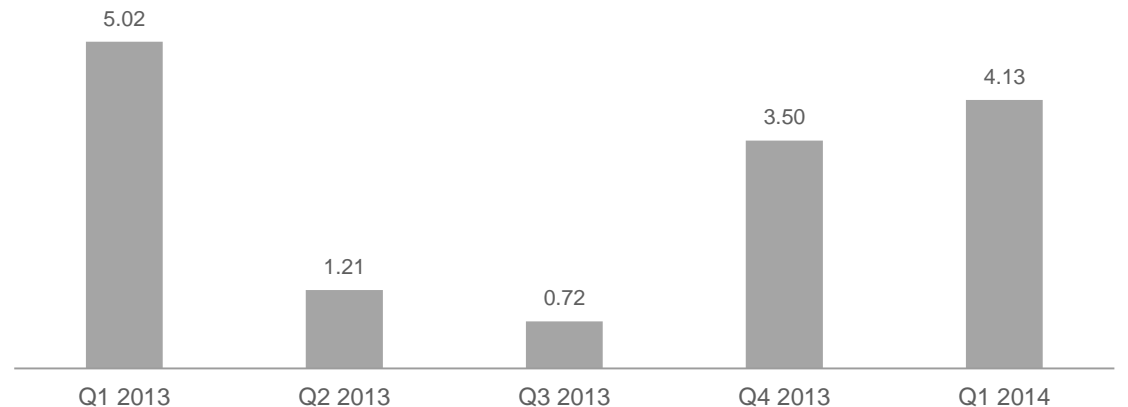
Financial data [PLN m]



EBIT bridge [PLN m]



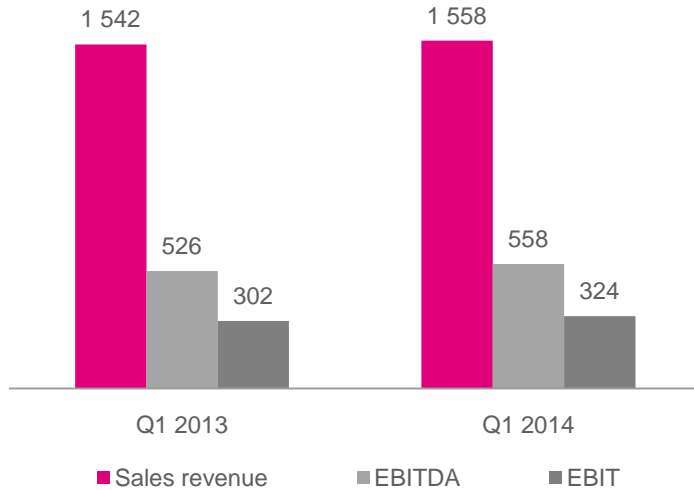
Heat production [PJ]



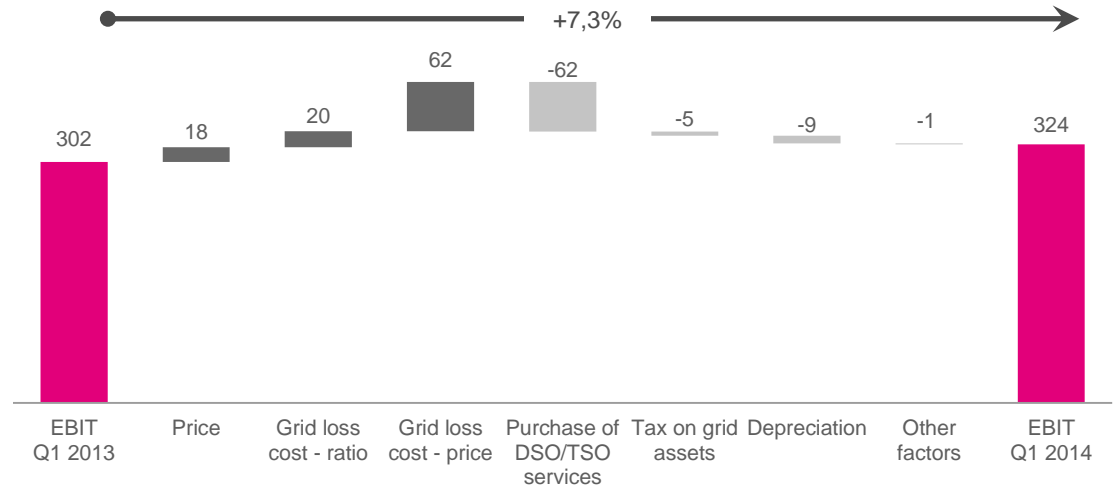
Comments to Q1 2014 results

- lower electricity sales price
- lower heat sales and distribution volume
- lower costs of the provision set up for the deficit of the CO₂ allowances
- lower generation variable unit costs

Financial data [PLN m]



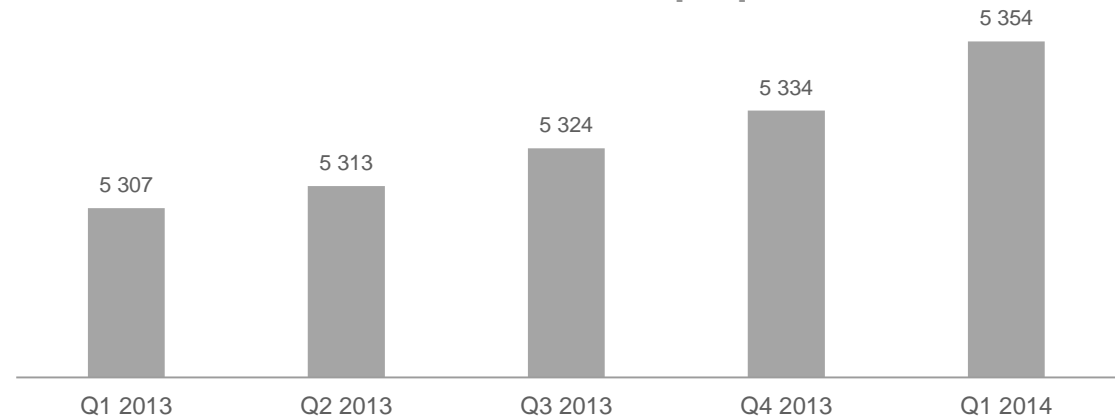
EBIT bridge [PLN m]



Comments to Q1 2014 results

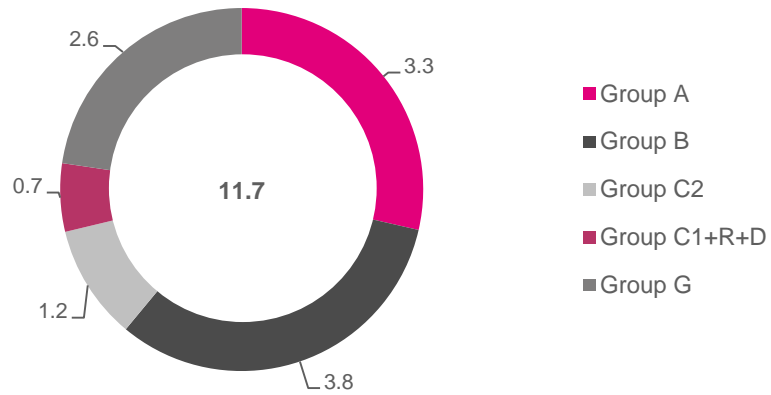
- lower electricity purchase price to cover the balancing difference (decline partly passed on in the 2014 tariff)
- lower balancing difference ratio (factor)
- higher transition and quality fee charged by the Transmission System Operator (increase passed on in the 2014 tariff)
- higher distribution services sale price

Number of customers ['000]

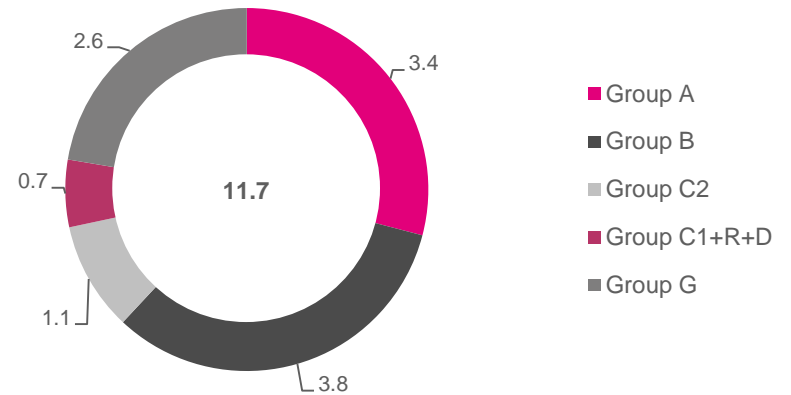


Distribution – volumes

Q1 2013 electricity distribution [TWh]

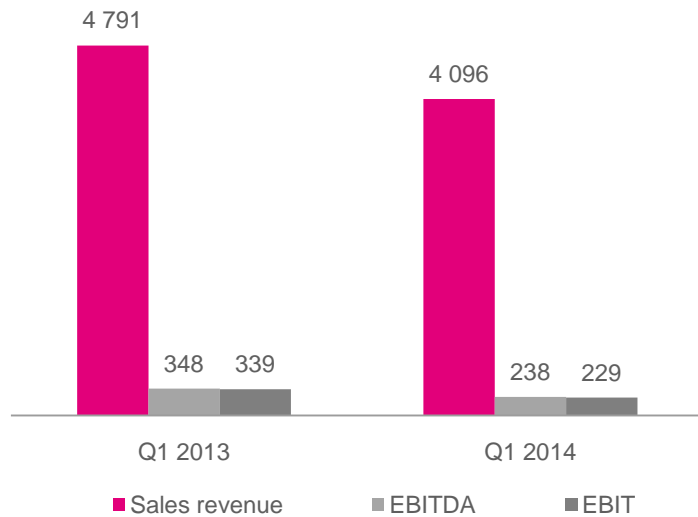


Q1 2014 electricity distribution [TWh]

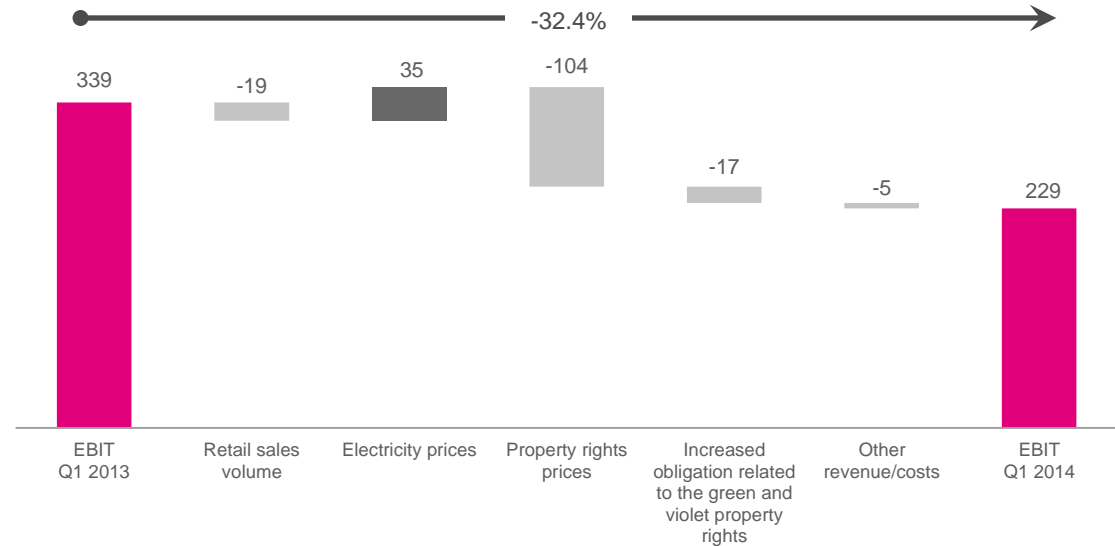


Data related to the distribution of electricity to end users

Financial data [PLN m]



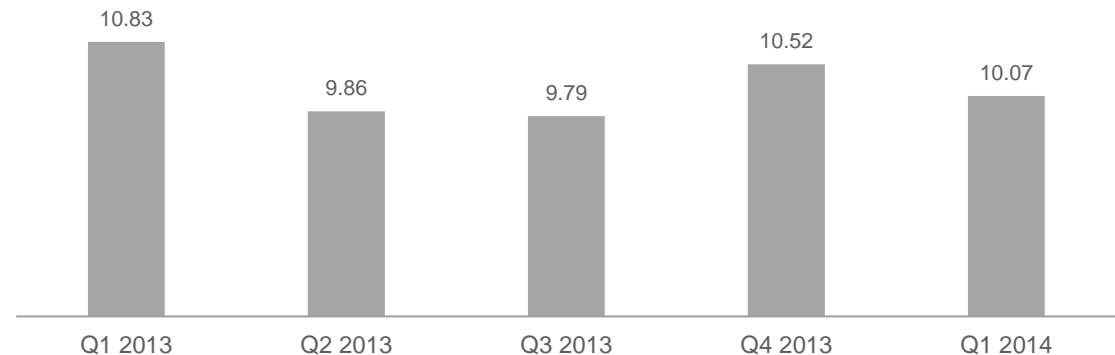
EBIT bridge [PLN m]



Comments to Q1 2014 results

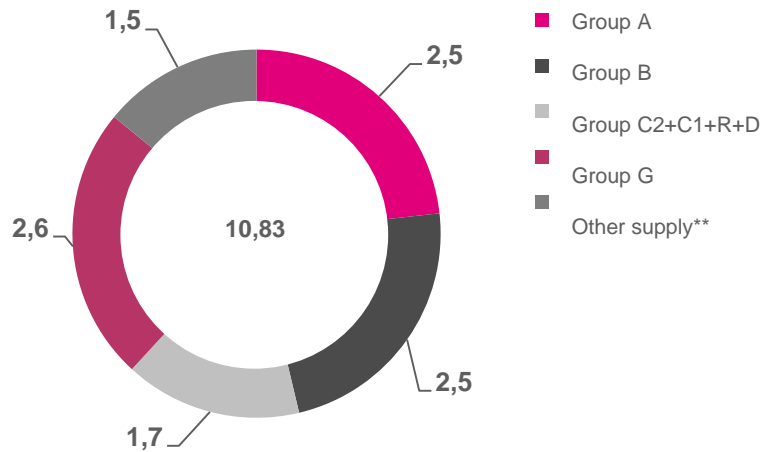
- lower retail sales volume (in particular groups A and C), primarily due to the warm winter and competition activities,
- declining electricity prices,
- rising obligations related to green (from 12% to 13%) and violet (from 0.9% to 1.1%) certificates,
- higher prices of green certificates

Electricity retail sales [TWh]

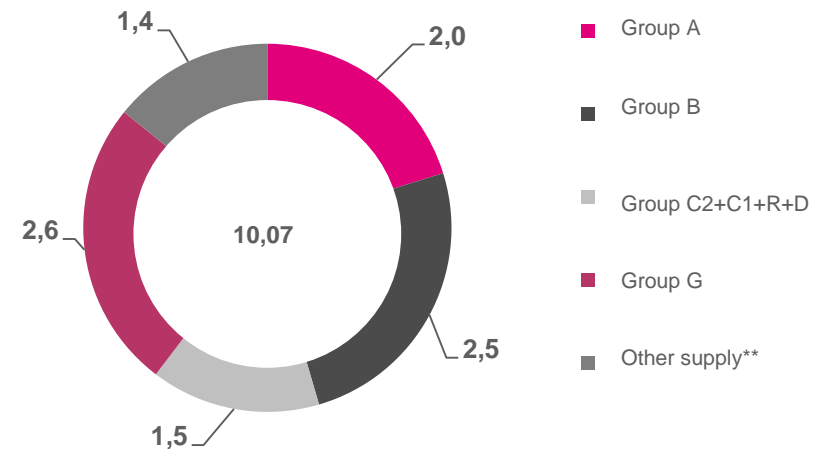


Supply – volumes

Q1 2013 electricity supply to customers [TWh]*



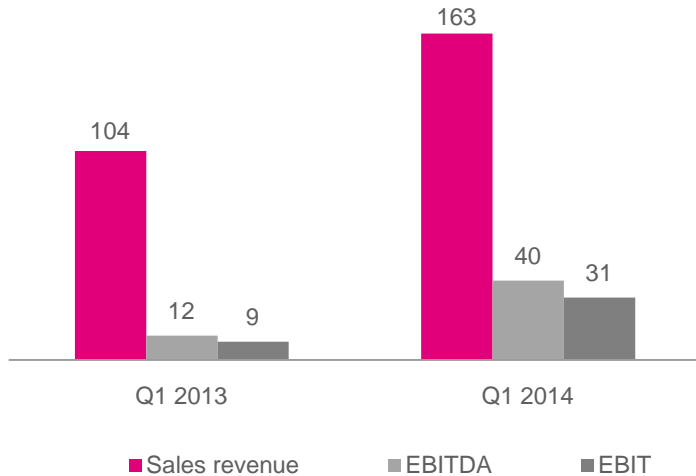
Q1 2014 electricity supply to customers [TWh]*



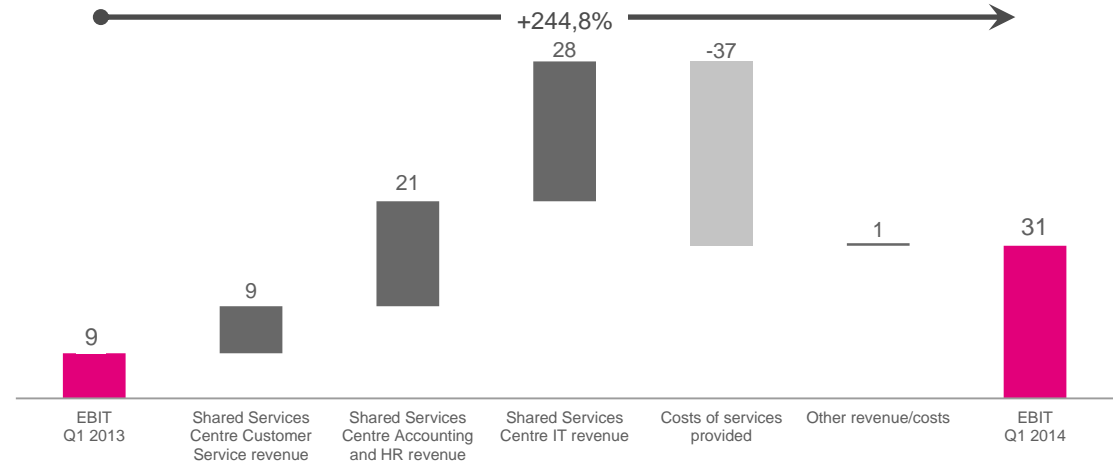
* Volumes of electricity supply to the strategic customers (key accounts) of TAURON Polska Energia S.A. are included in groups A and B

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

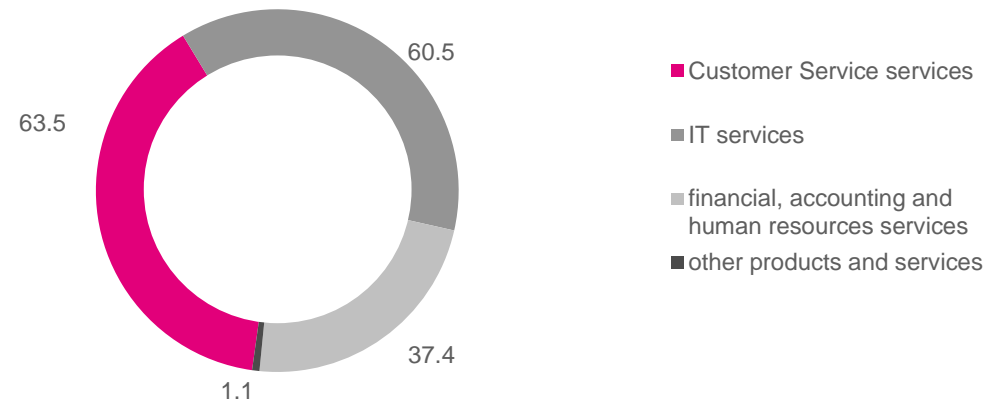
Financial data [PLN m]



EBIT bridge [PLN m]



Structure of Q1 2014 sales [PLN m]



Comments to Q1 2014 results

- surging intra-Group revenue due to the expansion of the range of services provided, as a result of centralizing support functions and migrating resources from TAURON Group's other subsidiaries
- rising costs related to the above factors (headcount up 791 FTEs)

Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2013		2014 (until 29-04-2014)		2014/2013	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	184.92	140 488	160.08	172 191	-13.4%	22.6%
Forward PEAK (Y+Q+M)	204.35	14 855	181.83	17 765	-11.0%	19.6%
Forward (weighted average)	186.78	155 343	162.12	189 956	-13.2%	22.3%
SPOT (TGE)	153.91	19 930	167.00 (forecast)	20 500 (forecast)	8.5%	2.9%
Weighted average total	183.04	175 273	162.59	210 456	-11.2%	20.1%

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 29-04-2014)	Substitution fee and obligation for 2014
2013 average	4.48 EUR/t	RES (green)	211.13	300.03 (13.0%)
2014 average	6.0 – 8.0 EUR/t	Hard coal-fired cogeneration (red)	No transactions	Not announced (23.2%)
2015 average	8.0 – 10.0 EUR/t	Gas-fired cogeneration (yellow)	No transactions	Not announced (3.9%)
Average 2014 EUA price forecast by TAURON	6.5 – 8.0 EUR/t	Methane (violet)	59.79	63,26 (1.1%)

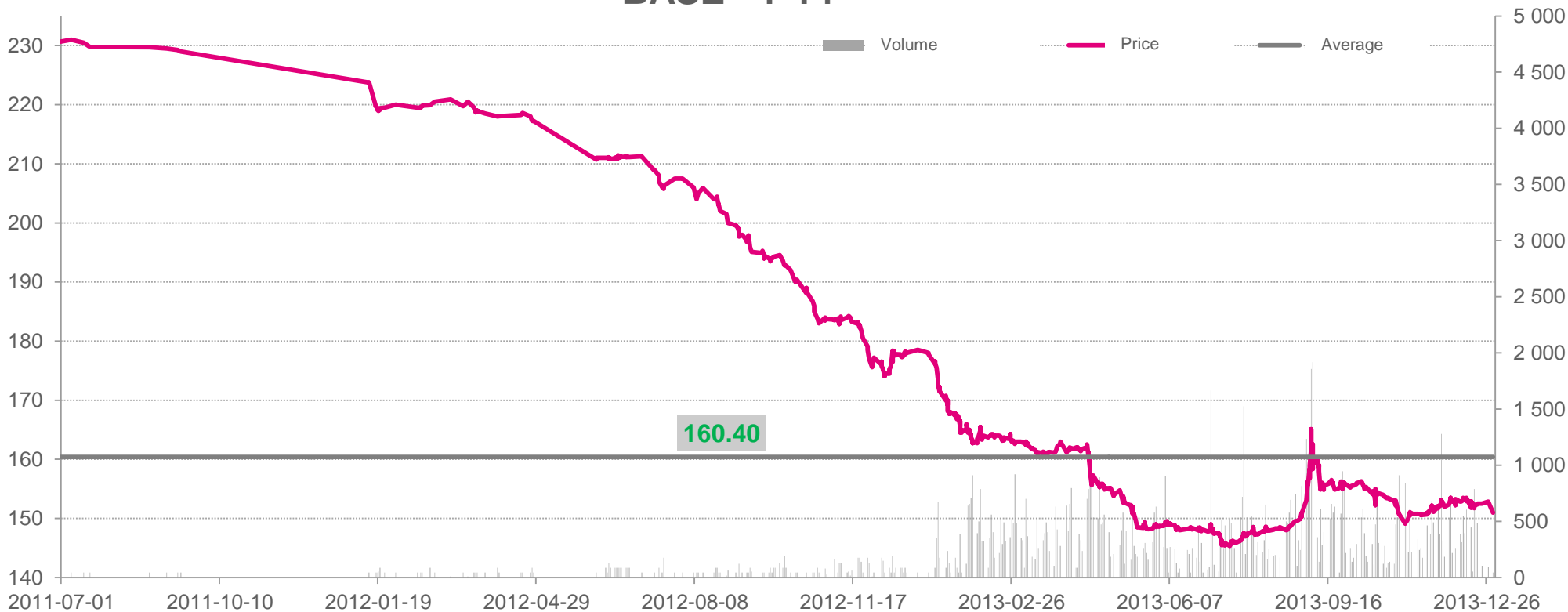
* Sources: Point Carbon, Societe Generale, TAURON

2014 BASE contracts

PLN/MWh

BASE Y-14

GWh



		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 162.12/MWh, total 2014 BASE and PEAK volume: 189 965 GWh

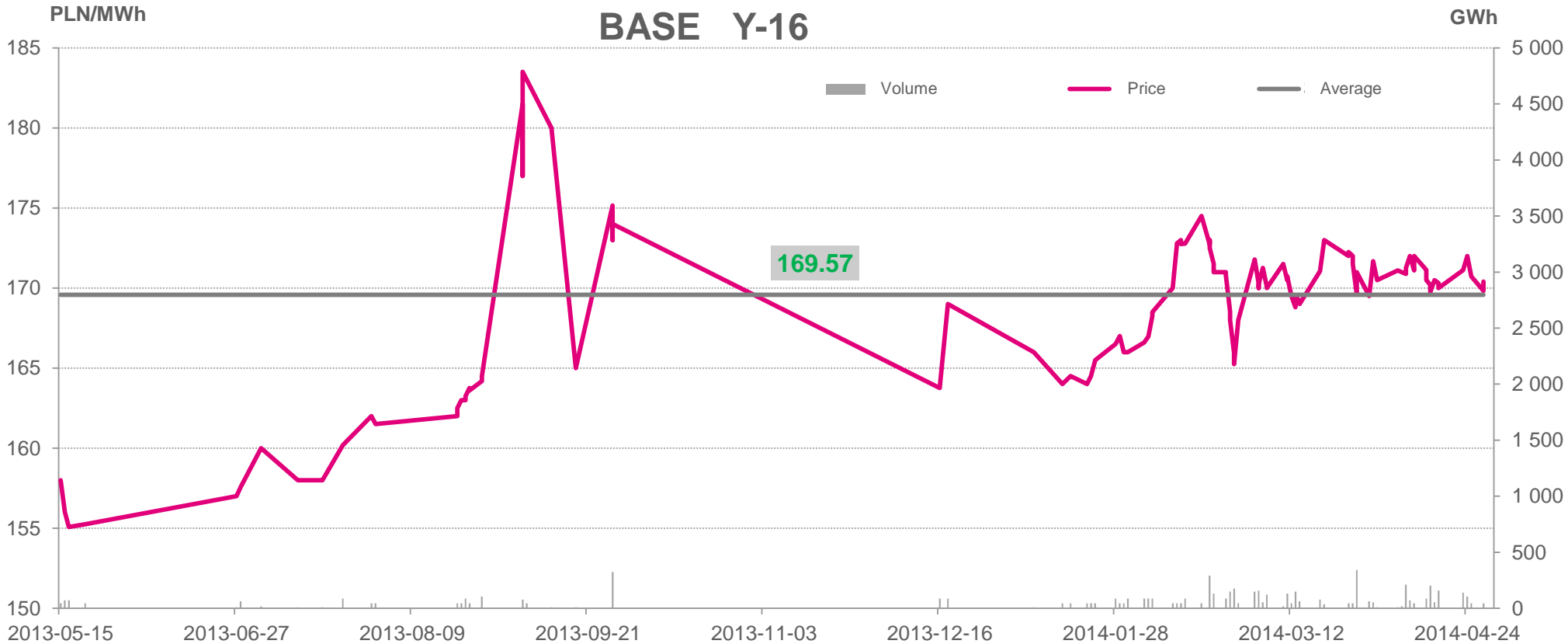
2015 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		162,94	59 183
including	TGE	162,97	42 092
	non TGE	162,85	17 091

Average electricity price that takes into account 2015 one year BASE and PEAK contracts: PLN 164.82/MWh, total 2015 BASE and PEAK volume: 62 554 GWh

2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		169.57	8 828
including	TGE	169.77	5 209
	non TGE	169.28	3 619

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: PLN 169.72/MWh, total 2016 BASE and PEAK volume: 8 886 GWh

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
	Tomasz Walkowicz
UniCredit CAIB	Flawiusz Pawluk
WOOD & Company	Bram Buring
DM IDMSA	Andrzej Bernatowicz