



TAURON Group's H1 2015

Financial Results

August 20, 2015

H1 2015 key financial parameters



TAURON Group's H1 2015 results

[PLN m]

Sales revenue	9 184	(-0.5% yoy)
EBITDA	1 915	(-4.0% yoy)
Net profit	720	(-1.8% yoy)
CAPEX	1 771	(41.6% yoy)
Net debt/EBITDA	1.93x	(up 0.25 yoy)

Key segments' H1 2015 results

[PLN m]	Distribution	Supply	Generation	Mining
Segment's revenue	3 228	8 094	2 675	542
EBITDA	1 243	335	473	(158)
EBIT	758	330	182	(214)
CAPEX	696	3	886	146

Q2 2015 key financial parameters



TAURON Group's Q2 2015 results

[PLN m]

Sales revenue	4 430	(2.1% yoy)
EBITDA	894	(-1.4% yoy)
Net profit	218	(-35.1% yoy)
CAPEX	979	(43.0% yoy)
Net debt/EBITDA	1.93x	(up 0.25 yoy)

Key segments' Q2 2015 results

[PLN m]

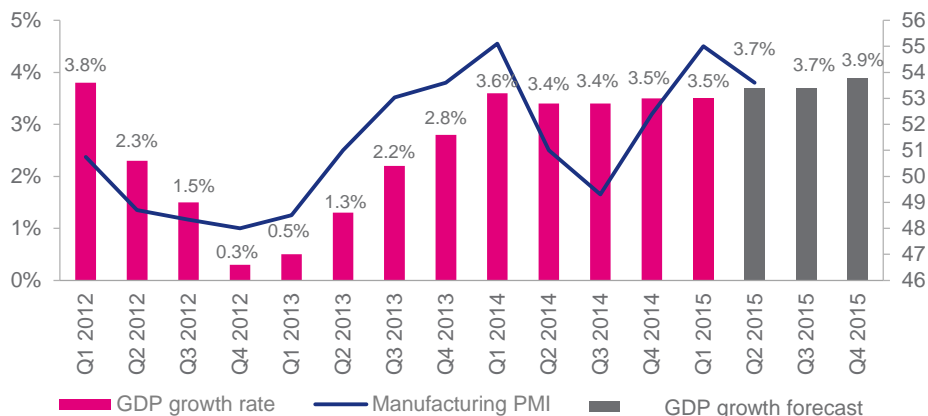
	Distribution	Supply	Generation	Mining
Segment's revenue	1 585	3 916	1 148	273
EBITDA	697	141	189	(114)
EBIT	453	139	44	(142)
CAPEX	411	1	462	86

Highlights

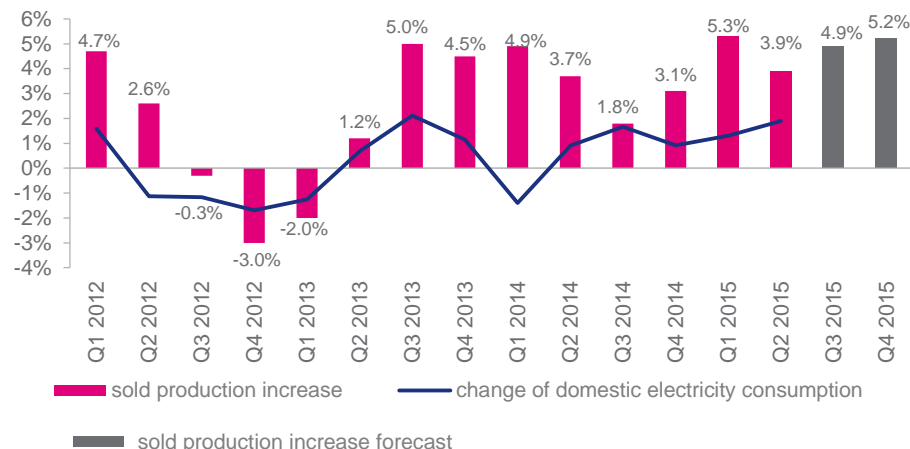
January 16	Expression of initial interest in the purchase of all or a part of Brzeszcze Coal Mine assets
March 12	Floating 17 500 TAURON bonds worth PLN 1.75bn in total on the Catalyst market
April 15	Signature of agreement to purchase 10 percent of shares in PGE EJ 1 – a special purpose vehicle set up to carry out the 3 000 MW nuclear power plant construction project
April 23	Decision of Ordinary General Meeting of Shareholders on the distribution of the 2014 profit. Dividend per share: PLN 0.15. Total dividend amount: PLN 262.9m. Dividend was paid out on August 12, 2015.
July 10	Signature of an amendment to the agreement with Bank Gospodarstwa Krajowego on increasing the value of the bond issue program by PLN 700m. Current total value of the program: PLN 1.7bn
July 13	Signature of the agreement with the Polish Investments for Development on the construction of a 413 MWe CCGT unit at Łagisza Power Plant
July 17	<p>TAURON's ratings affirmed by Fitch:</p> <ul style="list-style-type: none"> ▪ international long term rating in domestic and foreign currency of "BBB" with a stable outlook ▪ international short term rating in domestic and foreign currency of "F3" ▪ national long term rating of "A (pol)" with a stable outlook ▪ national rating of unsecured and unsubordinated debt of "A (pol)"
August 4	Definition of the boundary conditions for the possible Brzeszcze Coal Mine acquisition transaction

Macroeconomic and market situation

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



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



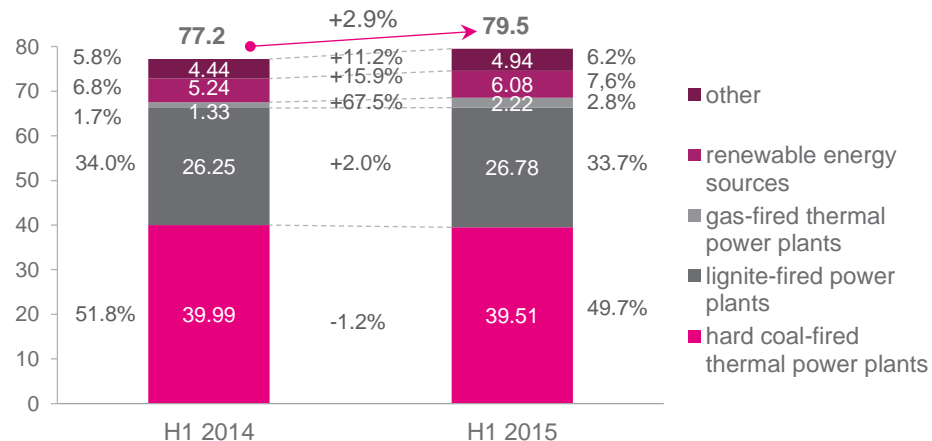
Electricity prices under one year BASE contracts

	Average price [PLN/MWh]	Volume [GWh]
Y-13	191.60	108 861
Y-14	160.40	142 841
Y-15	168.11	146 932
Y-16	169.37	94 814
Y-17	168.23	9 014

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

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

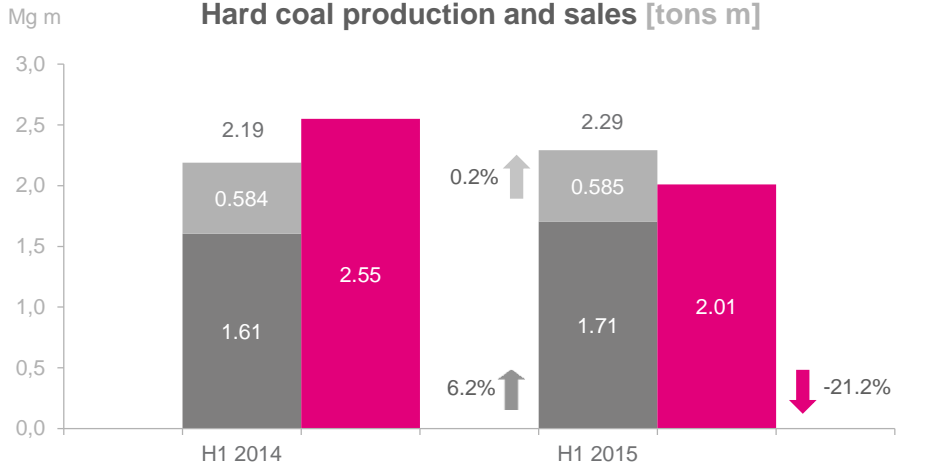
Structure of electricity generation in Poland [TWh]



H1 2015 key operating data

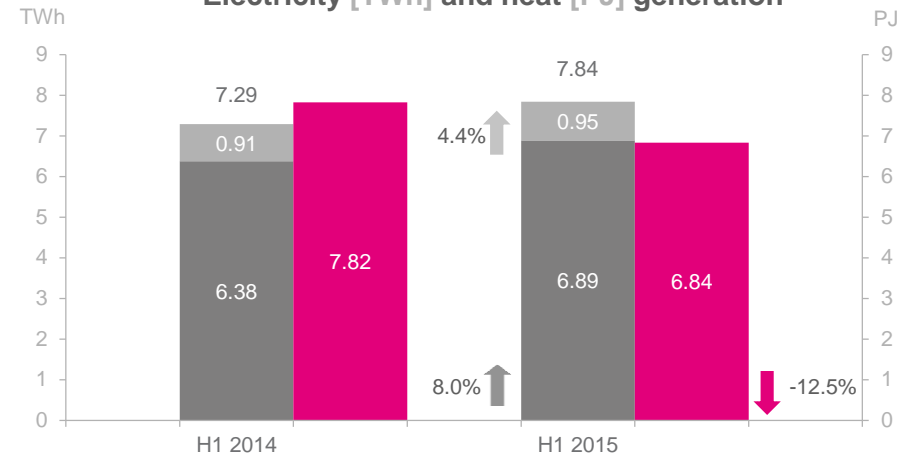


Hard coal production and sales [tons m]



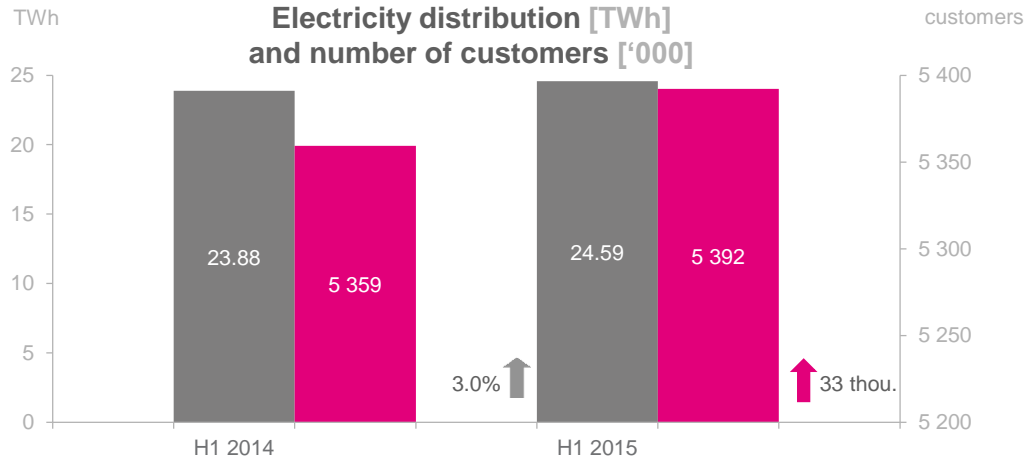
■ intra-Group hard coal sales ■ hard coal sales outside the Group ■ commercial coal production

Electricity [TWh] and heat [PJ] generation



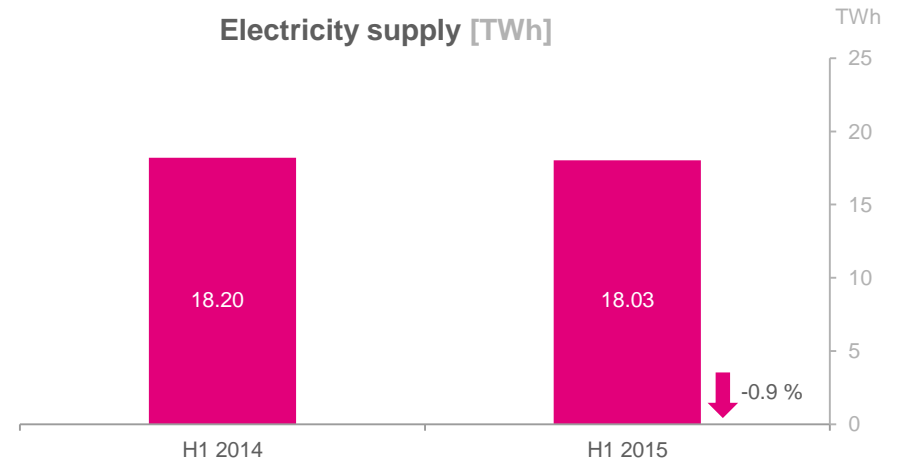
■ electricity ■ electricity - RES ■ heat

Electricity distribution [TWh] and number of customers ['000]



■ electricity distribution ■ number of customers

Electricity supply [TWh]

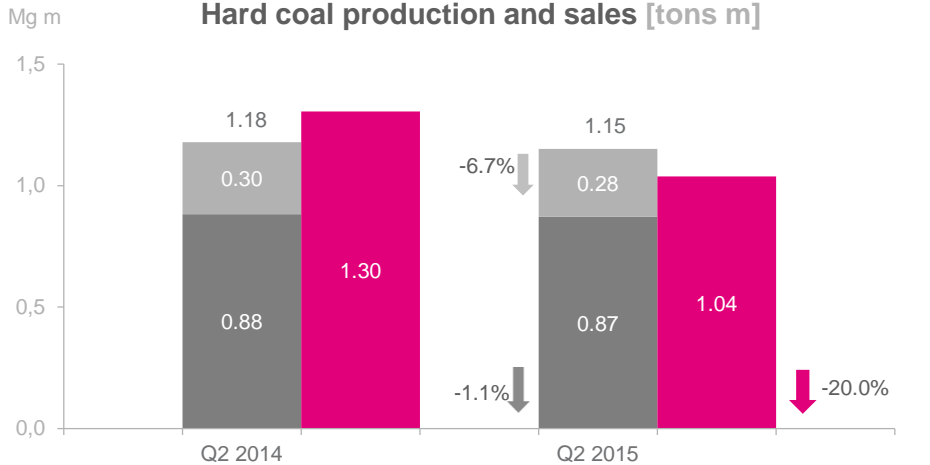


■ retail electricity supply

Q2 2015 key operating data

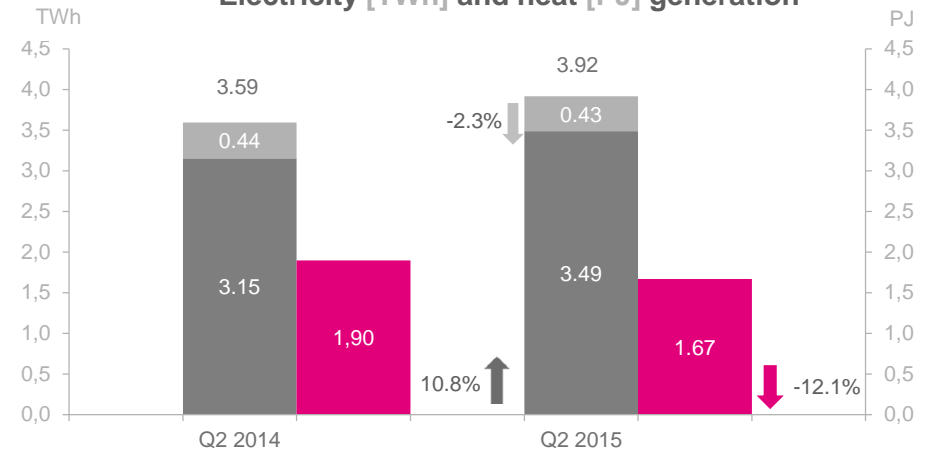


Hard coal production and sales [tons m]



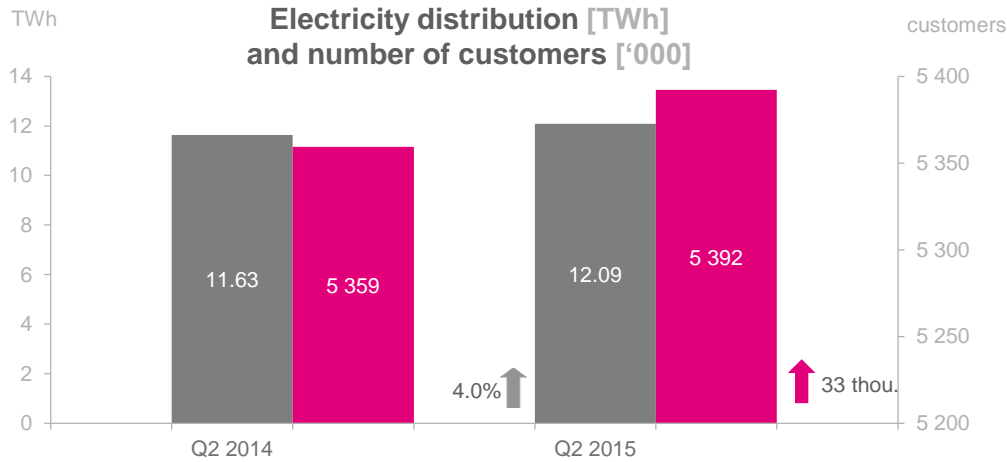
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Electricity [TWh] and heat [PJ] generation



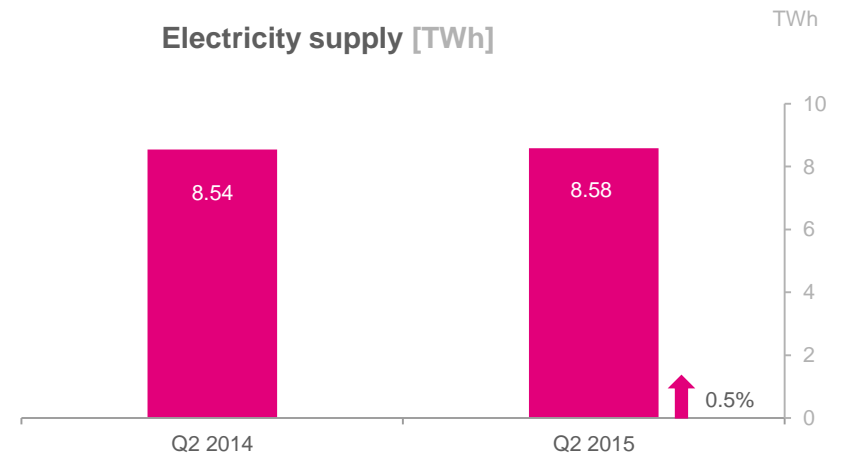
■ electricity ■ electricity - RES ■ heat

Electricity distribution [TWh] and number of customers ['000]



■ electricity distribution ■ number of customers

Electricity supply [TWh]

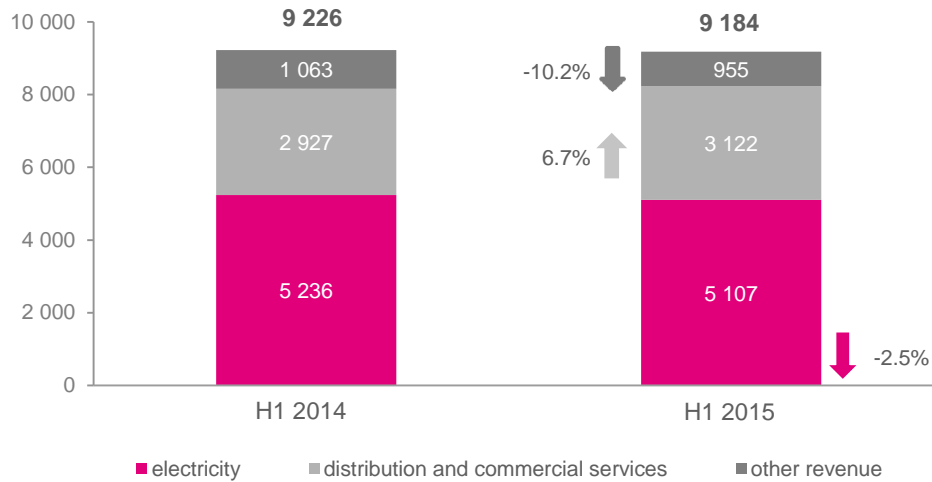


■ retail electricity supply

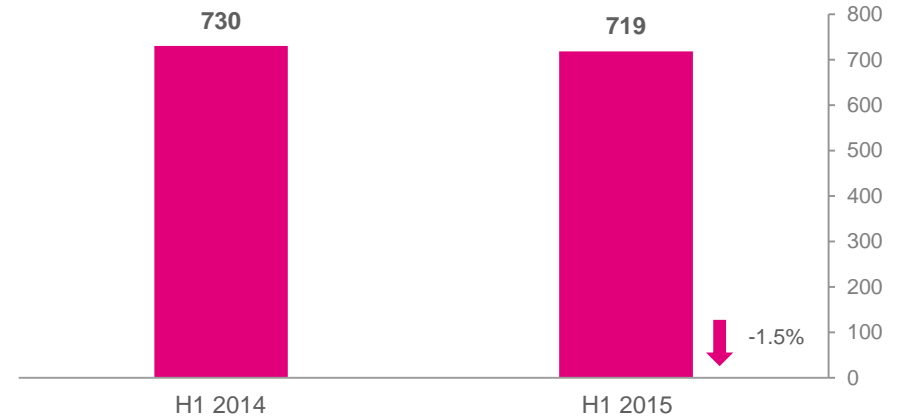
H1 2015 key financial data



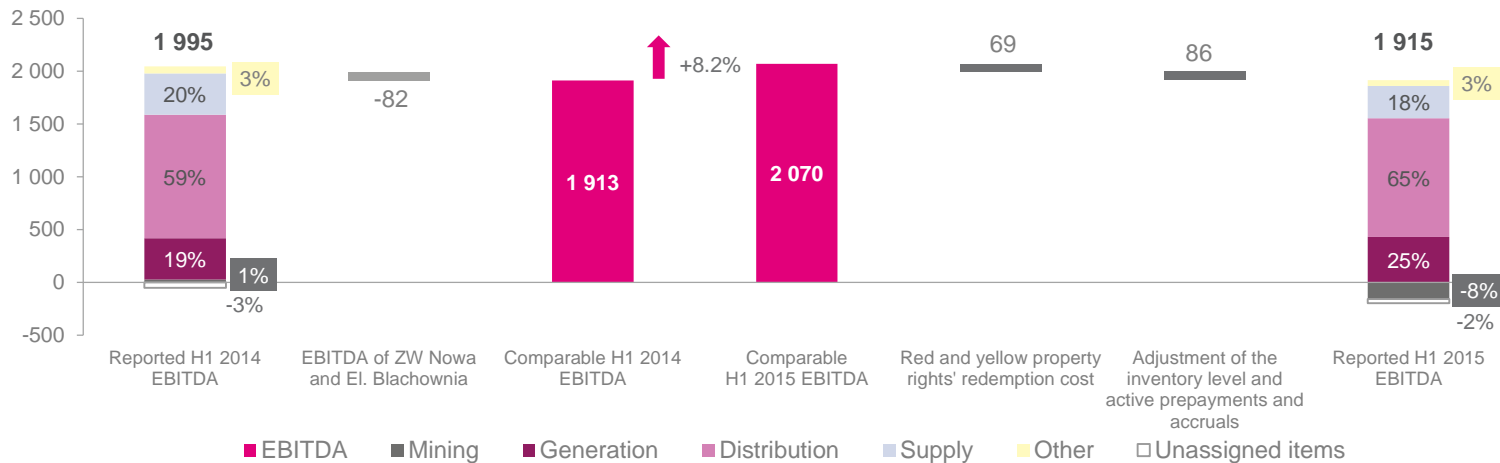
Sales revenue [PLN m]



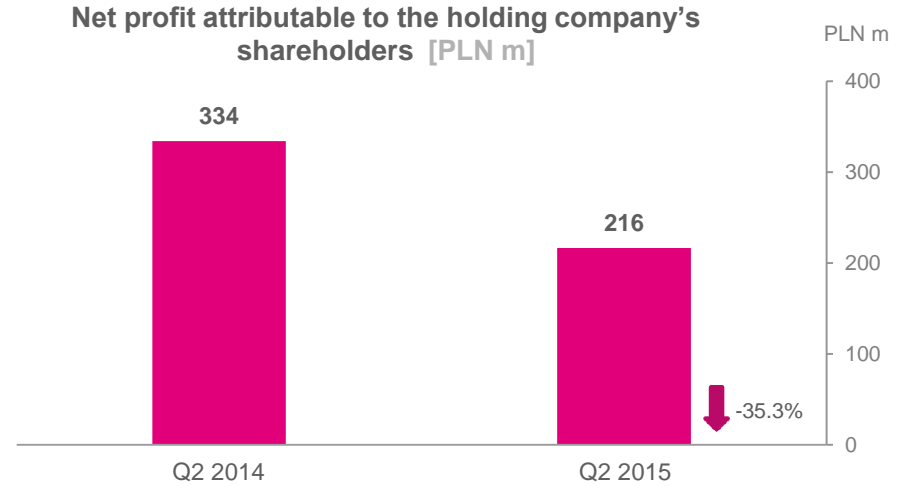
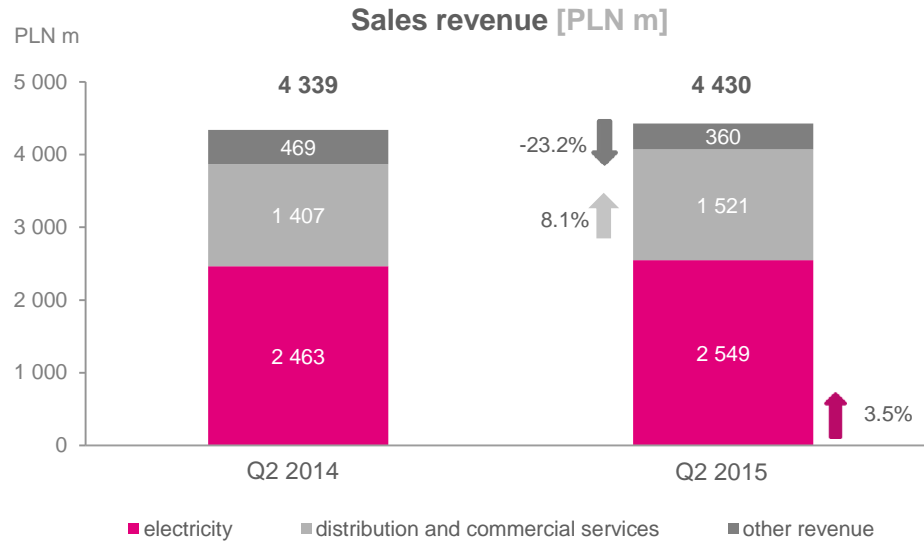
Net profit attributable to the holding company's shareholders [PLN m]



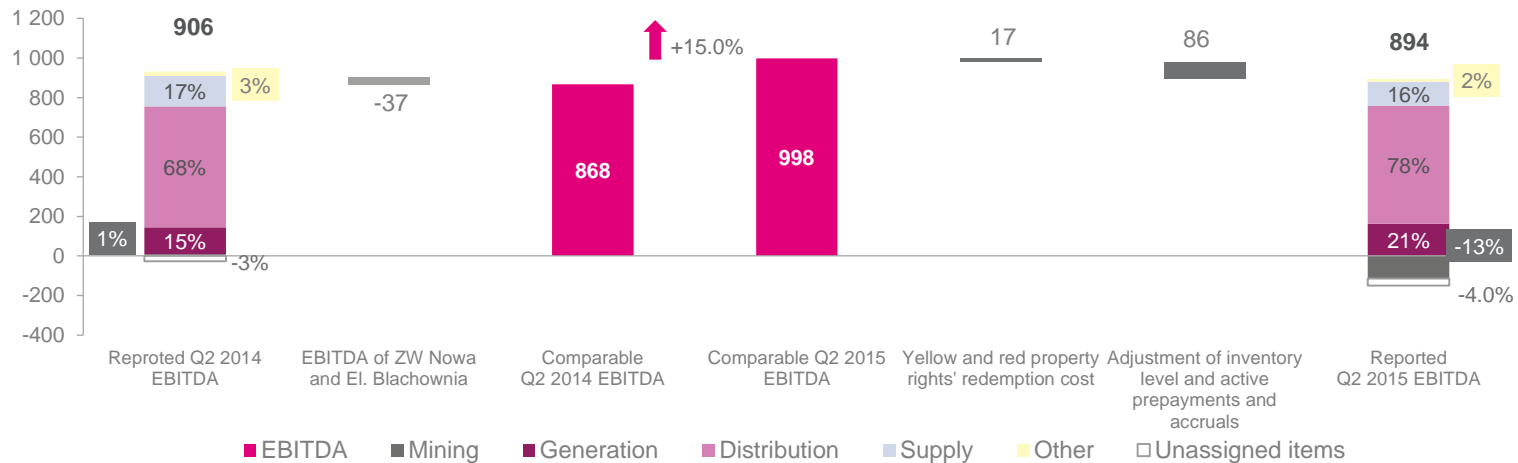
H1 2015 vs H1 2014 EBITDA [PLN m]



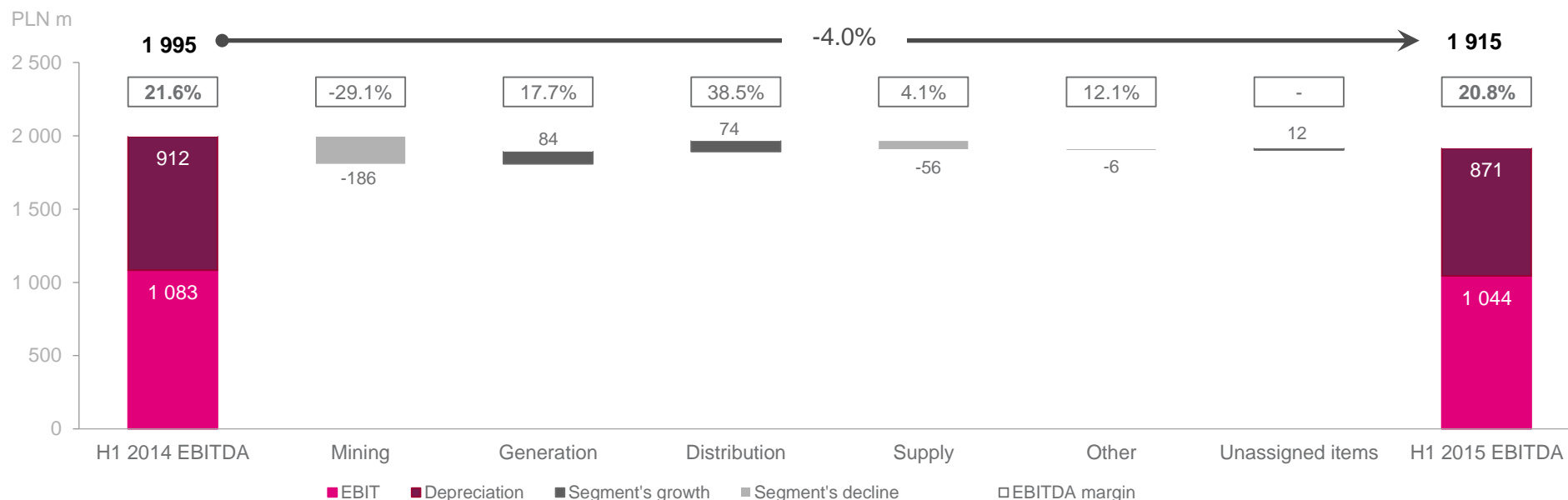
Q2 2015 key financial data



Q2 2015 vs Q2 2014 EBITDA [PLN m]



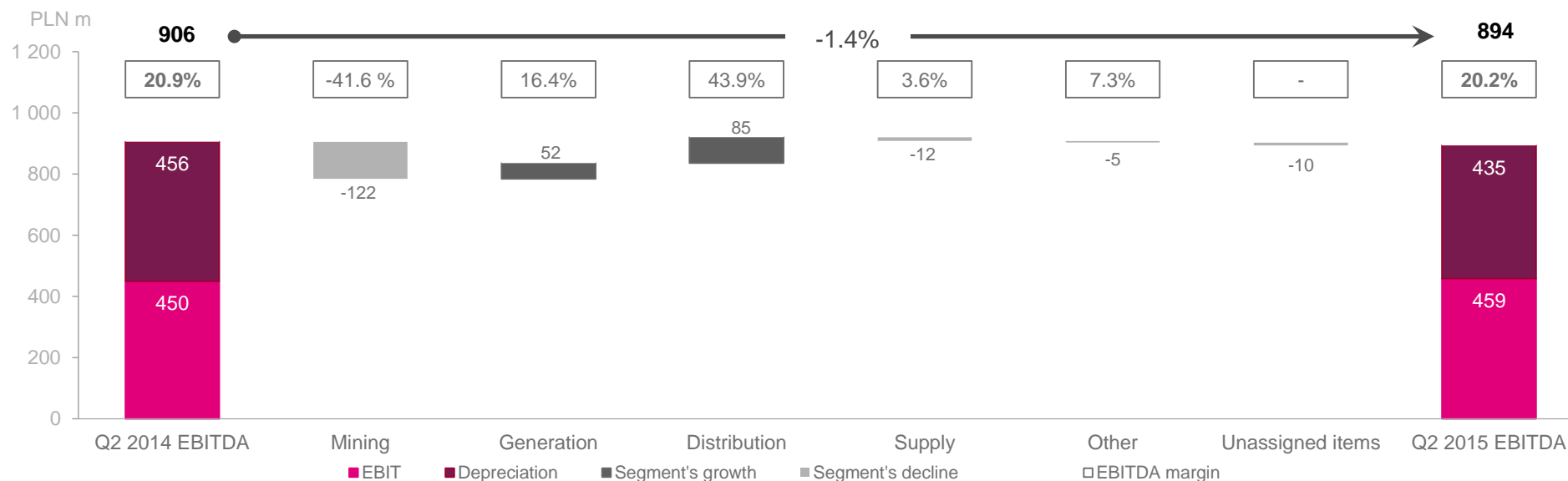
H1 2015 EBITDA



Most important factors affecting H1 2015 EBITDA:

- Mining – lower production of commercial coal while realizing higher sales volume, lower commercial coal sales prices, adjustments for inventory, accruals and prepayments
- Generation – higher electricity production and sales volumes, higher electricity sales prices, higher margin on electricity trading, lower fixed costs
- Distribution – higher volume and average price of the distribution service sales, higher costs of purchasing distribution / transmission services
- Supply – higher costs of the obligation to redeem property rights with a lower price of purchasing property rights, change of the customers' structure resulting in the reduction of the average electricity sales price

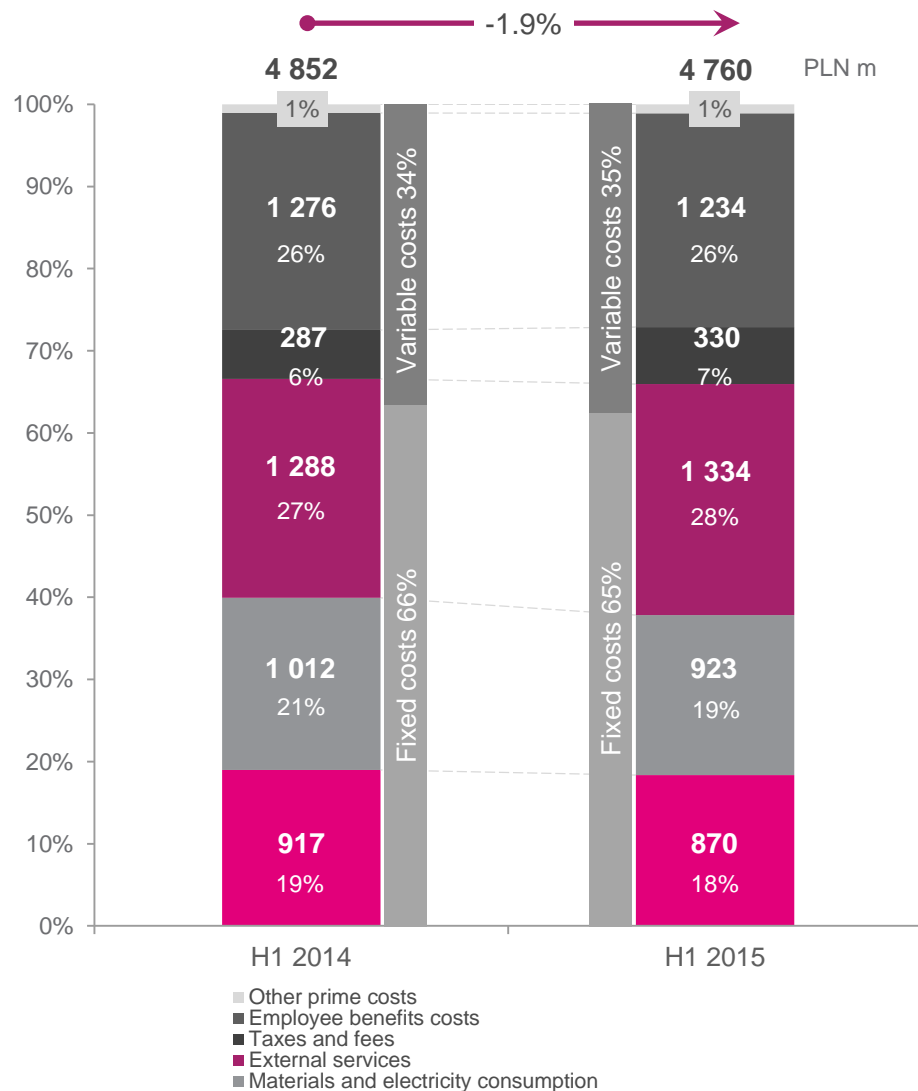
Q2 2015 EBITDA



Most important factors affecting Q2 2015 EBITDA:

- Mining – lower production of commercial coal, lower commercial coal sales prices, adjustments for inventory, accruals and prepayments
- Generation – higher electricity production and sales volumes, higher electricity sales prices, higher margin on electricity trading, lower fixed costs
- Distribution – higher volume and price of the distribution service sales, lower costs of the balancing difference, higher electricity transmission costs (increased volume and higher rate for the transmission services)
- Supply – higher costs of the obligation to redeem property rights with a lower price of purchasing property rights, change of the customers' structure resulting in the reduction of the average sales price

H1 2015 prime costs structure



Declining costs in H1 2015 are mainly due to:

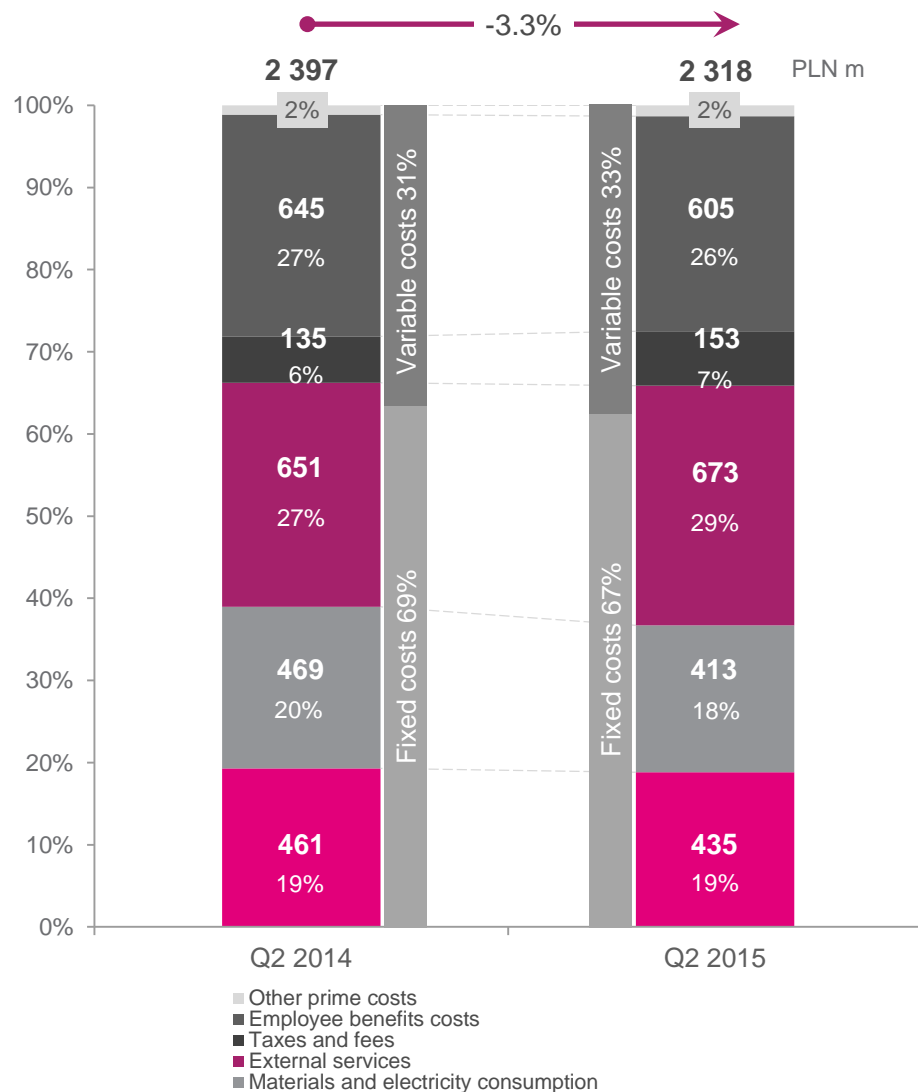
- consumption of materials
- depreciation and impairment charges (spin-off of ZW Nowa and EI. Blachownia to TAMEH)
- employee benefit costs – mainly the result of the lower headcount

Cost structure:

- H1 2015: variable costs (excluding the value of goods and materials sold) approx. 35%, fixed costs approx. 65%
- H1 2014: variable costs approx. 34%, fixed costs approx. 66%

The reasons for the slight change to the cost structure are primarily higher transmission services purchase costs and lower fixed costs

Q2 2015 prime costs structure



Declining costs in Q2 2015 are mainly due to:

- consumption of materials (mainly lower fuel costs)
- depreciation and impairment charges (spin-off of ZW Nowa and EI. Blachownia to TAMEH)
- employee benefit costs – mainly the result of the lower headcount

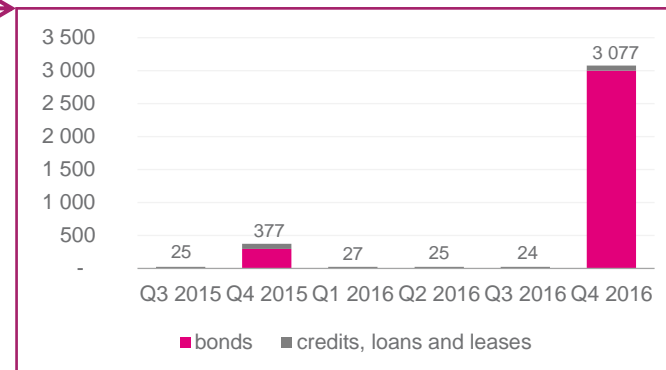
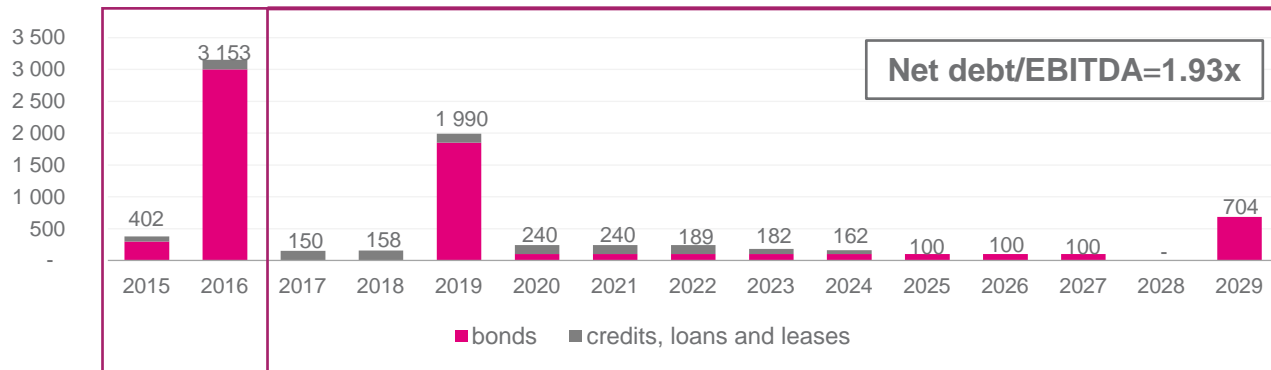
Cost structure:

- Q2 2015: variable costs (excluding the value of goods and materials sold) approx. 33%, fixed costs approx. 67%
- Q2 2014: variable costs approx. 31%, fixed costs approx. 69%

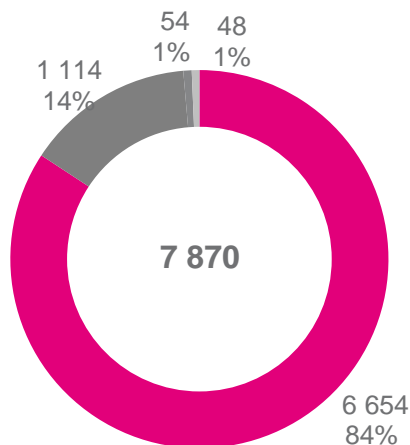
The reasons for the change to the cost structure are primarily higher transmission services purchase costs and lower fixed costs

Debt and financing

Maturity of TAURON Group's debt

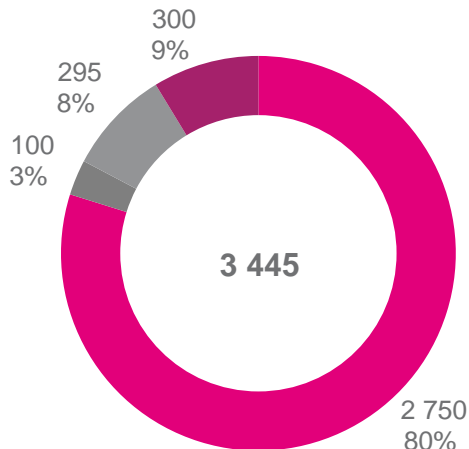


Structure of TAURON Group's financial debt [PLN m]



- bonds
- EIB loans
- NFOŚIGW/WFOŚIGW loans
- leases

Financing available to TAURON Group [PLN m]











- banks' program bonds
- BGK program bonds
- EIB loan
- cashpooling

- financial debt (nominal amount of debt due to investment loans, lendings, leases and bonds) as of June 30, 2015 is PLN 7 870m
- average weighted debt maturity as of June 30, 2015 is 55 months
- EUR denominated debt (NSV bond issue) constitutes 8.95% of total debt

Debt structure based on interest rate:

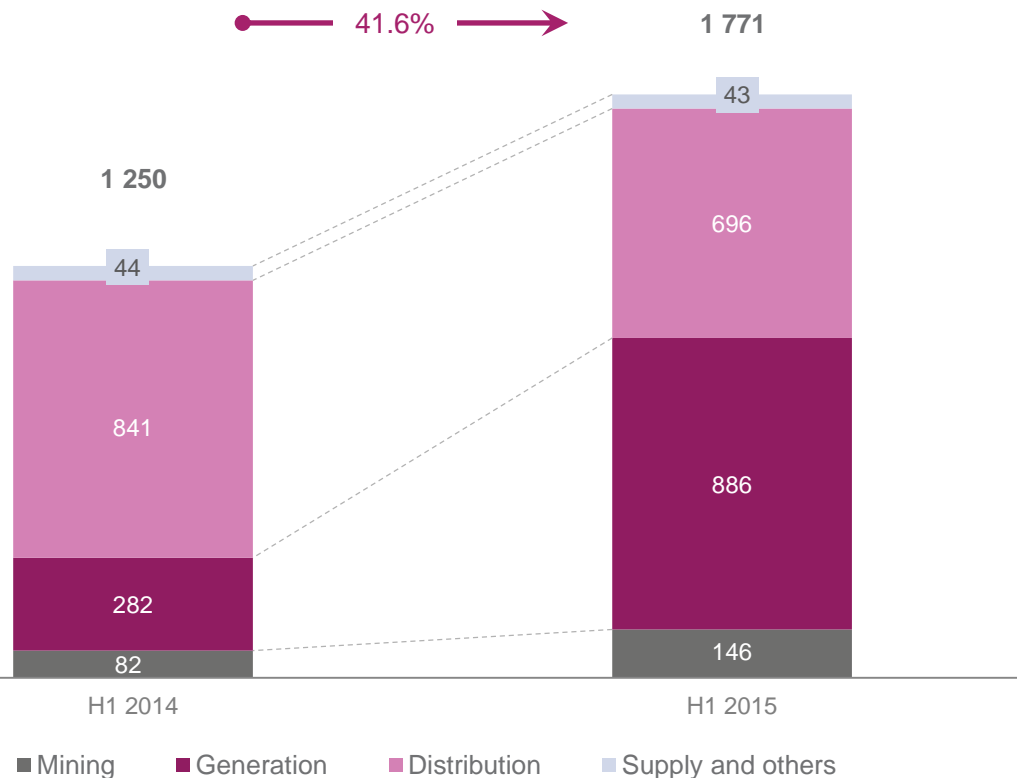
Instrument	Debt amount [PLN m]	Interest rate	Collateral
bonds, including:	6 654		
banks' program	3 000	floating	IRS
banks' program	300	floating	none
market program	1 750	floating	none
BGK program	900	floating	none
NSV	704	fixed	CIRS
EIB loans	1 114	fixed	none
loans	54	floating	none
leases	48	floating	none

CAPEX – projects' work progress

Investment project	Capacity (MW _e)	Capacity (MW _t)	Work progress (percent)		Planned completion data
Construction of the hard coal-fired unit at Jaworzno III Power Plant	910	-	11		2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant	450	240	78		2016
Construction of the hard coal-fired co-generation unit at ZW Tychy	50	86	78		2016
Jaworzno III Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	84		2016
Łaziska Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	96		2015
Construction of the CCGT unit at Łagisza Power Plant	413	266	2		2018
Construction of the 800m level at Janina coal mine	-	-	23		2019
Construction of Grzegorz shaft at Sobieski coal mine	-	-	18		2022

CAPEX – by segment

CAPEX by segment [PLN m]






Key investment projects completed in H1 2015:

- Mining:
 - construction of the 800 m level in Janina coal mine (PLN 41m),
 - purchase of an additional longwall roof support and furnishing set for Janina coal mine (PLN 71m)

- Generation:
 - construction of the NO_x emission reduction system (PLN 131m), construction of the 910 MW unit at Jaworzno Power Plant (PLN 303m)
 - construction of Marszewo wind farm's 2nd stage (PLN 13m), upgrade of hydroelectric power plants (PLN 26m)
 - construction and upgrade of district heating networks (PLN 29m), restoration of ZW Tychy's capacity (PLN 212m), completion of the feeding lines for the Western and Southern Primary Pipes from Łagisza (PLN 19m), completion of the feeding lines for the Western and Southern Primary Pipes from ELCHO (PLN 10m)

- Distribution:
 - construction of new connections (PLN 229m),
 - upgrade and restoration of grid assets (PLN 396m)

Efficiency improvement program

Segment	Savings realized in 2013 - H1 2015	Savings planned in 2013-2015	Progress %	Main initiatives
Distribution	PLN 388m	PLN 416m	 93%	<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 and Heat)	PLN 497m	PLN 420m	 118%	<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 farms' operation Compressed air losses reduction Asset restructuring Procurement policy optimization
Mining	PLN 32m	PLN 28m	 114%	<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 50m			<ul style="list-style-type: none"> Employment restructuring, reduction of external services' costs
Total	PLN 967m	PLN 864m	112%	

- In 2013-H1 2015 the voluntary redundancy program covered 1 049 persons. Over that period employment contracts were terminated with 1 603 persons (4 097 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
- Structure of savings in 2013-2014 and H1 2015: 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

Thank you – Q & A



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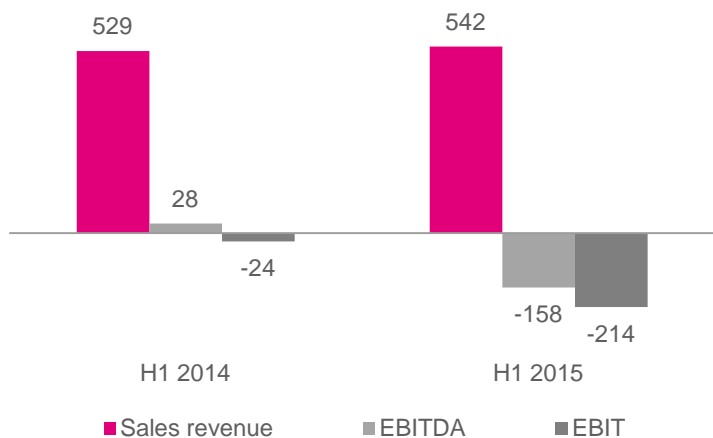
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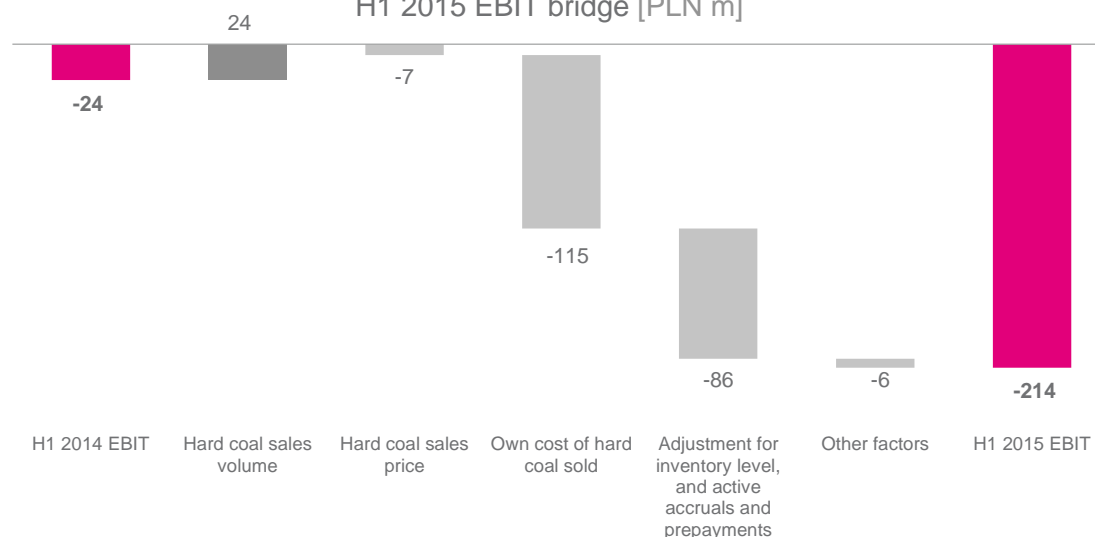
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Mining

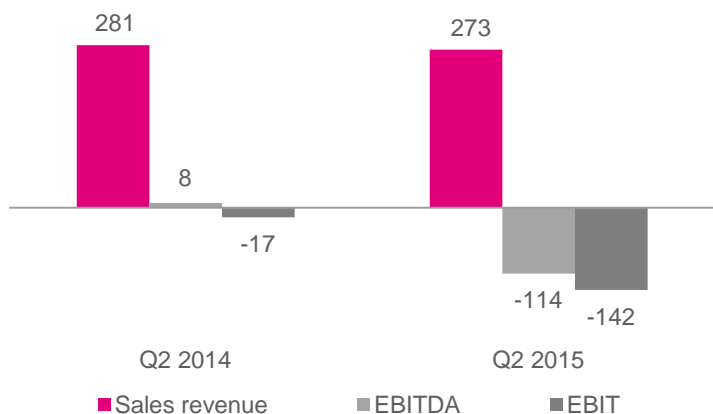
H1 2015 financial data [PLN m]



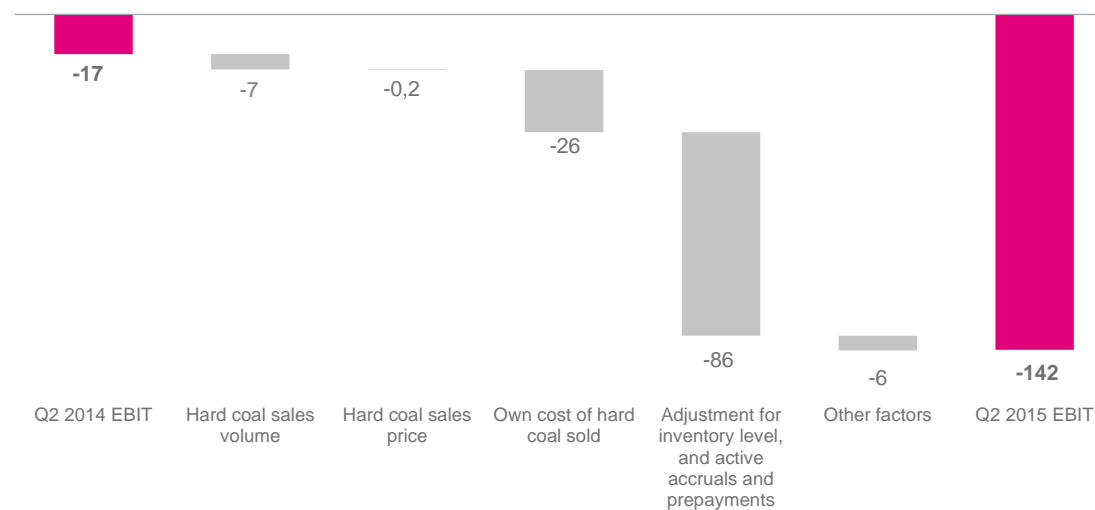
H1 2015 EBIT bridge [PLN m]



Q2 2015 financial data [PLN m]



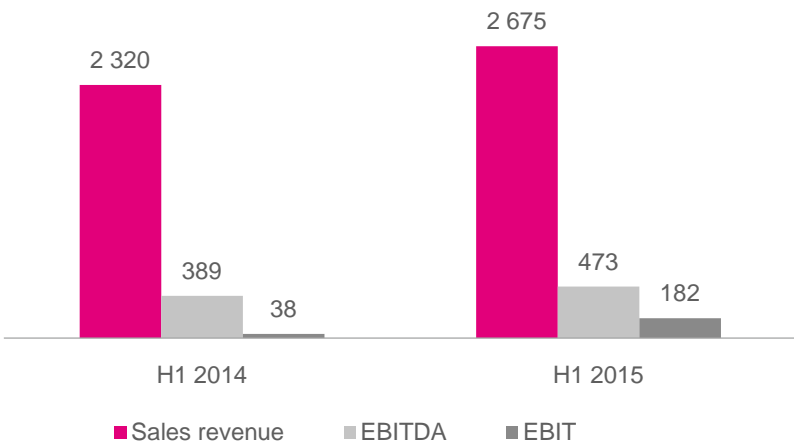
Q2 2015 EBIT bridge [PLN m]



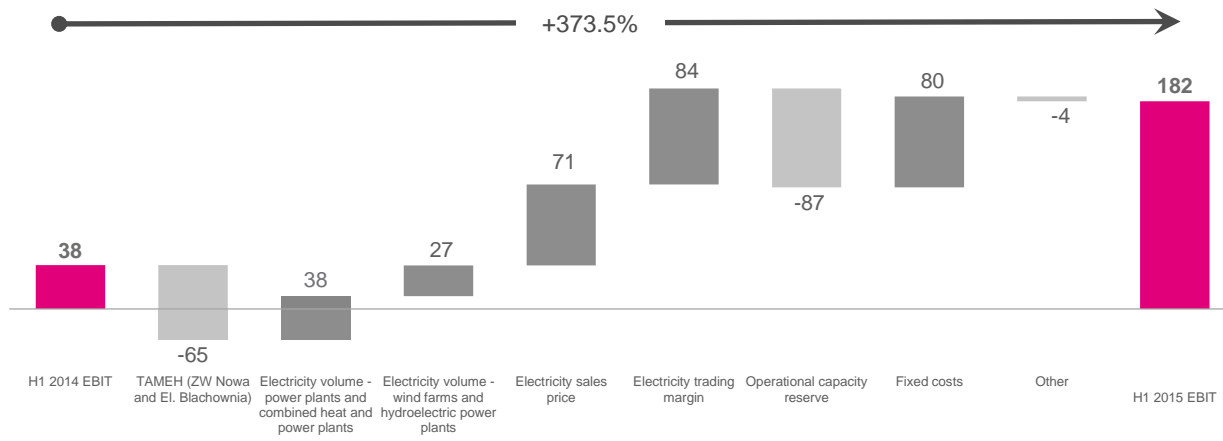
Generation



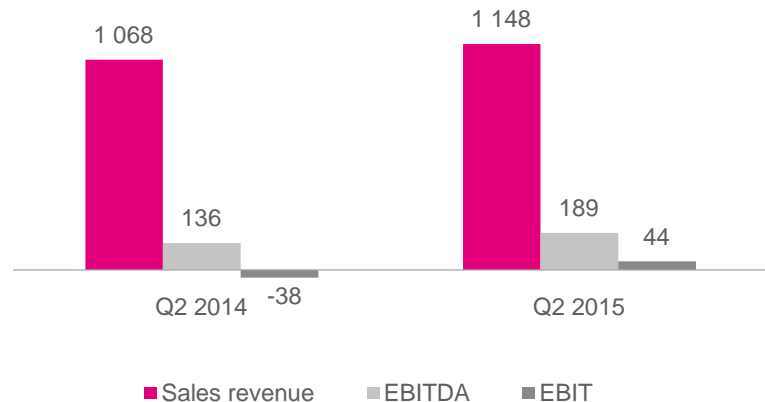
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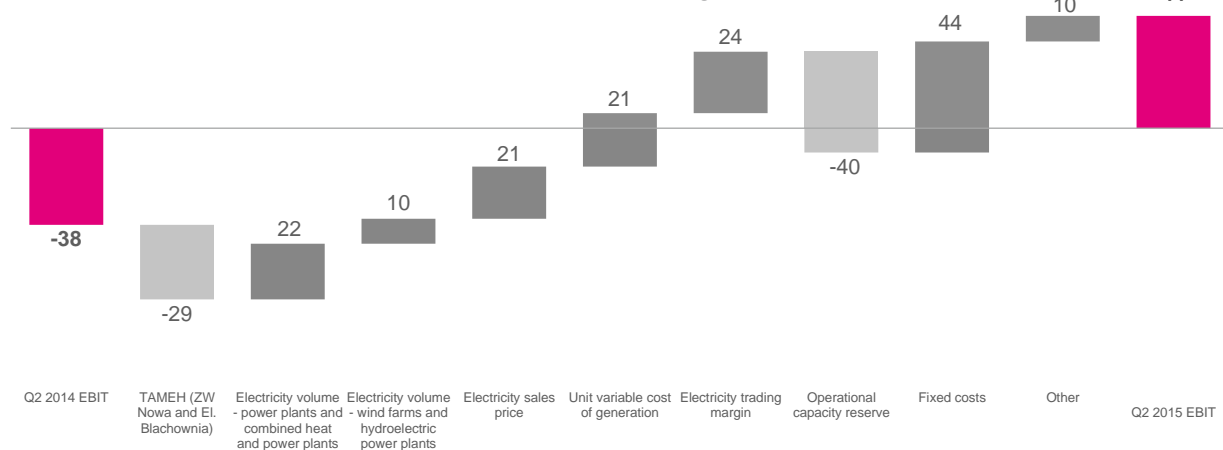
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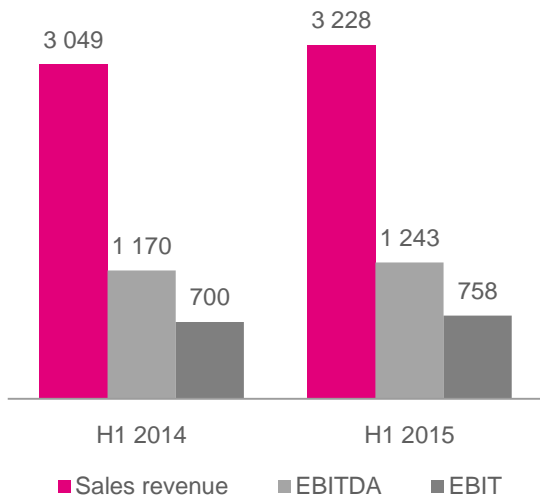


Q2 2015 EBIT bridge [PLN m]

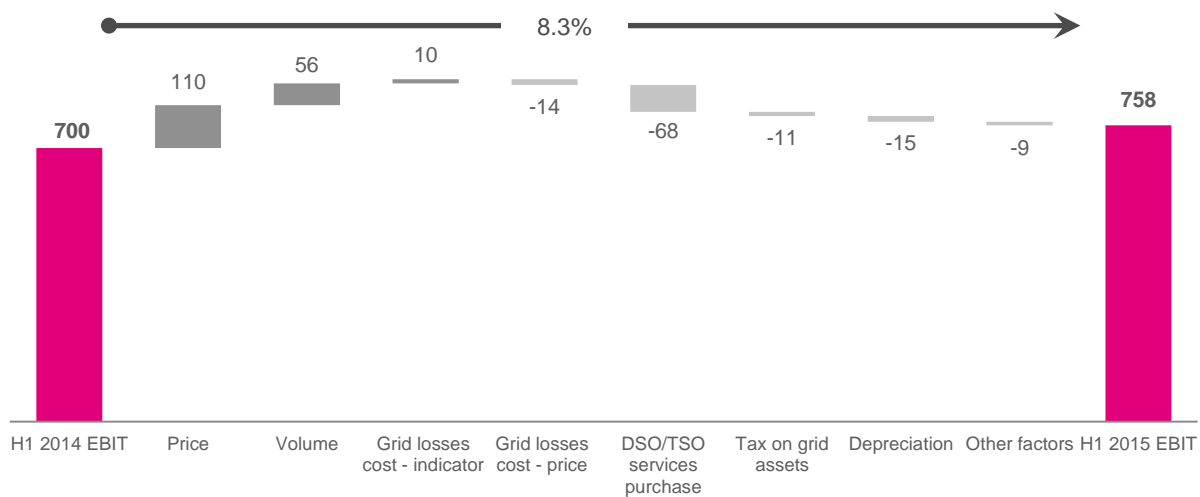


Distribution

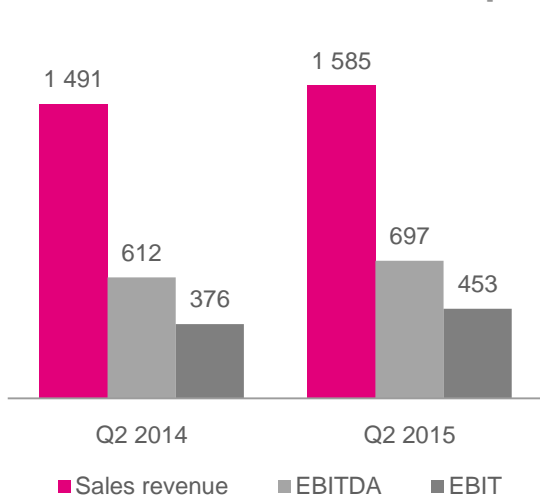
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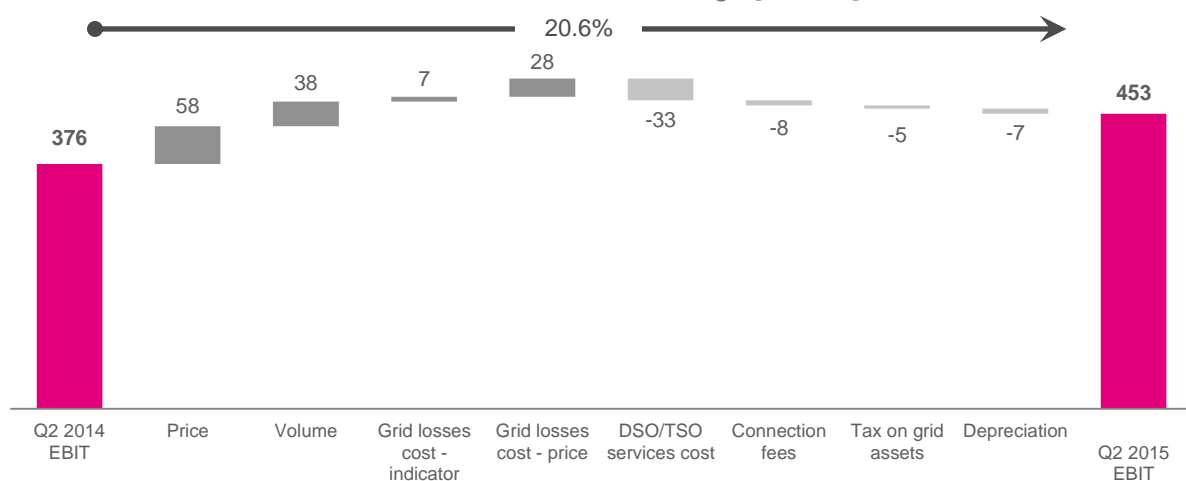
H1 2015 EBIT bridge [PLN m]



Q2 2015 financial data [PLN m]

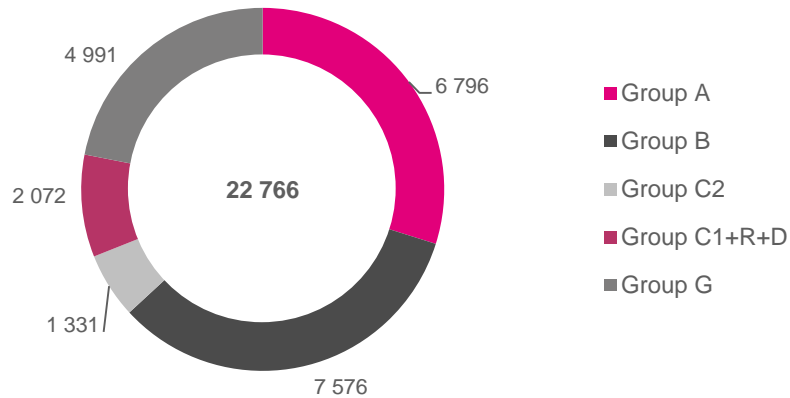


Q2 2015 EBIT bridge [PLN m]

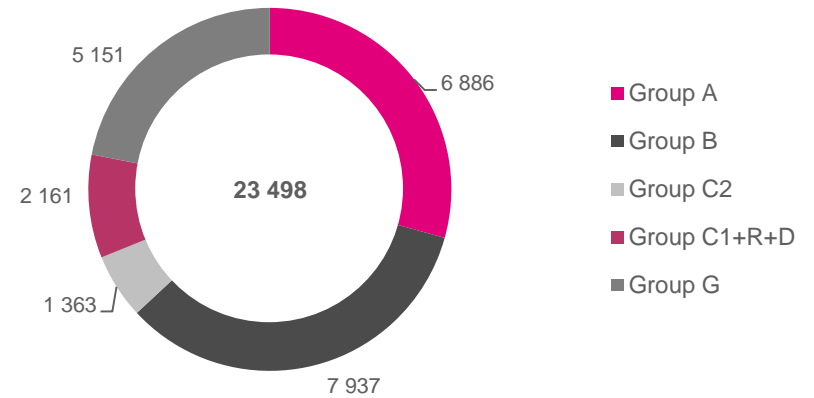


Distribution – volumes

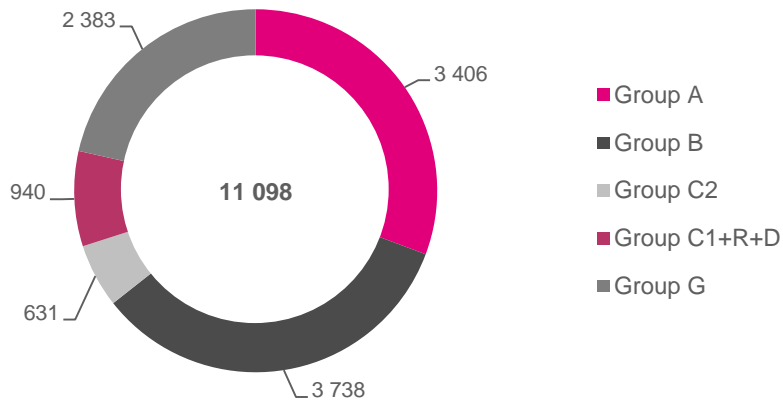
H1 2014 electricity distribution [GWh]



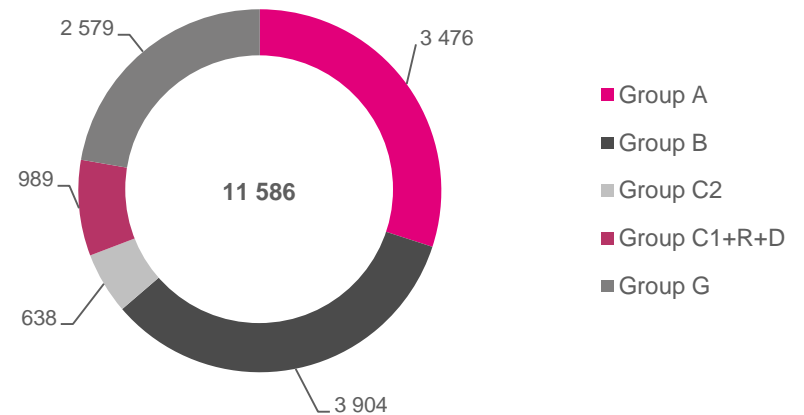
H1 2015 electricity distribution [GWh]



Q2 2014 electricity distribution [GWh]



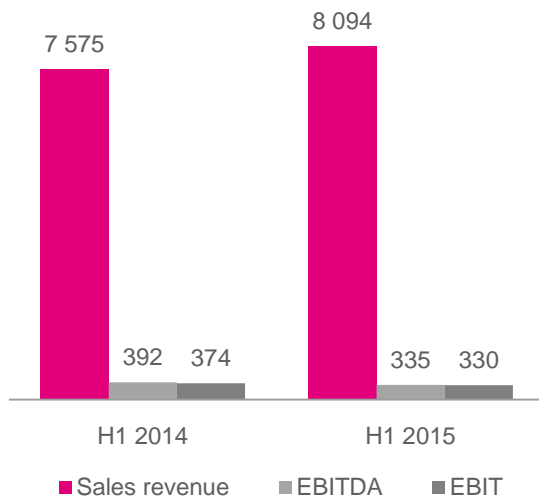
Q2 2015 electricity distribution [GWh]



Supply



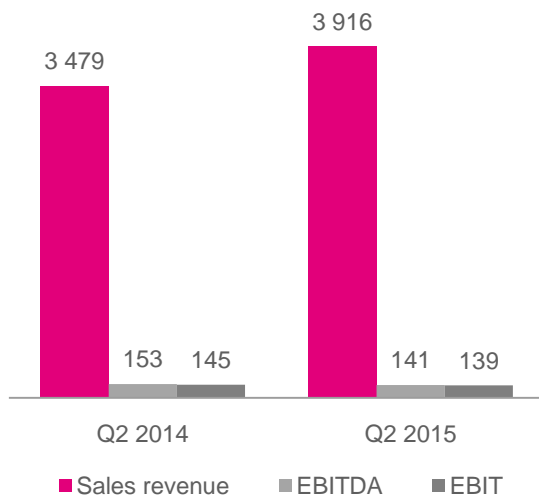
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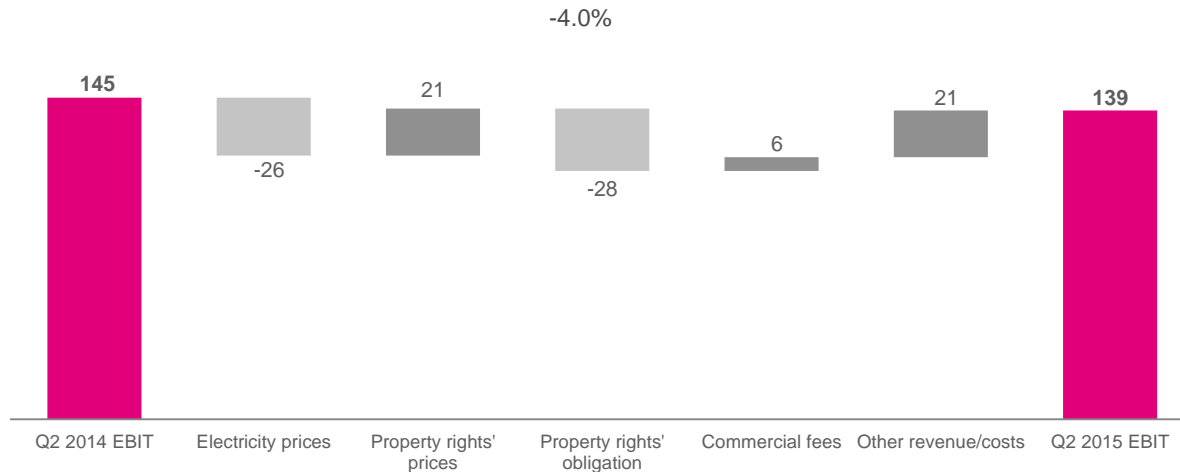
H1 2015 EBIT bridge [PLN m]



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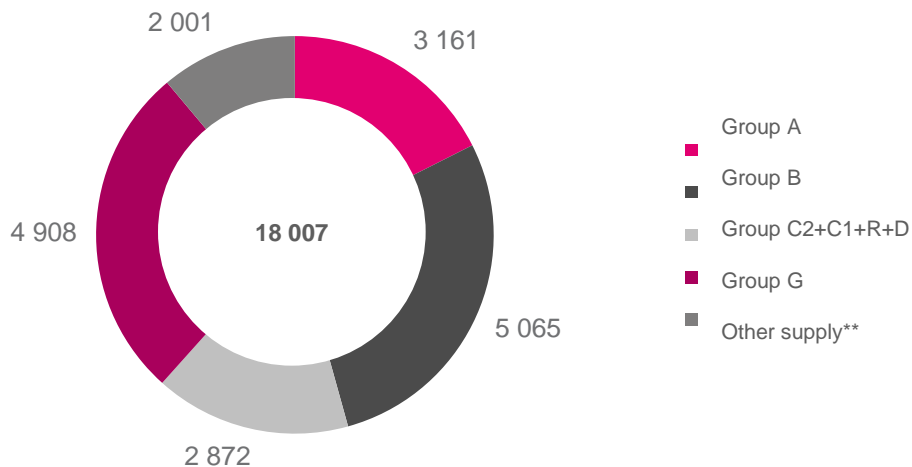


Q2 2015 EBIT bridge [PLN m]

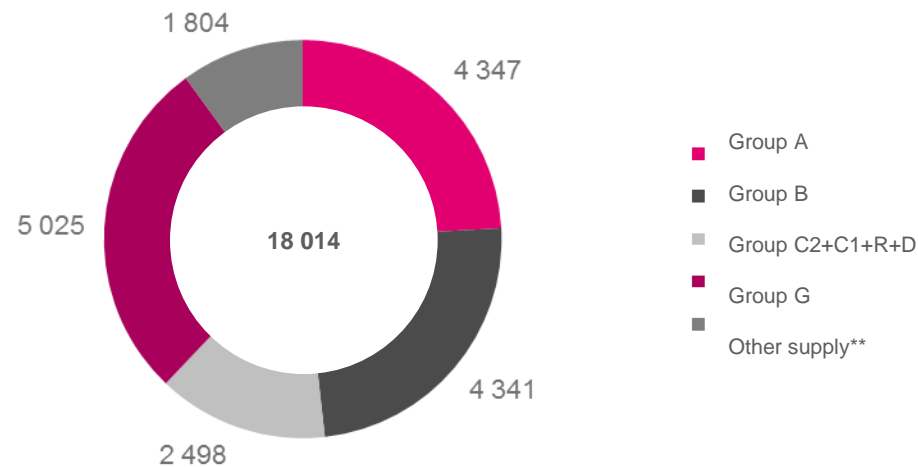


Supply – volumes

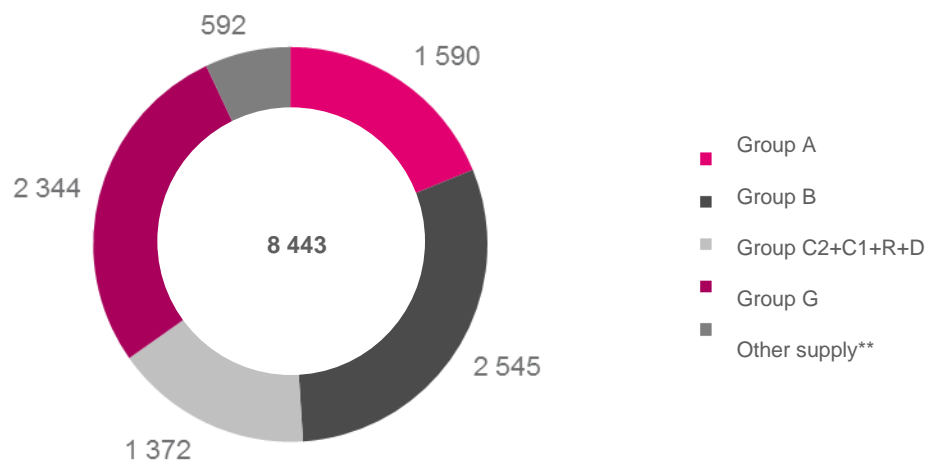
H1 2014 electricity supply to customers [GWh]*



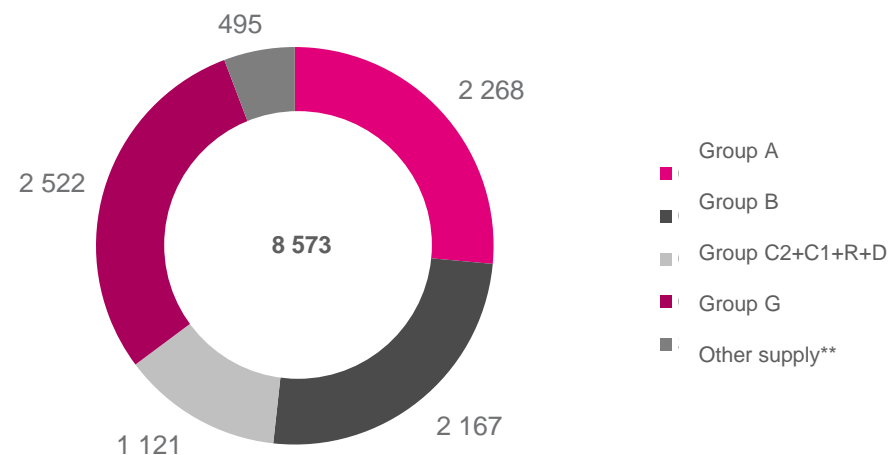
H1 2015 electricity supply to customers [GWh]



Q2 2014 electricity supply to customers [GWh]*



Q2 2015 electricity supply to customers [GWh]



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

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

Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2014		2015 (until July 27, 2015)		2015/2014 (until July 27, 2015)	
	Price (PLN/MWh)	Volume (GWh)	Price (PLN/MWh)	Volume (GWh)	Price %	Volume %
Forward BASE (Y+Q+M)	161.10	189 112	167.94	193 736	+4.2%	+2.4%
Forward PEAK (Y+Q+M)	184.60	19 126	217.52	16 781	+17.8%	-12.3%
Forward (weighted average)	163.26	208 238	171.89	210 517	+5.3%	+1.1%
SPOT (TGE)	179.86	21 078	153.09 (forecast)	21 500	-14.9%	+2.0%
Total weighted average	164.78	229 316	170.15	232 017	+3.3%	+1.2%

CO ₂ emission allowances (EUA/t)		Property rights (PLN/MWh)			
CO ₂ market analysts survey*	Price (EUR/t)	Certificate type	Market prices (2015 average)	Substitution fee and obligation for:	
				2014	2015
2014 average	5.96 EUR/t	RES(PMOZE_A) (until July 27, 2015)	132/58	303.03 (13.0%)	303.03 (14.0%)
2015 average	7.40 EUR/t	Hard coal=fired cogeneration (PMEC-2014)	10/78	11.00 (23.2%)	11.00 (23.2%)
2016 average	9.20 EUR/t	Gas=fired cogeneration (PMGM-2014)	107/59	110.00 (3.9%)	121.63 (4.9%)
Average 2015 EUA price forecast by TAURON	7.3 – 7.5 EUR/t	Methane (PMMET-2014)	61/84	63.26 (1.1%)	63.26 (1.3%)

* Sources: Point Carbon, TAURON

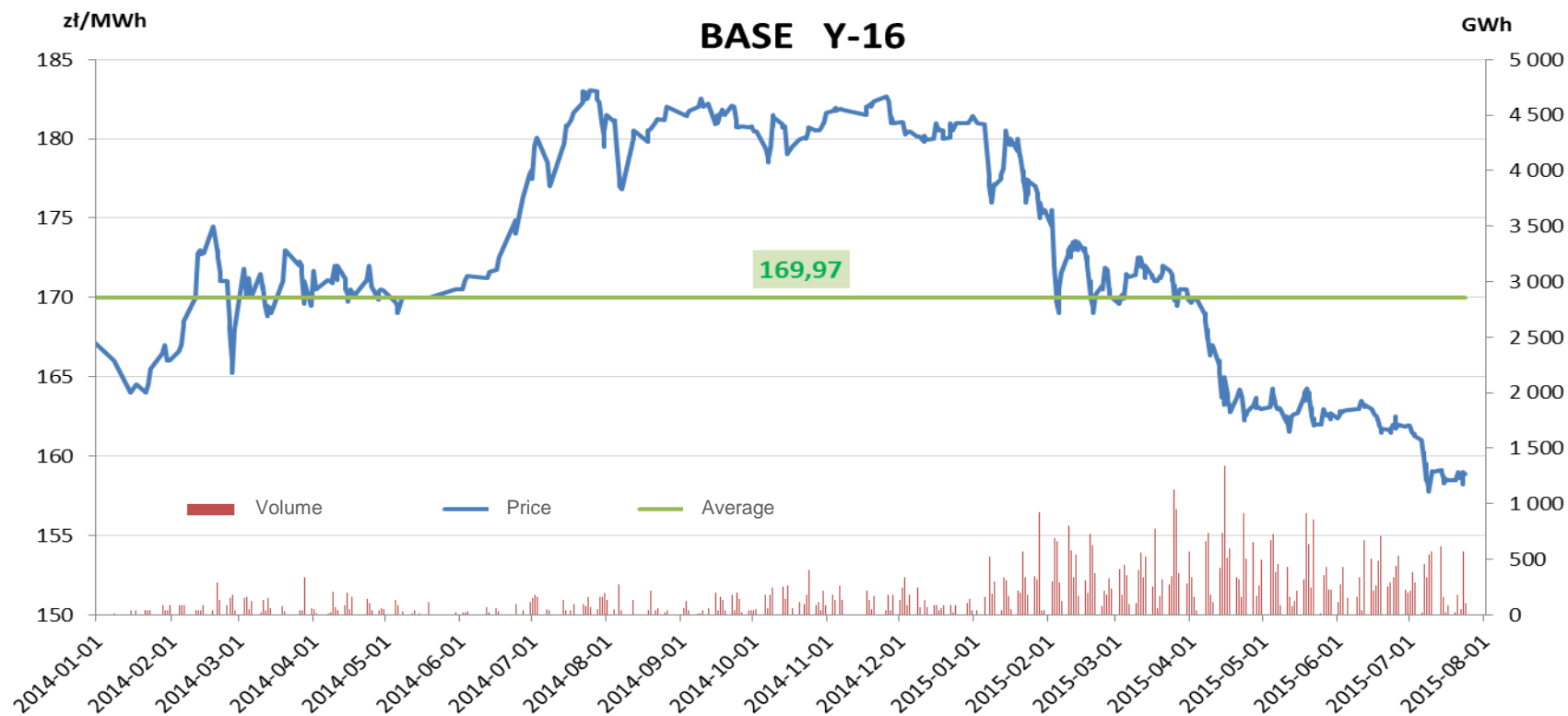
2015 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		168.11	146 932
Including	TGE	168.16	109 877
	non TGE	167.96	37 055

Average electricity price that takes into account 2015 one year BASE and PEAK contracts: PLN 172.64/MWh, total 2015 BASE and PEAK volume: 161 011 GWh

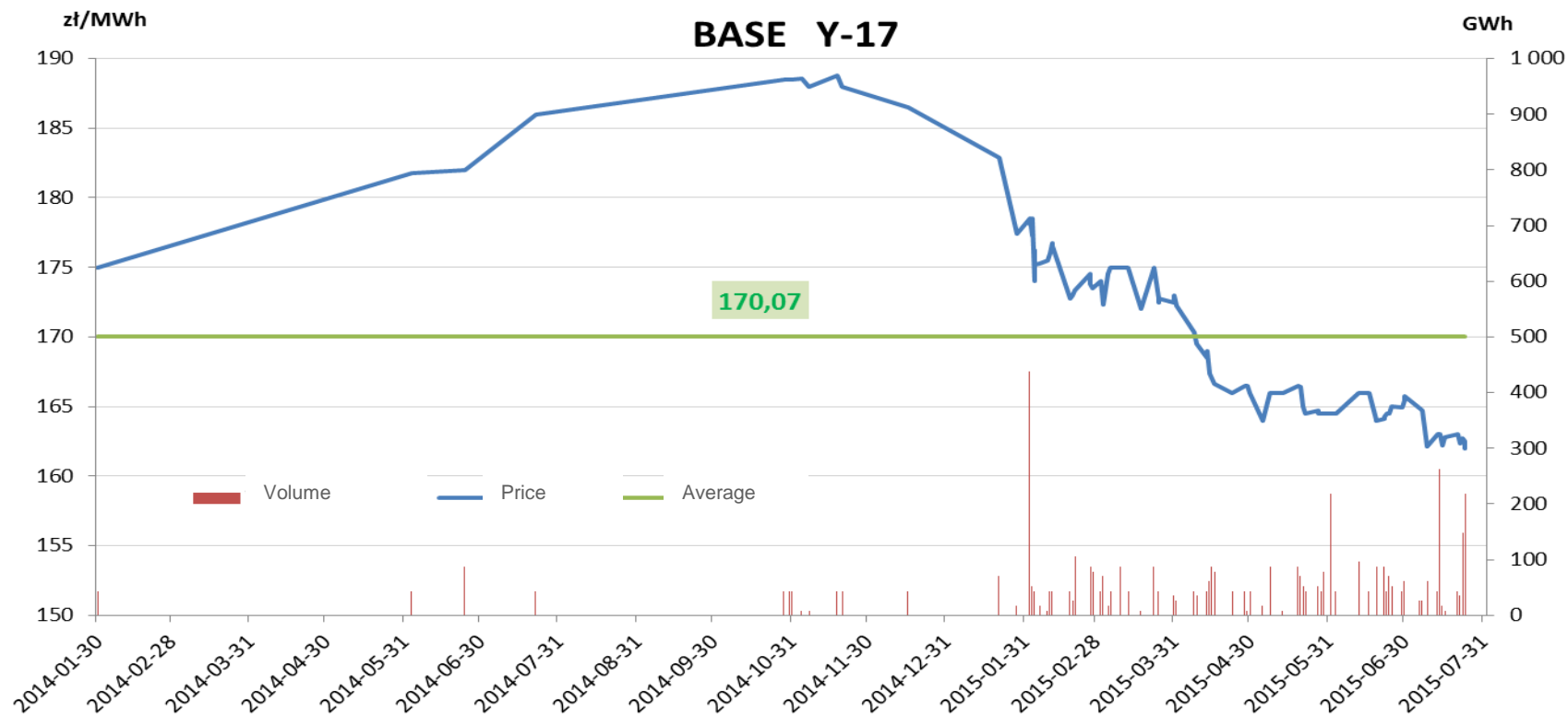
2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		169.97	90 062
Including	TGE	169.59	67 303
	non TGE	171.08	22 759

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: PLN 173.67/MWh, total 2016 BASE and PEAK volume: 97 872 GWh

2017 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		170.07	7 323
Including	TGE	169.29	2 558
	non TGE	170.48	4 765

Average electricity price that takes into account 2017 one year BASE and PEAK contracts: PLN 170.09/MWh, total 2017 BASE and PEAK volume: 7 327 GWh

TAURON's coverage by analysts

Institution	Analyst
DB Securities	Tomasz Krukowski
Dom Maklerski mBanku	Kamil Kliszczyk
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	Tomasz Duda
Goldman Sachs	Fred Barasi
HSBC	Dmytro Konovalov
ING Securities	Maria Mickiewicz

Institution	Analyst
BAML	Denis Deruskhin
Raiffeisen Centrobank	Teresa Schinwald
Renaissance Capital	Vladimir Sklyar
Societe Generale	Bartłomiej Kubicki
UBS Investment Research	Michał Potyra Patrick Hummel Tomasz Walkowicz
Pekao Investment Banking	Łukasz Jakubowski
WOOD & Company	Bram Buring
Dom Maklerski BOŚ	Michał Stalmach

Thank you for your attention