



## TAURON Group's Q1 2015

**financial results**

May 14, 2015

# Q1 2015 key financial parameters



## TAURON Group's Q1 2015 results

[PLN m]	Q1 2015	
Sales revenue	4 754	(-2.7% yoy)
EBITDA	1 021	(-6.2% yoy)
Net profit	503	(26.1% yoy)
CAPEX	792	(40.0% yoy)
Net debt/EBITDA	1.91x	(up 0.06)

## Key segments' Q1 2015 results

[PLN m]	Distribution	Supply	Generation	Mining
Segment's revenue	1 643	4 178	1 527	269
EBITDA	547	194	284	(44)
EBIT	305	191	138	(72)
CAPEX	285	2	423	60

# Highlights

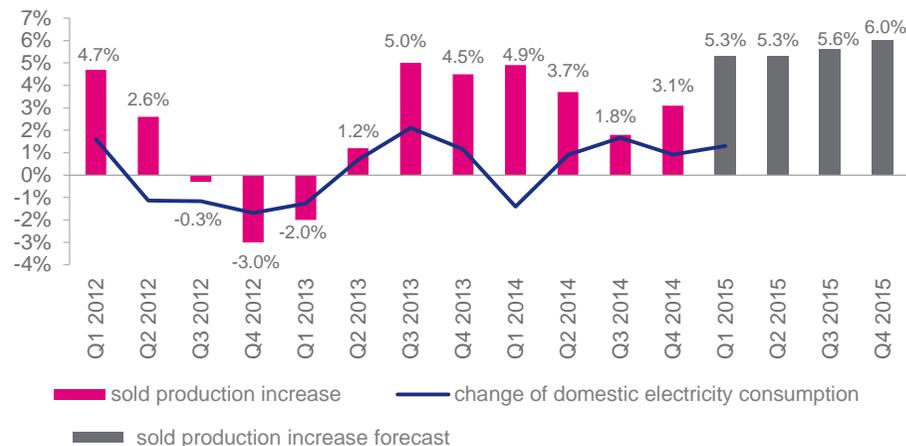
<b>TAURON</b>	
January 16	Expression of initial interest in the purchase of all or a part of Brzeszcze Coal Mine assets. Transaction will be possible only on the condition the analyses underway prove it is possible to extract coal cost effectively
March 12	Floating 17 500 TAURON bonds worth PLN 1.75bn in total on the Catalyst market
April 15	Signature of agreement to purchase 10 percent of shares in PGE EJ1 – 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. The dividend per share will be PLN 0.15, in accordance with the recommendation of the Management Board. Total dividend amount: PLN 262.9m. Dividend date (date of record): July 22, 2015. Dividend payment date: August 12, 2015
<b>Market</b>	
January 1	Modification by PSE (TSO) of the operational reserve payment mechanism
May 3	Renewable energy source law comes into force. The most important change versus the current regulations in force with respect to the RES support is the introduction of an auction system and feed-in-tariffs for prosumers, as well as the reduction of support for biomass co-firing and hydroelectric power plants with capacity of more than 5 MW

# Macroeconomic and market situation

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



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



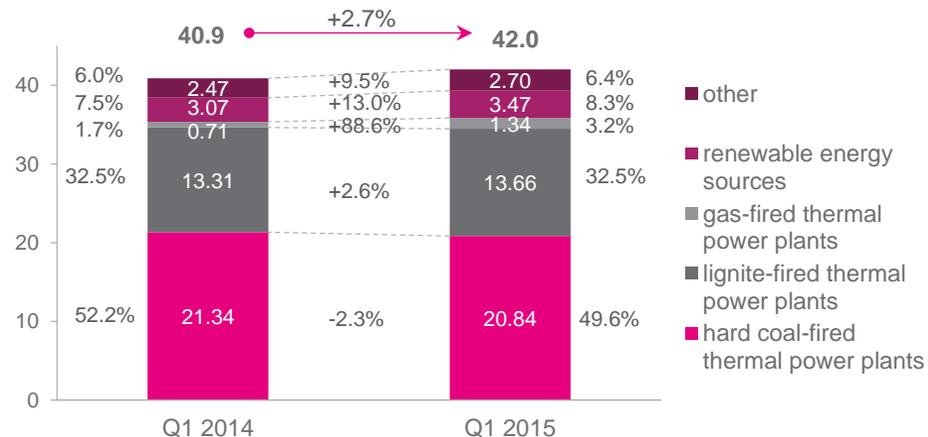
**Prices of electricity under one year BASE contracts**

	Average price [PLN/MWh]	Volume [GWh]
Y-13	182.75	184 615
Y-14	164.74	229 580
Y-15	171.54	204 339
Y-16	177.11	65 770
Y-17	176.59	3 416

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]**

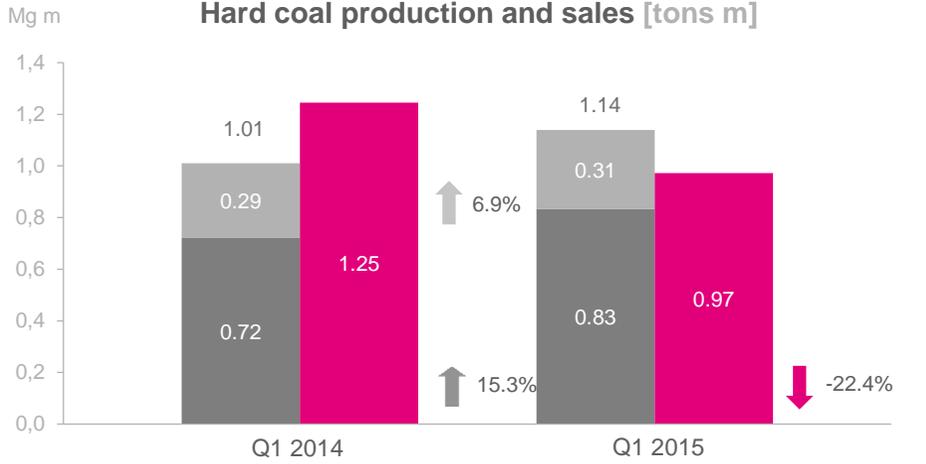


\* Source: GUS, IBnGR, PSE

# Q1 2015 key operating data

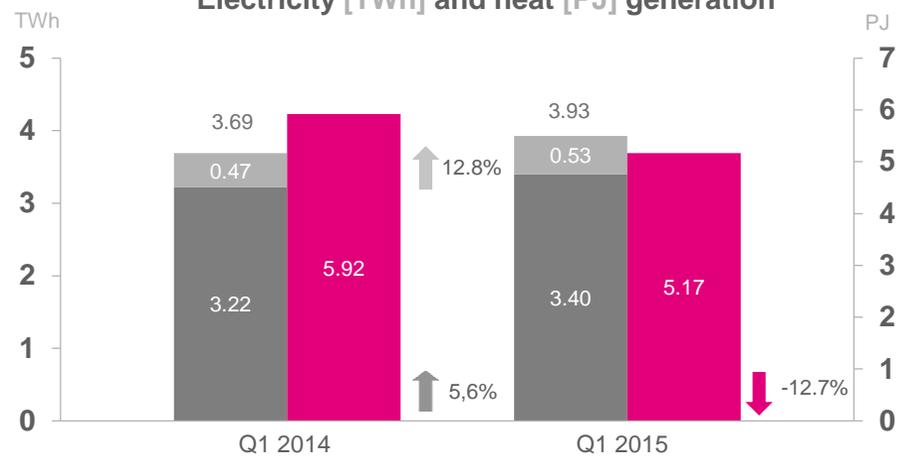


### Hard coal production and sales [tons m]



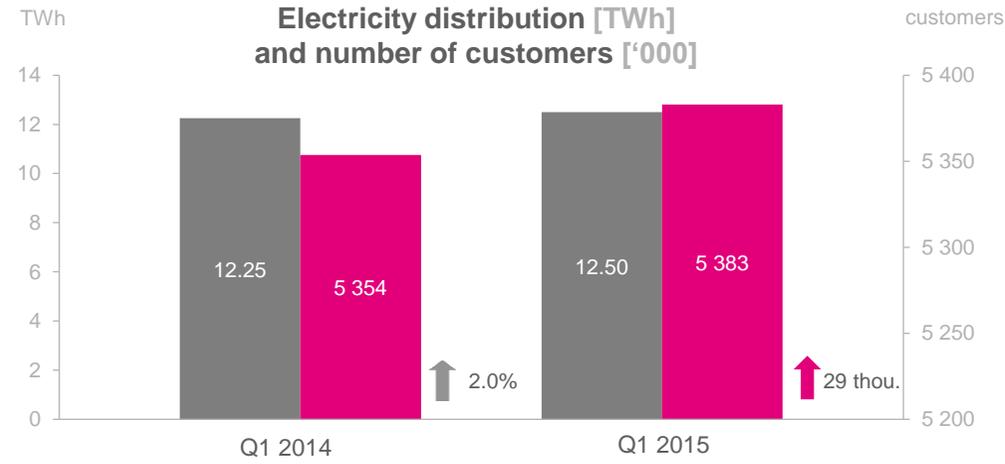
■ intra-Group hard coal sales ■ hard coal sales outside the Group ■ commercial coal production

### Electricity [TWh] and heat [PJ] generation



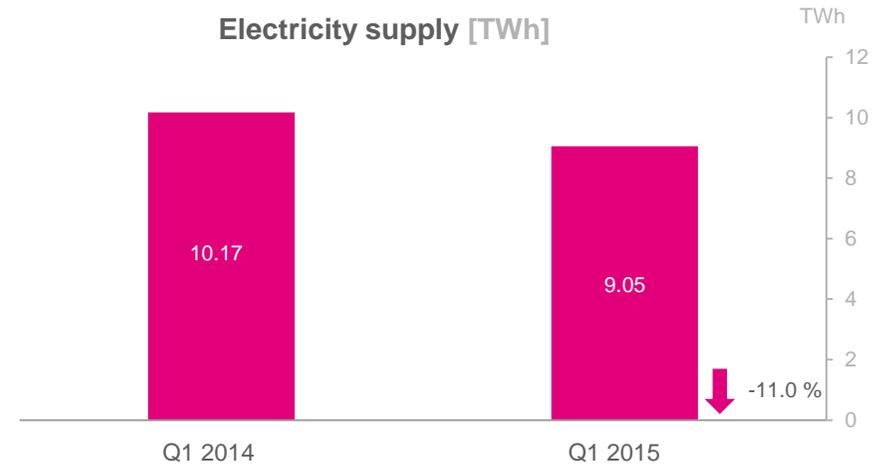
■ electricity ■ electricity - RES ■ heat

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



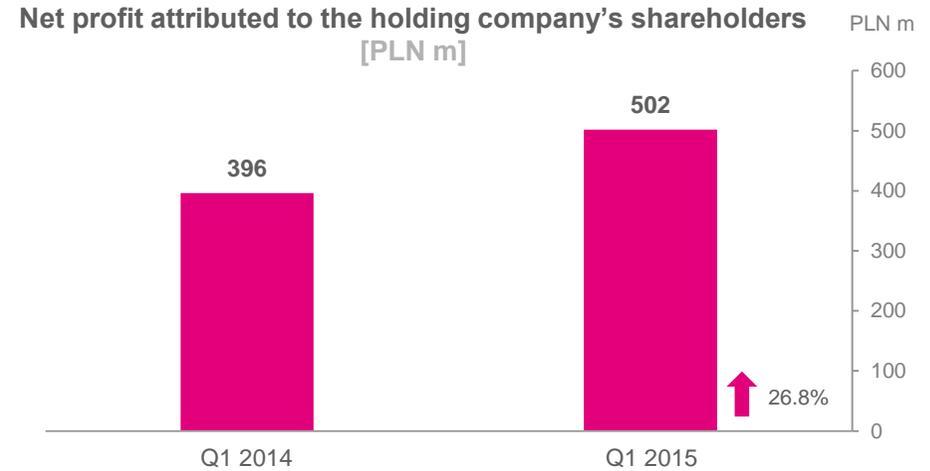
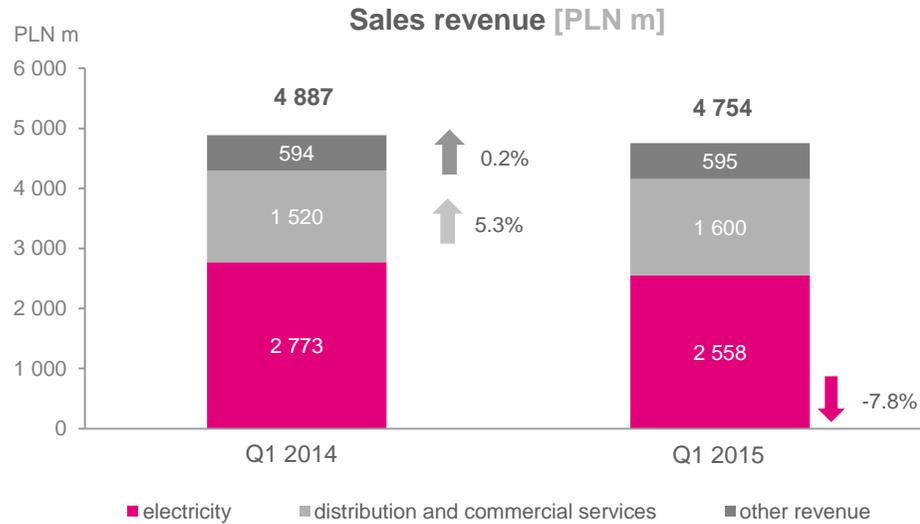
■ electricity distribution ■ number of customers

### Electricity supply [TWh]

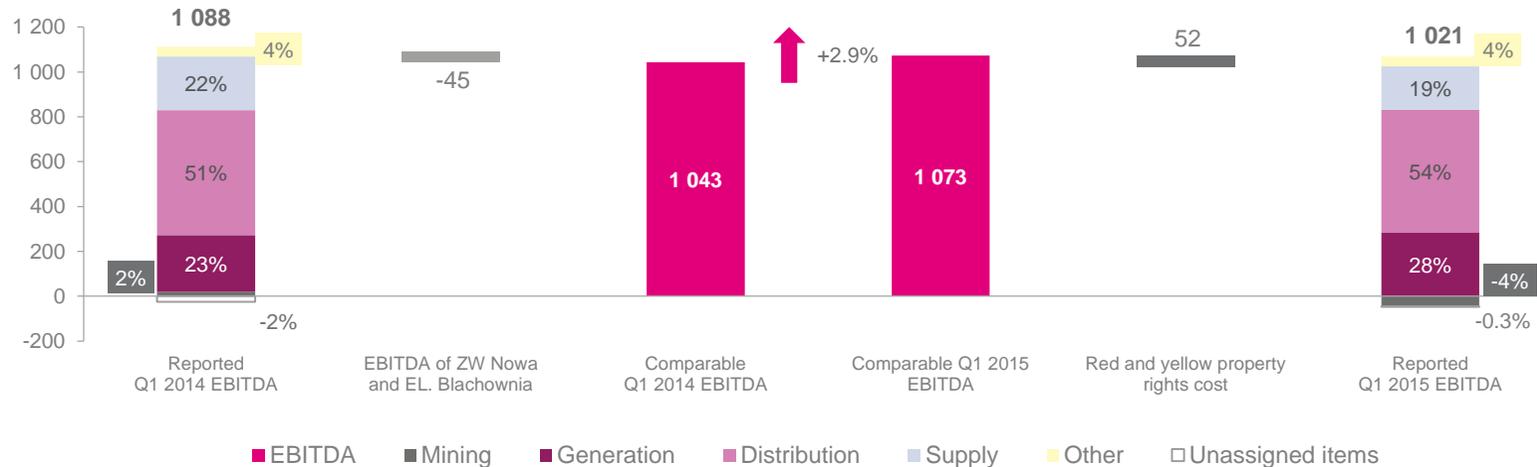


■ electricity supply

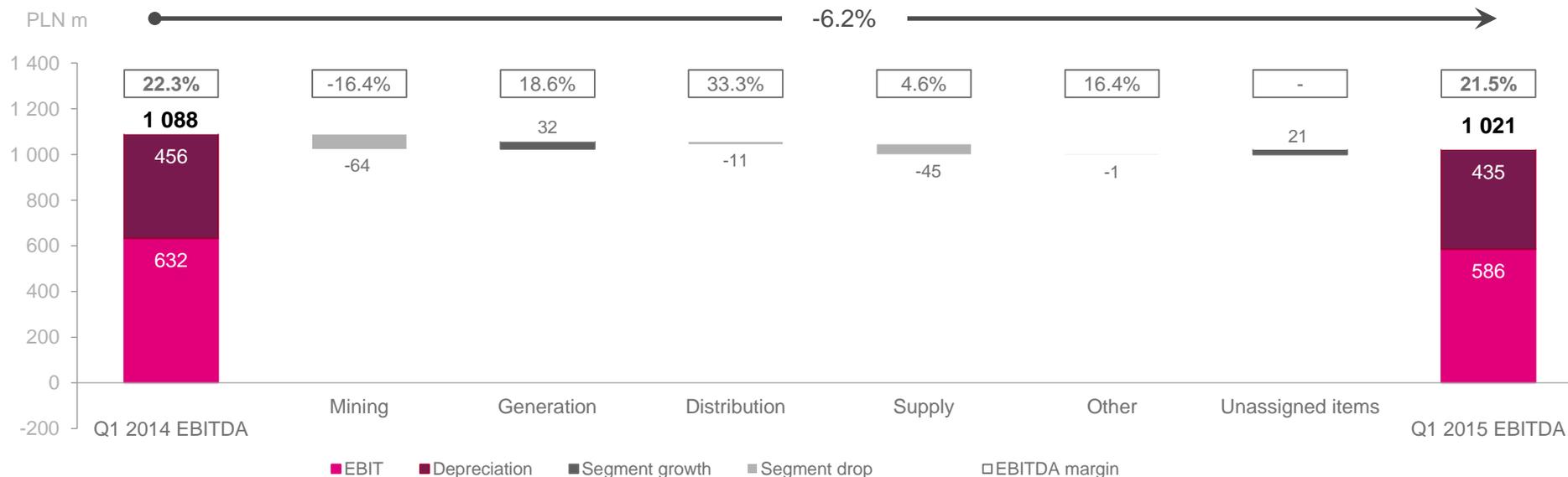
# Q1 2014 key financial data



### EBITDA Q1 2015 vs Q1 2014 [PLN m]



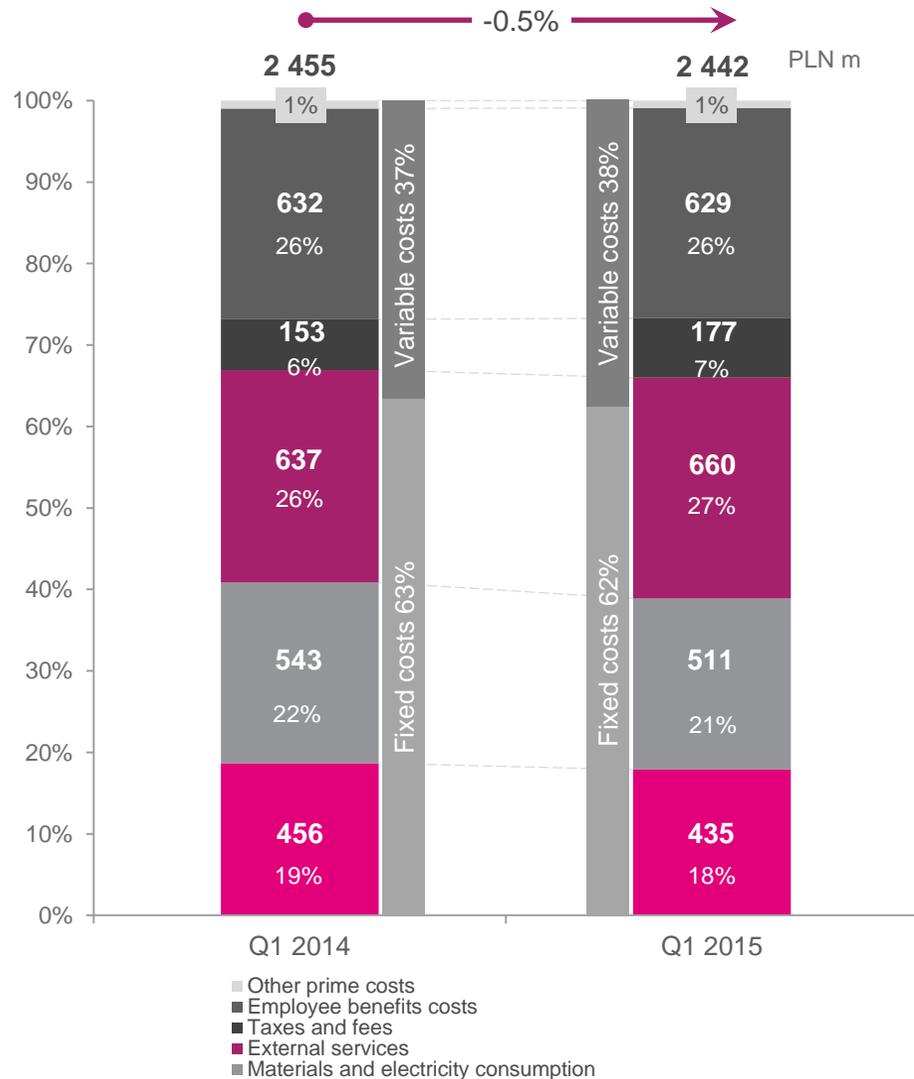
# Q1 2015 EBITDA



## Most important factors affecting Q1 2015 EBITDA:

- Mining – lower production of commercial coal and higher sales volume, lower commercial coal sales prices
- Generation – higher electricity sales prices, higher electricity production and sales, higher margin on electricity trading
- Distribution – higher costs of purchasing electricity to cover the balancing difference, higher electricity transmission costs (increased volume and higher rate for the transmission services)
- Supply – higher costs due to the obligation to redeem property rights, lower electricity sales volume, change of the customers' structure resulting in the reduction of the average sales price

# Q1 2015 prime costs structure



Declining costs in Q1 2015 are mainly due to:

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

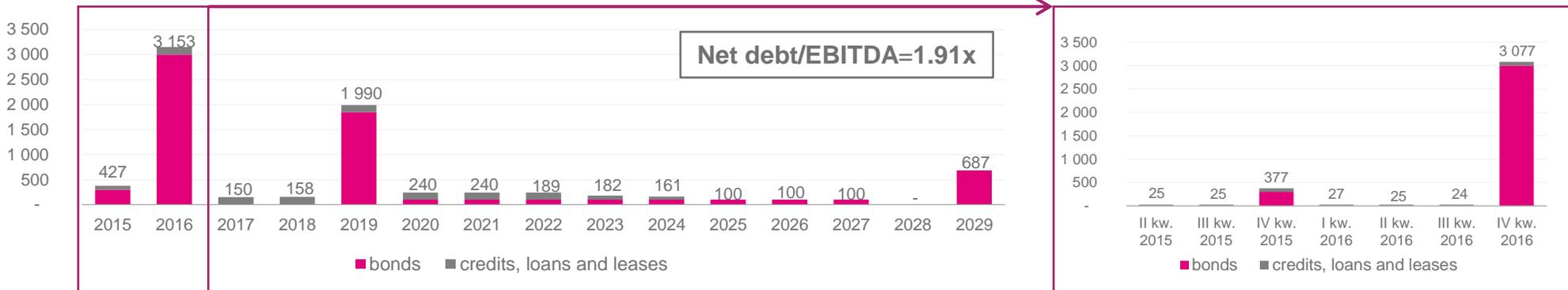
Cost structure:

- Q1 2015: variable costs (excluding the value of goods and materials sold) approx. 38%, fixed costs approx. 62%
- Q1 2014: variable costs approx. 37%, fixed costs approx. 63%

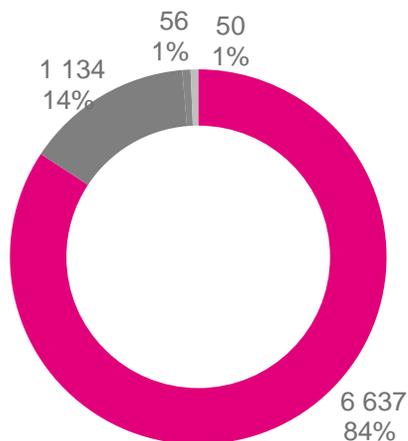
The reason for the small change to the cost structure are primarily higher transmission services purchase costs and lower fixed costs

# Debt and financing

## Maturity of TAURON Group's debt

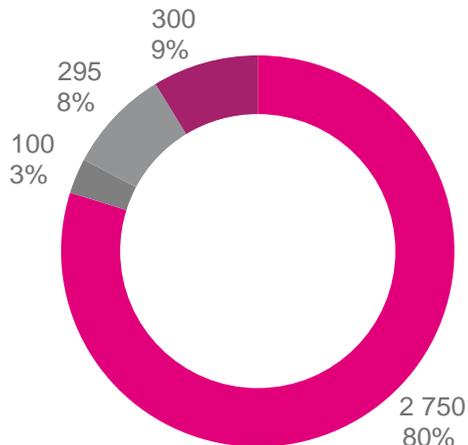


## Structure of TAURON Group's financial debt [PLN m]



- 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, leases and bonds) as of March 31, 2015 is PLN 7 877m
- average weighted debt maturity as of March 31, 2015 is 56 months
- EUR denominated debt (NSV bond issue) constitutes 8.72% of total debt

## Debt structure based on interest rate:

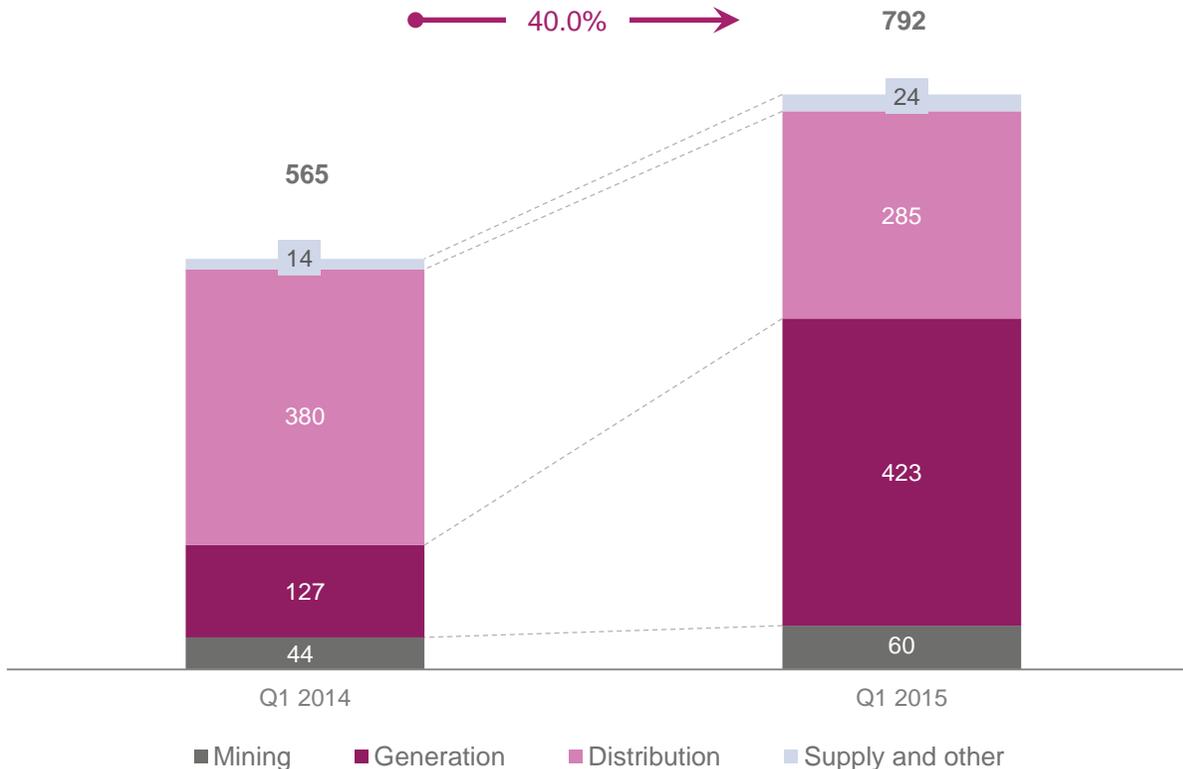
Instrument	Debt amount [PLN m]	Interest rate	Collateral
bonds, including:	6 637		
banks' program	3 000	floating	IRS
banks' program	300	floating	none
market program	1 750	floating	none
BGK program	900	floating	none
NSV	687	fixed	CIRS
EIB loans	1 134	fixed	none
Loans	56	floating	none
leases	50	floating	none

# CAPEX – projects' work progress

Investment project	Capacity (MW <sub>e</sub> )	Capacity (MW <sub>t</sub> )	Work progress (percent)		Planned completion data
Construction of the hard coal-fired unit at Jaworzno III Power Plant	910	-	10		2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant	450	240	76		2015
Construction of the hard coal-fired co-generation unit at ZW Tychy	50	86	62		2016
Jaworzno III Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	82		2016
Łaziska Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	95		2015
Construction of the CCGT unit at Łagisza Power Plant	413	266	2		2018
Construction of the 800m level at Janina coal mine	-	-	20		2019
Construction of Grzegorz shaft at Sobieski coal mine	-	-	18		2022

# CAPEX – by segment

CAPEX by segment [PLN m]



## Main investment projects completed in Q1 2015:

### ■ Mining:

- construction of the 800 m level in Janina coal mine (PLN 25m)
- purchase of an additional longwall roof support and furnishing set for Janina coal mine (PLN 25m)

### ■ Generation:

- construction of the NO<sub>x</sub> emission reduction system (PLN 53m), construction of the 910 MW unit at Jaworzno Power Plant (PLN 163m)
- construction of Marszewo wind farm's 2nd stage (PLN 5m), upgrade of hydroelectric power plants (PLN 18m)
- construction and upgrade of district heating networks (PLN 13m), restoration of ZW Tychy's capacity (PLN 118m), completion of the feeding lines for the Western and Southern Primary Pipes from ELCHO (PLN 2m)

### ■ Distribution:

- construction of new connections (PLN 94m)
- upgrade and restoration of grid assets (PLN 169m)

# Efficiency improvement program

Segment	Savings realized in 2013-Q1 2015	Savings planned in 2013-2015	Progress %	Main initiatives
Distribution	PLN 337m	PLN 416m	 81%	<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>
Generation (including RES and Heat)	PLN 429m	PLN 420m	 102%	<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 farms' operation</li> <li>Compressed air losses reduction</li> <li>Asset restructuring</li> <li>Procurement policy optimization</li> </ul>
Mining	PLN 29m	PLN 28m	 104%	<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>
Other segments	PLN 43m			<ul style="list-style-type: none"> <li>Employment restructuring, reduction of external services' costs</li> </ul>
<b>Total</b>	<b>PLN 838m</b>	<b>PLN 864m</b>	<b>97%</b>	

- In 2013-Q1 2015 the voluntary redundancy program covered 1 031 persons. Over that period employment contracts were terminated with 1 428 persons (3 922 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 to the program's implementation is envisaged
- Structure of savings in 2013-2014: 57% comes from employment restructuring, 43% 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



## Investor Relations

**Marcin Lauer**

[marcin.lauer@tauron.pl](mailto:marcin.lauer@tauron.pl)

tel. + 48 32 774 27 06

**Paweł Gaworzyński**

[pawel.gaworzynski@tauron.pl](mailto:pawel.gaworzynski@tauron.pl)

tel. + 48 32 774 25 34

**Magdalena Wilczek**

[magdalena.wilczek@tauron.pl](mailto:magdalena.wilczek@tauron.pl)

tel. + 48 32 774 25 38

# 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").

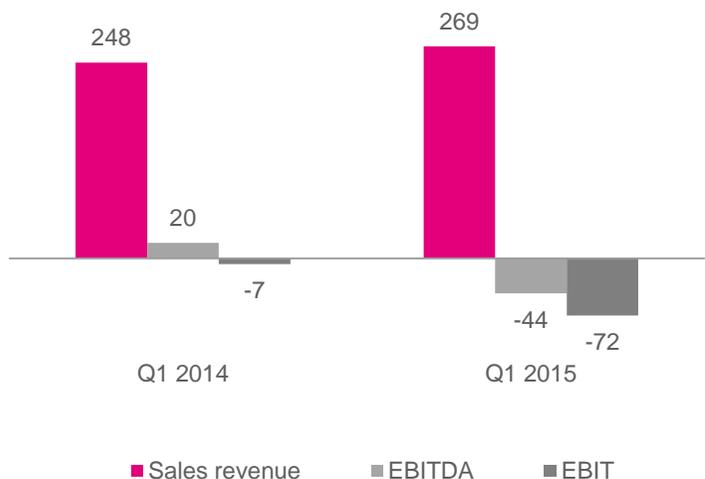
Neither the Company nor any of its subsidiaries shall be held accountable for any damage resulting from the use of this presentation or a part thereof, or its contents or in any other manner in connection with this presentation.

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.

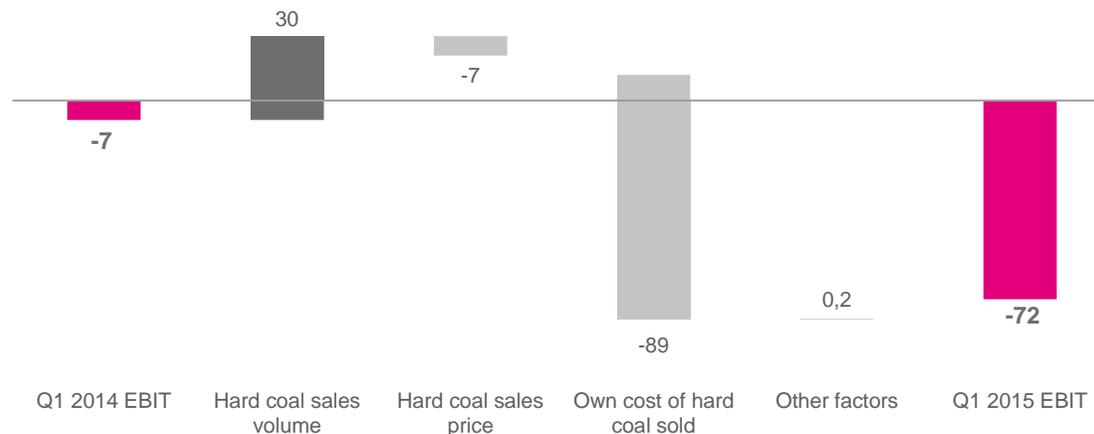
To the extent this presentation contains forward-looking statements related to the future, in particular such terms as "designed", "planned", "anticipated", or other similar expressions (including their negation), they shall be connected with the known and unknown risks, uncertainty and other factors 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.

### Financial data [PLN m]



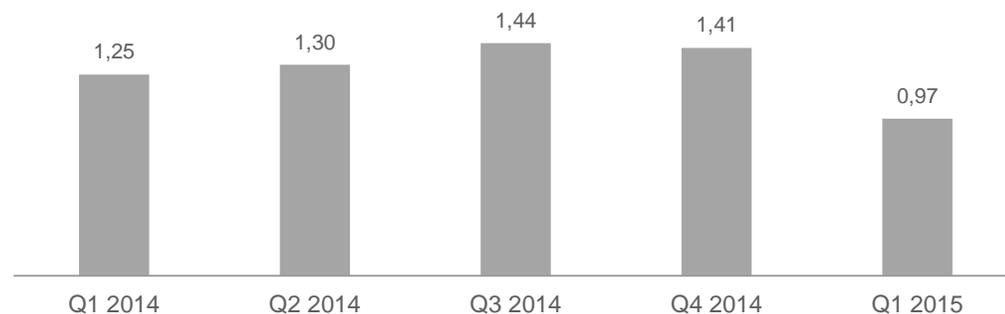
### EBIT bridge [PLN m]



## Comments to Q1 2015 results

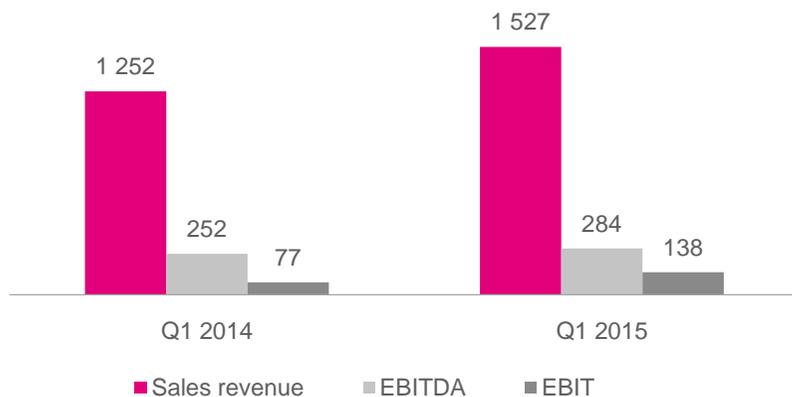
- higher sales volume (up 12.8%)
- lower average sales price (down 2.8%), primarily due to the lower price of large and medium size lump coal sold outside the Group and an increased share of the cheaper coal dust in the sales structure
- higher own cost of the coal sold caused by lower coal production and settlement of preparatory works

### Commercial coal production [PLN m]

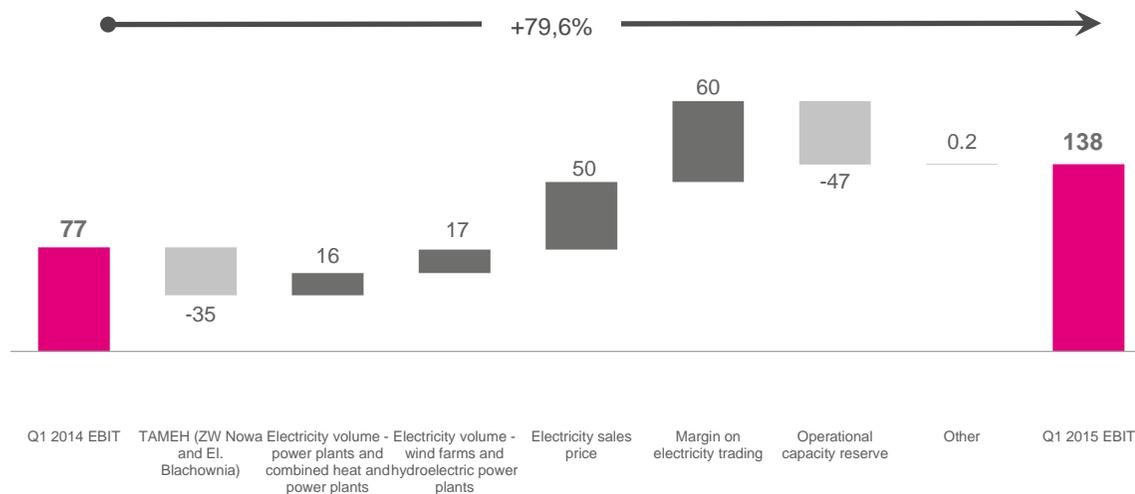


# Generation

Financial data [PLN m]



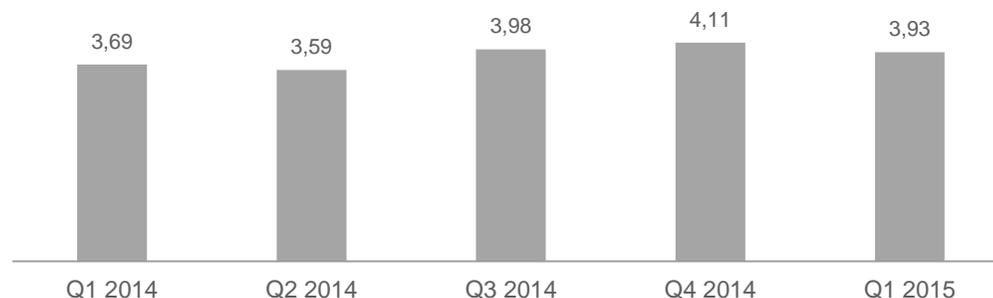
EBIT bridge [PLN m]



## Comments to Q1 2015 results

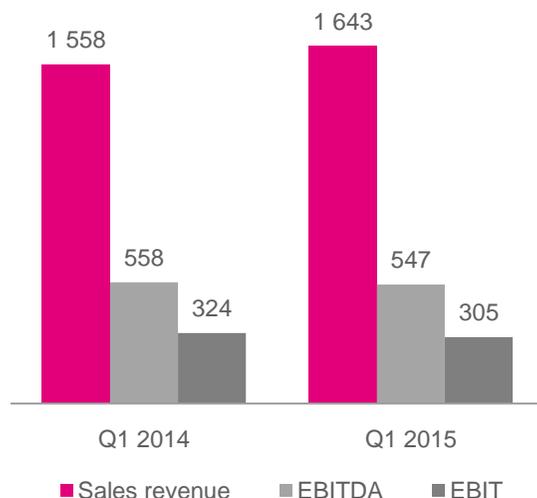
- higher electricity sales price
- higher margin on electricity trading
- lower revenue from operational capacity reserve
- higher volume of sales of electricity generated by conventional power plants and combined heat and power plants
- higher volume of sales of electricity generated by hydroelectric power plants and wind farms

## Electricity production [TWh]

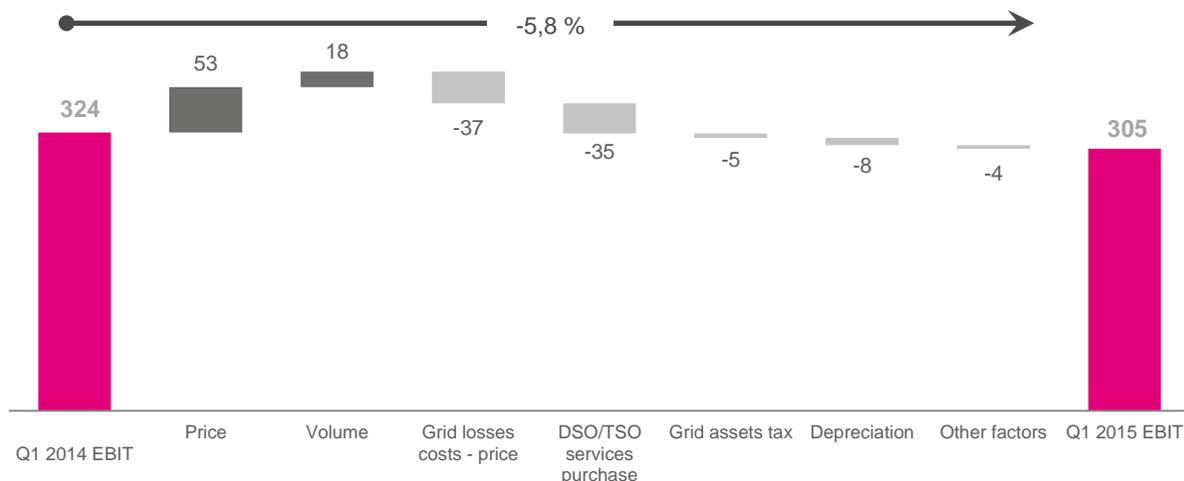


# Distribution

Financial data [PLN m]



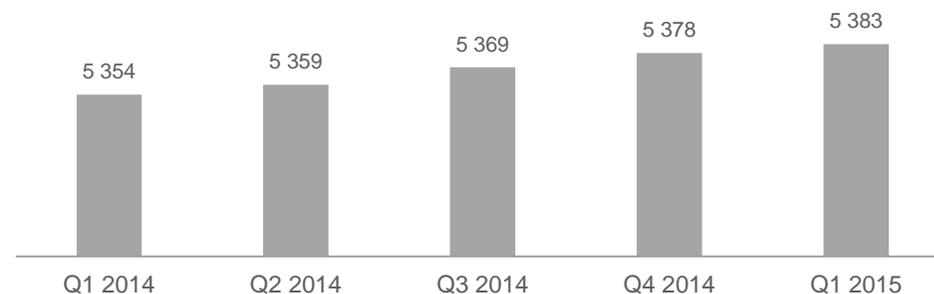
EBIT bridge [PLN m]



## Comments to Q1 2015 results

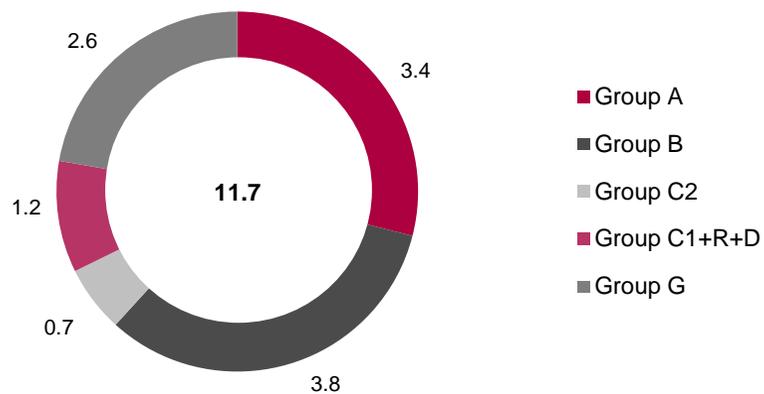
- increase of consumption by customers in groups B, C2, C1, O and R; decrease of electricity consumption by customers in group G caused by the growing efficiency of its use
- use of the tariff adopted for 2015 – rise of the average rate for distribution services to end users (up 3.7%)
- significant increase of electricity purchase price to cover the balancing differences
- higher transition fee charged by the Transmission System Operator (passed on in the tariff), decrease of local generation on the DSO's territory
- increase of depreciation and grid assets tax

Number of customers ['000]

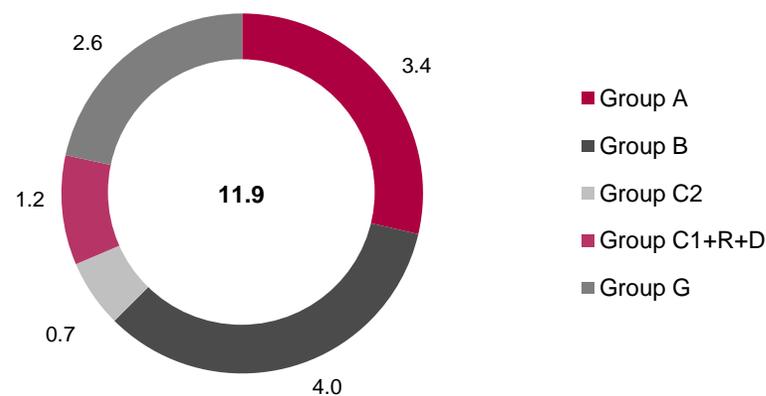


# Distribution – volumes

Q1 2014 electricity distribution [TWh]



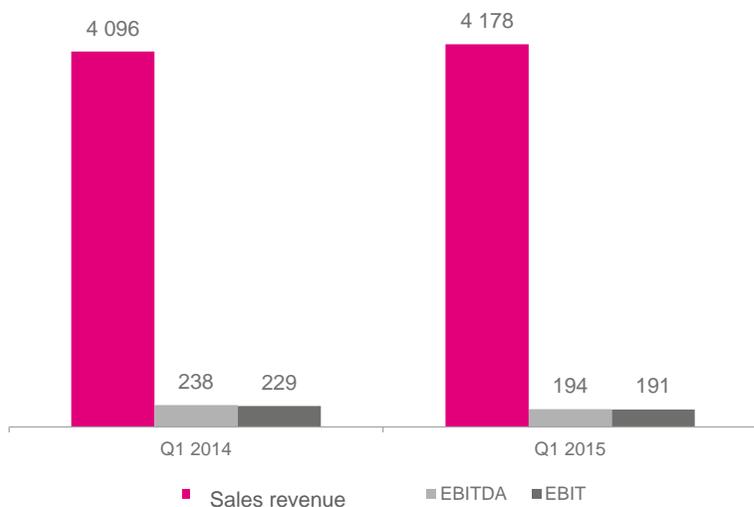
Q1 2015 electricity distribution [TWh]



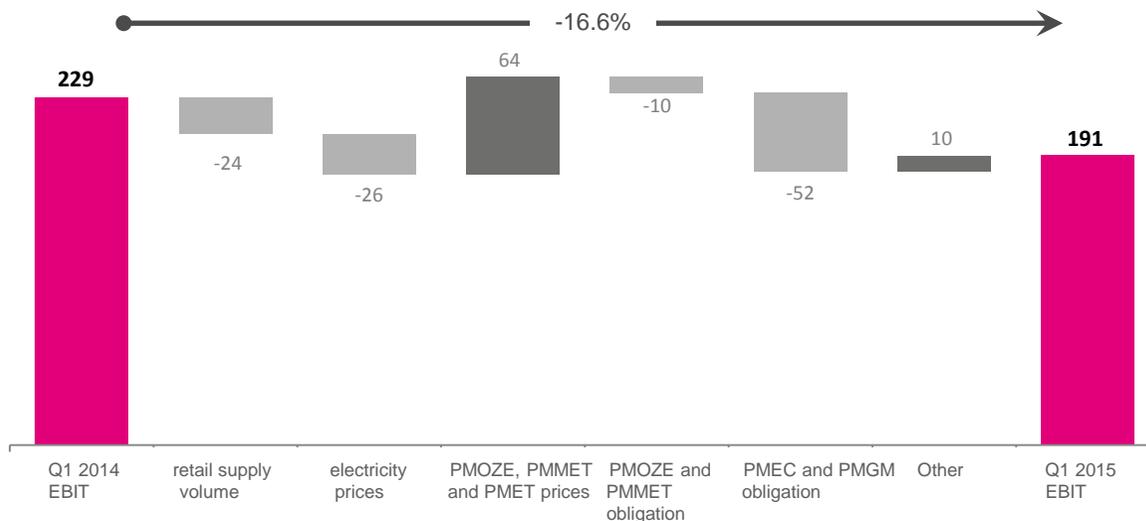
Data related to the distribution of electricity to end users

# Supply

Financial data [PLN m]



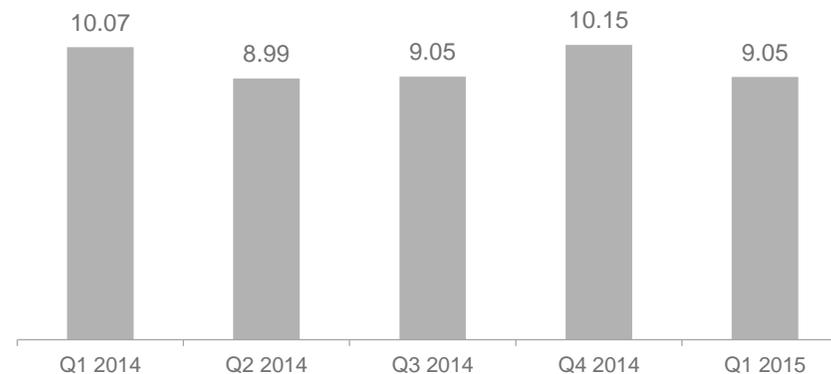
EBIT bridge [PLN m]



## Comments to Q1 2015 results

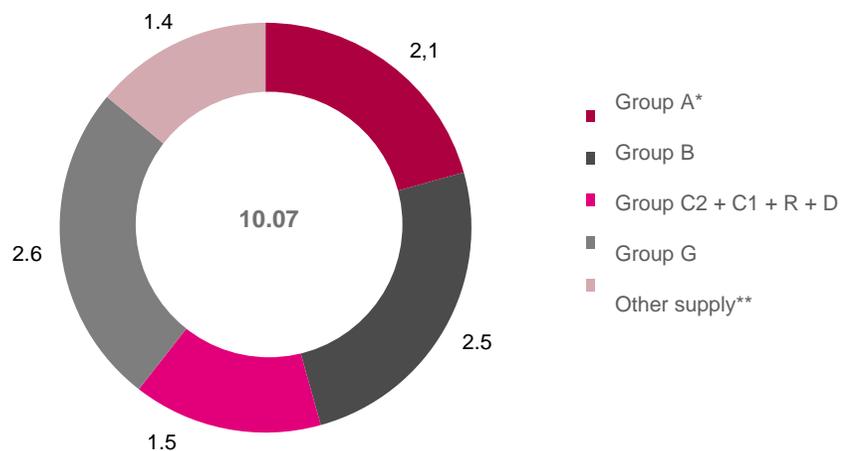
- lower supply volume, mainly due to different purpose of energy purchase by some clients (wholesale trading instead of retail), lower customer demand and slower pace of expansion outside the DSO's territory
- lower electricity sales prices due to the change of the customer structure, loyalty building campaigns and a high share of the exchange products' sales
- rising obligation for PMOZE (from 13% to 14%), PMMET (from 1.1% to 1.3%) and restoration of obligation for PMEC (23.2%) and PMGM (4.9%)
- lower green certificate purchase prices

Electricity supply [TWh]

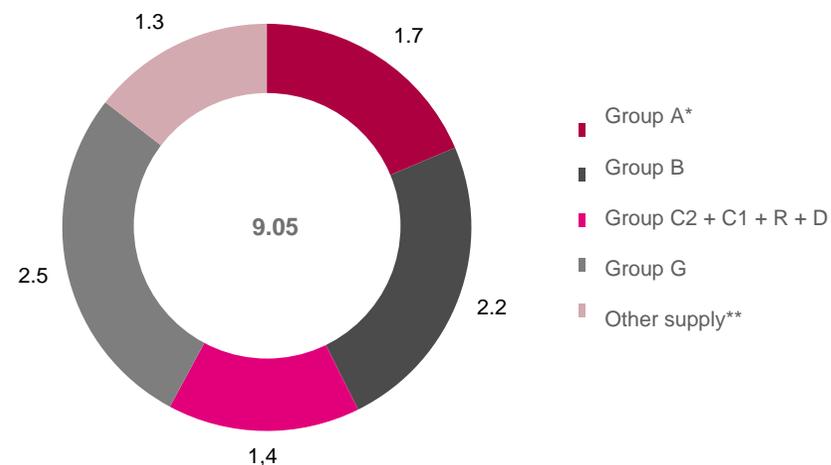


# Supply – volumes

Q1 2014 electricity supply to customers [TWh]



Q1 2015 electricity supply to customers [TWh]



\* 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 April 16, 2015)		2015/2014 (until April 16, 2015)	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	161.10	189 112	<b>168.39</b>	<b>182 199</b>	<b>+4.5%</b>	<b>-3.7%</b>
Forward PEAK (Y+Q+M)	184.60	19 126	219.09	15 796	+18.7%	-17.4%
Forward (weighted average)	163.26	208 238	172.44	197 995	+5.6%	-4.9%
SPOT (TGE)	179.86	21 078	153.09 (forecast)	21 500	-14.9%	+2.0%
Weighted average total	164.78	229 316	<b>170.54</b>	219 495	+3.5%	-4.3%

CO <sub>2</sub> emission allowances (EUA/t)			Property rights (PLN/MWh)		
CO <sub>2</sub> market analysts survey*	Price (EUR/t)	Certificate type	Market prices (2015 average – until April 15, 2015)	Substitution fee and obligation for:	
				2014	2015
2014 average	5.96 EUR/t	RES (PMOZE_A)	147.63	303.03 (13.0%)	303.03 (14.0%)
2015 average	7.30 EUR/t	Hard coal-fired co-ogeneration (PMEC-2014)	10.75	11.00 (23.2%)	11.00 (23.2%)
2016 average	9.20 EUR/t	Gas-fired co-generation (PMGM-2014)	107.32	110.00 (3.9%)	121.63 (4.9%)
Average 2015 EUA price forecast by TAURON	<b>7.0 – 7.7 EUR/t</b>	Methane (PMMET-2014)	61.79	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

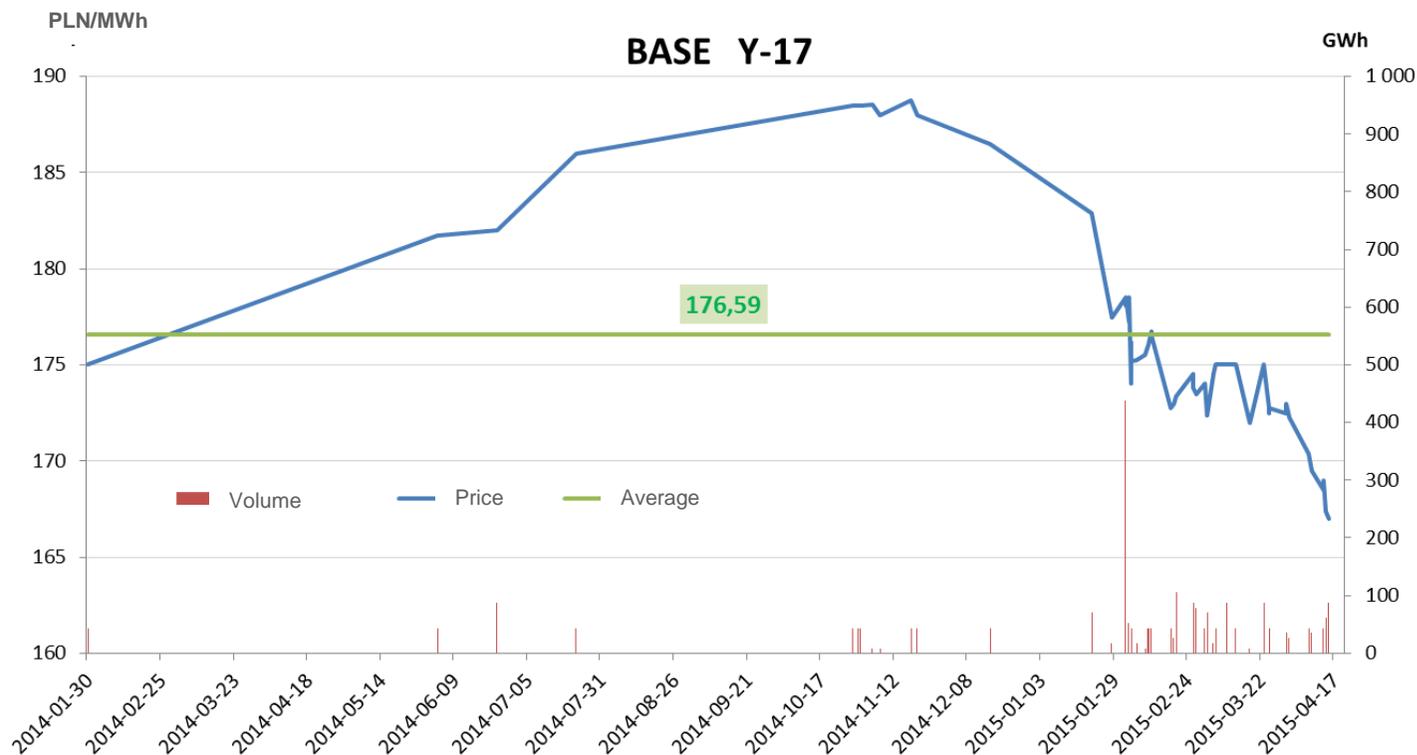
# 2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		173.69	61 110
Including	TGE	173.61	43 709
	non TGE	173.91	17 401

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: PLN 177.17/MWh, total 2016 BASE and PEAK volume: 65 639 GWh

# 2017 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		176.59	3 416
including	TGE	175.03	1 148
	non TGE	177.38	2 269

Average electricity price that takes into account 2017 one year BASE and PEAK contracts: PLN 177.38/MWh, total 2017 BASE and PEAK volume: 3 416 GWh

# TAURON's coverage by analysts

Institution	Analyst
DB Securities	<b>Tomasz Krukowski</b>
Dom Maklerski mBanku	<b>Kamil Kliszcz</b>
Dom Maklerski Banku Handlowego	<b>Piotr Dzieciołowski</b>
Dom Maklerski BZ WBK	<b>Paweł Puchalski</b>
Dom Maklerski PKO BP	<b>Stanisław Ozga</b>
J.P. Morgan Cazenove	<b>Michał Kuzawiński</b>
Erste Group	<b>Tomasz Duda</b>
Goldman Sachs	<b>Fred Barasi</b>
HSBC	<b>Dmytro Konovalov</b>

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

Thank you for your attention