



TAURON Group's Q1-Q3 2014 financial results

November 13, 2014

Q1-Q3 2014 key financial parameters

TAURON Group's Q1-Q3 2014 financial results

[PLN m]	Q1-Q3 2014	
Sales revenue	13 603	(-4.3% yoy)
EBITDA	2 915	(-2.8% yoy)
Net profit*	1 049	(-13.8% yoy)
CAPEX	2 010	(-15.1% yoy)
Net debt/EBITDA	1.73x	(up 0,3)

Key segments' Q1-Q3 2014 results

[PLN m]	Distribution	Supply	Heat	Generation	Mining
Segment's revenue	4 529	11 267	967	2 305	871
EBITDA	1 778	501	182	200	83
EBIT	1 071	479	71	(154)	5
CAPEX	1 286	2.2	225	235	125

* Net profit attributable to the parent company's shareholders

Q3 2014 key financial parameters

TAURON Group's Q3 2014 financial results

[PLN m]	Q3 2014	
Sales revenue	4 377	(-3.6% yoy)
EBITDA	921	(-2.8% yoy)
Net profit*	318	(-13.3% yoy)
CAPEX	760	(-25.4% yoy)
Net debt/EBITDA	1.73x	(up 0,3)

Key segments' Q3 2014 results

[PLN m]	Distribution	Supply	Heat	Generation	Mining
Segment's revenue	1 480	3 692	249	832	341
EBITDA	608	110	17	73	55
EBIT	371	105	(21)	(44)	29
CAPEX	444	1.4	127	109	43

* Net profit attributable to the parent company's shareholders

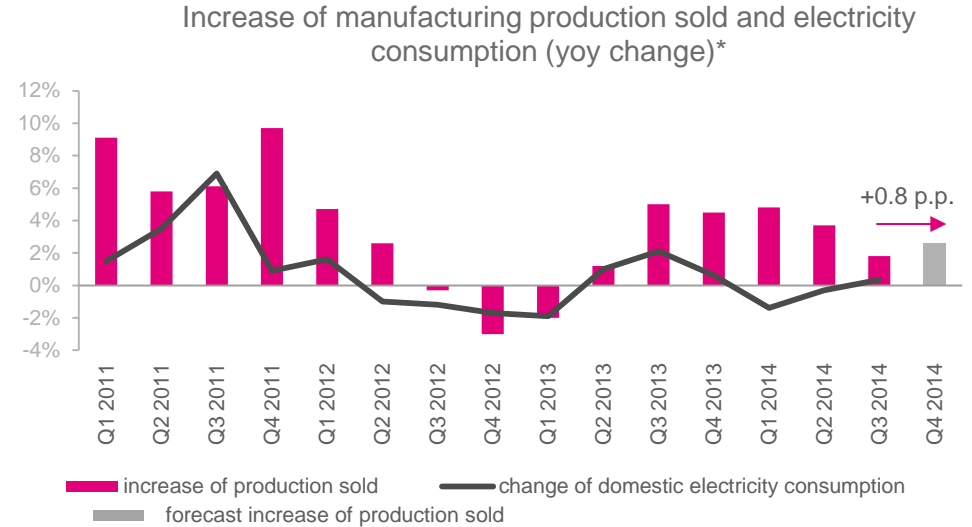
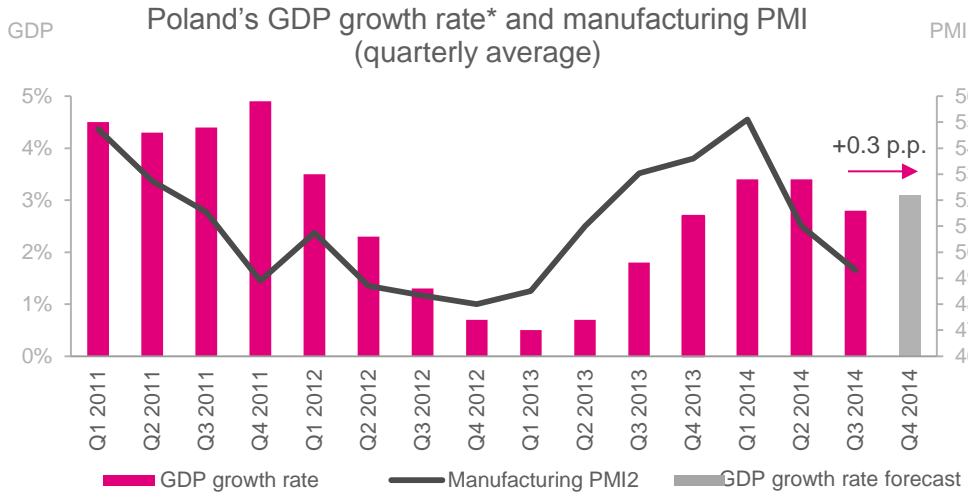
TAURON

Date	Event
July 22	Signature with the European Investment Bank of a PLN 295m loan agreement for CAPEX projects in the renewable energy sources and distribution segments
October 24	Fitch Ratings agency reaffirmed TAURON's BBB rating with a stable outlook. Company's bond issue was granted A level domestic rating
November 4	Settlement of the PLN 1.75bn bond issue as part of the bond issue program launched in July 2013. Bond issue funds will be used to finance TAURON Group's CAPEX projects
November 5	TAURON Ekoenergia signed agreement with Iberdrola group companies for the construction of the second stage of Marszewo Wind Farm (18 MW). Contract's net value: PLN 101.3m

MARKET

Date	Event
September 27	Publishing by PSE (TSO) of the Transmission Grid Operational Manual (Grid Code) update draft – planned modification of the Operational Capacity Reserve (Operacyjna Rezerwa Mocy – ORM) and reduction of the ORM price in 2014 to PLN 17/MW-h
October 24	European Council agreed on the climate policy framework until 2030. The main target: reducing CO ₂ emission by at least 40 percent by 2030. Past 2020 the Polish power sector will be able to use a pool of free of charge CO ₂ emission allowances – its allocation details have not been established yet
September	Continued works by the Parliament (Sejm) on the government's draft law on renewable energy sources. Planned coming into force of the law: January 2016

Macroeconomic and market situation

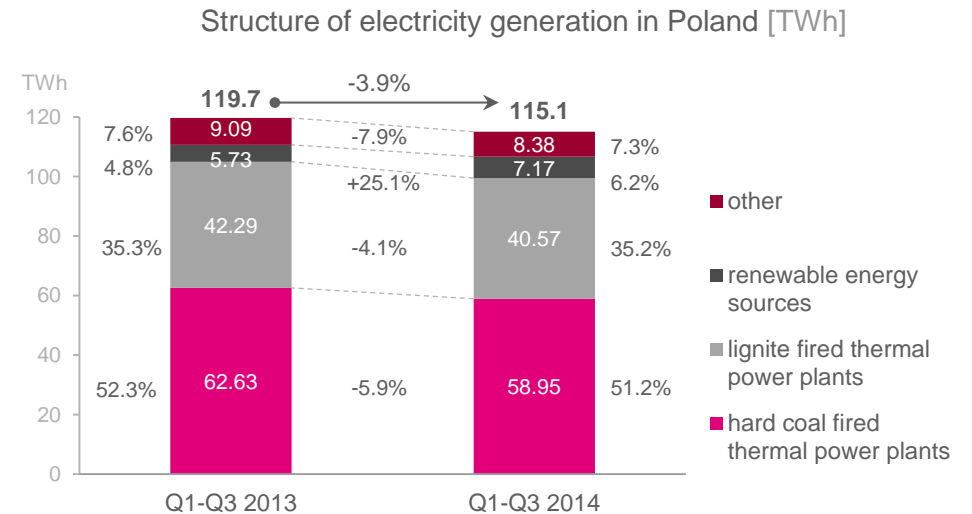


Yearly BASE contract prices on the Polish Power Exchange (TGE)

	Average price [PLN/MWh]	Volume [GWh]
Y-13	182.75	184 615
Y-14	164.24	225 263
Y-15	170.89	141 438
Y-16	175.79	20 918
Y-17	184.14	359

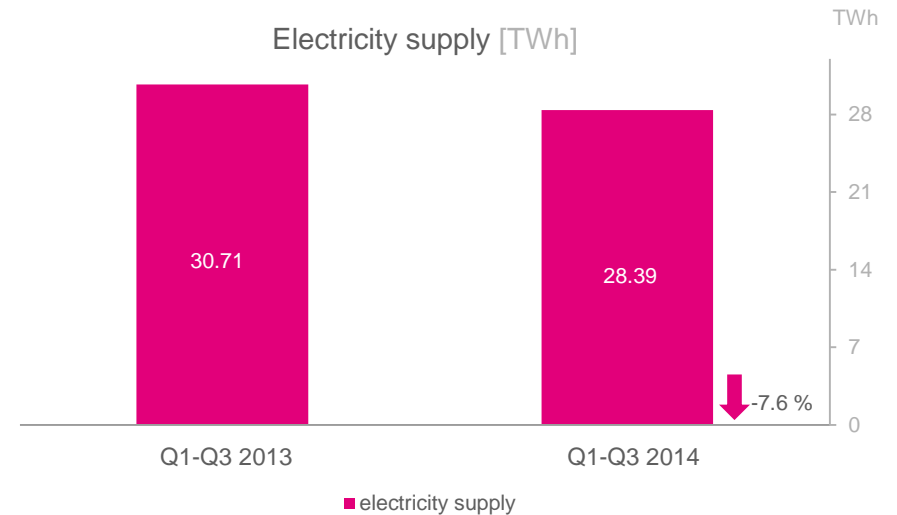
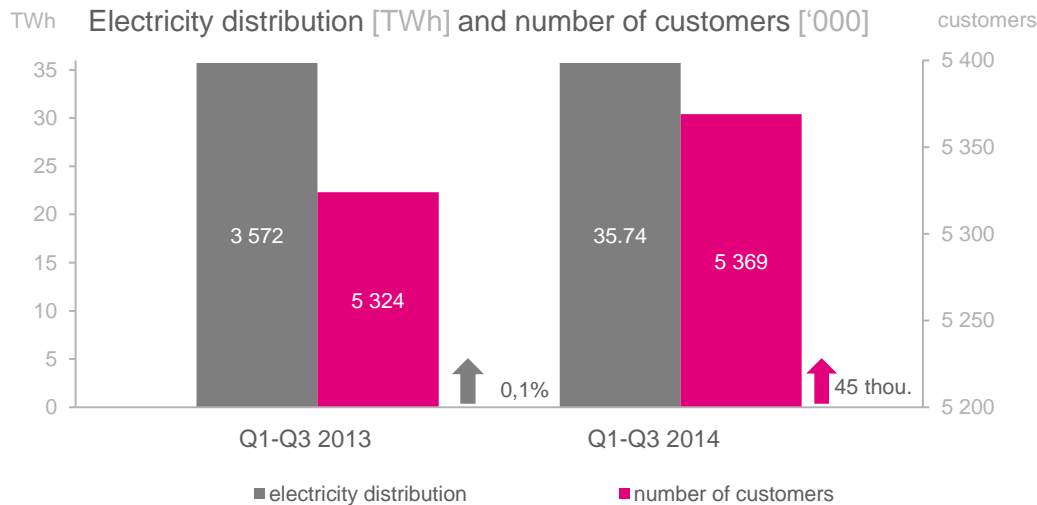
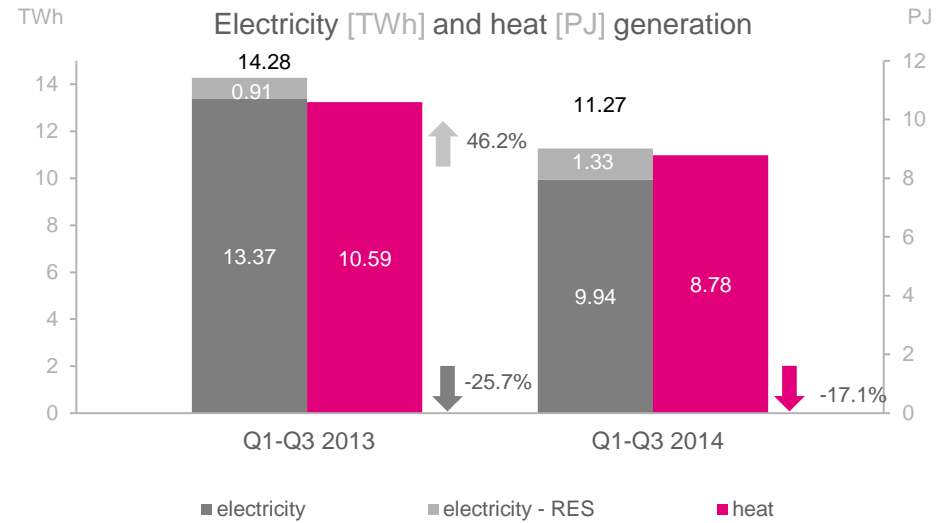
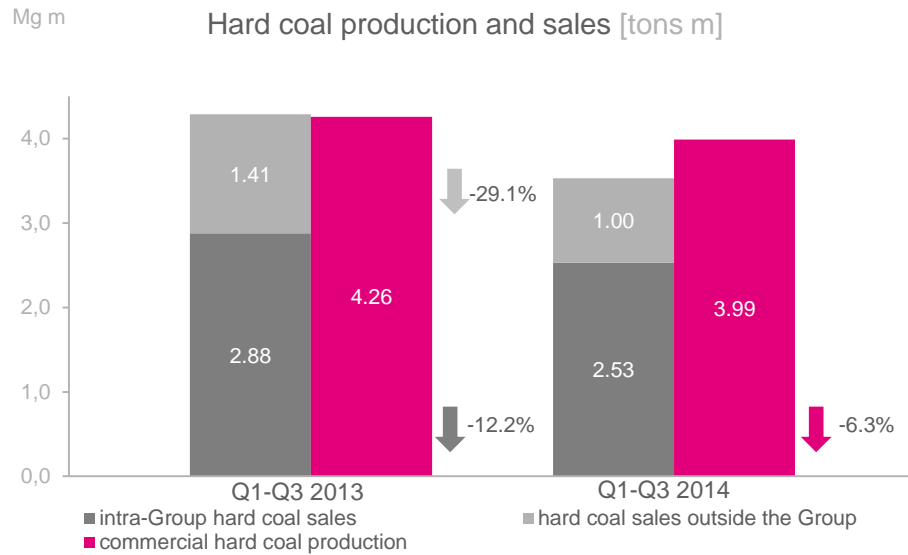
Average electricity sales prices on the competitive market (acc. to ERO):

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

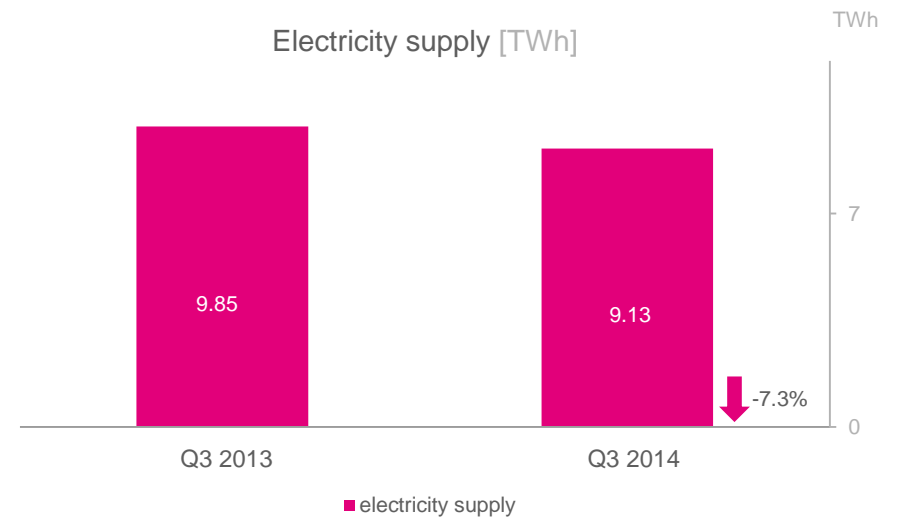
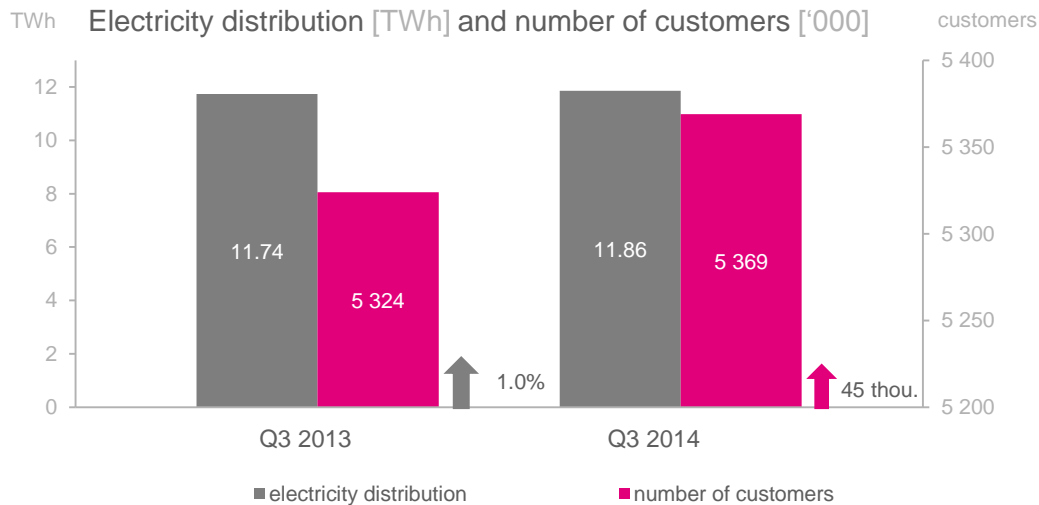
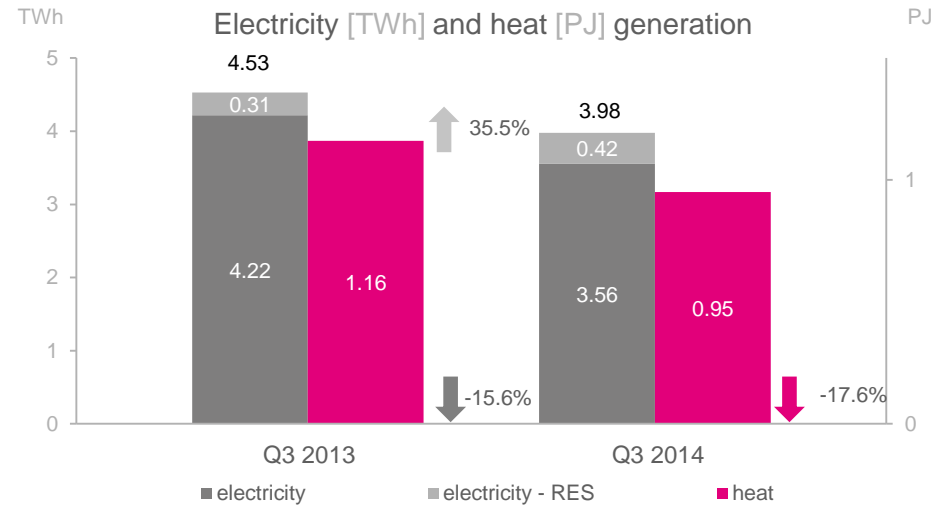
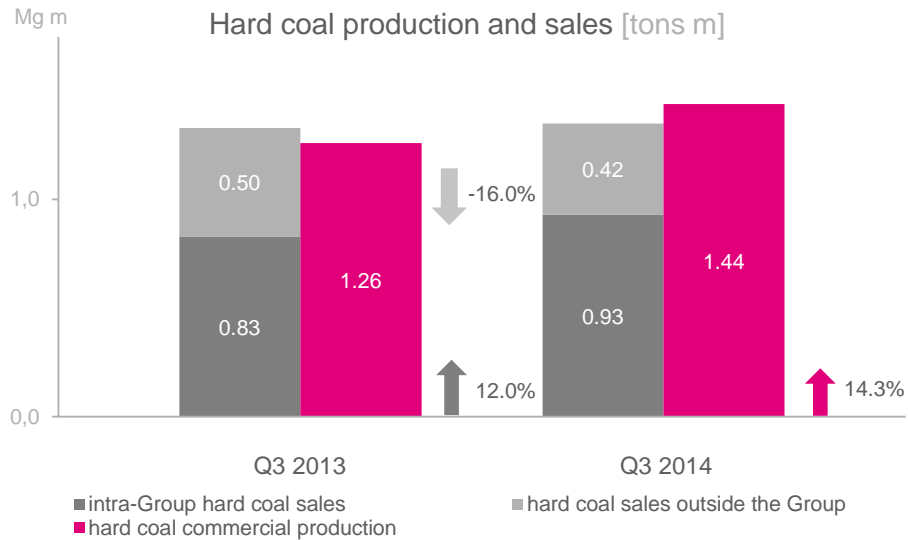


* Source: GUS, IBnGR, PSE

Q1-Q3 2014 key operating data

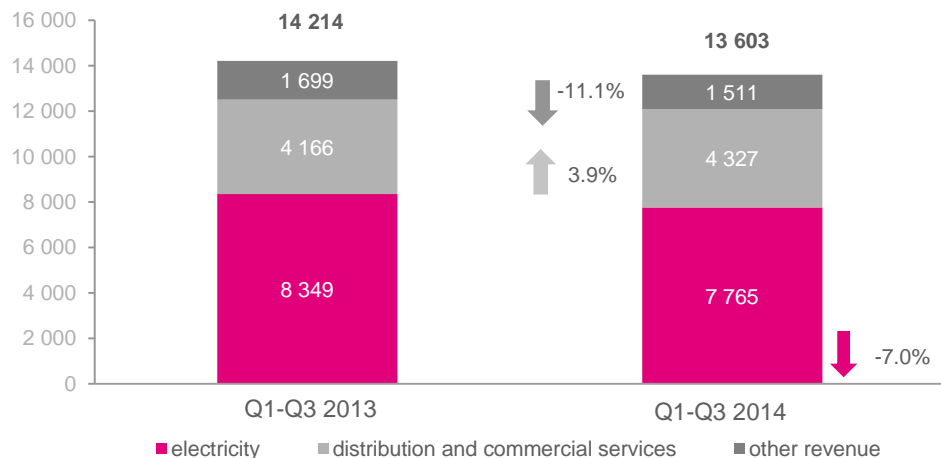


Q3 2014 key operating data

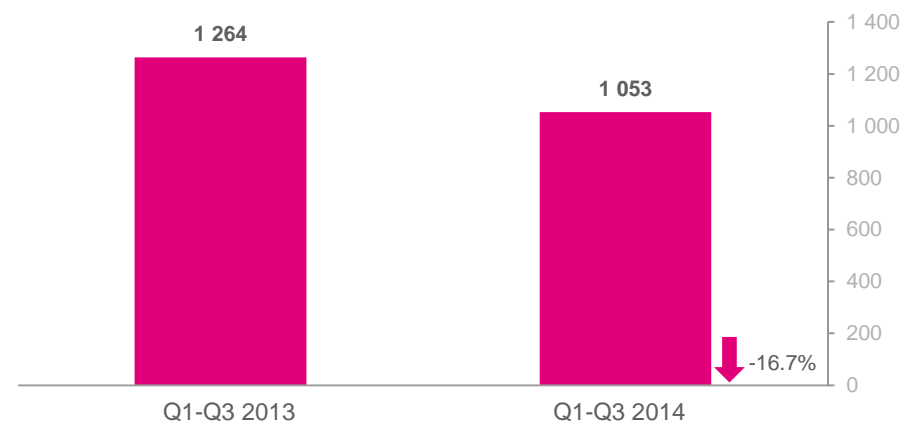


Q1-Q3 2014 key financial data

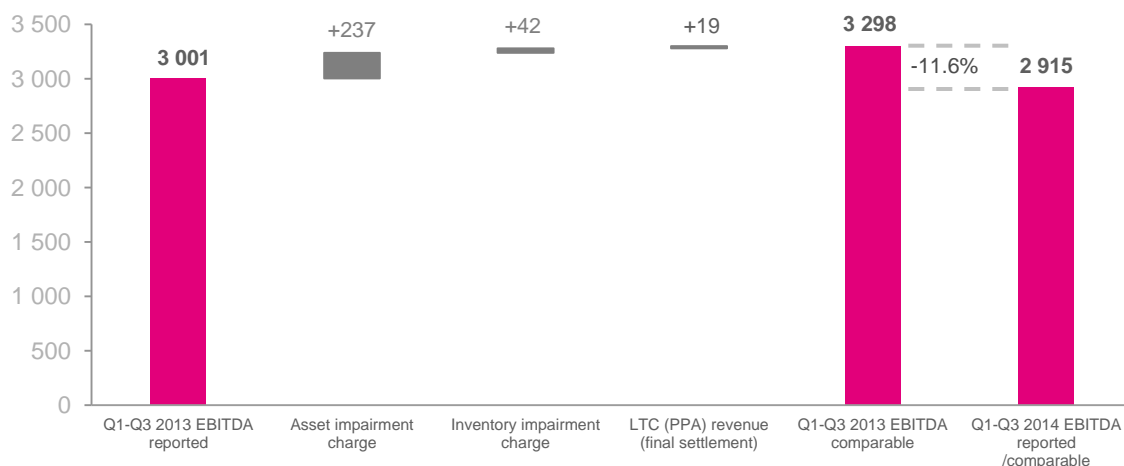
Sales revenue [PLN m]



Net profit [PLN m]

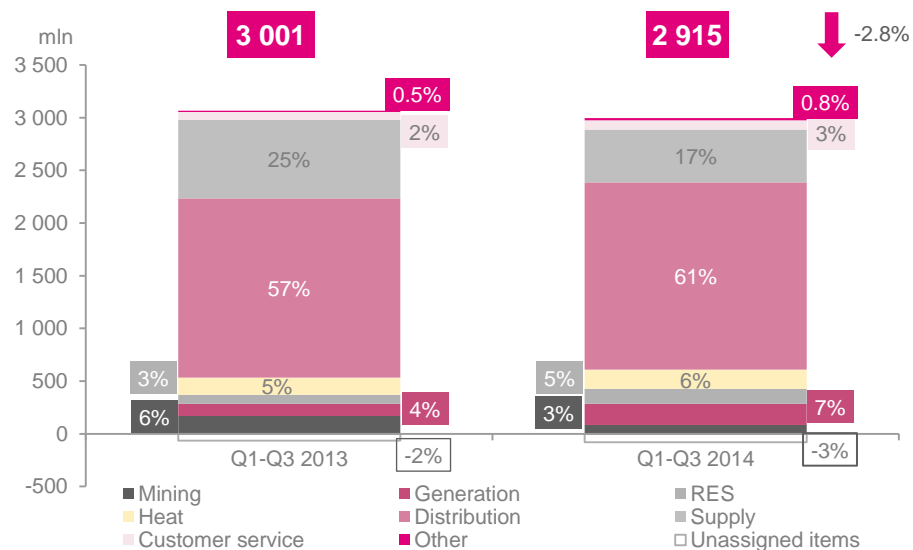


Q1-Q3 2013 EBITDA vs Q1-Q3 2014 EBITDA [PLN m]



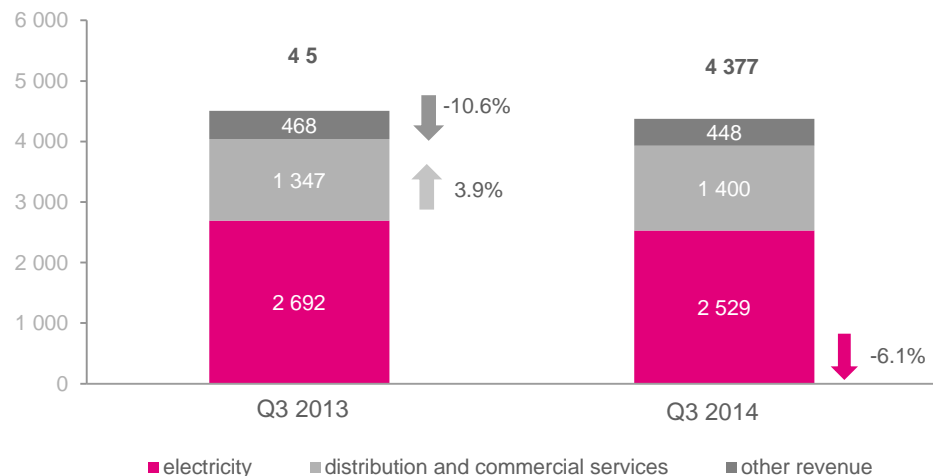
No one-off events occurred in Q1-Q3 2014

Q1-Q3 2013 EBITDA vs Q1-Q3 2014 EBITDA structure

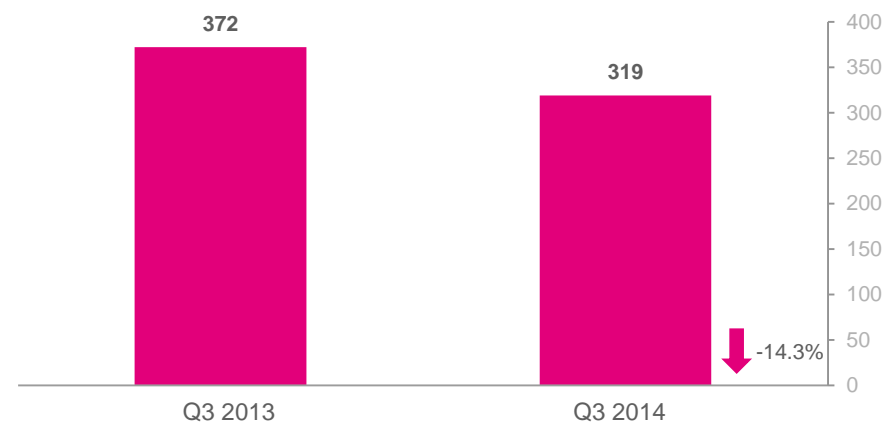


Q3 2014 key financial data

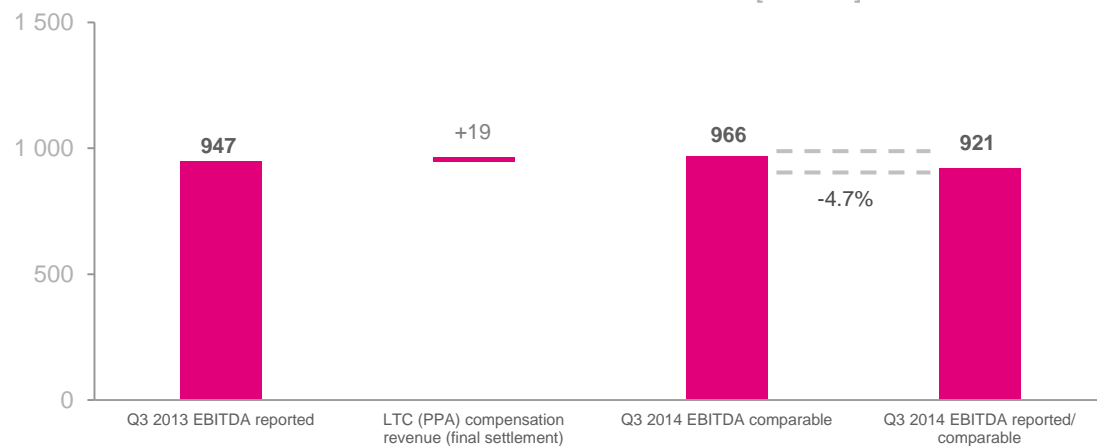
Sales revenue [PLN m]



Net profit [PLN m]

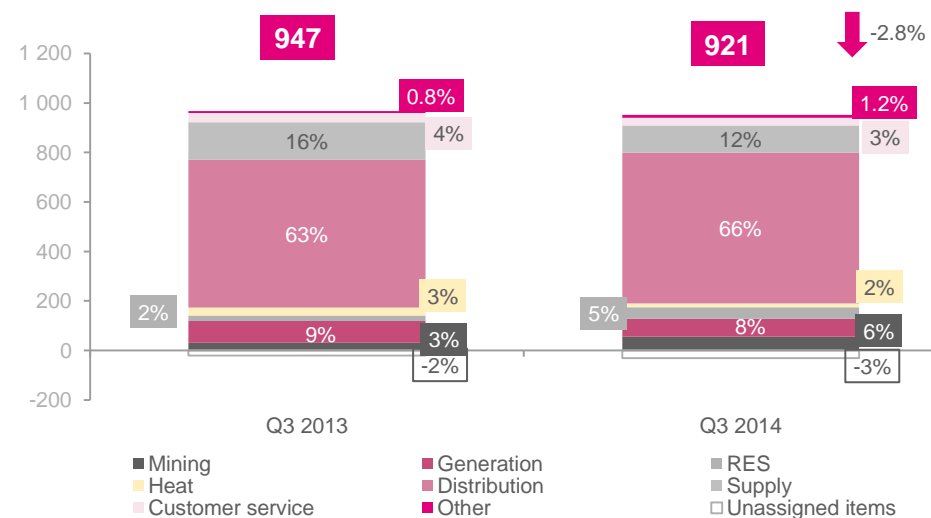


Q3 2013 EBITDA vs Q3 2014 EBITDA [PLN m]

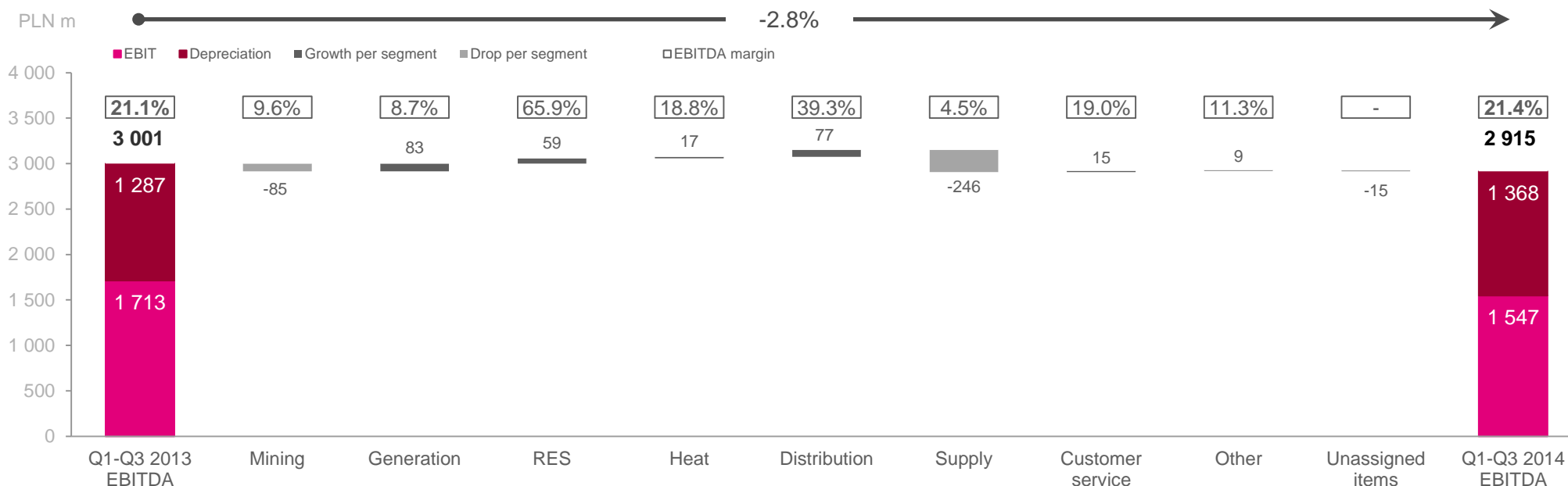


No one-off events occurred in Q3 2014

Q3 2013 EBITDA vs Q3 2014 EBITDA structure [PLN m]



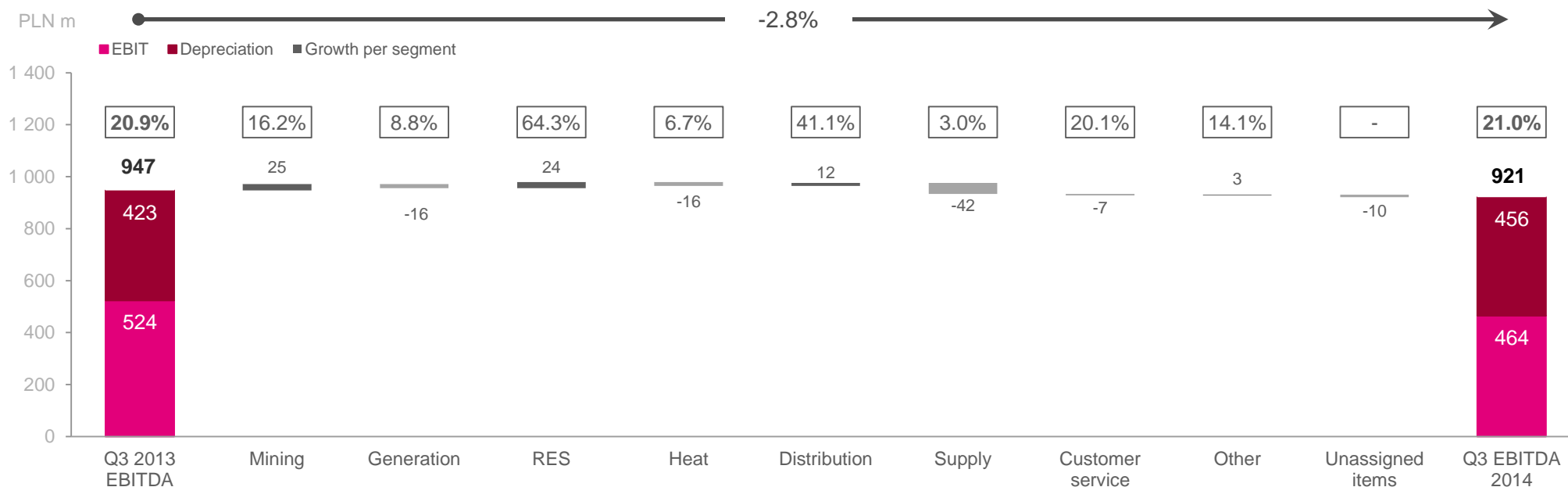
Q1-Q3 2014 EBITDA



Most important factors affecting Q1-Q3 2014 EBITDA:

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

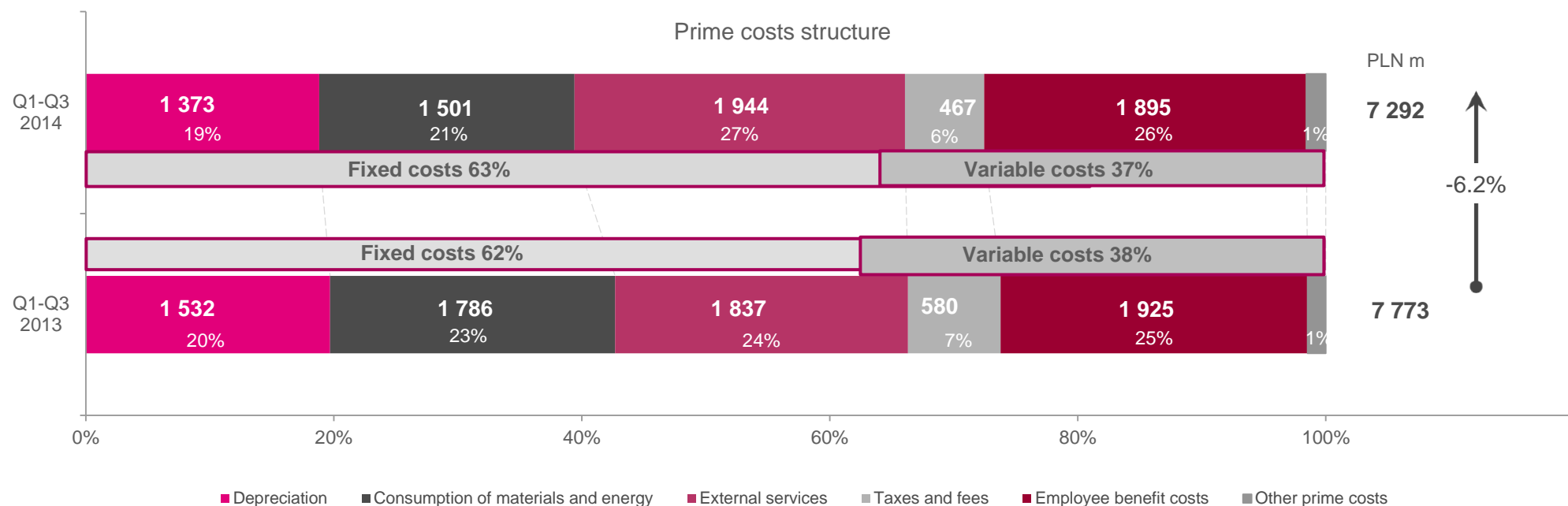
Q3 2014 EBITDA



Most important factors affecting Q3 2014 EBITDA:

- Mining – declining hard coal market prices, slight increase of the hard coal sales volume, along with the drop of the unit cost of coal sold
- Generation – lower electricity prices, lower electricity and heat sales volume, lower CO₂ provision cost, higher revenue from the operational capacity reserve
- RES – higher volume of sales of electricity and property rights from hydroelectric power plants (favorable hydrological conditions) and wind farms (impact of Wicko and Marszewo wind farms)
- Heat – higher variable unit generation costs (higher prices of purchasing blast furnace gases), lower electricity sales price, higher CO₂ cost
- Distribution – lower cost of purchasing electricity to cover the balancing difference, increase of distribution service sales price and volume, rising transition fee charged by the TSO
- Supply – higher redemption obligation and prices of green and violet property rights, reinstatement of the obligation to redeem red and yellow certificates, lower electricity supply volume and higher margin on electricity retail sales

Q1-Q3 2014 prime costs structure



Declining costs in Q1-Q3 2014 are mainly due to:

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

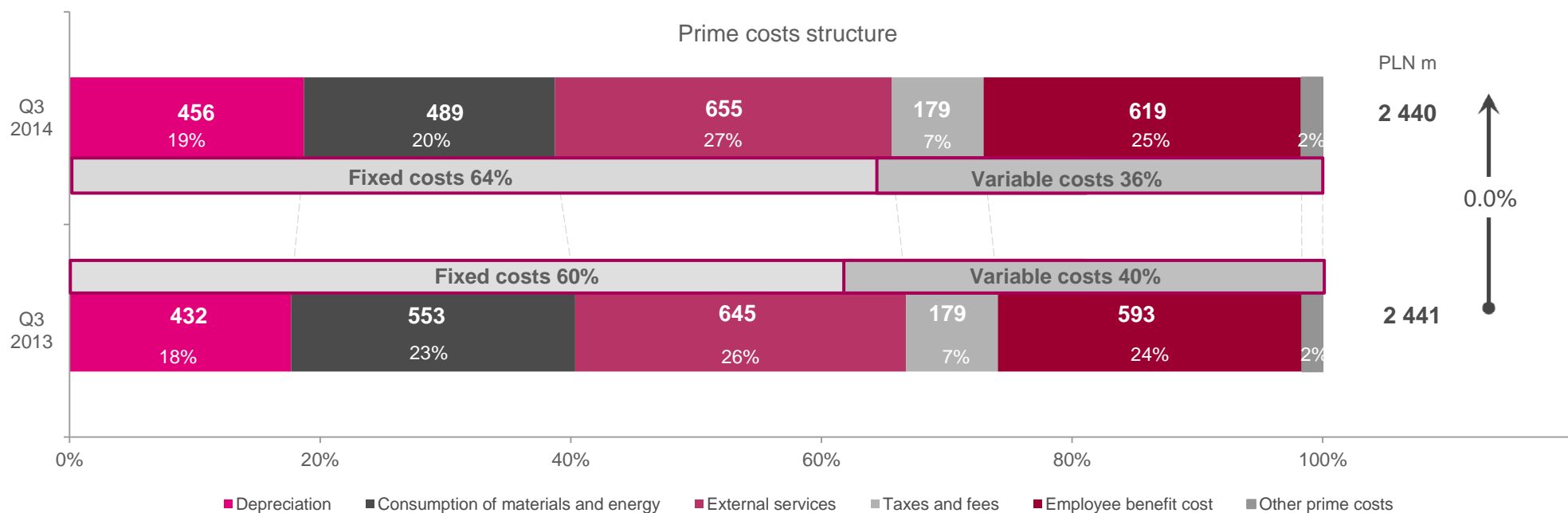
Cost structure:

- In Q1-Q3 2014: variable costs (excluding the value of goods and materials sold) approx. 37%, fixed costs approx. 63%
- In Q1 –Q3 2013: variable costs approx. 38%, fixed costs approx. 62%

Most important reasons for the changed cost structure:

- ✓ lower fuel cost
- ✓ lower cost of CO₂ emission allowances
- ✓ higher cost of energy certificates of origin

Q3 2014 prime costs structure



Q3 2014 costs comparable to Q3 2013 costs as a result of:

- declining costs of consumption of materials and energy
- rising costs of:
 - depreciation
 - external services
 - employee benefit costs – implementation of the remuneration agreement in Q3 2014

Cost structure:

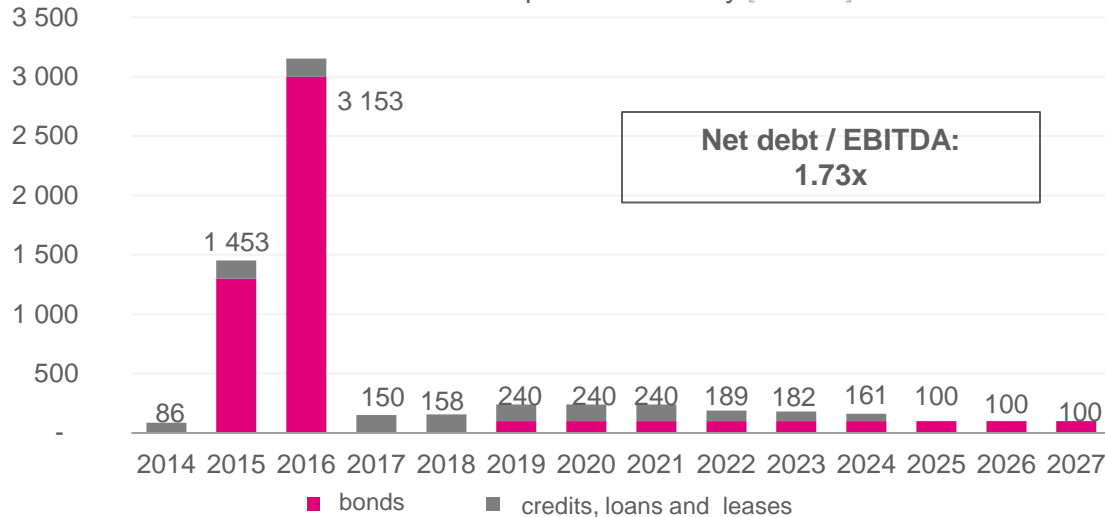
- In Q3 2014: variable costs (excluding the value of goods and materials sold) approx. 36%, fixed costs approx. 64%
- In Q3 2013: variable costs approx. 40%, fixed costs approx. 60%

Most important reasons for the changed cost structure:

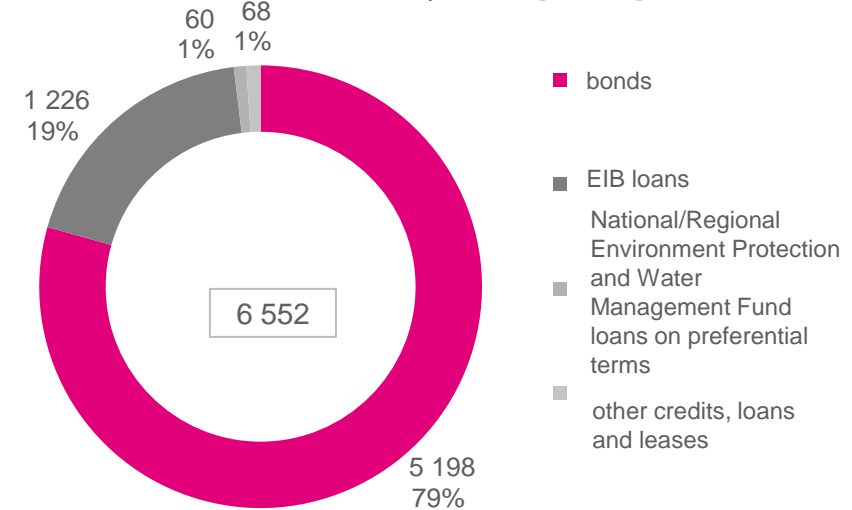
- ✓ lower fuel cost
- ✓ lower cost of CO₂ emission allowances' provision
- ✓ higher cost of energy certificates of origin

Debt and financing

TAURON Group's debt maturity [PLN m]

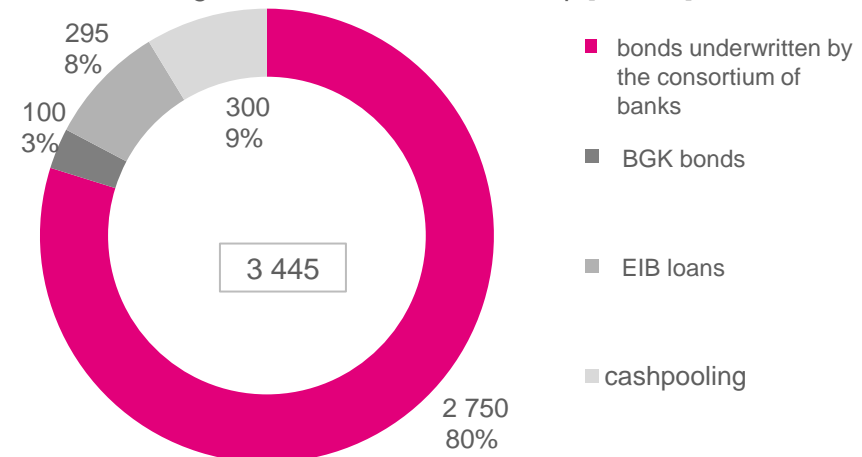


Structure of TAURON Group's debt [PLN m]



- financial debt (debt due to investment loans, loans, leases and bonds) as of September 30, 2014: PLN 6 552m
- average weighted debt maturity as of September 30, 2014:
 - including all BGK bonds – 43 months
- EUR debt constitutes 0.04% of the total debt
- structure of debt by interest rate:
 - 19% – fixed interest rate, i.e. PLN 1 226m
 - 81% – floating interest rate, i.e. PLN 5 326m, including:
 - unsecured amount – PLN 1 886m
 - secured amount – PLN 3 440m

Financing available to TAURON Group [PLN m]



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	-	In the first half of November RAFAKO-Mostostal consortium will hand over the unit's basic design. At the same time TAURON Generation is planning to formally hand over the unit's construction site to the General Contractor. The process of selecting contractors that will install the unit's auxiliary systems and installations – ash removal and stoking (coal feeding) systems – is underway. Design works and obtaining of successive administrative approvals are underway	9%	2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant	450	240	Installations of the gas and steam turbogenerator sets are underway. Installation of the pressurized part of the recuperation boiler is underway. Basic installation of the stack is completed. The upgrade of the pressure increase stage is close to completion. Main machines and devices of the gas and steam unit are at the construction site	64%	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. Foundations of the inclined coal conveyor's support completed, works related to installing cooling water ducts and cooling water pump station completed	26%	2016
Construction of the TG 50 ZW Nowa turbogenerator	50	-	Turbine's delivery completed, assembly works in the machine room underway. Partial acceptance of the power offtake completed. Works on cooling water installations underway	61%	2015
Jaworzno III Power Plant – installing of the flue gas denitrification systems and upgrading of the 200 MW units	-	-	Upgrade of two of six units to be upgraded is planned in 2015-16. Units no. 1 and 5 – tender procedure underway. Unit no. 3 – optimization works underway following the commissioning of the unit after the upgrade and preparations of the warranty measurements	66%	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 underway. According to the project's assumptions starting from 2015 all 200 MW units will reduce NOx emissions to less than 200 mg/Nm ³	85%	2015
Construction of the CCGT unit at Łagisza Power Plant	413	266	Design has been prepared and the process of approving a sector wide notice on the construction of the CCGT unit is underway. Environmental impact assessment report has been compiled. Process of preparing documentation required to obtain the construction permit and design works related to the generation unit have been commenced. Deadline for submission of Contract Engineer bids elapses on November 3	1%	2018
Construction of the 800m level at Janina coal mine	-	-	Janina VI shaft deepening and drilling of the development headings underway. As part of the Hard Coal Mechanical Processing Unit's upgrade the construction of the stone transportation and storage system is carried out	14%	2019
Construction of Grzegorz shaft at Sobieski coal mine	-	-	Drilling of the 830 m deep test exploration borehole completed. Construction of the electric distribution sub-station commenced. Investment project's basic design accepted	15%	2022

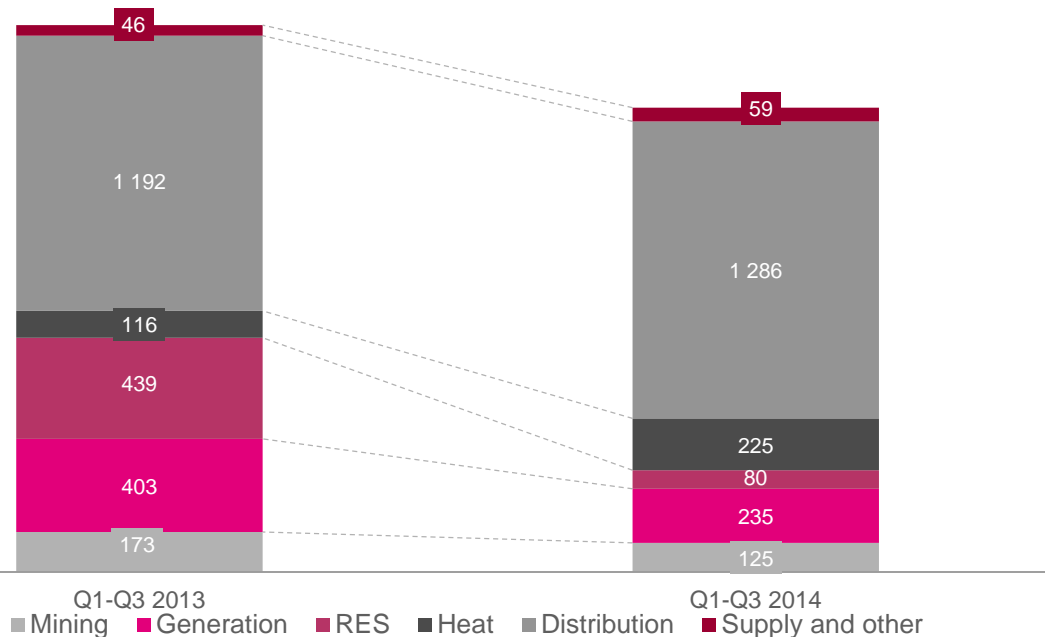
CAPEX – by segment

CAPEX by segment [PLN m]

2 368

● — -15.1% —>

2 010



Main investment projects completed in Q1-Q3 2014:

- Distribution – construction of new connections (PLN 338m) and upgrade and restoration of grid assets (PLN 803m)
- RES – construction of the Marszewo wind farm's 2nd stage (PLN 20m), upgrade of hydroelectric power plants (PLN 54m)
- Generation – construction of the NOx emission reduction system (PLN 130m)
- Heat – construction and upgrades of the heat transmission pipeline networks (PLN 56m), restoration of ZW Tychy's capacity (PLN 91m) and construction of the 50 MW turbogenerator set at ZW Nowa (PLN 28m)
- Mining – construction of the 800 m level and launch of the fourth coal face at the Janina coal mine (PLN 55m)

* CAPEX does not include PLN 330m of capital costs including PLN 310m spent to purchase TAURON Mining shares

OPEX reduction program

Segment	Savings realized in 2013 and in Q1-Q3 2014	Savings planned in 2013-2015	Progress %	Main initiatives
Distribution	PLN 272m	PLN 416m	65%	<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 279m	PLN 387m	72%	<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 35m	PLN 33m	107%	<ul style="list-style-type: none"> ▪ Employment restructuring ▪ Compressed air losses reduction ▪ Asset restructuring ▪ External services' costs optimization ▪ Procurement policy optimization
Mining	PLN 24m	PLN 28m	85%	<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 29m			<ul style="list-style-type: none"> ▪ Employment restructuring, reduction of external services' costs
Total	PLN 639m	PLN 864m	74%	

- In 2013 and Q1-Q3 2014 the voluntary redundancy program (PDO) covered 556 persons. Over that period employment contracts were terminated with 1 131 persons (3 625 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-Q3 2014: 60% comes from employment restructuring, 40% 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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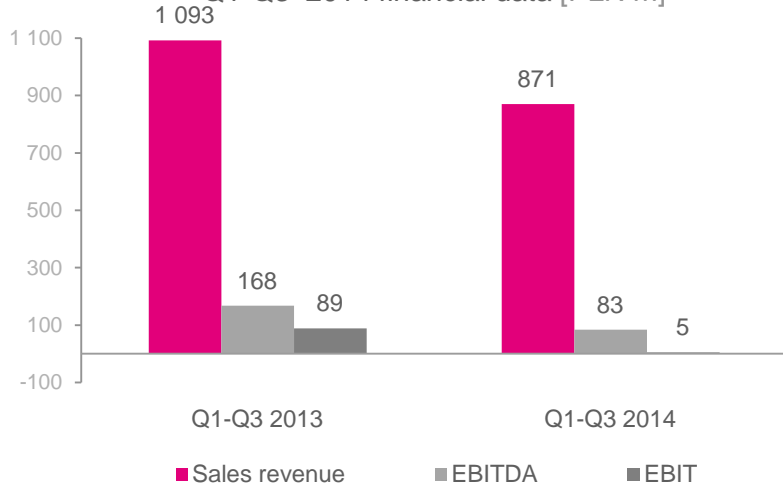
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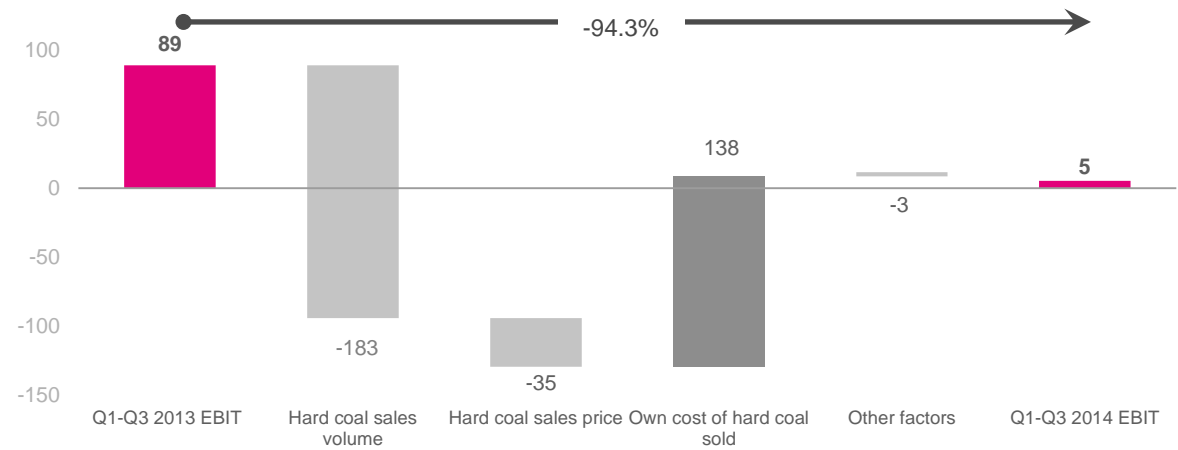
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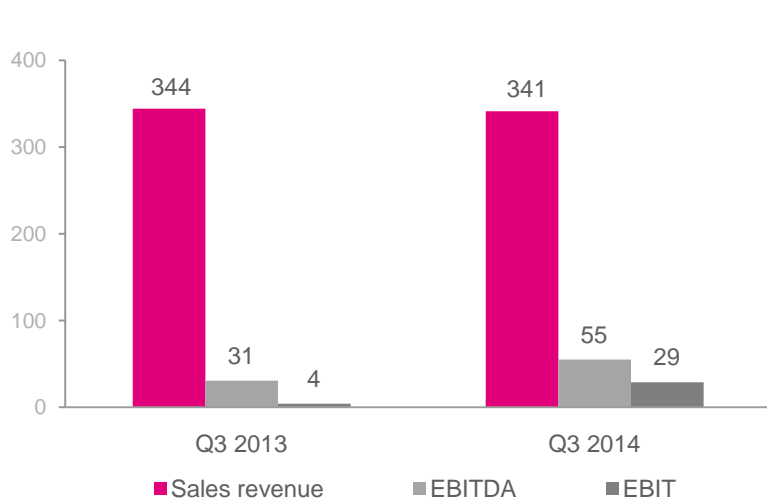
Q1-Q3 2014 financial data [PLN m]



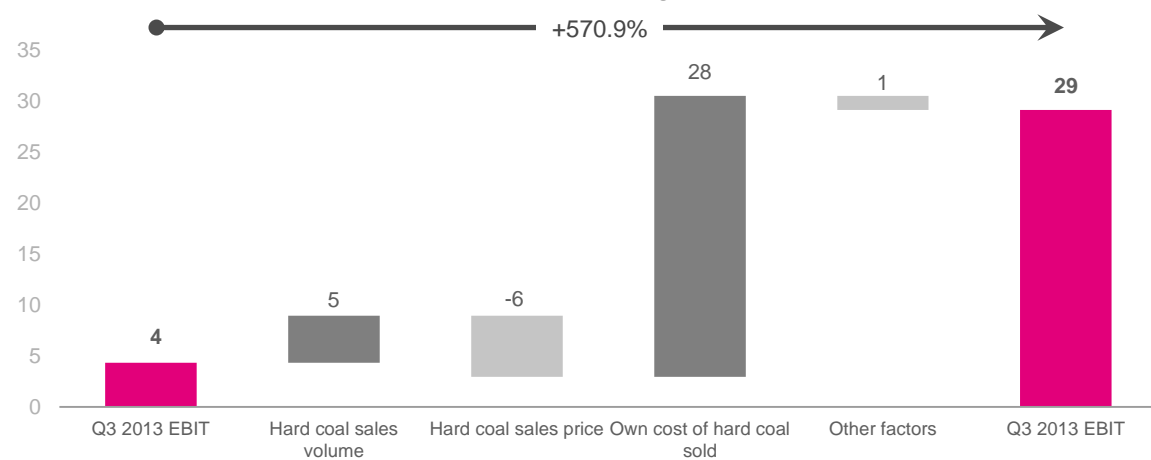
Q1-Q3 2014 EBIT bridge [PLN m]



Q3 2014 financial data [PLN m]

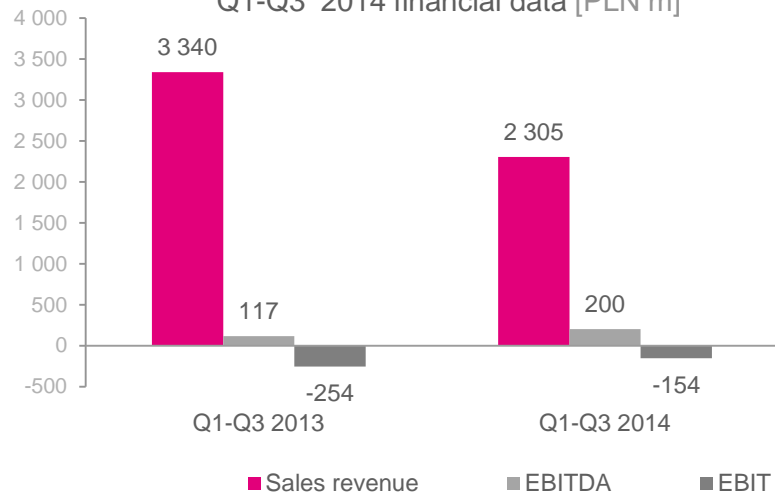


Q3 2014 EBIT bridge [PLN m]

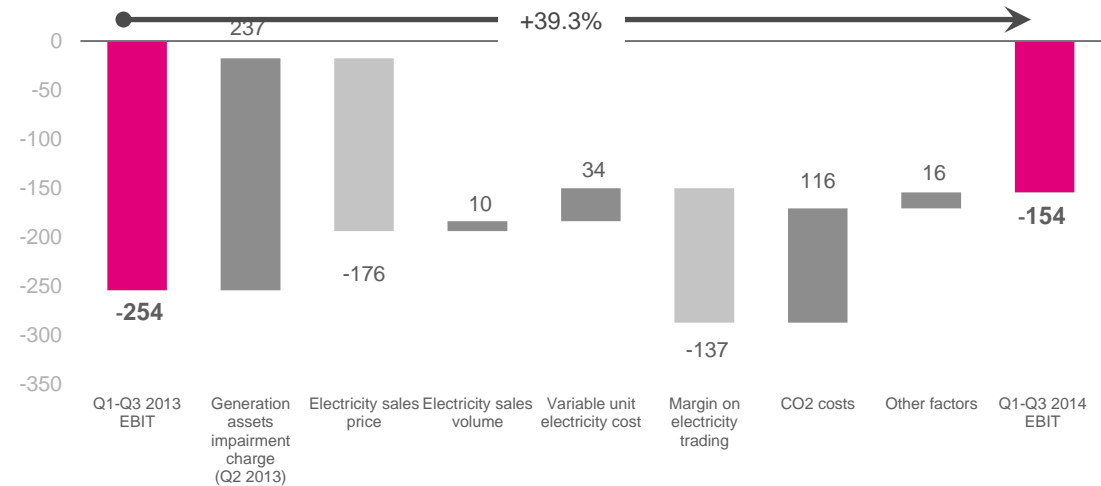


Generation (conventional sources)

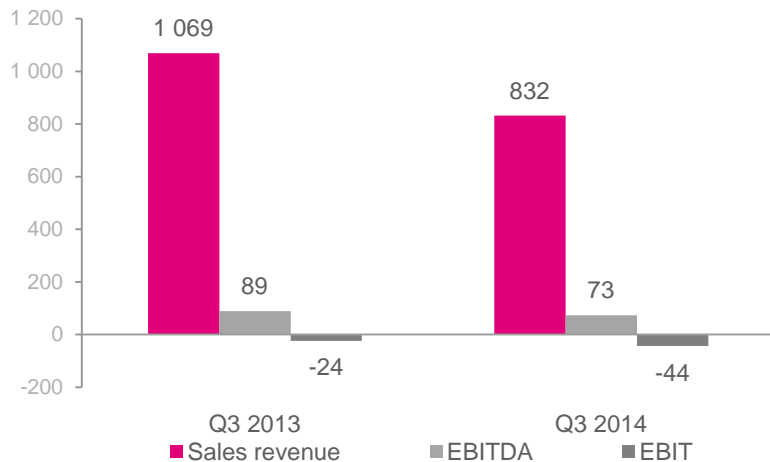
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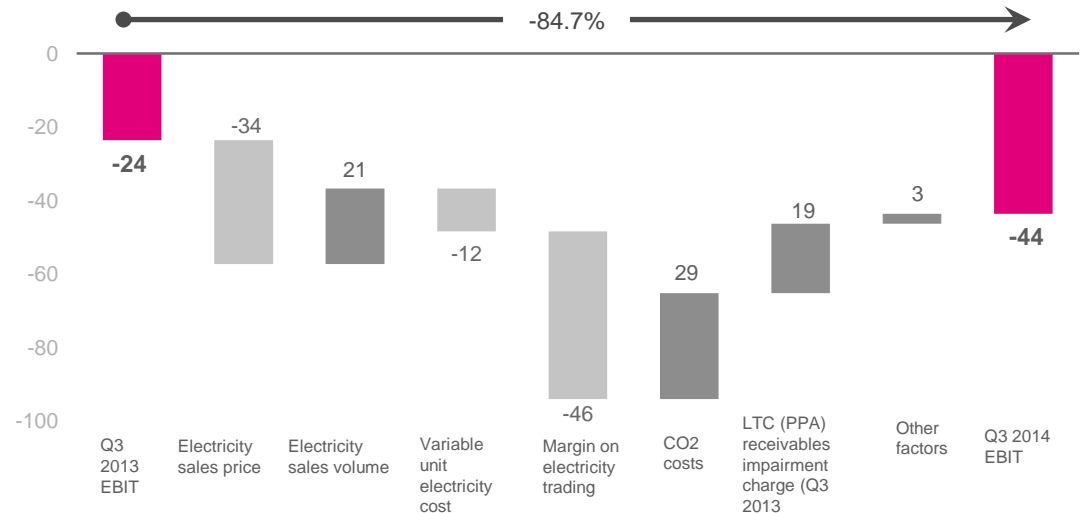
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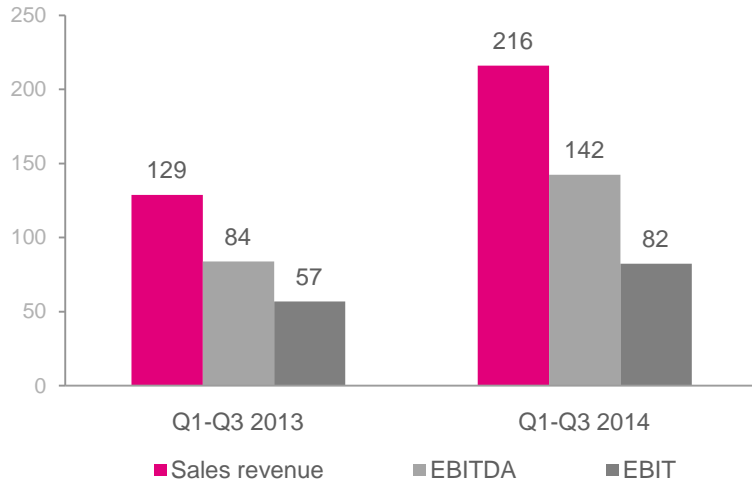


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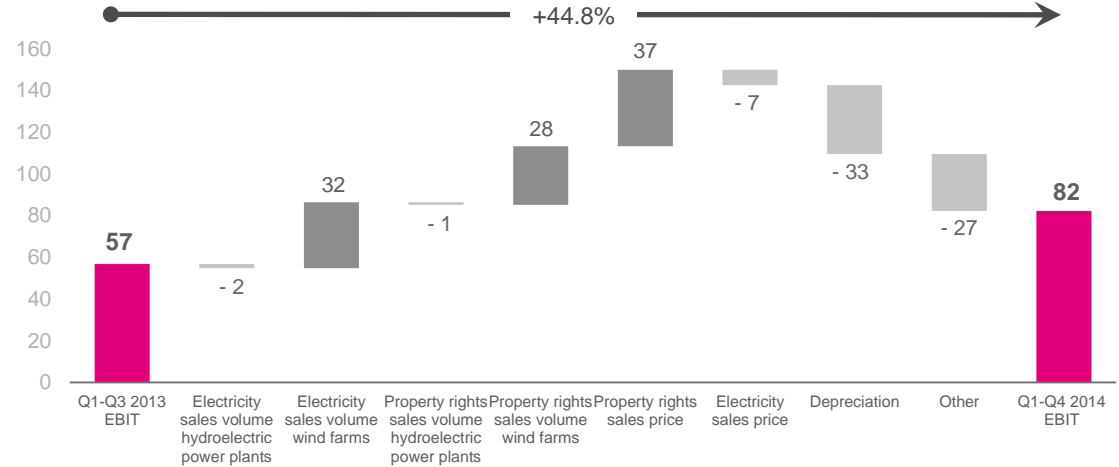


Renewable Energy Sources (RES)

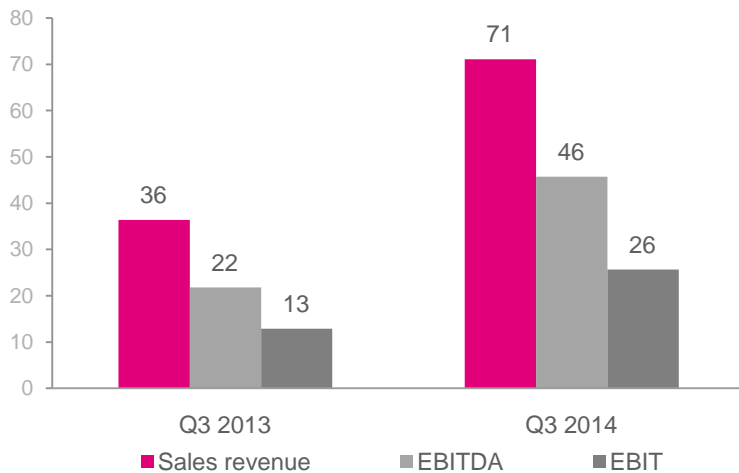
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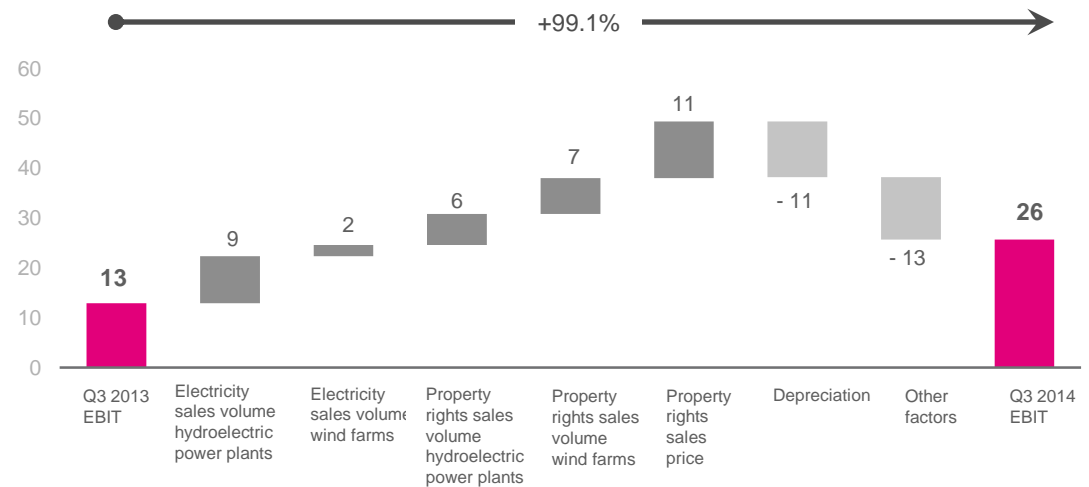
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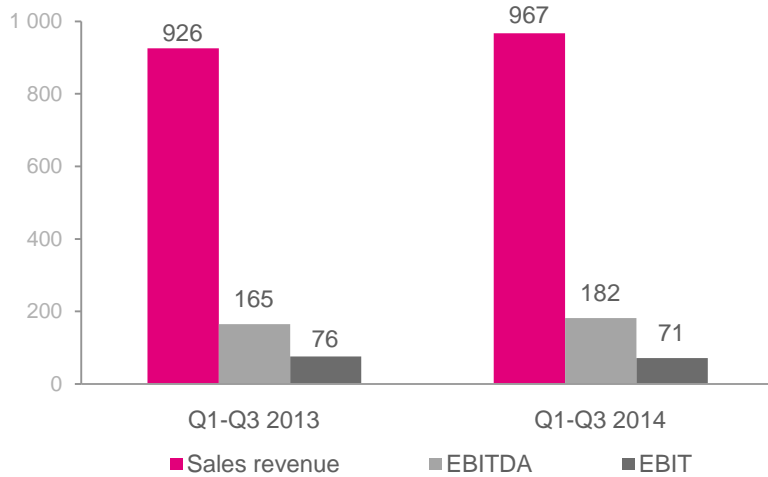
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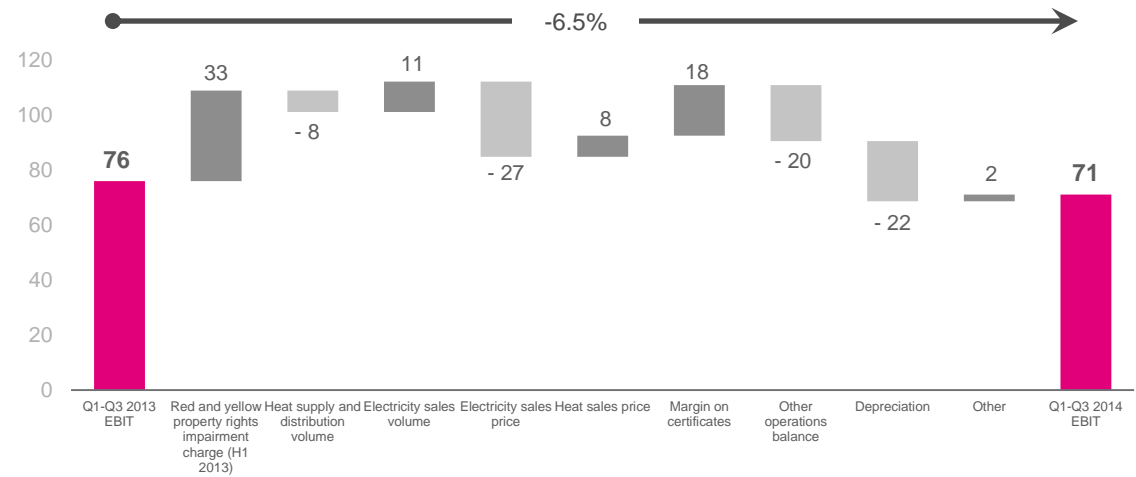
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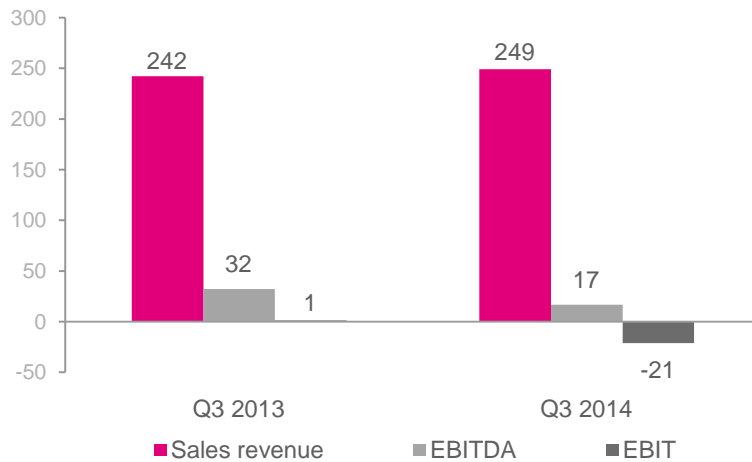
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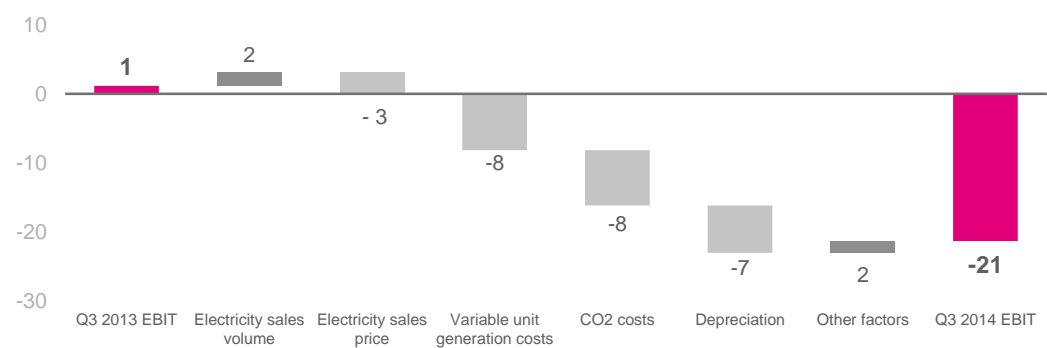
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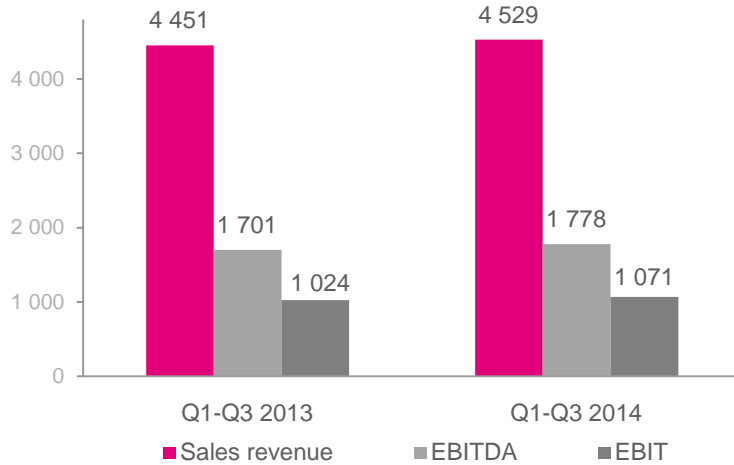


Q3 2014 EBIT bridge [PLN m]

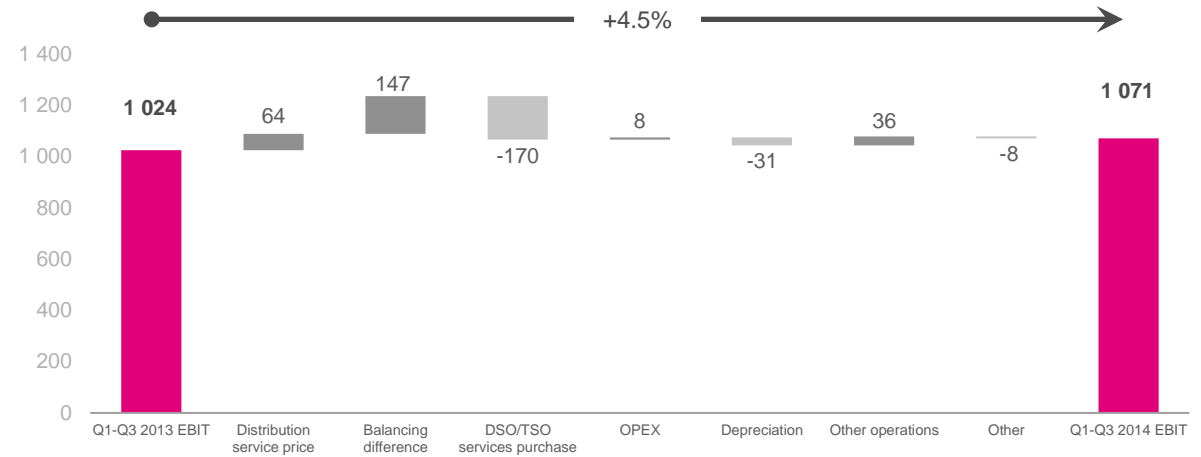


Distribution

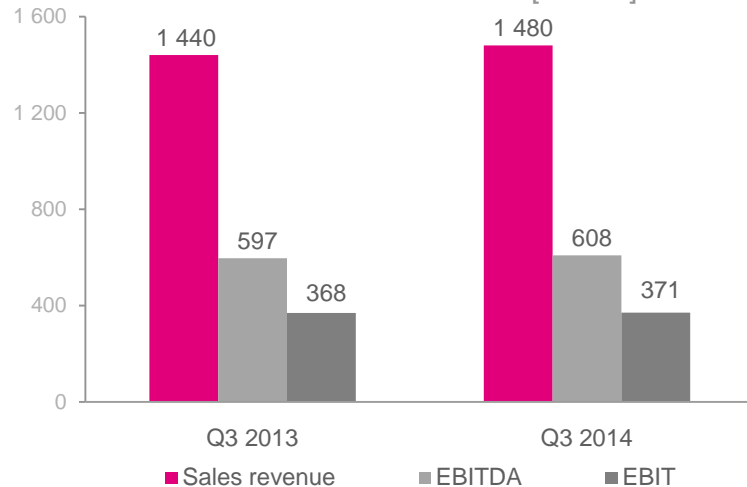
Q1-Q3 2014 financial data [PLN m]



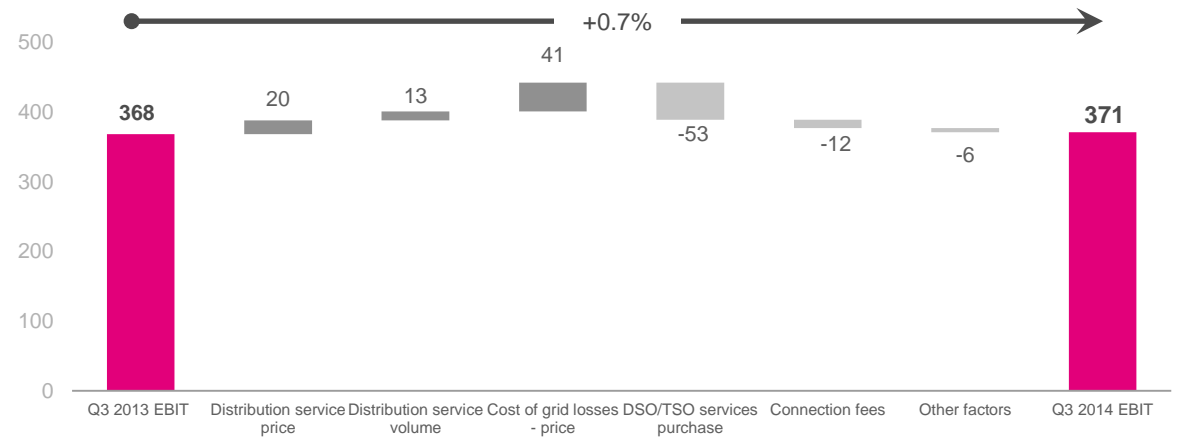
Q1-Q3 2014 EBIT bridge [PLN m]



Q3 2014 financial data [PLN m]

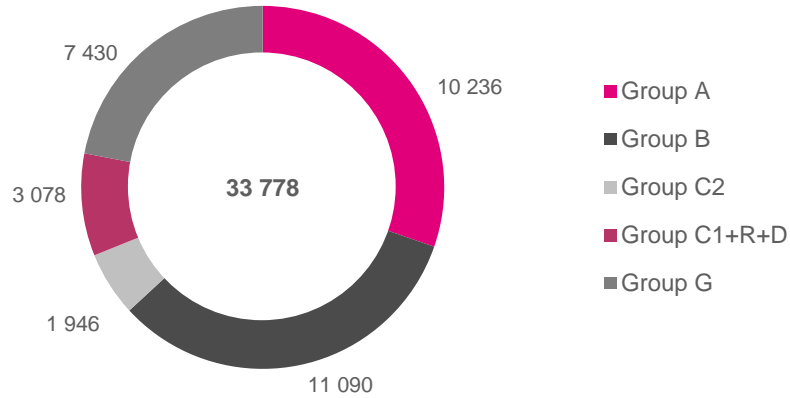


Q3 2014 EBIT bridge [PLN m]

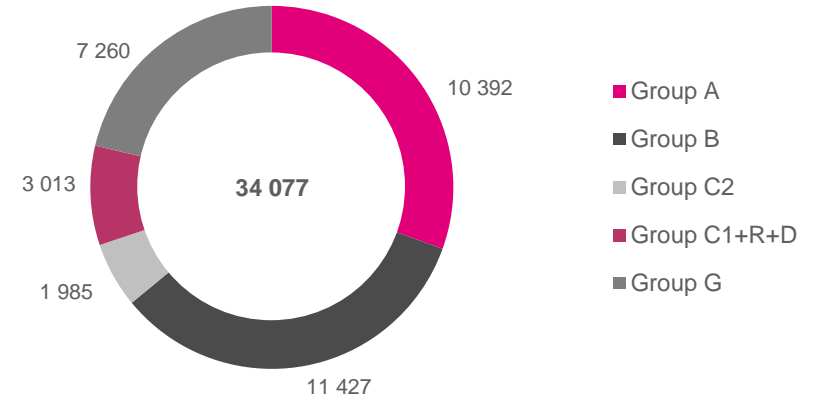


Distribution – volumes

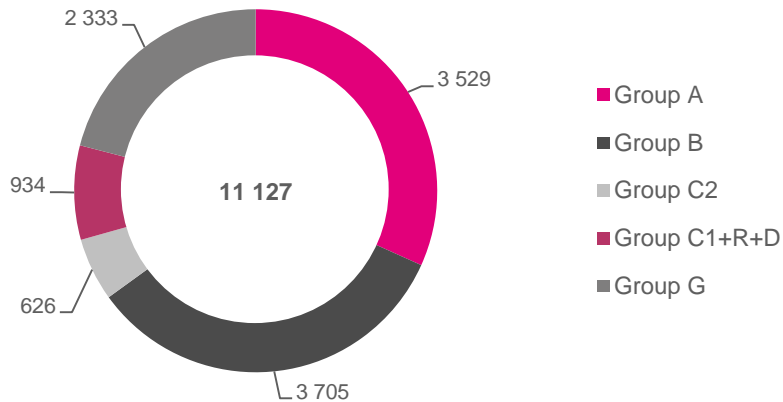
Q1-Q3 2013 electricity distribution [GWh]



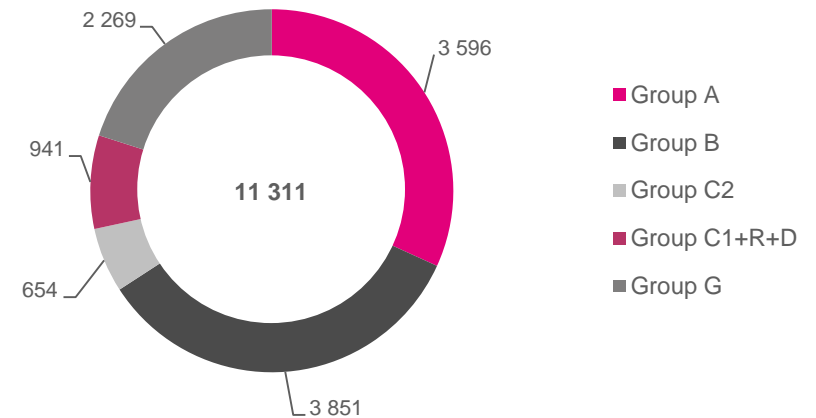
Q1-Q3 2014 electricity distribution [GWh]



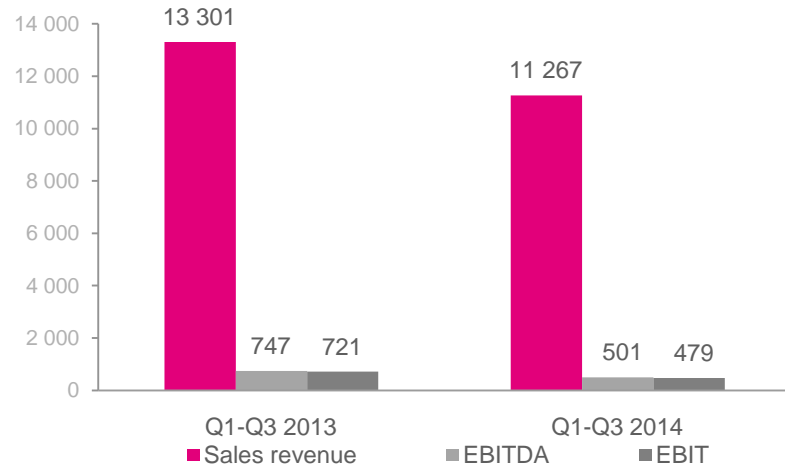
Q3 2013 electricity distribution [GWh]



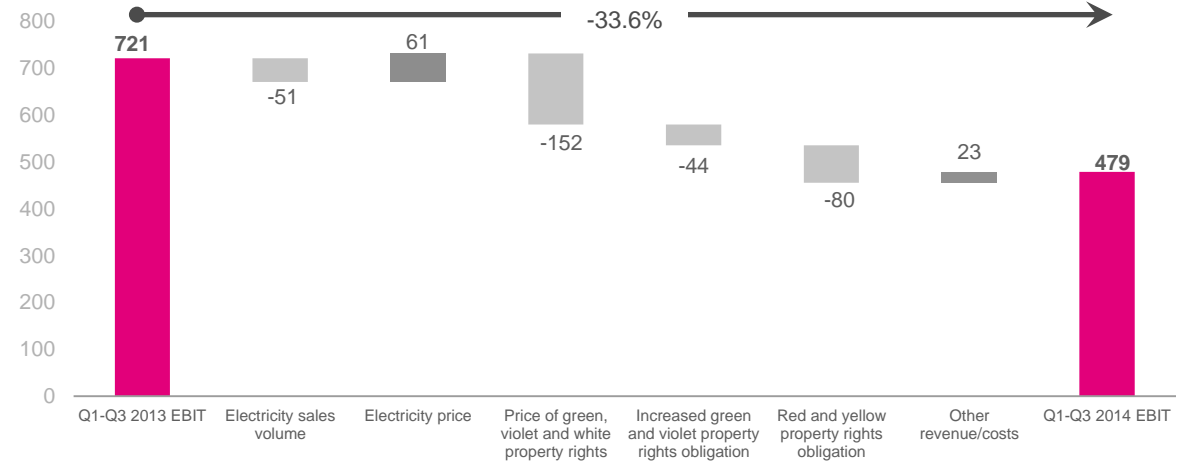
Q3 2014 electricity distribution [GWh]



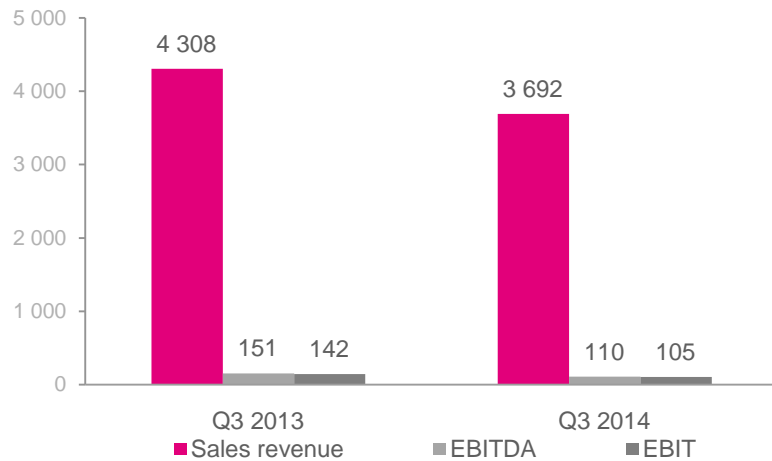
Q1-Q3 2014 financial data [PLN m]



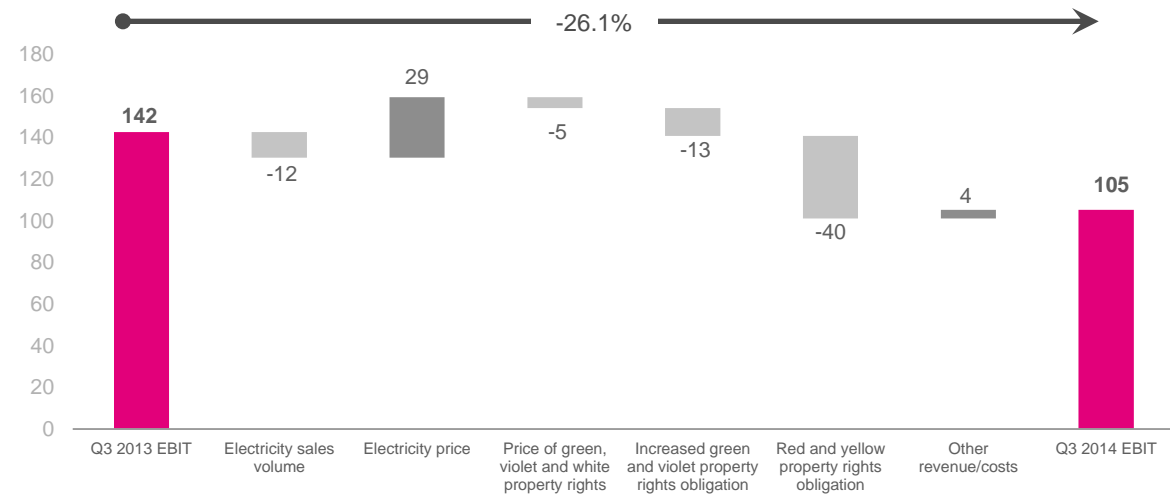
Q1-Q3 2014 EBIT bridge [PLN m]



Q3 2014 financial data [PLN m]

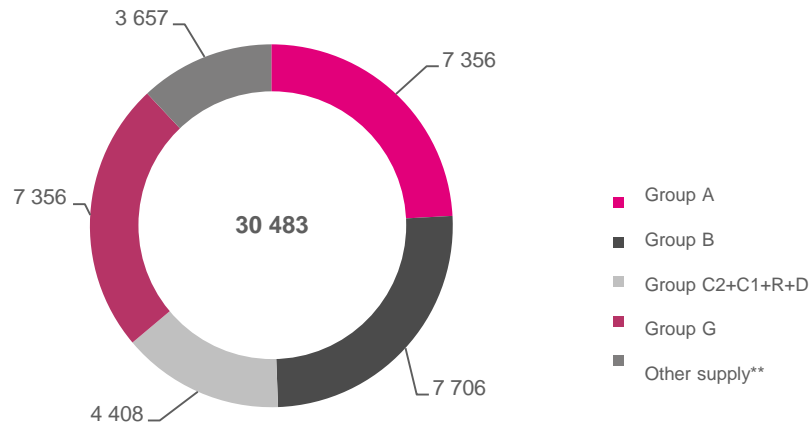


Q3 2014 EBIT bridge [PLN m]

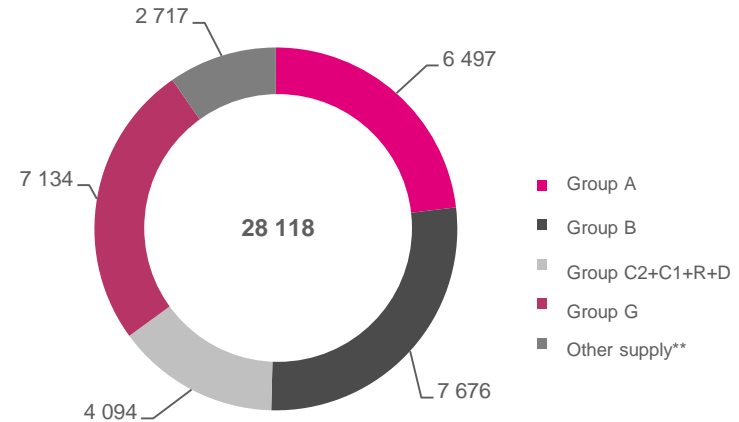


Supply – volumes

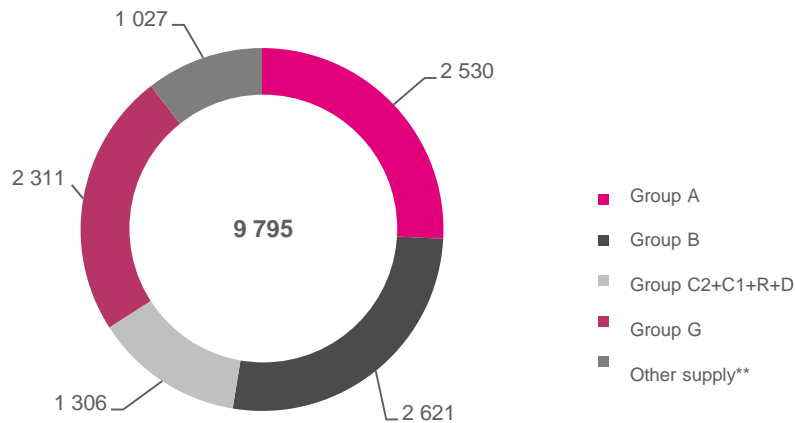
Q1-Q3 2013 electricity supply* [GWh]



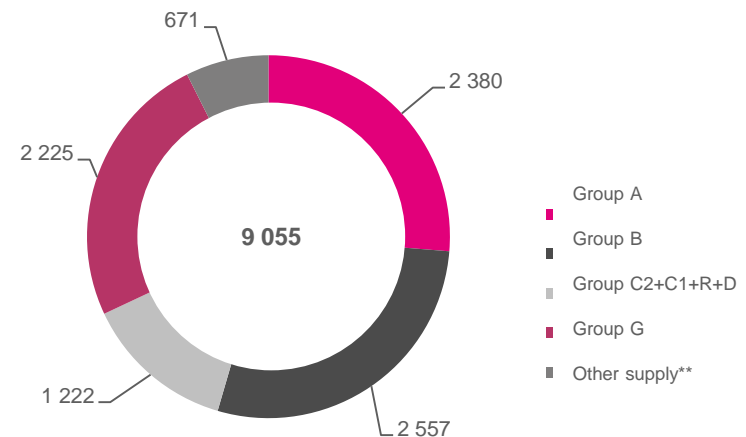
Q1-Q3 2014 electricity supply* [GWh]



Q3 2013 electricity supply* [GWh]



Q3 2014 electricity supply* [GWh]

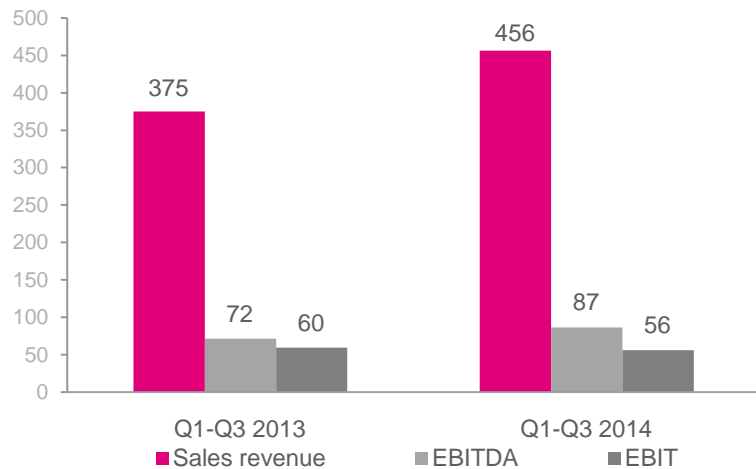


* Volumes of electricity supply to the strategic customers (key accounts) of TAURON Polska Energia S.A. are included in groups A and B

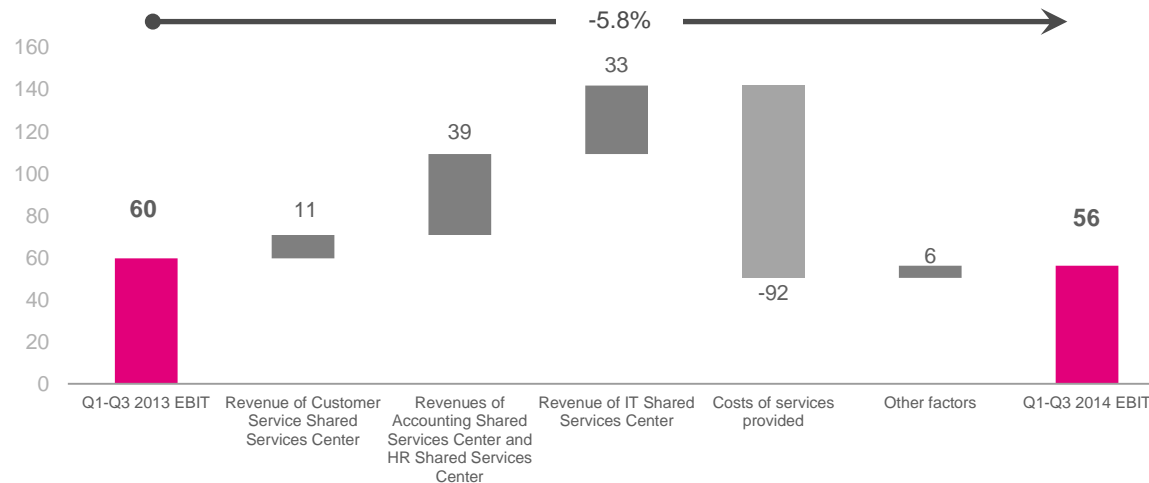
** Own needs and balancing differences of the Group's subsidiaries, balancing differences to other DSOs, other

Customer service

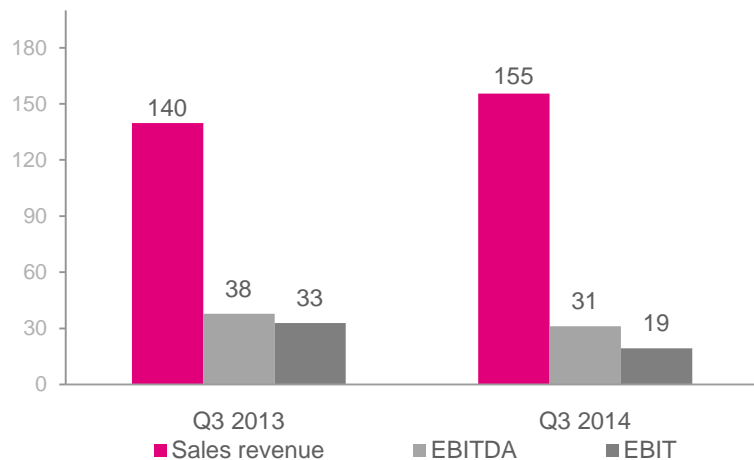
Q1-Q3 2014 financial data [PLN m]



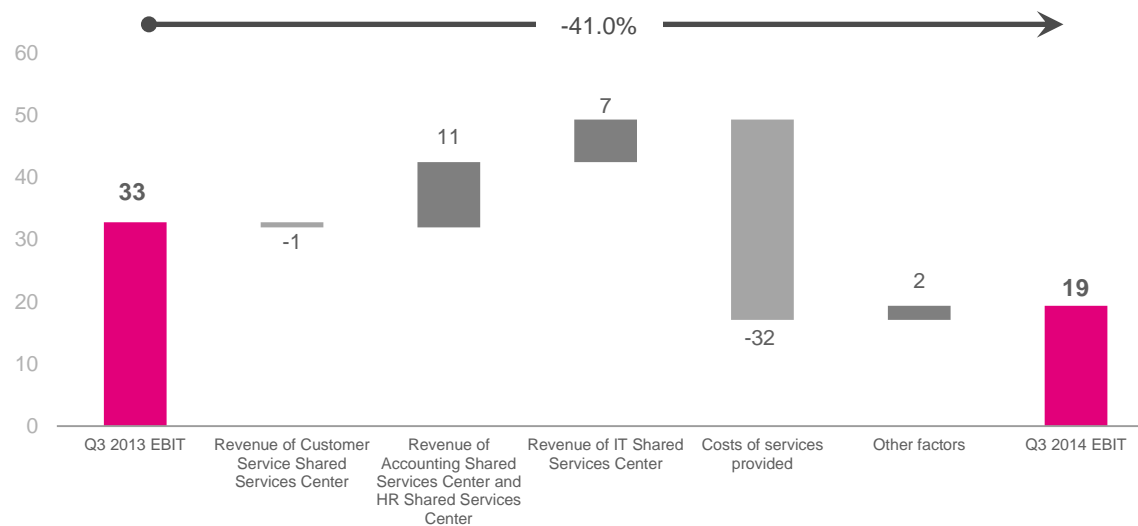
Q1-Q3 2014 EBIT bridge [PLN m]



Q3 2014 financial data [PLN m]



Q3 2014 EBIT bridge [PLN m]

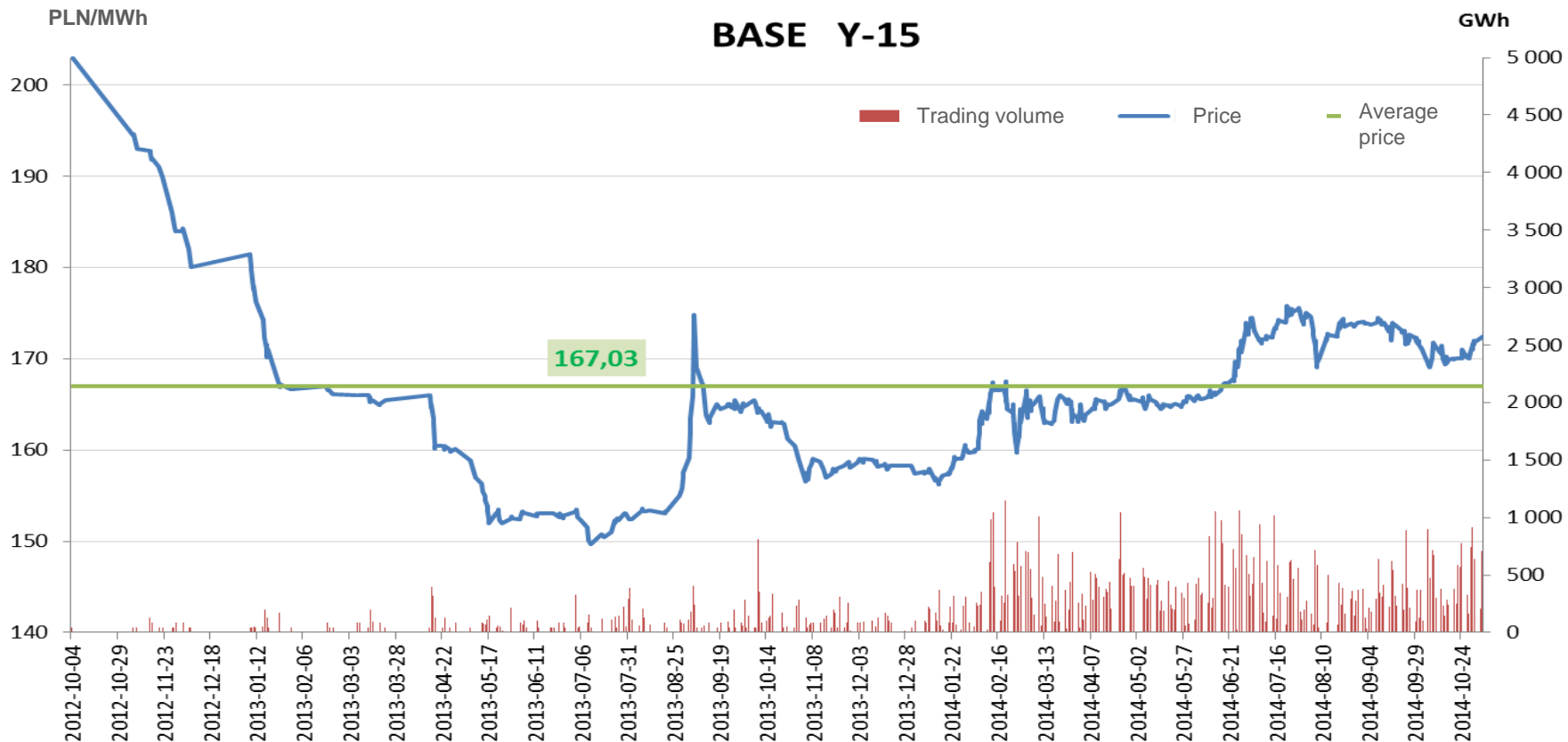


Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2013		2014 (until 4.11.2014)		2014/2013	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	184.92	140 488	161.01	187 965	-12.9%	33.8%
Forward PEAK (Y+Q+M)	204.35	14 855	184.21	19 007	-9.9%	27.9%
Forward (weighted average)	186.78	155 343	163.14	206 972	-12.7%	33.2%
SPOT (TGE)	153.91	19 930	177.07	17 978	15.0%	-9.8%
Weighted average total	183.04	175 273	164.26	224 950	-10.3%	28.3%

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 4.11.2014)	Substitution fee and obligation for 2014
2013 average	4.48 EUR/t	RES (green)	187.48	300.03 (13.0%)
2014 average	6.0 EUR/t	Hard coal-fired cogeneration (red)	10.45	11.00 (23.2%)
2015 average	8.2 EUR/t	Gas-fired cogeneration (yellow)	104.65	110.00 (3.9%)
Average 2014 EUA price forecast by TAURON	6.0 – 6.5 EUR/t	Methane (violet)	59.48	63.26 (1.1%)

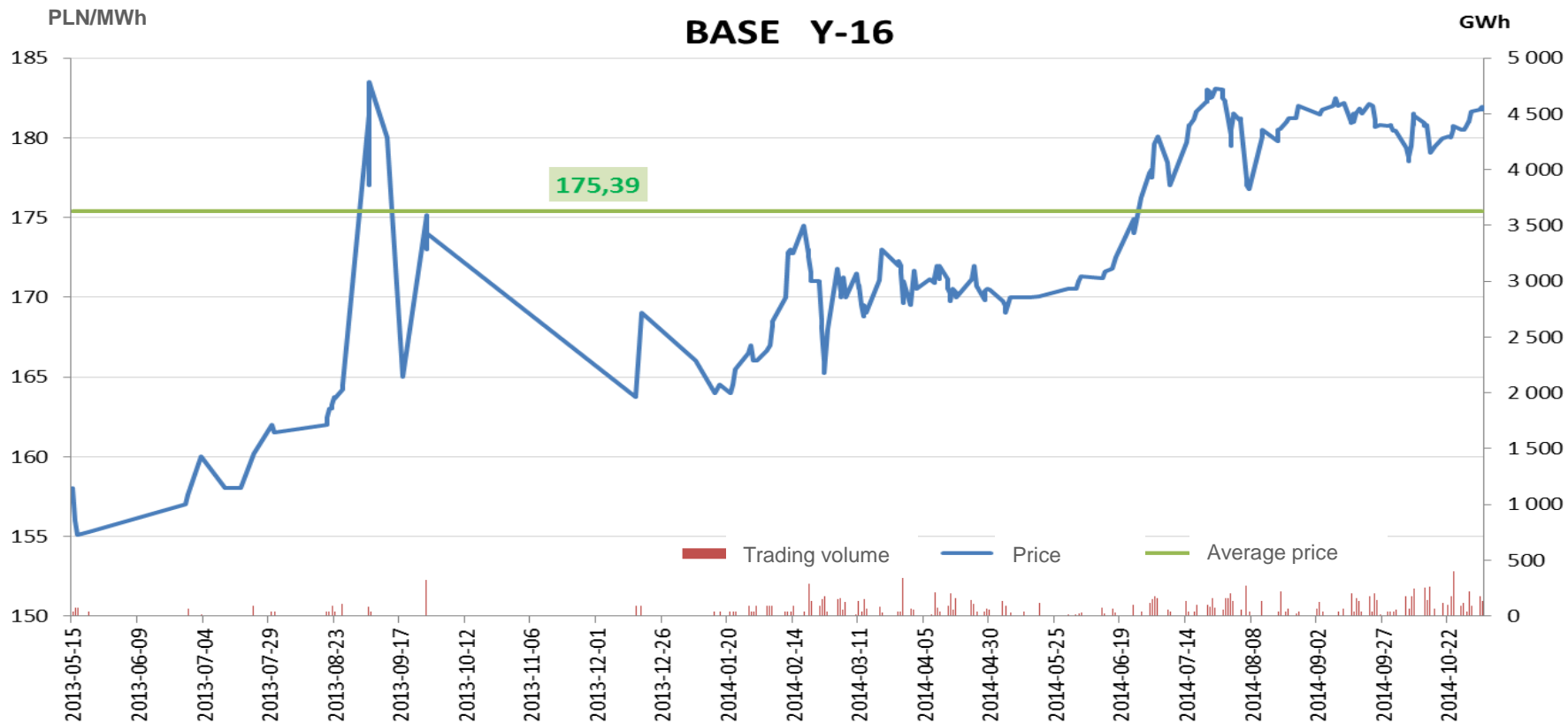
2015 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		167.03	126 004
including	TGE	167.13	94 599
	non TGE	166.74	31 405

Average electricity price that takes into account 2015 one year BASE and PEAK contracts: PLN 170.89/MWh, total 2015 BASE and PEAK volume: 141 438 GWh

2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		175.39	20 774
including	TGE	175.76	13 562
	non TGE	174.69	7 212

Average electricity price that takes into account 2016 one year BASE and PEAK contracts: PLN 175.79/MWh, total 2016 BASE and PEAK volume: 20 918 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	Tomasz Duda
Espirito Santo Investment Poland	Maria Mickiewicz
Goldman Sachs	Fred Barasi
HSBC	Dmytro Konovalov
ING Securities	Milena Olszewska

Institution	Analyst
Ipopema Securities	Piotr Zielonka
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