



TAURON Group's 2014 financial results

2014 key financial parameters

TAURON Group's 2014 financial results

[PLN m]	2014	
Sales revenue	18 441	(-3.6% yoy)
EBITDA	3 627	(-0.9% yoy)
Net profit*	1 181	(-9.7% yoy)
CAPEX	3 090	(-18.3% yoy)
Net debt/EBITDA	1.85x	(up 0.42 yoy)

Key segments' 2014 results

[PLN m]	Distribution	Supply	Heat	Generation	Mining
Segment's revenue	6 075	15 277	1 355	3 218	1 194
EBITDA	2 157	608	308	252	98
EBIT	1 209	582	159	(189)	(7)
CAPEX	1 935	6	336	404	189

Q4 2014 key financial parameters

TAURON Group's Q4 2014 financial results

[PLN m]	Q4 2014	
Sales revenue	4 838	(-1.6% yoy)
EBITDA	712	(7.7% yoy)
Net profit*	132	(43.6% yoy)
CAPEX	1 079	(-23.5% yoy)
Net debt/EBITDA	1.85x	(up 0.42 yoy)

Key segments' Q4 results

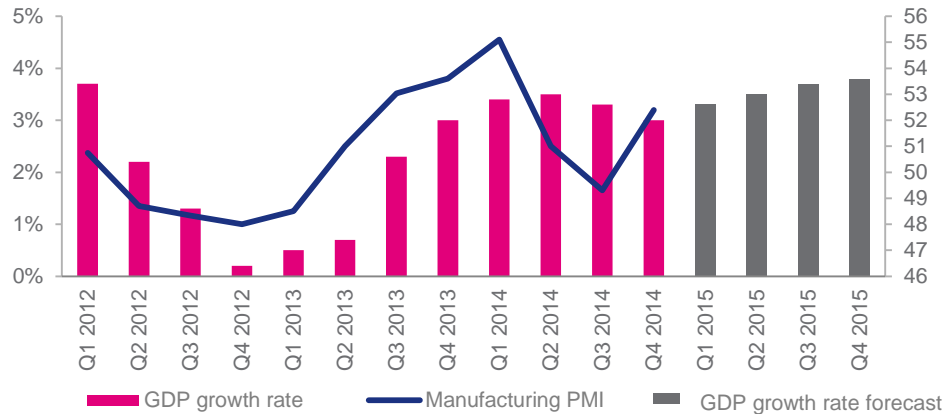
[PLN m]	Distribution	Supply	Heat	Generation	Mining
Segment's revenue	1 546	4 010	388	913	323
EBITDA	379	107	127	52	15
EBIT	139	104	88	(35)	(12)
CAPEX	649	4	110	169	64

Date

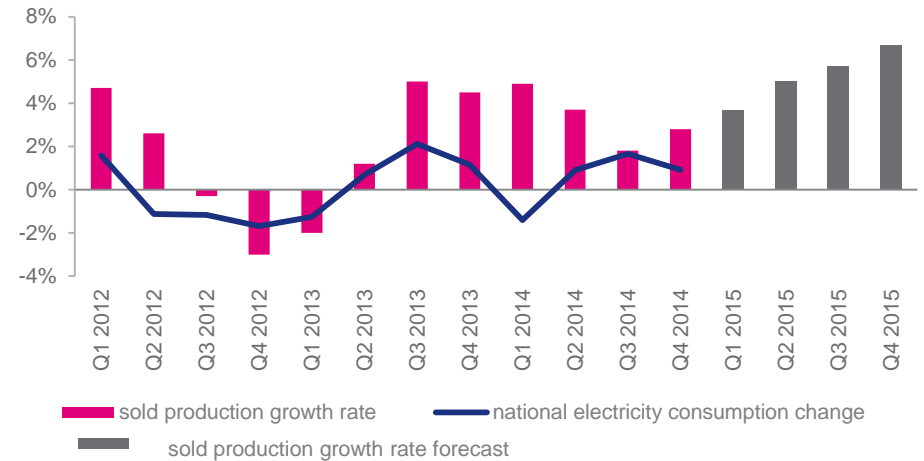
March 20	Signature of agreement with Polskie Inwestycje Rozwojowe (PIR) on financing the construction of a CCGT unit at Łagisza Power Plant. PIR's maximum contribution to the project: PLN 750m
March 26	Signature of agreement with PSE (TSO) for the provision of the cold intervention reserve service (Interwencyjna Rezerwa Zimna - IRZ) in 2016-2017 with an extension option until 2019. The service will be provided by TAURON Generation's three units with the total capacity of 376 MW
April 17	Signature of agreement with Rafako-Mostostal Warszawa consortium for the construction of a 910 MW unit at Jaworzno III Power Plant
May 15	Decision of the Ordinary General Meeting of Shareholders on allocating PLN 333m (PLN 0.19/share) to pay out the dividend for the shareholders from the 2013 net profit
June 2	Update of TAURON Group's Corporate Strategy for 2014-2017 with an outlook until 2023
July 22	Signature with the European Investment Bank of a PLN 295m loan agreement for CAPEX projects in the Distribution and RES segments
August 11	Signature with ArcelorMittal of the shareholders' agreement for the joint venture TAMEH Holding that will be carrying out operational and investment tasks in the industrial power generation area
October 24	Fitch reaffirms TAURON's BBB rating with a stable outlook. Company's bond issue is granted A rating
November 4	Issue of corporate bonds worth PLN 1.75bn
November 5	TAURON Ekoenergia signs agreement with a consortium of Iberdrola group companies for the construction of the second stage of Marszewo Wind Farm (18 MW). Contract's net value: PLN 101.3m
December 3	Issue of 15-year bonds on the German market (NSV) worth EUR 168m
January 16, 2015	Preliminary expression of interest in the acquisition of all or a part of the Brzeszcze coal mine assets. The transaction will be possible only on the condition that the analyses underway prove that it will be possible to extract hard coal cost-effectively

Date	
January 1	Introduction by PSE (TSO) of the operational capacity reserve mechanism for 2014-2015. PSE's (TSO) 2014 budget for this service is set at approx. PLN 400m
February 24	Implementation of backloading – EU's plan to temporarily reduce the number of free CO ₂ emission allowances (EUA) on the market. In 2014-2016 the EUA pool to be auctioned will be reduced by 900m allowances
May 1	Restoration of the support mechanism for the cogeneration in the form of red and yellow certificates. The support mechanism is extended until 2018
August 4	Signature by the President of the Republic of Poland of the amendment to the Environment protection law with a goal to reduce emission of pollutants by industrial plants. The amendment implements the EU directive (IED) on the reduction of industrial emissions into the Polish law
October 24	European Council reaches agreement on the climate policy framework until 2030. The main target: to reduce CO ₂ emission by at least 40 percent by 2030 versus the 1990 level. Past 2020 the Polish power sector will be able to use a pool of free CO ₂ emission allowances – its allocation details have not been established yet
November 6	Approval by the ERO (URE) of the updated Transmission Grid Code (Transmission Grid Operation Manual). Introduction of the modified mechanism for settling the Operational Capacity Reserve (Operacyjna Rezerwa Mocy - ORM) that has been in force since January 1, 2015. PSE's budget allocated for this service in 2015 is PLN 404m
February 20, 2015	Parliament (Sejm) passes the law on Renewable Energy Sources. The most important change in relation to the current regulations in force with respect to the RES support mechanisms is the introduction of the auction system and the guaranteed tariffs (feed-in-tariffs) for the prosumers, reduction of the support for the co-firing and for the hydroelectric power plants with the capacity of more than 5 MW

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



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



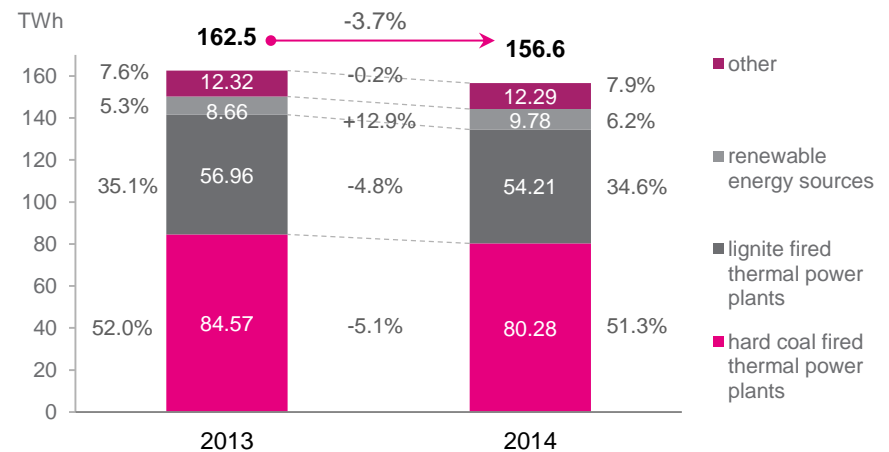
Electricity prices under year BASE load contracts

	Average price [PLN/MWh]	Volume [GWh]
Y-13	182.75	184 615
Y-14	164.74	229 580
Y-15	172.23	191 672
Y-16	177.87	44 675
Y-17	179.39	2 024

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

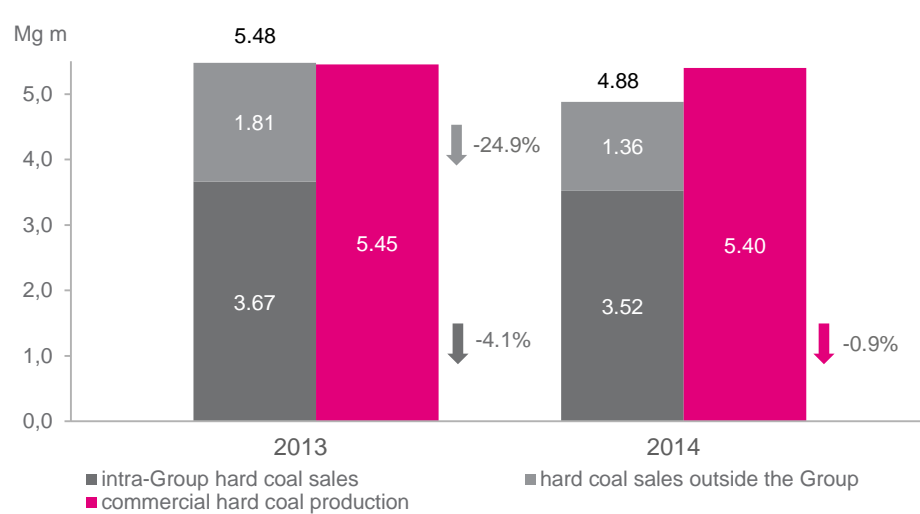
- 2011: PLN 198.30/MWh
- 2012: PLN 201.36/MWh
- 2013: PLN 181.55/MWh

Structure of electricity generation in Poland [TWh]

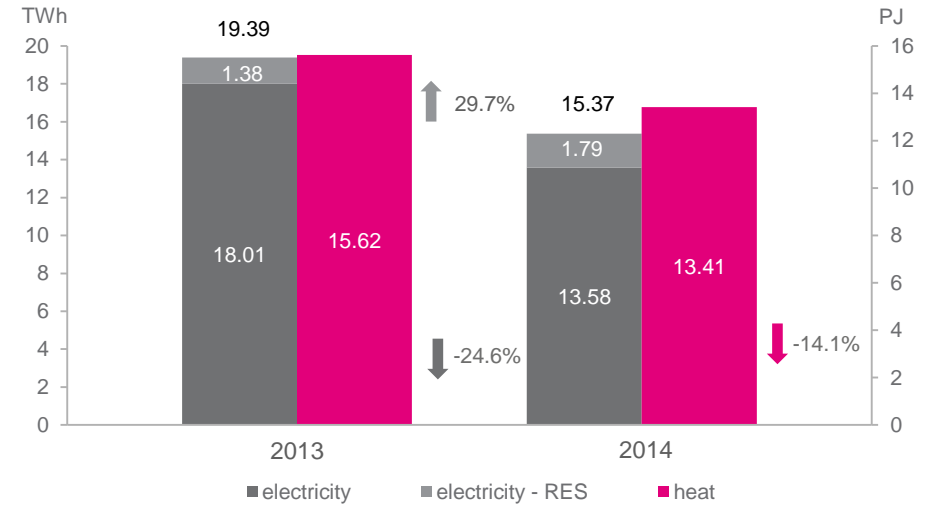


2014 key operating data

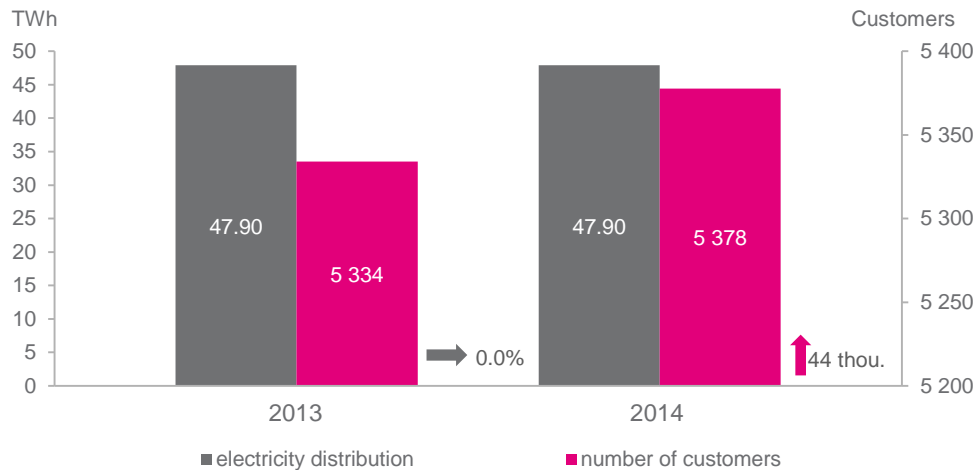
Hard coal production and sales [tons m]



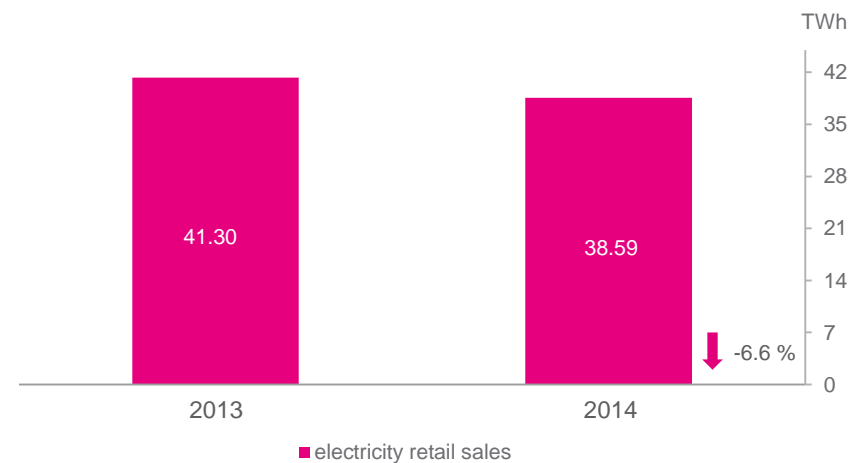
Electricity [TWh] and heat [PJ] generation



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

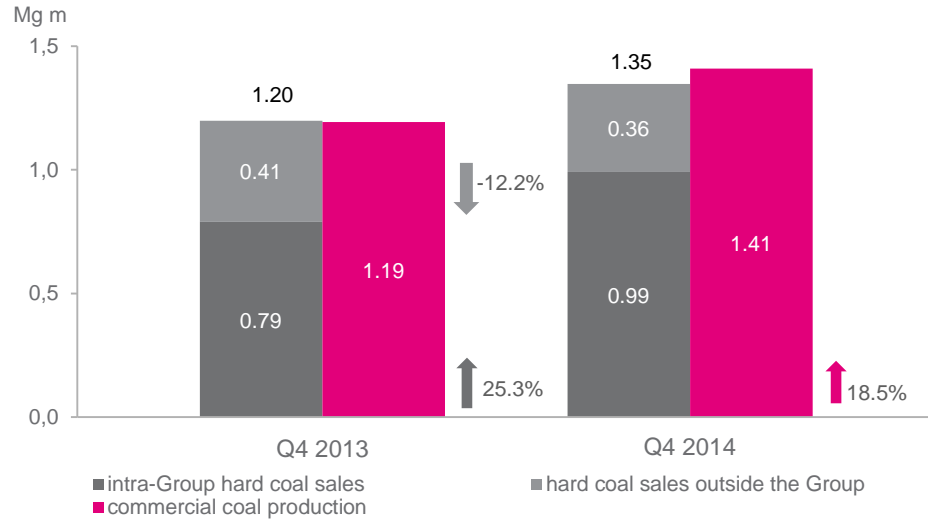


Electricity supply [TWh]

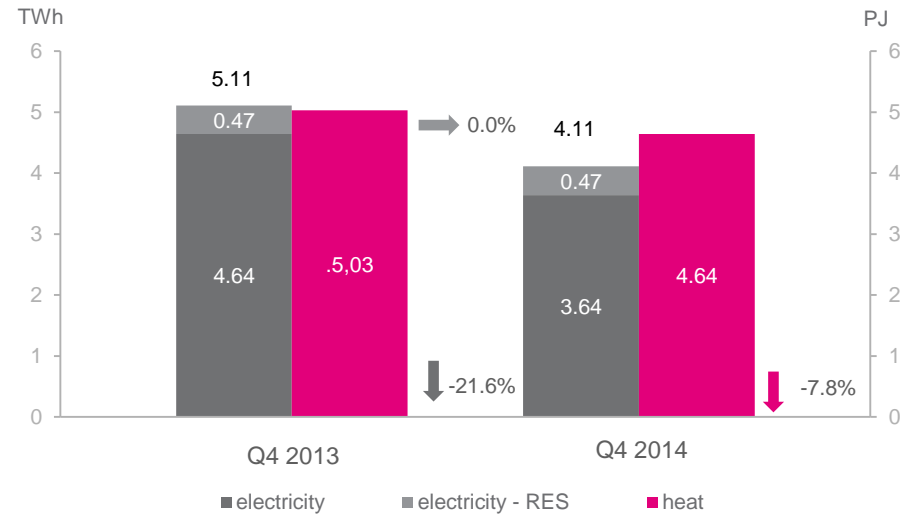


Q4 2014 key operating data

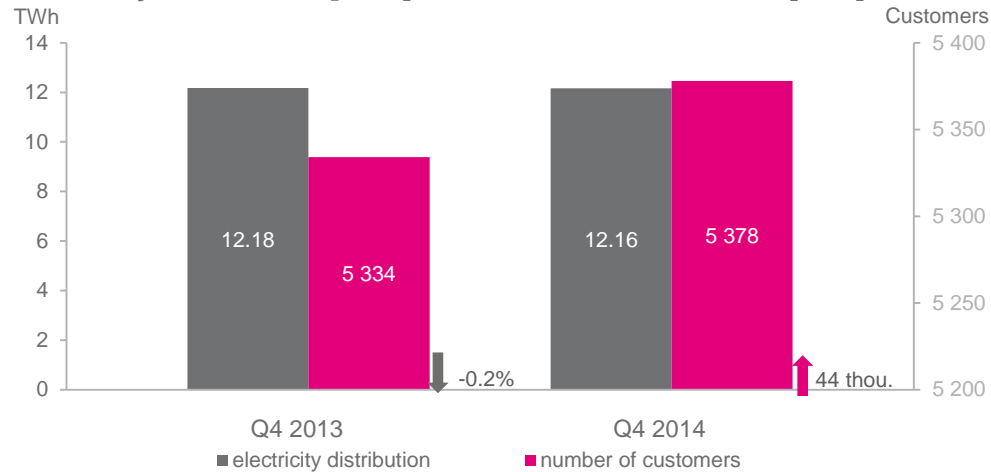
Hard coal production and sales [tons m]



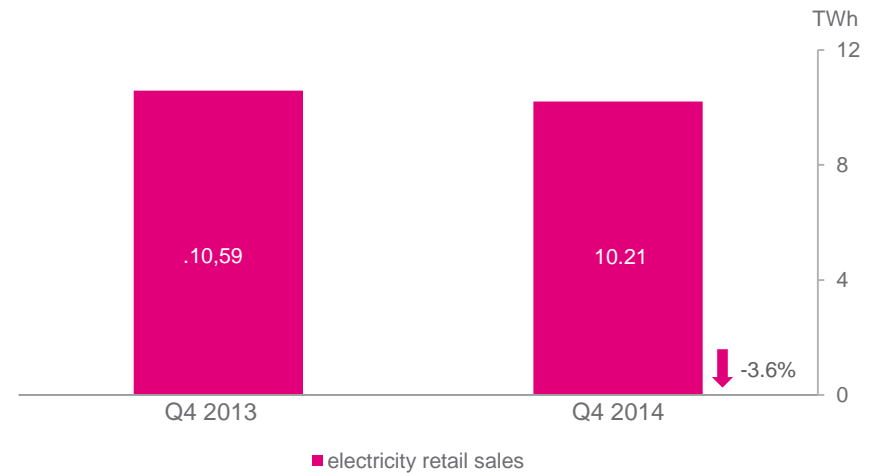
Electricity [TWh] and heat [PJ] generation



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

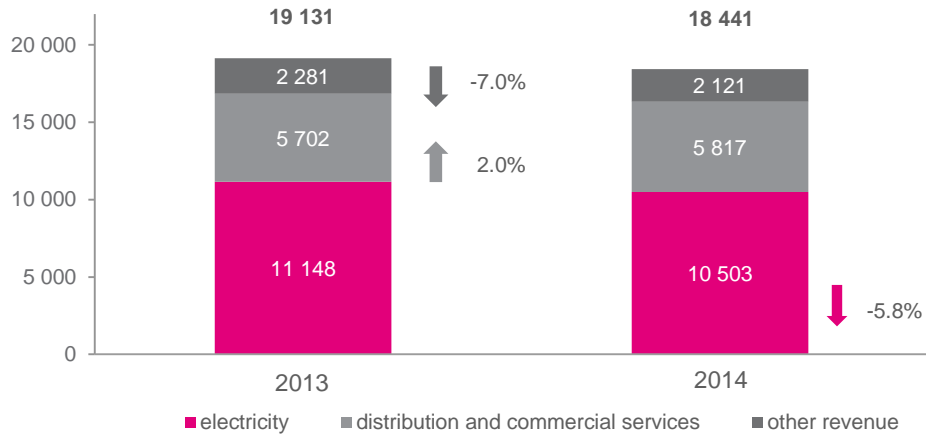


Electricity supply [TWh]

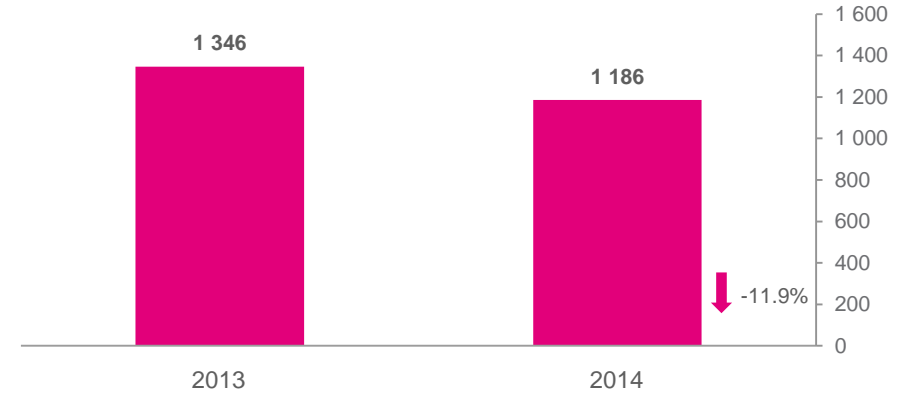


2014 key financial data

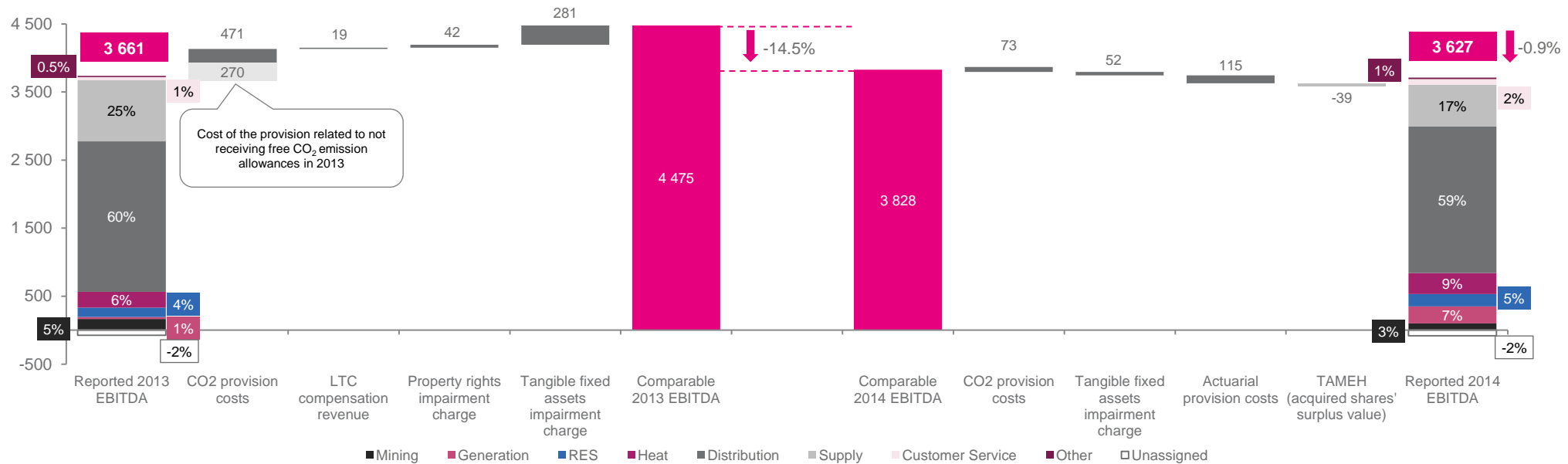
Sales revenue [PLN m]



Net profit [PLN m]

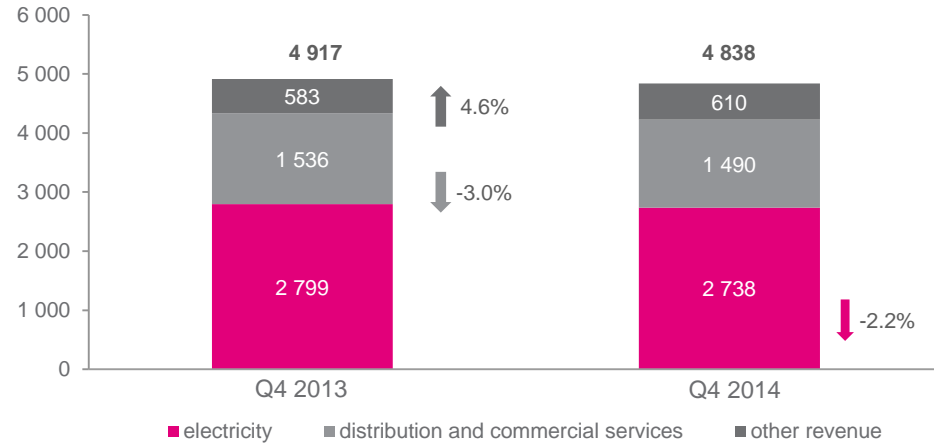


2013 EBITDA vs 2014 EBITDA [PLN m]

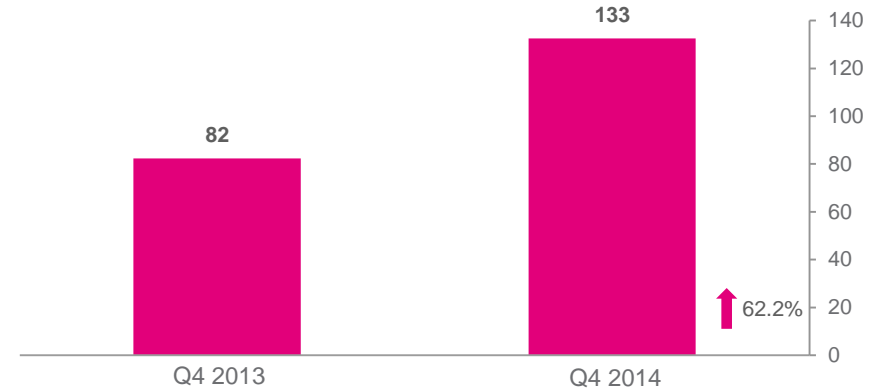


Q4 2014 key financial data

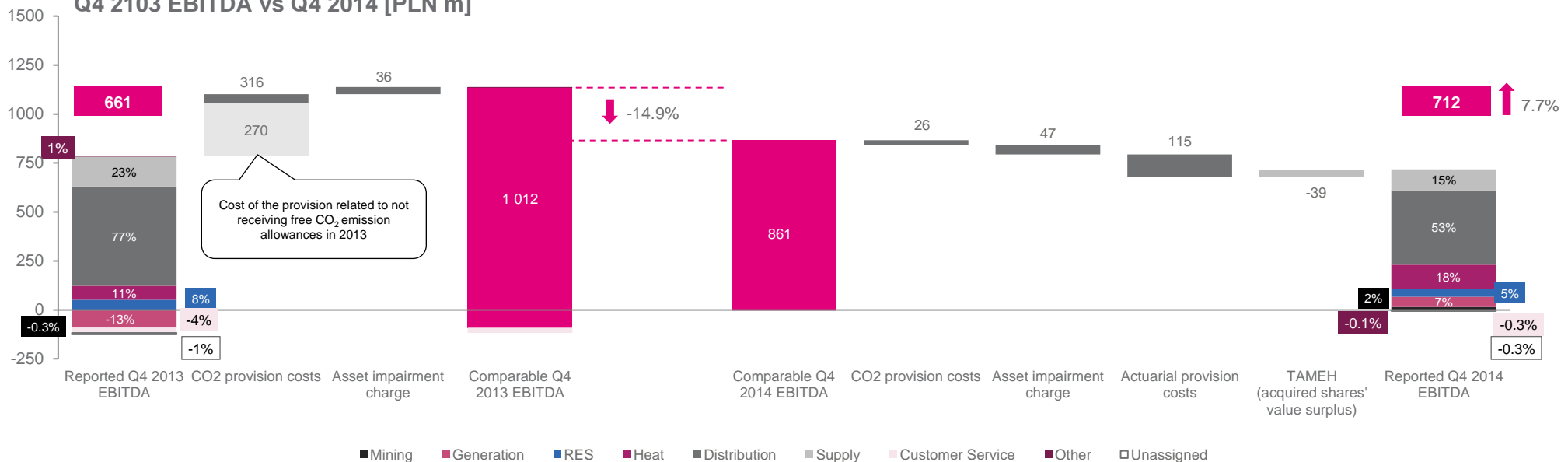
Sales revenue [PLN m]



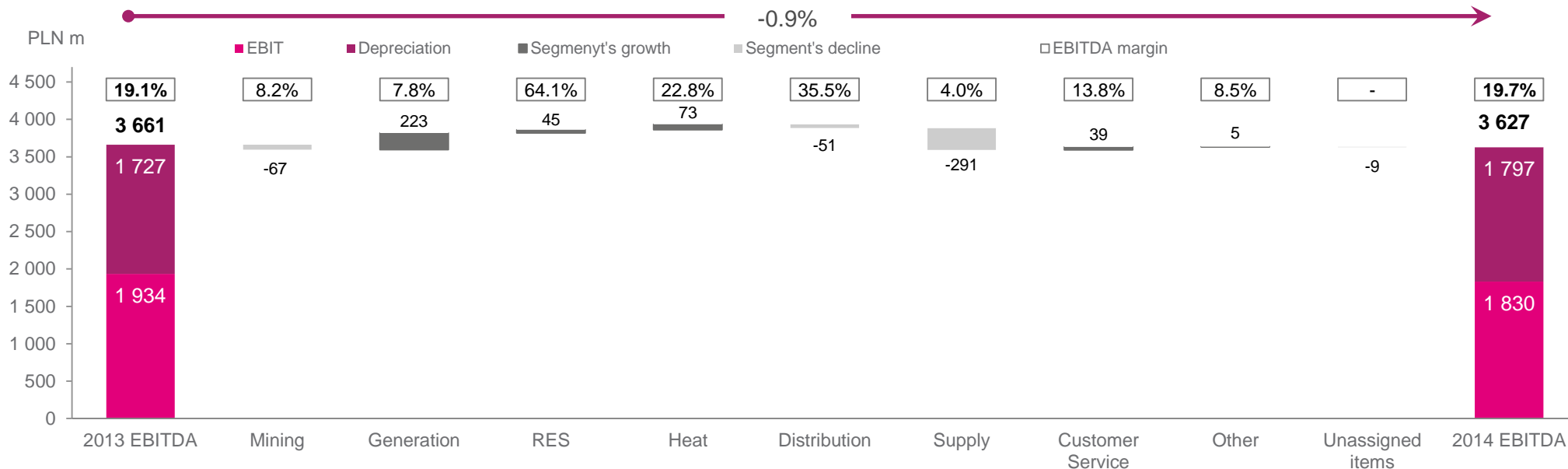
Net profit [PLN m]



Q4 2103 EBITDA vs Q4 2014 [PLN m]



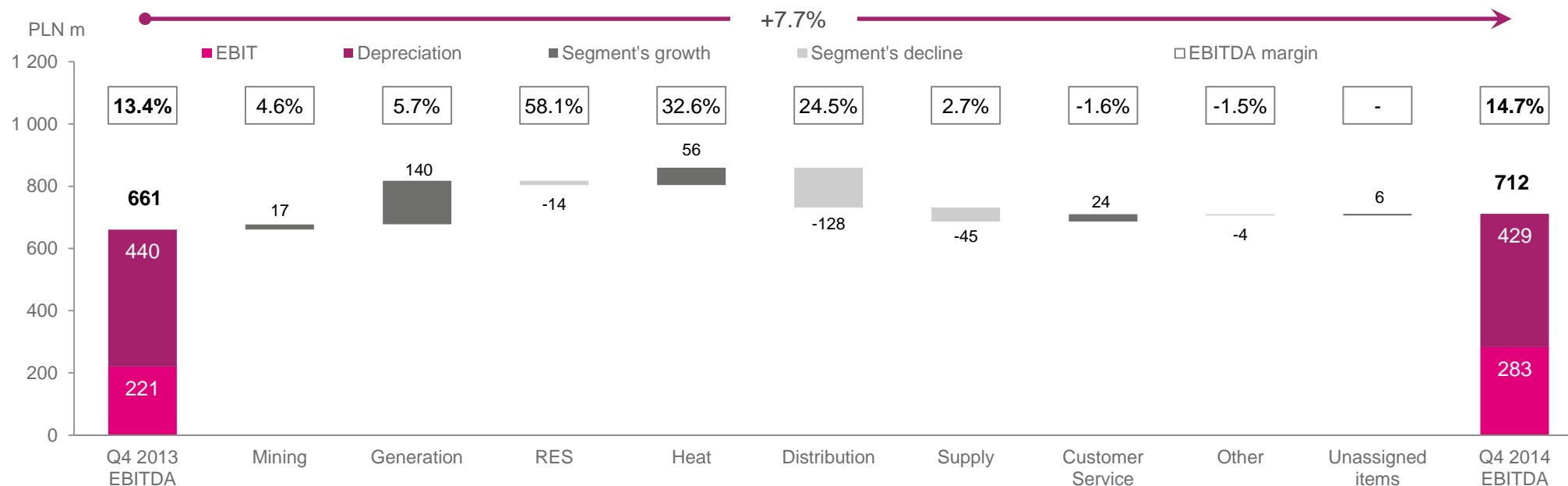
2014 EBITDA



Most important factors affecting 2014 EBITDA:

- Mining** – lower thermal coal volume and sales price along with the drop of own costs of coal sold
- Generation** – no CO₂ provision costs in 2014 as a result of using free allowances (related to 2013) received in 2014, acquiring revenue from the operational capacity reserve, lower electricity sales price, generation asset impairment charges
- RES** – higher volume of sales of electricity and property rights from wind farms (Wicko and Marszewo wind farms' full year production), higher property rights sales price, lower electricity sales prices
- Heat** – higher heat sales price, lower electricity sales price, lower heat supply and distribution volume, higher margin on property rights sales, in 2013 – red and yellow property rights impairment charge, in 2014 – TAMEH (surplus of the value of the acquired shares in the joint venture over the value of the contributed assets)
- Distribution** – increase of distribution service sales price, higher fixed costs (due to the change of the actuarial provision discount rate, extension of the customer services' scope), lower cost of purchasing electricity to cover the balancing difference – lower indicator and lower price of purchasing electricity
- Supply** – higher redemption obligation and prices of green, violet and white property rights, restoration of the obligation to redeem red and yellow property rights; lower volume and lower electricity retail sales price, lower electricity purchase price had a beneficial impact

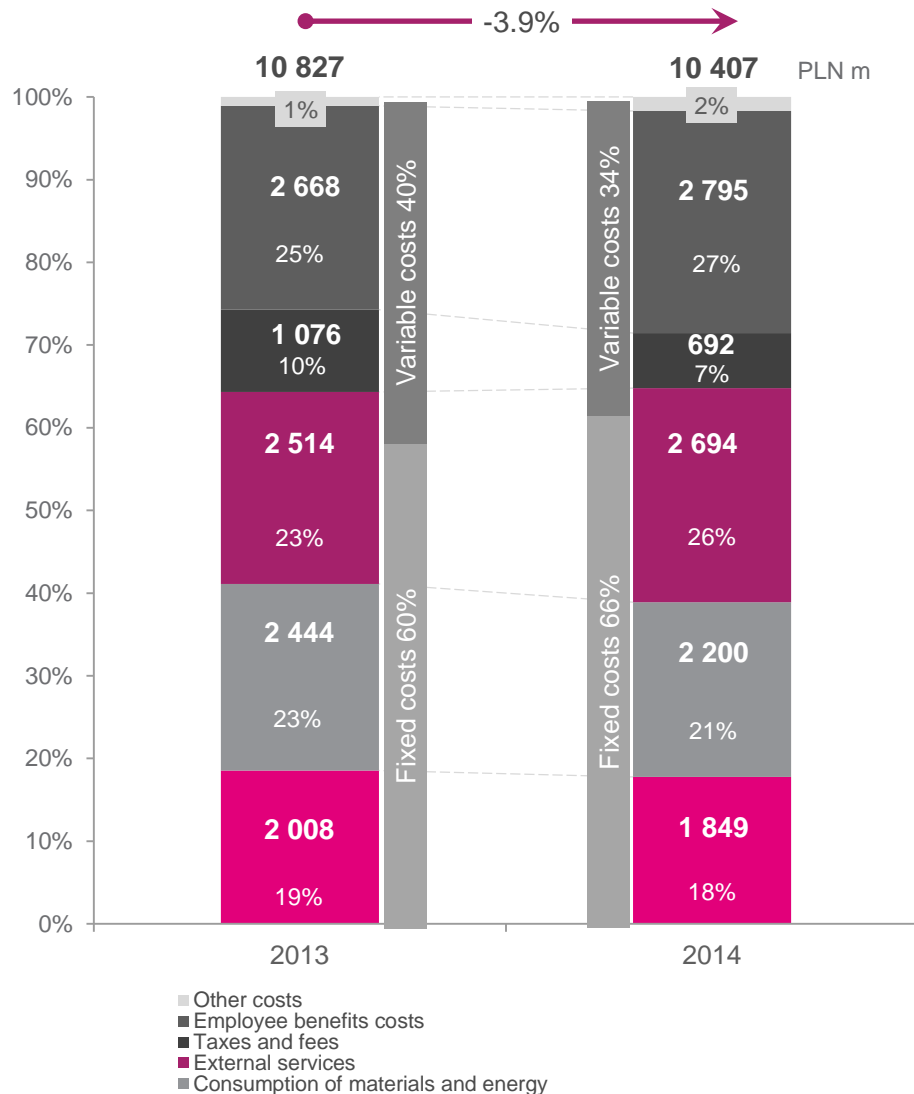
Q4 2014 EBITDA



Most important factors affecting Q4 2014 EBITDA

- Mining** – higher coal sales volume (by approx. 12.4%), lower coal sales price (by approx. 4.7%)
- Generation** – no CO₂ provision costs in 2014, acquiring revenue from the operational capacity reserve, lower electricity and heat sales volume, higher fixed costs – mainly due to the change of the actuarial provisions discount rate and the provision related to the Voluntary Redundancy Program
- RES** – lower volume of sales of electricity and property rights from wind farms (low wind speed, particularly in October and November 2014)
- Heat** – lower CO₂ provision costs, higher heat sales price, lower electricity sales price, change of the provision related to clearing the legal status of the real estate, TAMEH (surplus of the value of the acquired shares in the joint venture over the value of the contributed assets)
- Distribution** – lower cost of purchasing electricity to cover the balancing difference, increase of the average distribution services price, higher fixed costs due to the change of the actuarial provision discount rate, lower revenue from the new connections
- Supply** – higher redemption obligation and prices of green and violet property rights, restoration of the obligation to redeem red and yellow certificates; lower volume and higher electricity retail sales margin

2014 prime costs structure



Declining costs in 2014 are mainly due to:

- consumption of materials (lower fuel costs)
- tangible fixed assets impairment charges
- taxes and fees with respect to the costs of the CO₂ provision

Higher costs of employee benefits – due to the higher costs of actuarial provisions (change of the discount rate), higher provisions related to the Voluntary Redundancy Program, beneficial impact: lower headcount as a result of the implemented Voluntary Redundancy Programs

Higher costs of external services – related to distribution services

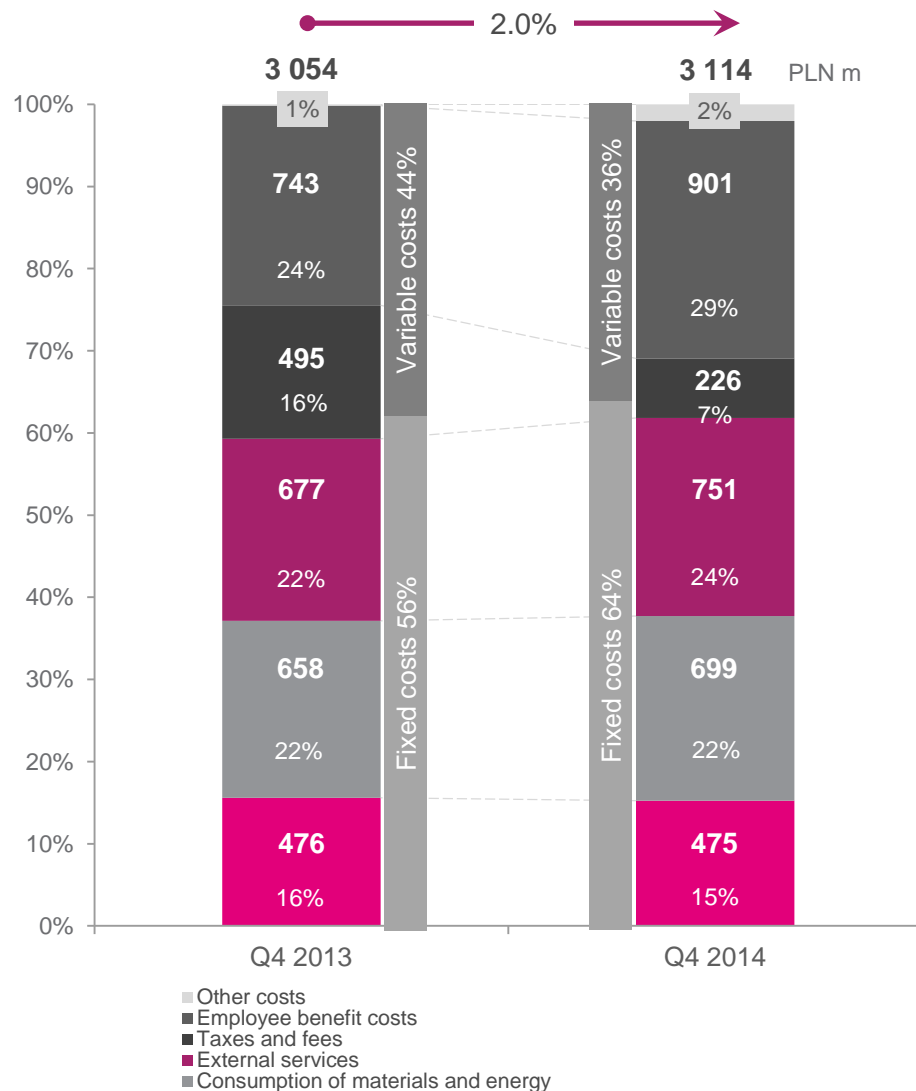
Cost structure:

- In 2014: variable costs (excluding the value of goods and materials sold) approx. 34%, fixed costs approx. 66%
- In 2013: variable costs approx. 40%, fixed costs approx. 60%

Most important reasons for the changed cost structure:

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

Q4 2014 prime costs structure



Q4 2014 costs are higher by approx. 2% than the Q4 2013 costs due to:

- lower taxes and fees with respect to the costs of the CO₂ provision
- higher costs of:
 - external services – related to distribution services
 - employee benefit costs – due to the higher costs of actuarial provisions (change of the discount rate) and higher provisions related to the Voluntary Redundancy Program

Cost structure:

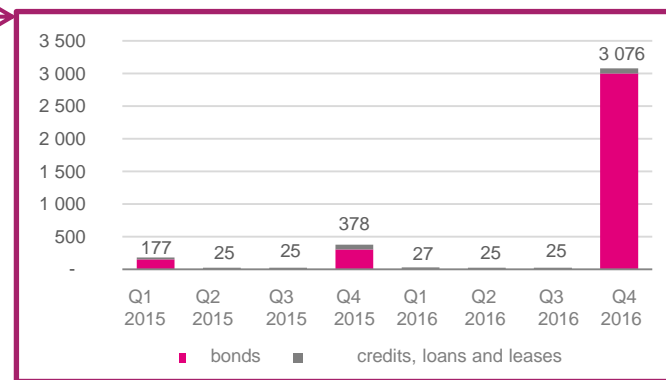
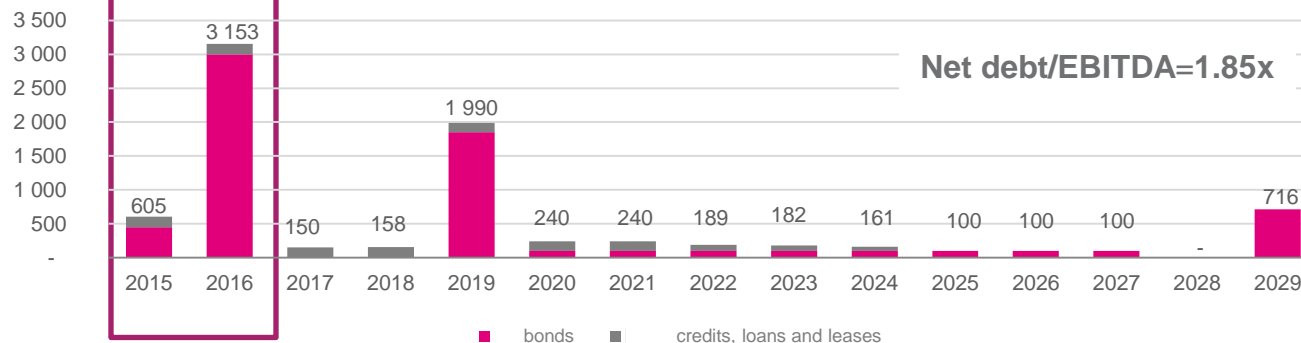
- In Q4 2014: variable costs (excluding the value of goods and materials sold) approx. 36%, fixed costs approx. 64%
- In Q4 2013: variable costs approx. 44%, fixed costs approx. 56%

Most important reasons for the changed cost structure:

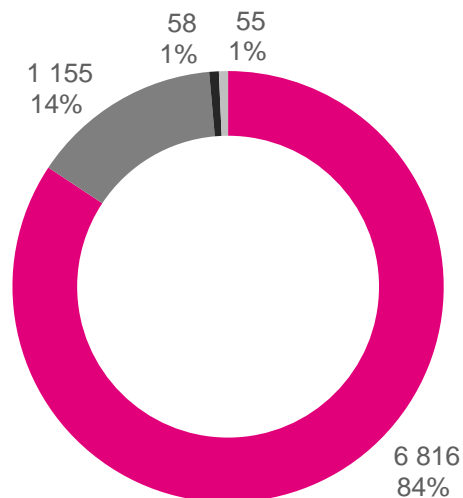
- ✓ higher costs of energy certificates of origin
- ✓ lower costs of the provision for CO₂ emission allowances
- ✓ lower fuel costs

Debt and financing

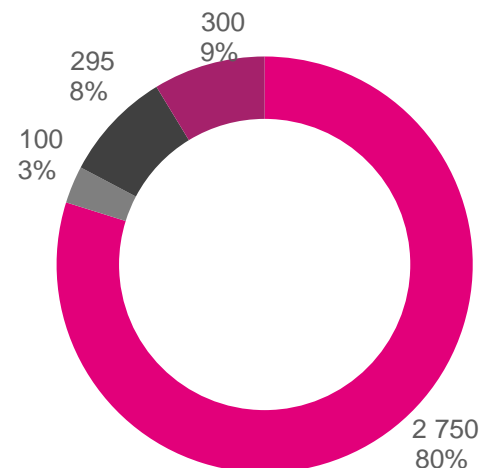
PLN m



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



TAURON Group's available financing [PLN m]












- financial debt (nominal value of debt due to investment loans, loans, leases and bonds) as of December 31, 2014: PLN 8 084m
- average weighted debt maturity as of December 31, 2014: 58 months
- EUR debt (NSV bonds issue) constitutes 8.86% of the total debt

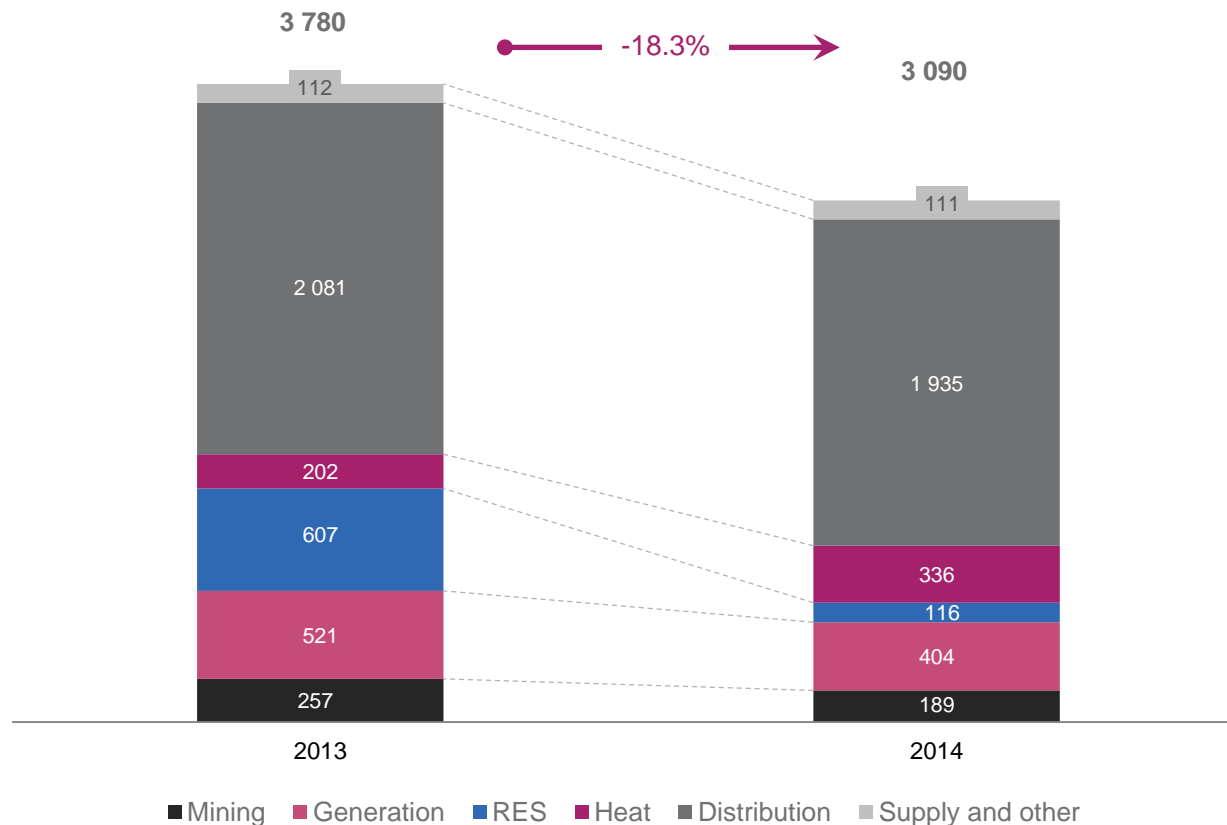
Debt structure by interest rate:

instrument	Debt amount [PLN m]	Interest rate	collateral
bonds, including:	6 816		
banks' program	3 000	floating	IRS
banks' program	450	floating	none
market program	1 750	floating	none
BGK program	900	floating	none
NSV	716	fixed	CIRS
EIB loans	1 155	fixed	none
loans	58	floating	none
leases	55	floating	none

CAPEX - key projects' work progress

Investment project	Capacity (MW _e)	Capacity (MW _t)	Work progress	Planned completion date
Construction of the hard coal-fired unit at Jaworzno III Power Plant	910	-	9% 	2019
Construction of the CCGT unit at Stalowa Wola Combined Heat and Power Plant	450	240	68% 	2015
Construction of the hard coal-fired co-generation unit at ZW Tychy	50	86	42% 	2016
Construction of the TG 50 ZW Nowa turbogenerator	50	-	67% 	2015
Jaworzno III Power Plant – installation of the flue gas denitrification systems and upgrade of the 200 MW units	-	-	74% 	2016
Łaziska Power Plant – installation of the flue gas denitrification systems and upgrade of the 200 MW units	-	-	91% 	2015
Construction of the CCGT unit at Łagisza Power Plant	413	266	1% 	2018
Construction of the 800m level at Janina coal mine	-	-	17% 	2019
Construction of Grzegorz shaft at Sobieski coal mine	-	-	15% 	2022





CAPEX by segment [PLN m]



Main investment projects completed in 2014:

- Mining – construction of the 800 m level and commissioning of the fourth coal face at the Janina coal mine (PLN 82m), construction of the Grzegorz shaft including the infrastructure and adjacent headings at Sobieski coal mine (PLN 23m)
- Generation – construction of the NOx emission reduction system (PLN 191m), construction of a 910 MW unit at Jaworzno Power Plant (PLN 58m)
- RES – construction of the Marszewo wind farm's 2nd stage (PLN 21m), upgrade of hydroelectric power plants (PLN 84m)
- Distribution – construction of new connections (PLN 512m), upgrades and restoration of grid assets (PLN 1 151m)
- Heat – construction and upgrade of the heat transmission pipeline networks (PLN 84m), restoration of ZW Tychy's capacity (PLN 128m), construction of peak load boilers at ZW Katowice including feeding the primary pipe from ELCHO CHP (PLN 22m)

OPEX reduction program

Segment	Savings realized in 2013-2014	Savings planned in 2013-2015	Perogress %	Main initiatives
Distribution	PLN 292m	PLN 416m	 70%	<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 322m	PLN 387m	 83%	<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
Heat	PLN 42m	PLN 33m	 127%	<ul style="list-style-type: none"> Employment restructuring Compressed air losses reduction Asset restructuring External services' costs optimization Procurement policy optimization
Mining	PLN 27m	PLN 28m	 97%	<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 36m			<ul style="list-style-type: none"> Employment restructuring, reduction of external services' costs
Total	PLN 719m	PLN 864m	83%	

- In 2013-2014 the Voluntary Redundancy Program (PDO) covered 647 persons. Over that period employment contracts were terminated with 1 252 persons (3 746 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 - 2014: 56% comes from employment restructuring, 44% 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

Outlook for 2015

PLUS



MINUS



Distribution

- higher RAB by approx. PLN 700m
- higher average distribution service price by 3.73%
- stable volume of electricity distributed
- continuation of efficiency improvement programs
- further improvement of the quality indices (indicators)

- lower return on capital by 5%
- WACC's drop by 0.1 pp

Supply

- slower pace of volume decline

- reduced margins on electricity sales

Generation

- higher production volumes
- continuation of efficiency improvement programs

- higher CO₂ costs
- much lower revenue from the Operational Capacity Reserve (ORM)

Mining

- higher extraction volume
- upgrade and higher productivity of Janina coal mine

- high hard coal inventory levels in the sector

Heat

- higher supply volumes (following the spin-off of ZW Nowa)

- loss of a part of EBITDA as a result of the transaction with ArcelorMittal

RES

-

- lower prices of green certificates

CAPEX and debt

Significant increase as a result of the construction of a 910 MW unit at Jaworzno III Power Plant – the Group's planned CAPEX: approx. PLN 4.5bn
Increase of debt borrowed on attractive financing terms

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

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”).

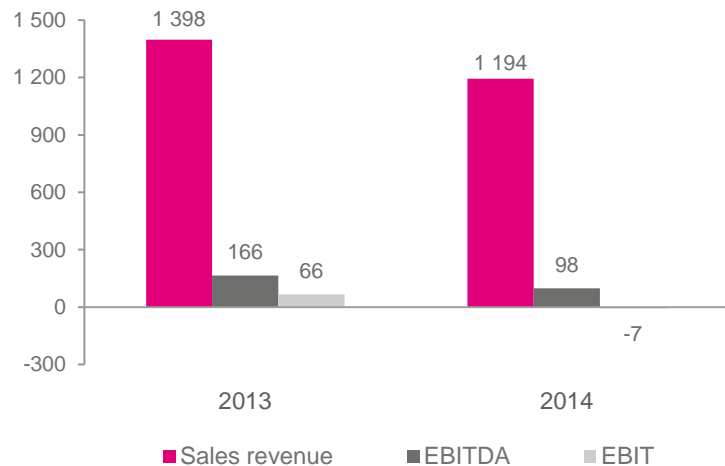
Neither the Company nor any of its subsidiaries shall be held accountable for any damage resulting from the use of this presentation or a part thereof, or its contents or in any other manner in connection with this presentation.

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.

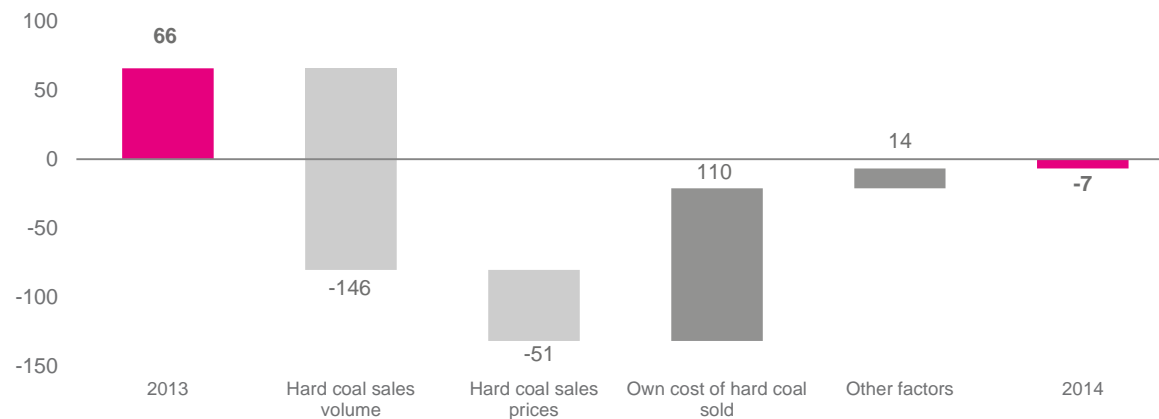
To the extent this presentation contains forward-looking statements related to the future, in particular such terms as “designed”, “planned”, “anticipated”, or other similar expressions (including their negation), they shall be connected with the known and unknown risks, uncertainty and other factors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

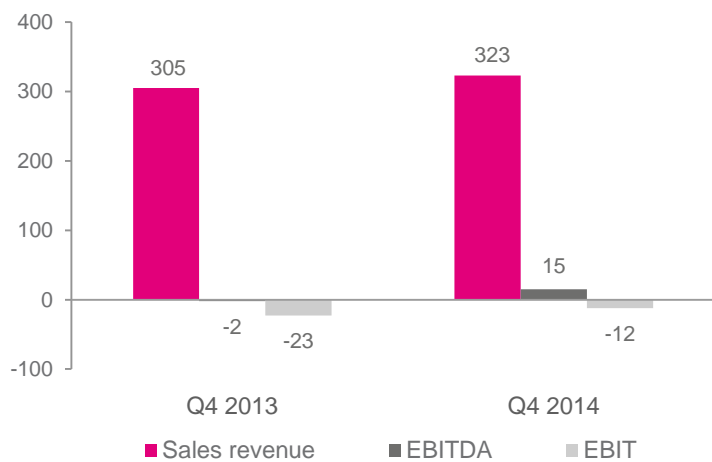
2014 financial data [PLN m]



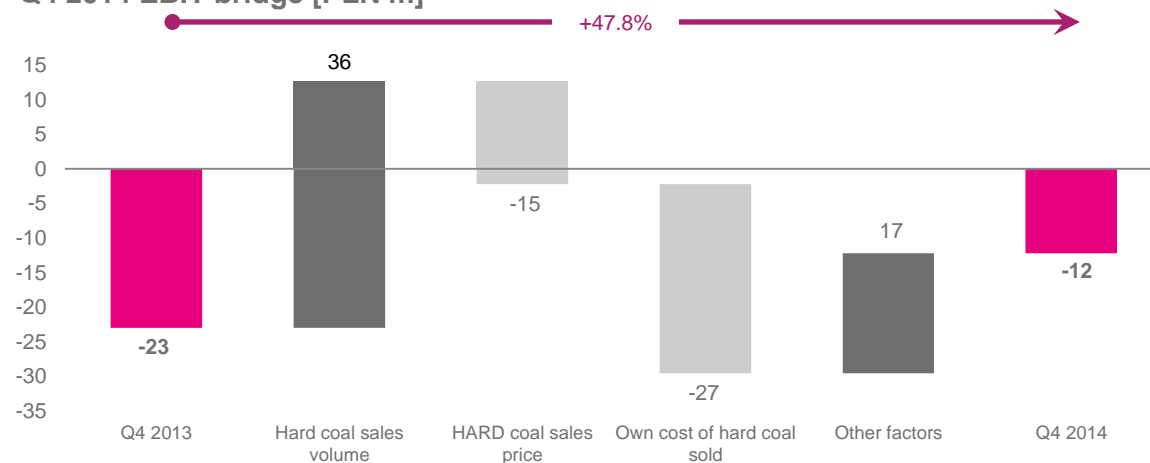
2014 EBIT bridge [PLN m]



Q4 2014 financial data [PLN m]

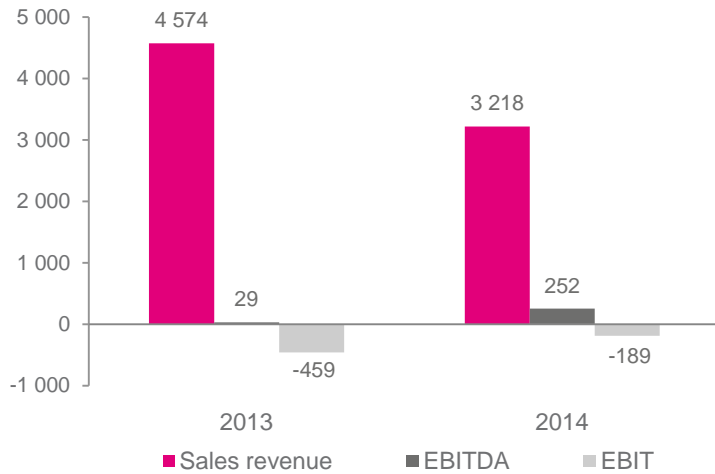


Q4 2014 EBIT bridge [PLN m]

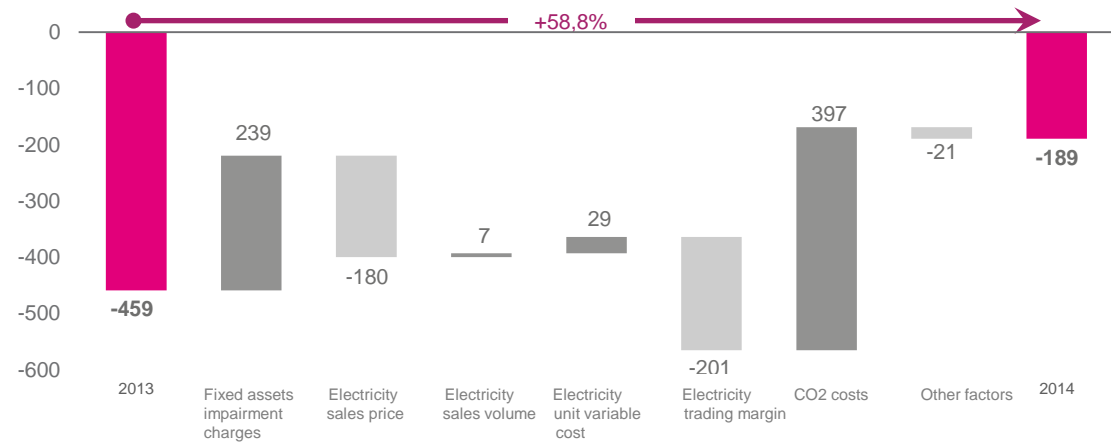


Generation (conventional sources)

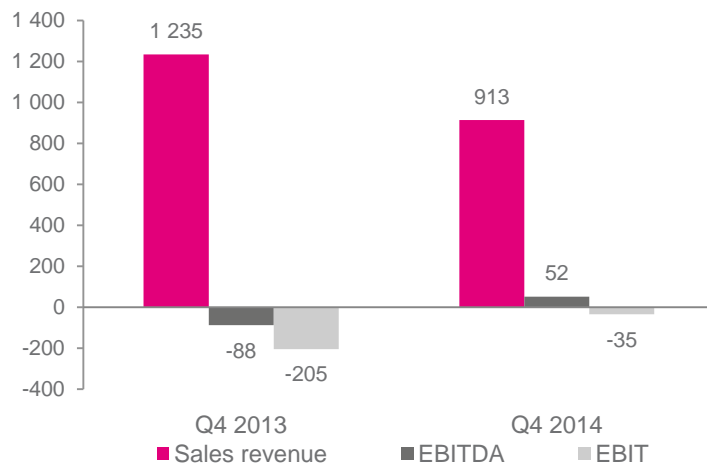
2014 financial data [PLN m]



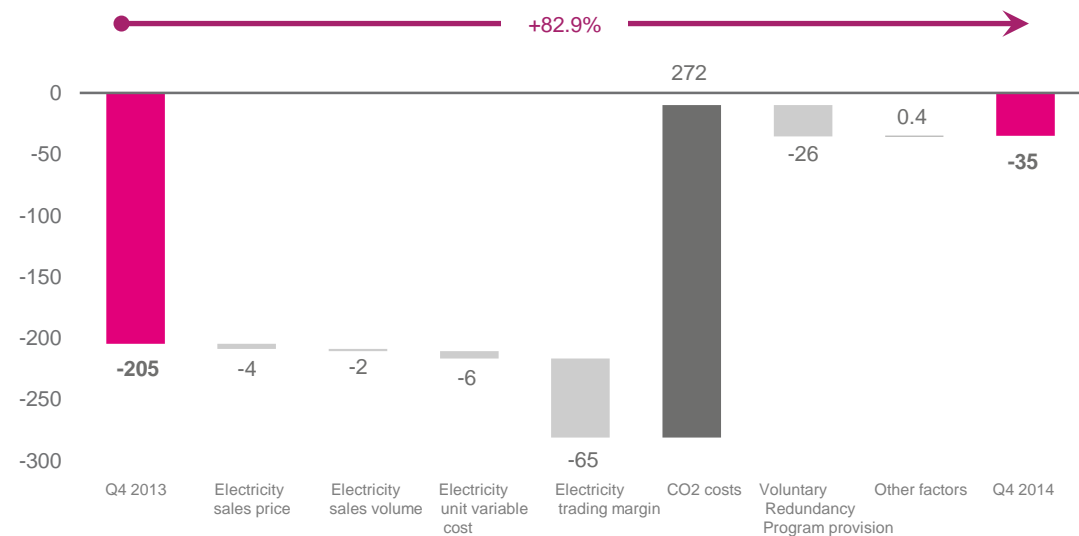
2014 EBIT bridge [PLN m]



Q4 2014 financial data [PLN m]

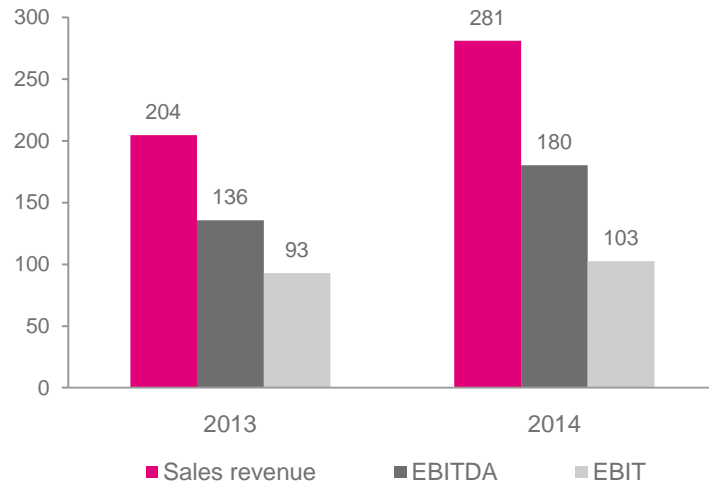


Q4 2014 EBIT bridge [PLN m]

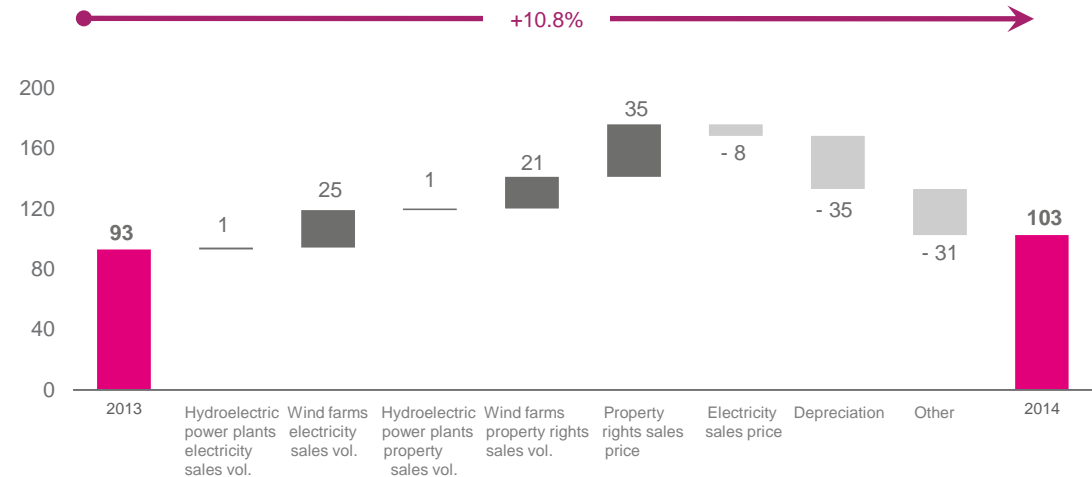


Renewable Energy Sources (RES)

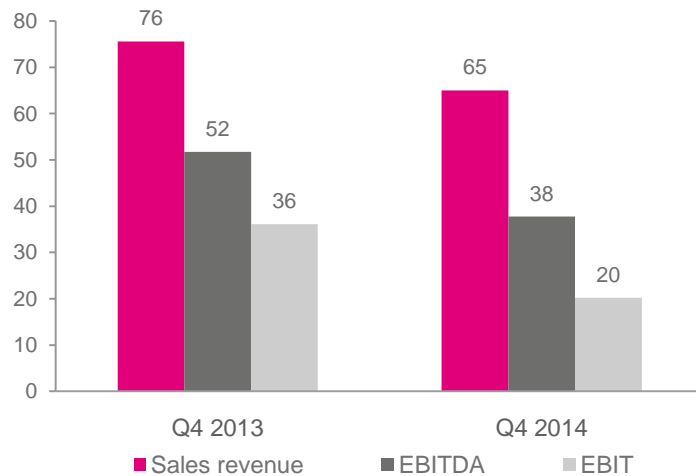
2014 financial data [PLN m]



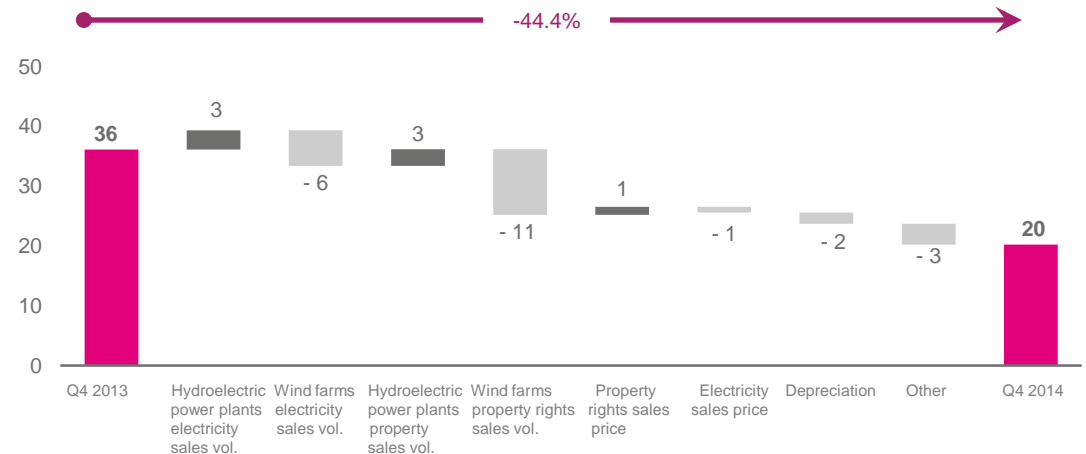
EBIT bridge 2014 [PLN m]



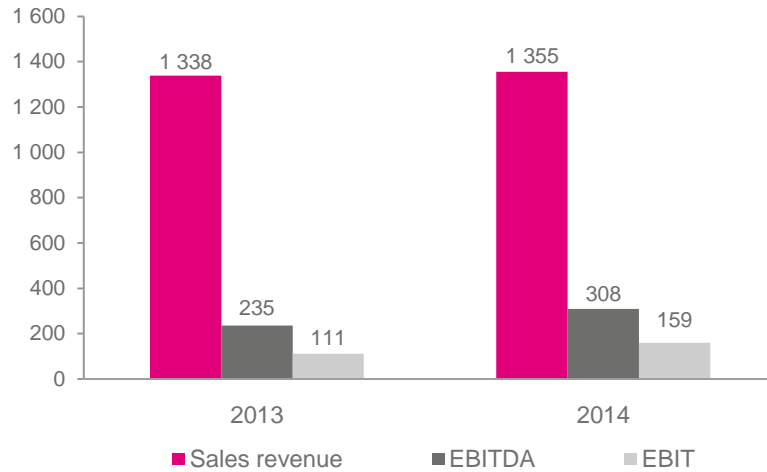
Q4 2014 financial data [PLN m]



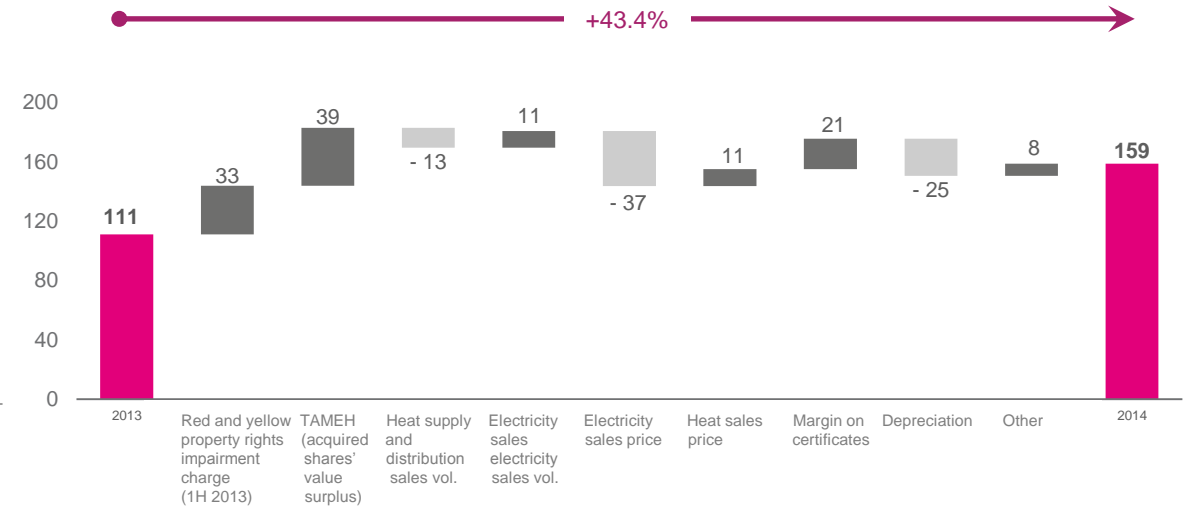
Q4 2014 EBIT bridge [PLN m]



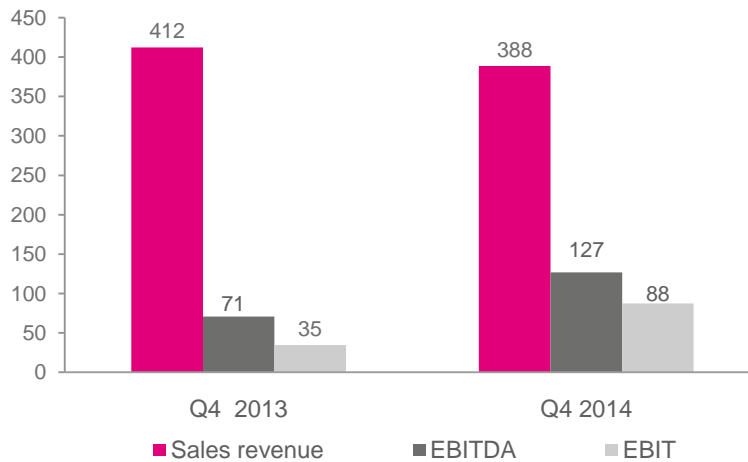
2014 financial data [PLN m]



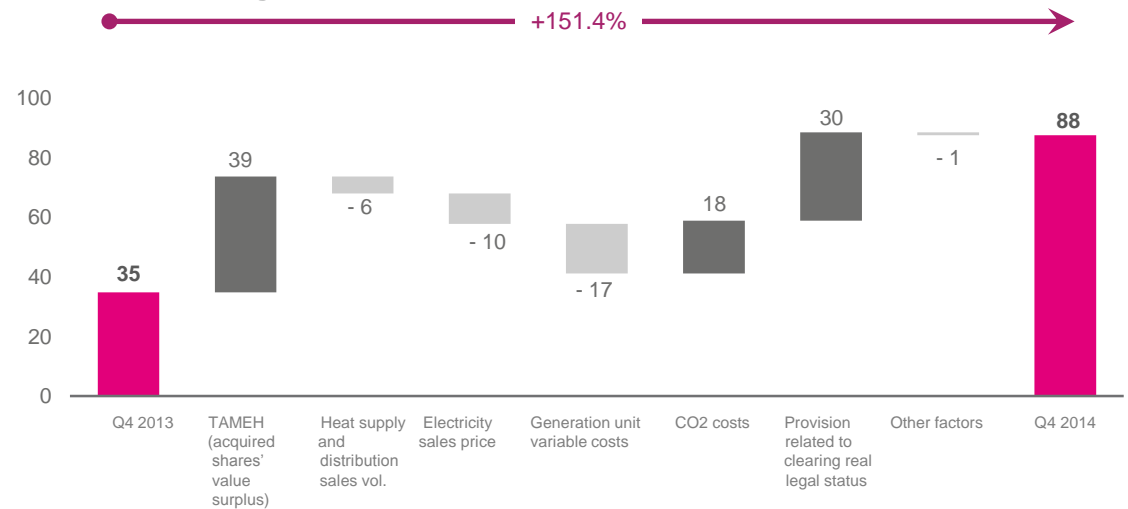
2014 EBIT [PLN m]



Q4 2014 financial data [PLN m]

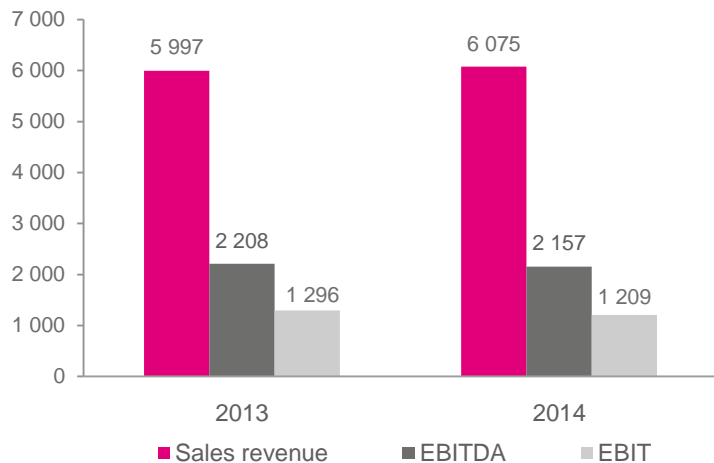


Q4 2014 EBIT bridge [PLN ml]

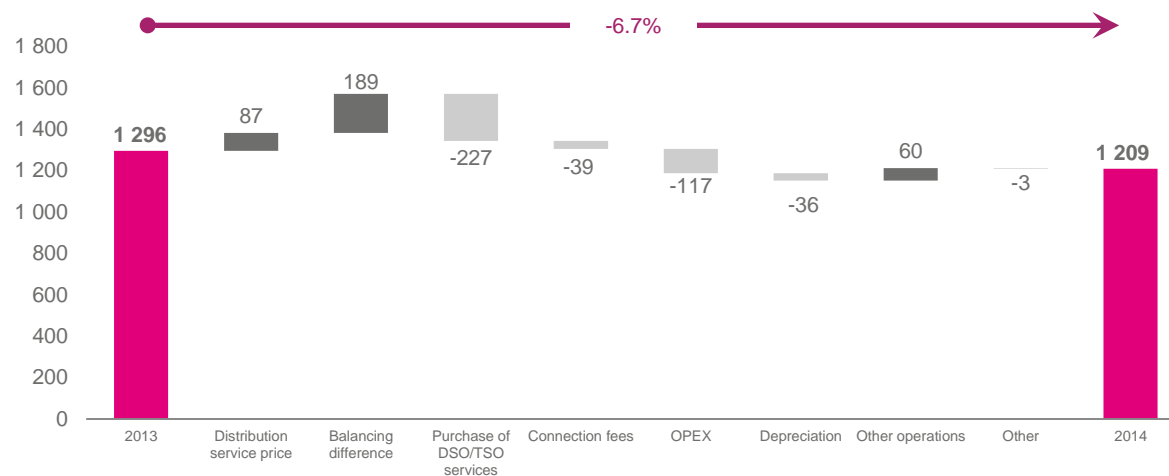


Distribution

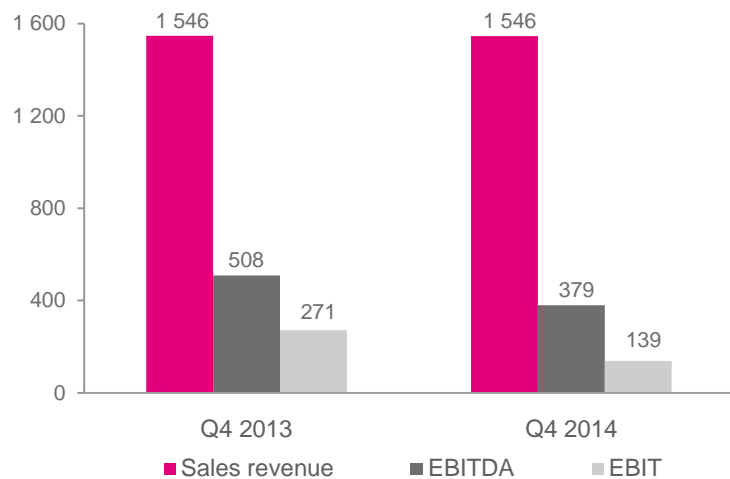
2014 financial data [PLN m]



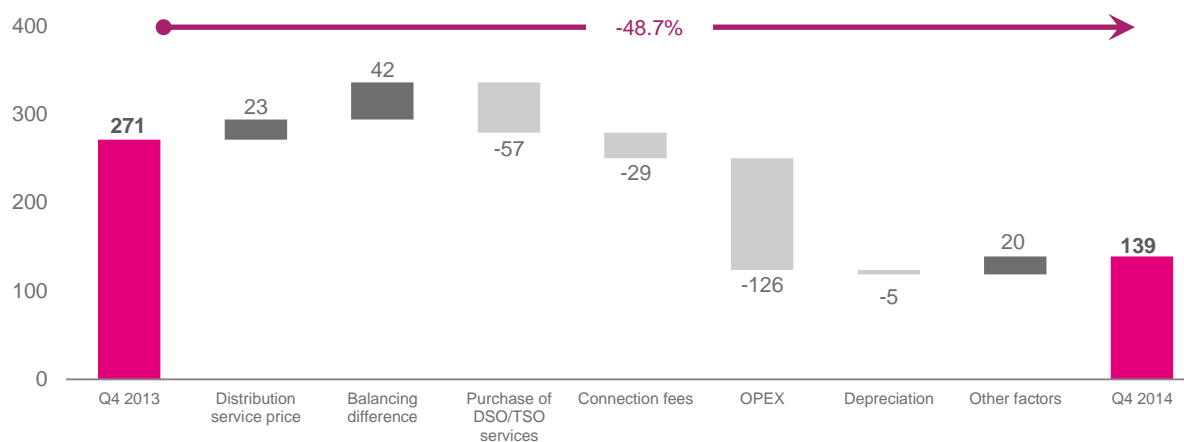
2014 EBIT bridge [PLN m]



Q4 2014 financial data [PLN m]

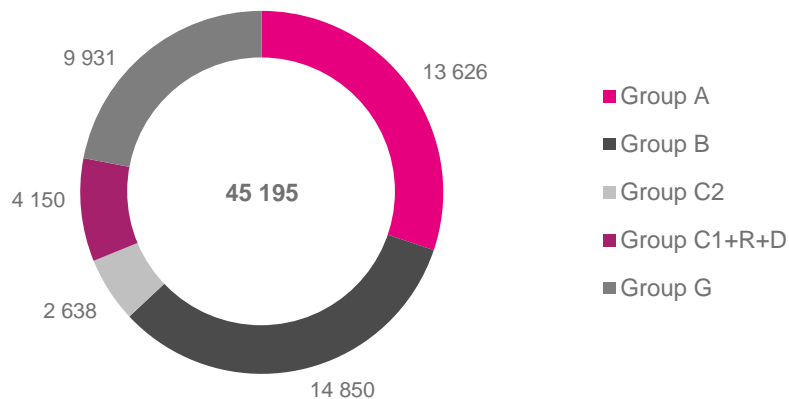


Q4 2014 EBIT bridge [PLN m]

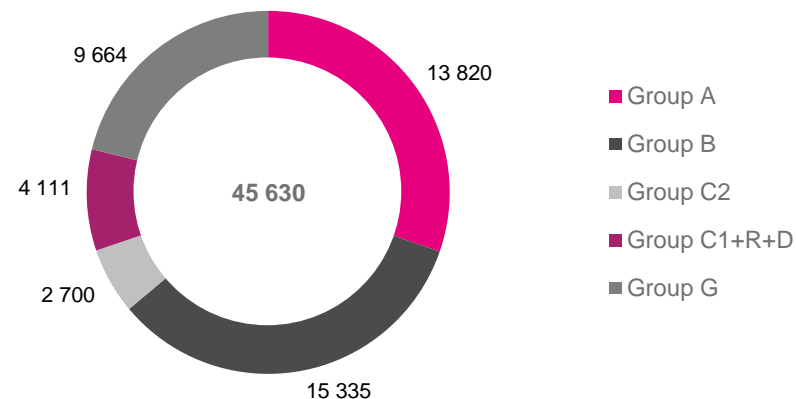


Distribution – volumes

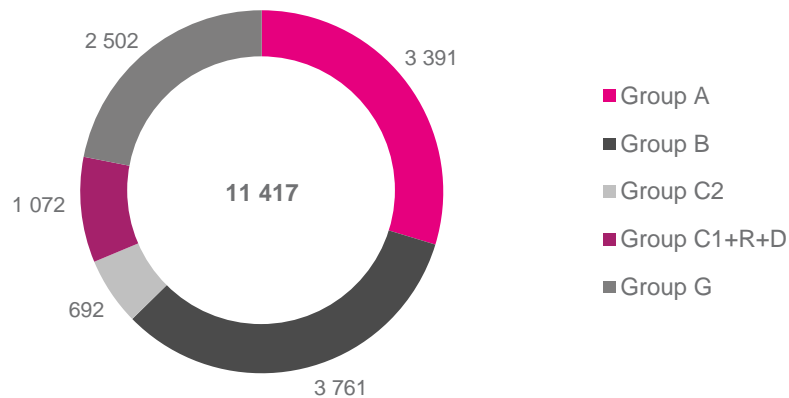
2013 electricity distribution [GWh]



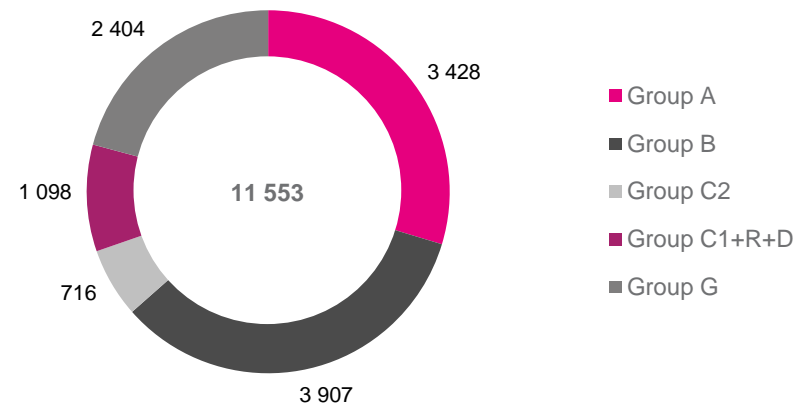
2014 electricity distribution [GWh]



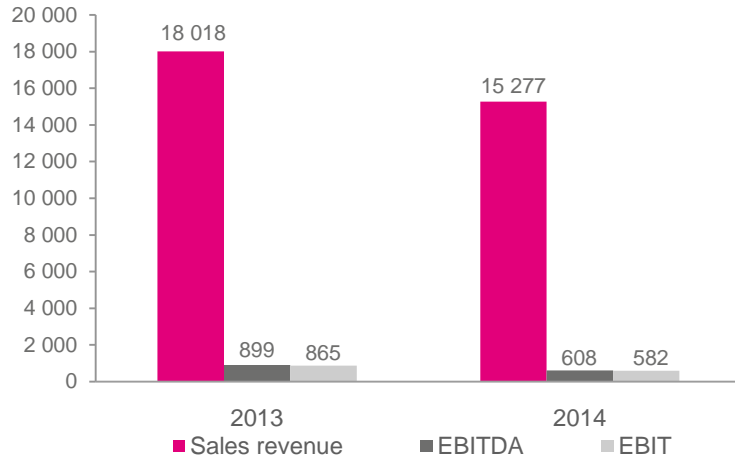
Q4 2013 electricity distribution [GWh]



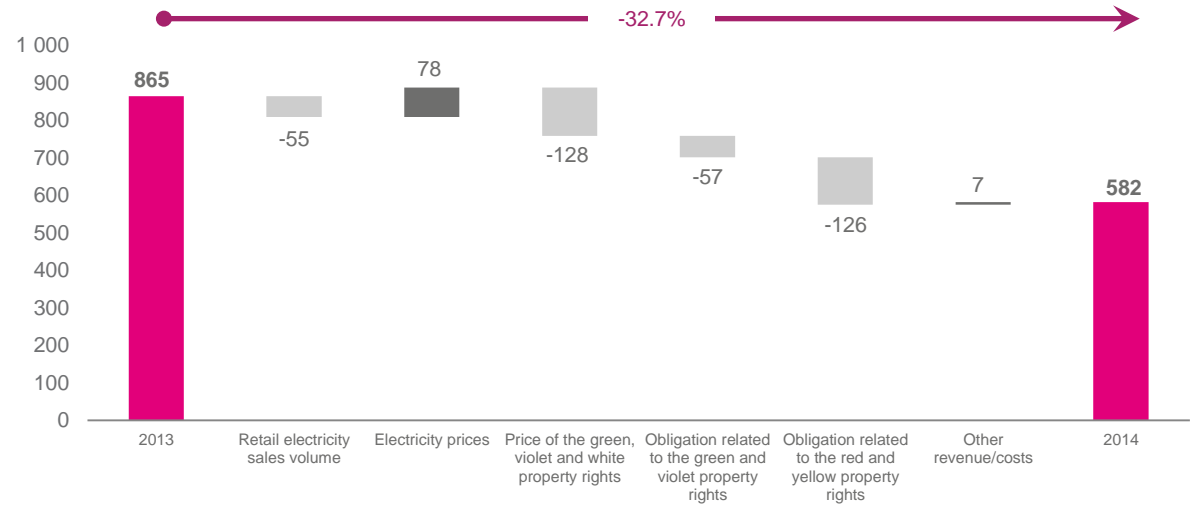
Q4 2014 electricity distribution [GWh]



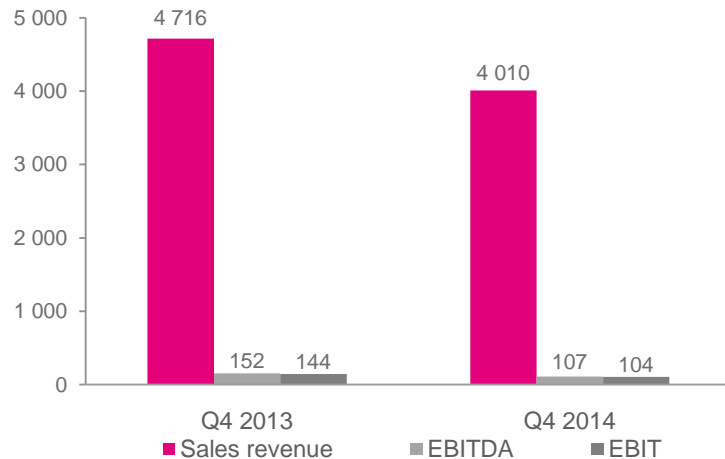
2014 financial data [PLN m]



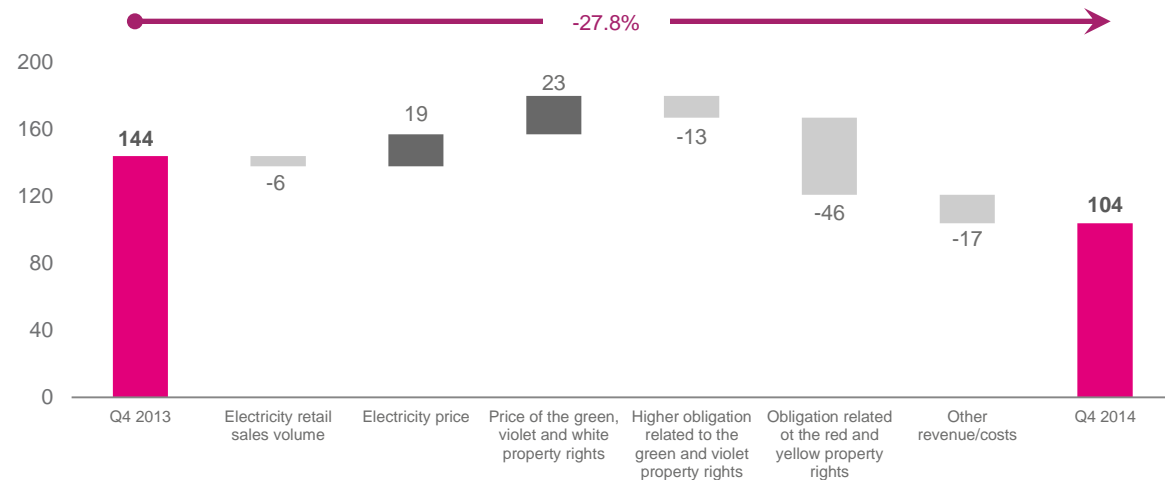
2014 EBIT [PLN m]



Q4 2014 financial data [PLN m]

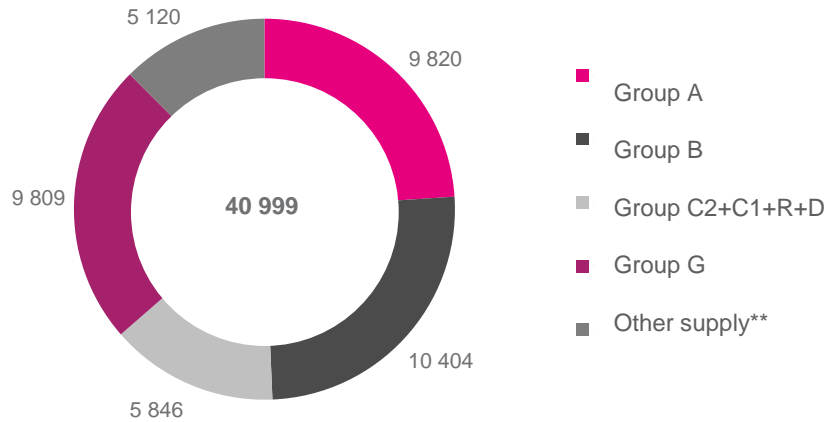


Q4 2014 EBIT bridge [PLN m]

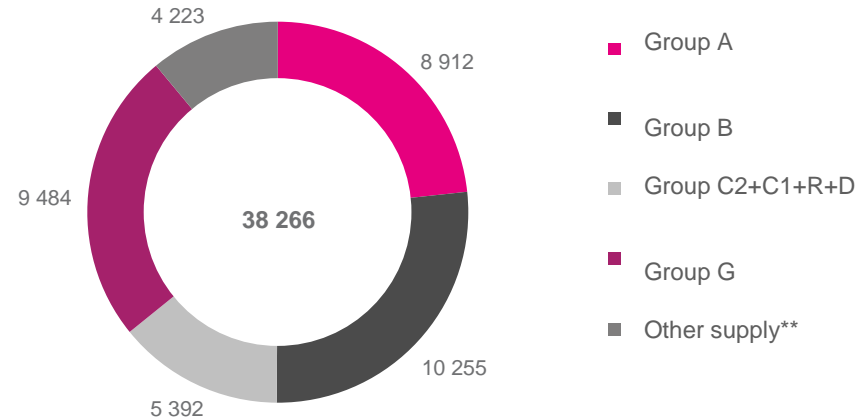


Supply – volumes

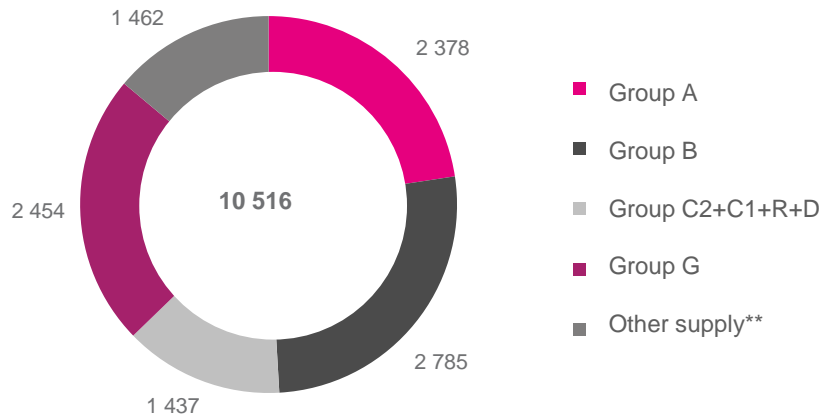
2013 electricity supply* [GWh]



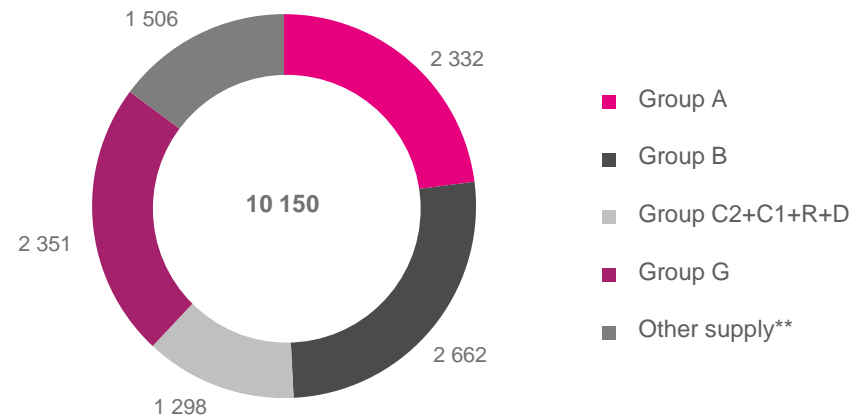
2014 electricity supply* [GWh]



Q4 2013 electricity supply* [GWh]



Q4 2014 electricity supply* [GWh]

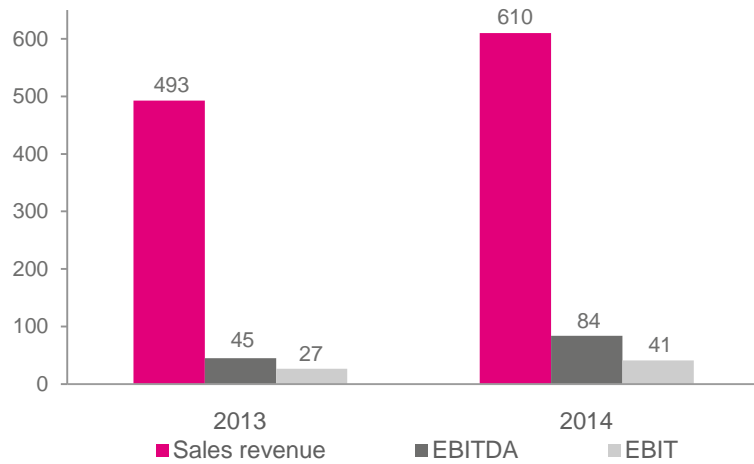


* Volumes of electricity supply to the strategic customers (key accounts) of TAURON Polska Energia S.A. are included in group A

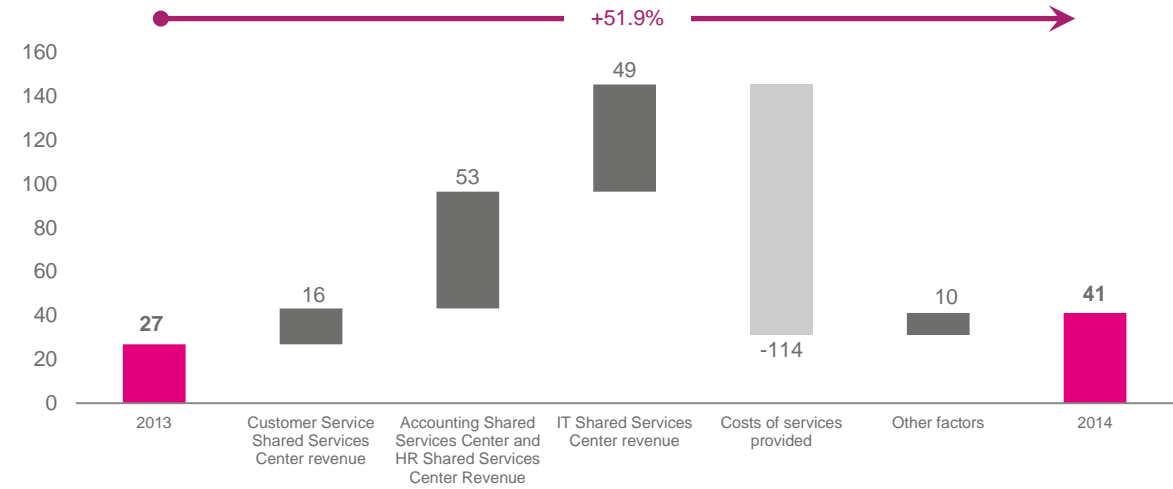
** Own needs and balancing differences of the Group's subsidiaries, balancing differences to other DSOs, other

Customer Service

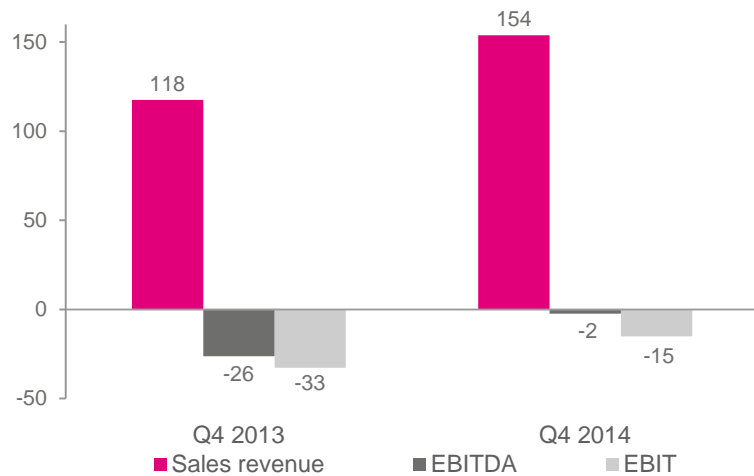
2014 financial data [PLN m]



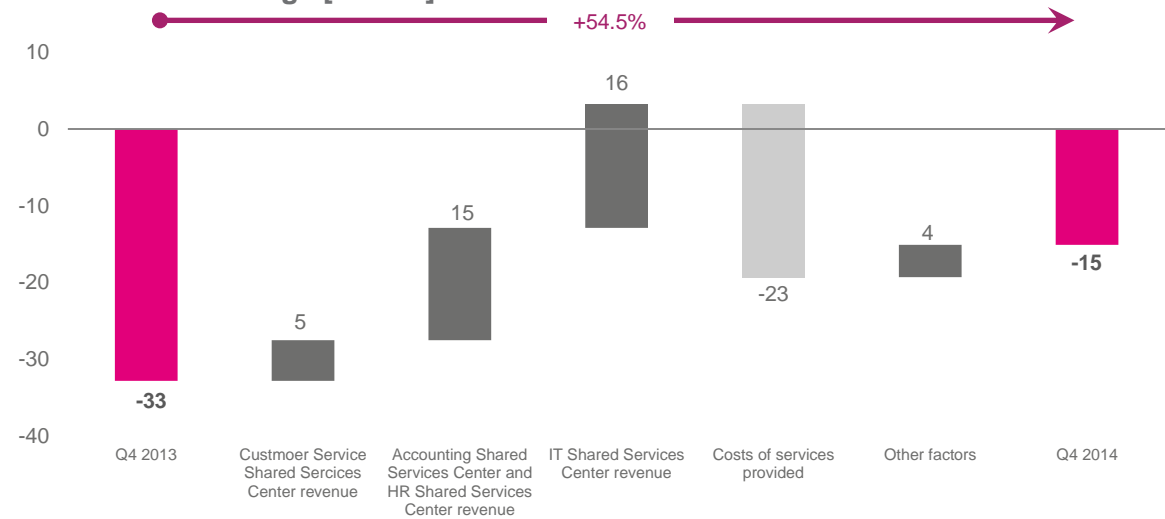
2014 EBIT bridge [PLN m]



Q4 2014 financial data [PLN m]



Q4 2014 EBIT bridge [PLN m]



Electricity market price trends

Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2014		2015 (until 26.02.2015)		2015/2014 (until 26.02.2015)	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	161.10	189 112	168.60	173 174	+4.7%	-8.4%
Forward PEAK (Y+Q+M)	184.60	19 126	219.80	15 046	+19.1%	-21.3%
Forward (weighted average)	163.26	208 238	172.70	188 220	+5.8%	-9.6%
SPOT (TGE)	179.86	21 078	162.85 (Forecast)	21 000	-9.5%	-0.4%
Weighted average total	164.78	229 316	171.71	209 220	+4.2%	-8.8%

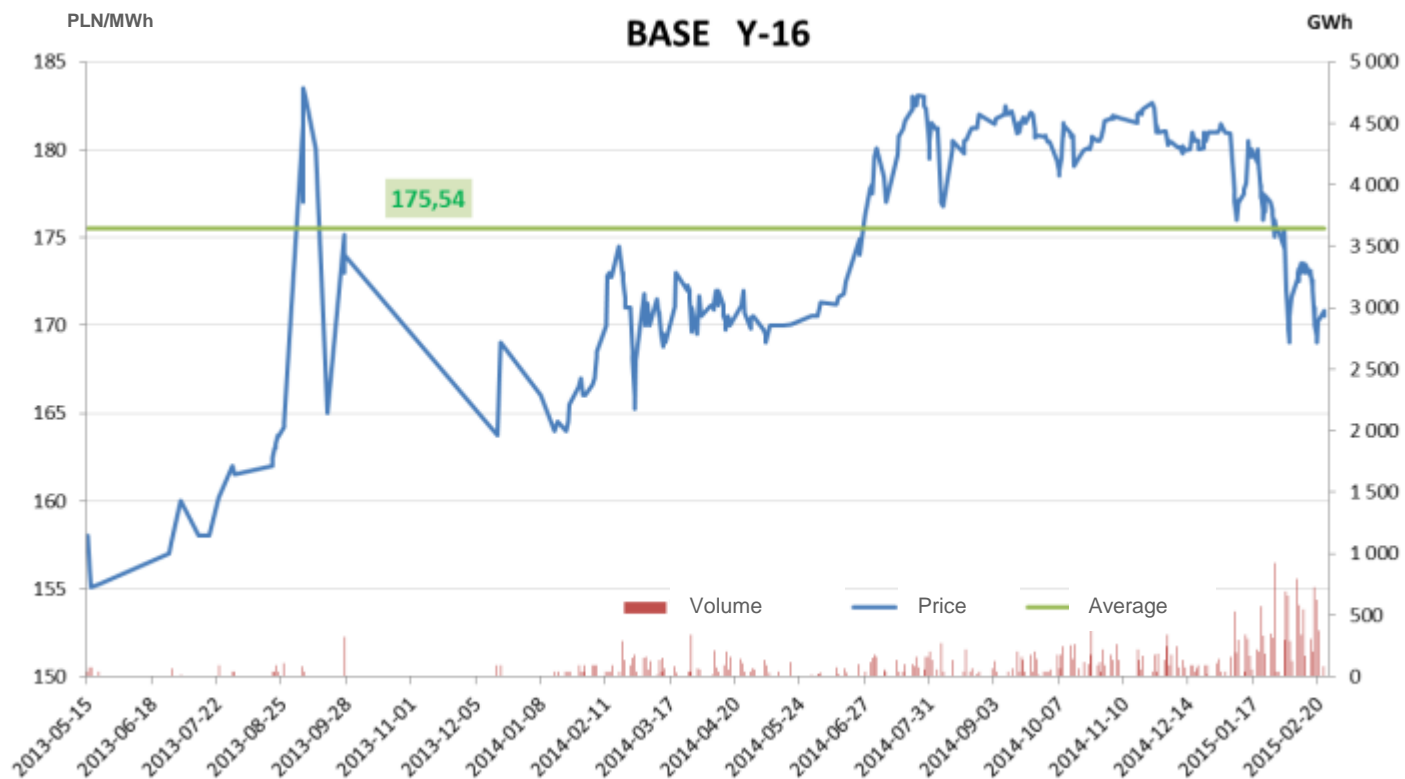
CO ₂ emission allowances (EUA/t)			Property rights (PLN/MWh)		
CO ₂ market analysts' survey*	Price (EUR/t)	Certificate type	Market prices (2014 average)	Substitution fee and obligation for:	
				2014	2015
2014 average	5.96 EUR/t	RES (green)	186.53	300.03 (13.0%)	303.03 (14.0%)
2015 average	7.70 EUR/t	Hard coal-fired cogeneration (red)	10.48	11.00 (23.2%)	11.00 (23.2%)
2016 average	11.80 EUR/t	Gas-fired cogeneration (yellow)	105.62	110.00 (3.9%)	121.63 (4.9%)
Average 2015 EUA price forecast by TAURON	7.5 – 8.0 EUR/t	Methane (violet)	59.66	63.26 (1.1%)	63.26 (1.3%)

2015 BASE contracts



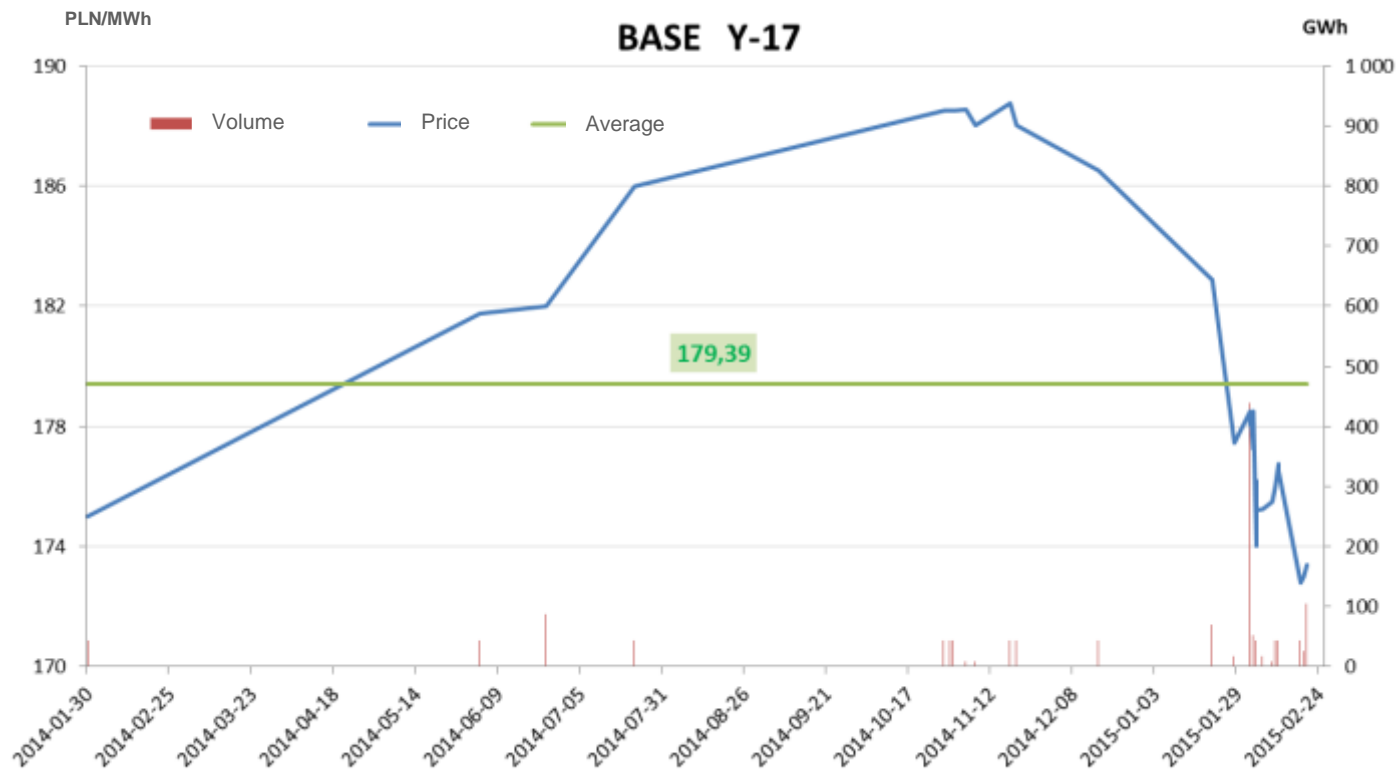
		Average price [PLN/MWh]	Volume [GWh]
Total		168.11	146 932
including	TGE	168.16	109 877
	non TGE	167.96	37 055

2016 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		175.54	42 743
including	TGE	175.73	29 075
	non TGE	175.15	13 668

2017 BASE contracts



		Average price [PLN/MWh]	Volume [GWh]
Total		179.39	2 024
Including	TGE	177.97	578
	non TGE	179.96	1 445

TAURON's coverage by analysts

Institution	Analyst
DB Securities	Tomasz Krukowski
Dom Maklerski mBanku	Kamil Kliszc
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

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
Pekao Investment Banking	Flawiusz Pawluk
WOOD & Company	Bram Buring
Dom Maklerski BOŚ	Michał Stalmach

THANK YOU FOR YOUR ATTENTION