



# TAURON Group's H1 2013 financial results

Warsaw, August 22, 2013

# 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

# Key financial parameters

	H1 2013		Q2 2013	
Sales revenue	PLN 9 705m	(-21% y/y)	PLN 4 542m	(-22% y/y)
EBITDA	PLN 2 052m	(-1% y/y)	PLN 831m	(-25% y/y)
Net profit	PLN 891m	(no change y/y)	PLN 311m	(-37% y/y)
CAPEX	PLN 1 350m	(+10% y/y)	PLN 809m	(+12% y/y)
Net debt/EBITDA	1.31		1.31	

## TAURON – events prior to June 30, 2013

- TAURON's BBB rating with a stable outlook affirmed by Fitch
- final resolution of the dispute with the CNEE-COEG consortium of related to the selection of the bid for the construction of the power generation unit at Elektrownia Jaworzno III
- commissioning of three biomass-fired units with the total capacity of 110 MW (Jaworzno, Tychy, Stalowa Wola) and the cogeneration unit with the capacity of 50 MWe/110 MWt (Bielsko-Biała)

## TAURON – events after June 30, 2013

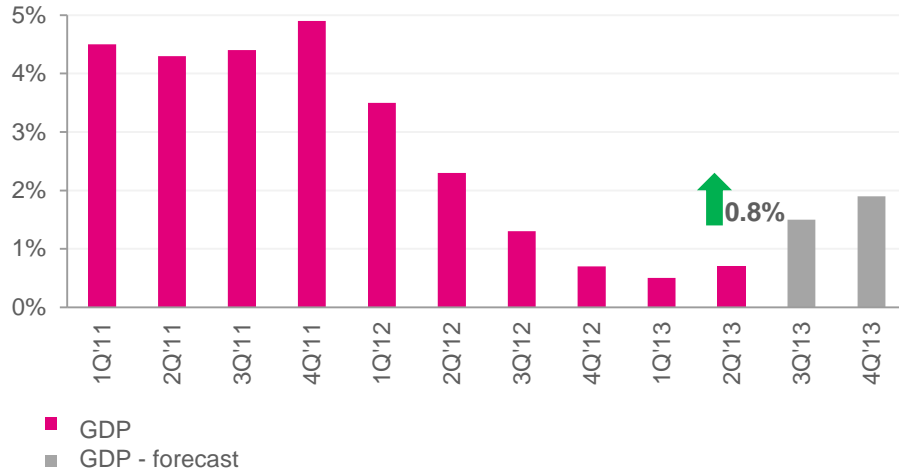
- extension until September 30, 2013 of the validity of the bid of the Rafako-Mostostal Warszawa consortium for the construction of a 910 MW unit at Elektrownia Jaworzno III
- signature of agreements with banks for a PLN 5bn bond issue
- signature of agreements with Bank Gospodarstwa Krajowego for a PLN 1bn bond issue
- TAURON benefitting decision of the ERO President on the amount of the LTC termination related payment adjustment for 2012 – inflow of PLN 423.1m by the end of September 2013

## Main market events

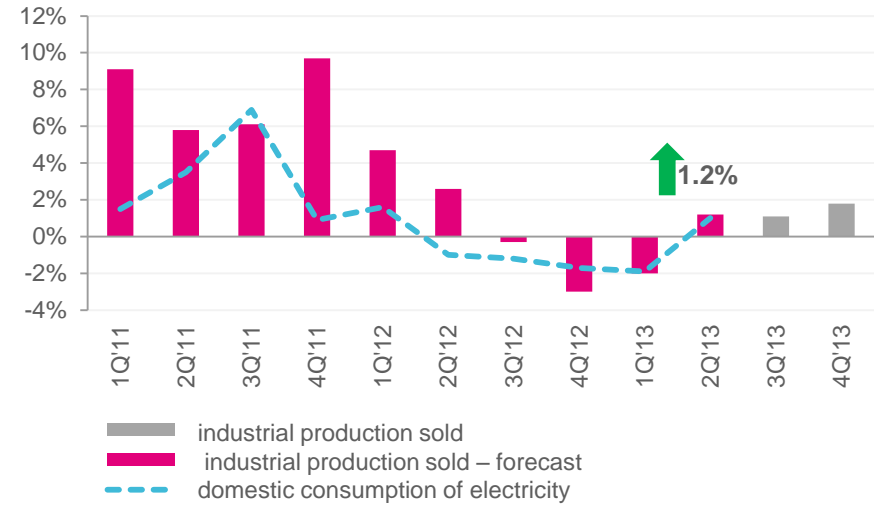
- ERO President's approval of the G tariff for the second half of 2013 (average reduction of prices by 4.25%)
- European Parliament's support for the plan to withdraw up to 900m CO<sub>2</sub> emission allowances from the market
- reinstatement of PGE's decision to construct new hard coal-fired units at Elektrownia Opole
- in August 2013 the so-called small three-pack was signed by the President of the Republic of Poland. Works on the so-called large three-pack are continued.

# Macroeconomic and market situation

### Poland's GDP\*



### Industrial production sold and electricity consumption (y/y change)\*



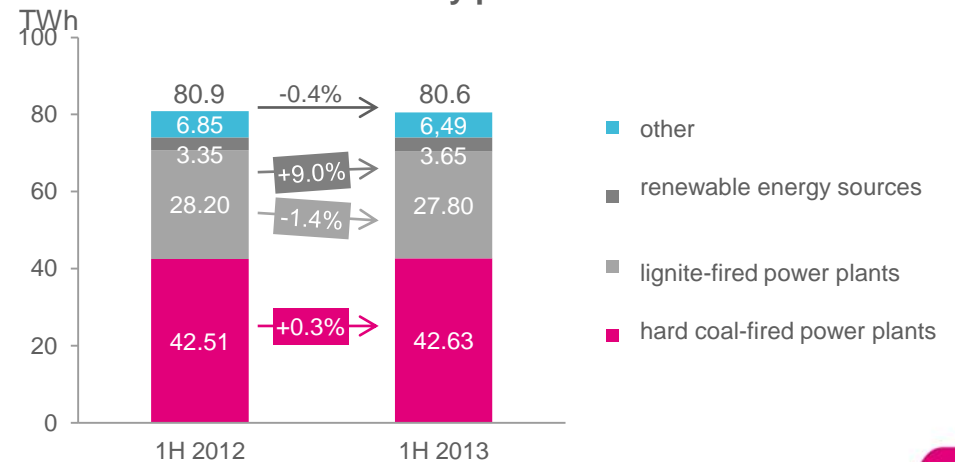
### BASE contract prices on the Polish Power Exchange (TGE)



Trading volume weighted average price (TGE):  
 BASE\_Y\_13: PLN 185.8/MWh  
 BASE\_Y\_14: PLN 158.5/MWh  
 BASE\_Y\_15: PLN 159.9/MWh

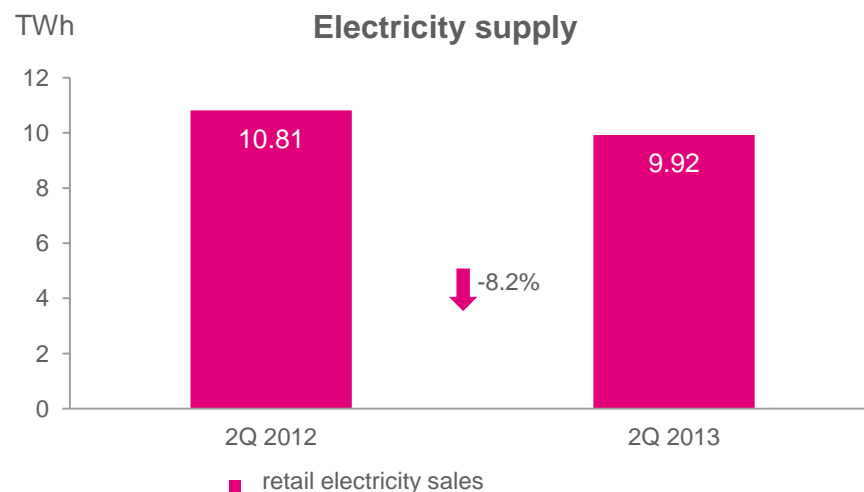
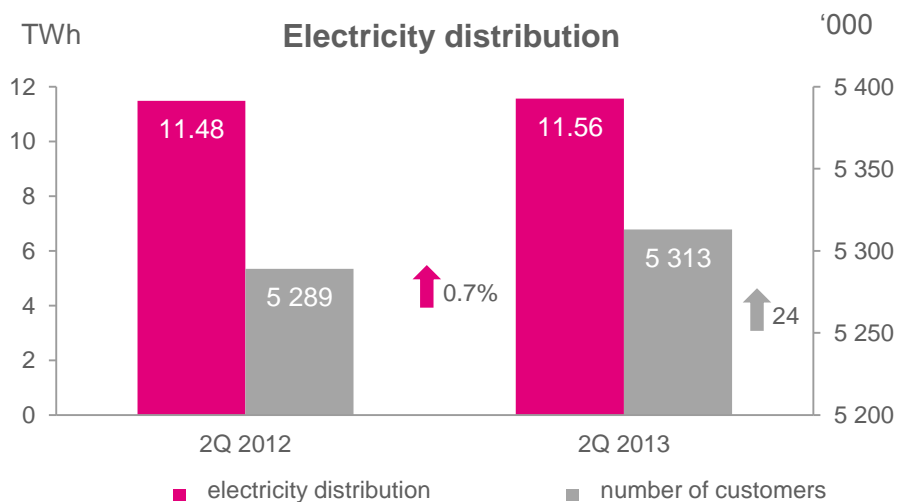
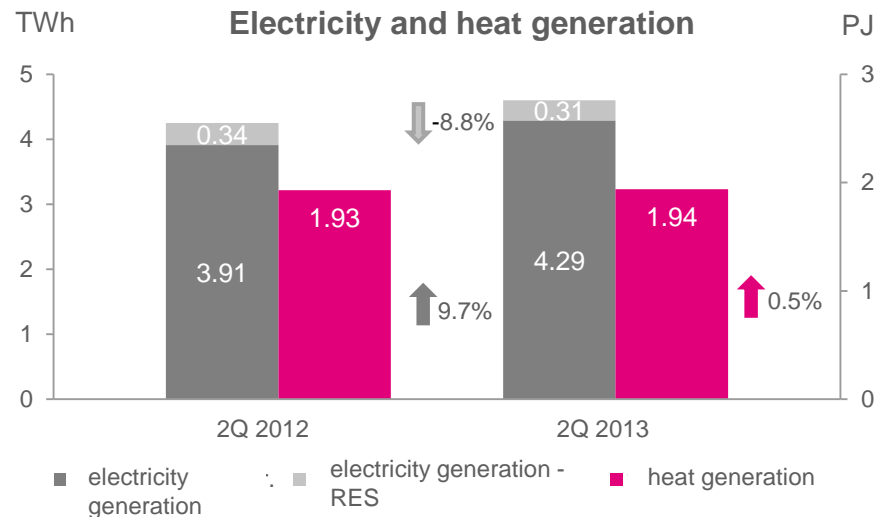
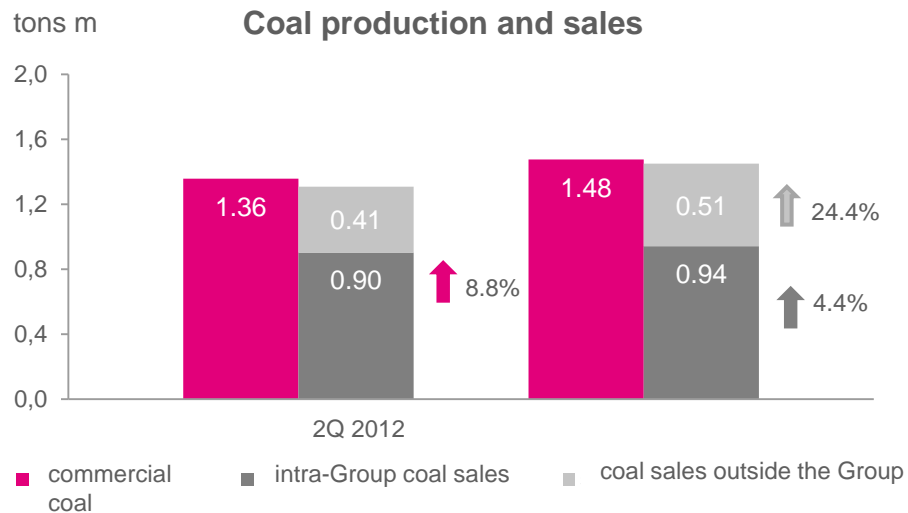
Volume (TWh)  
 66.4 TWh  
 58.7 TWh  
 6.5 TWh

### Structure of electricity production in Poland

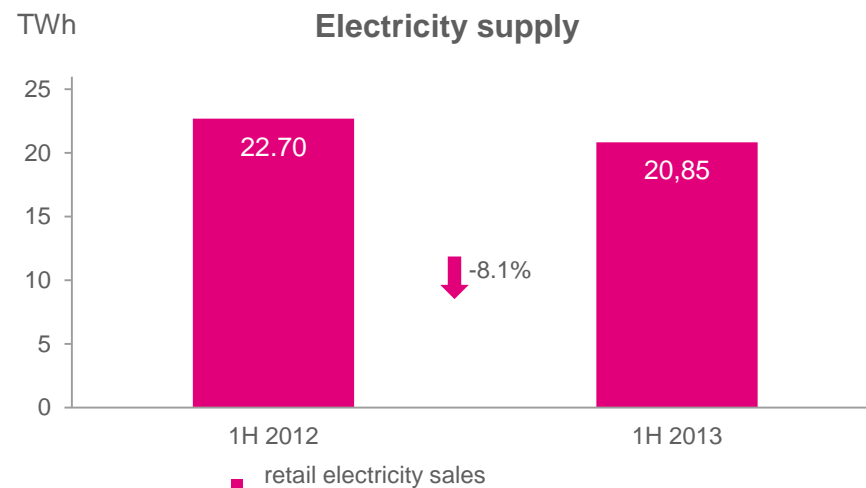
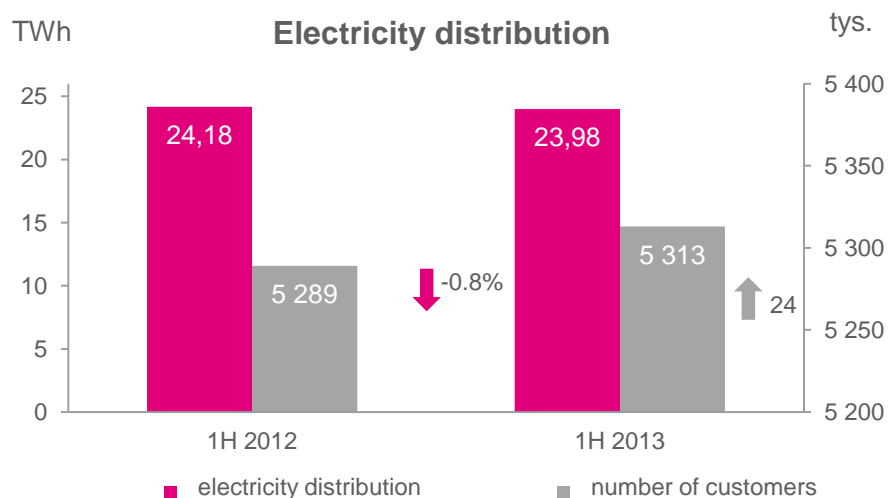
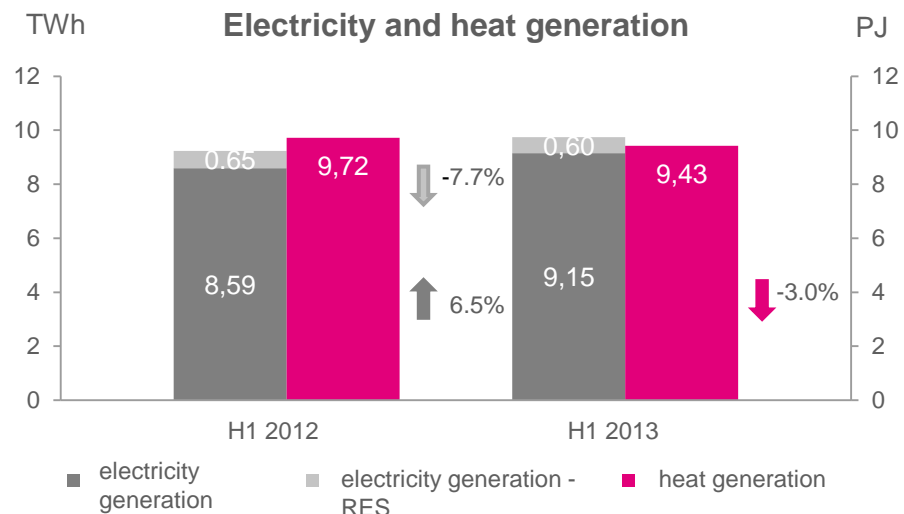
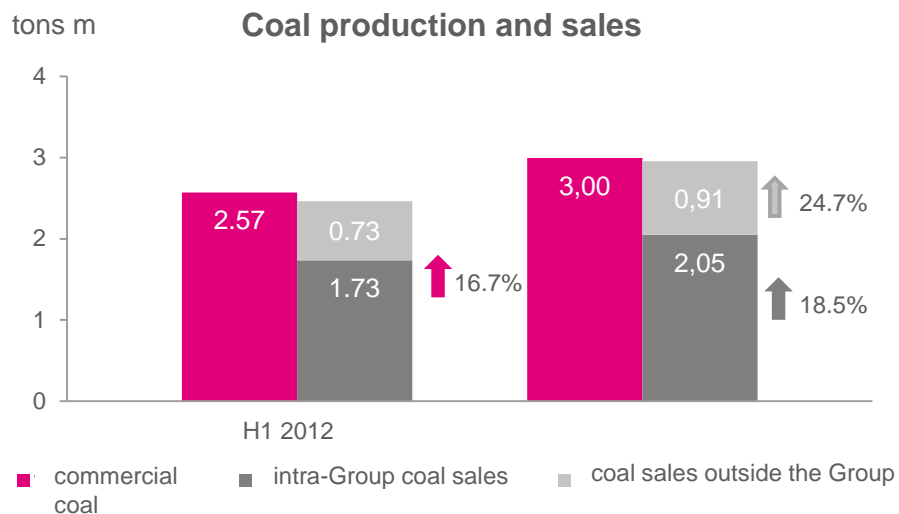


\* Source: GUS, IBnGR (forecasts), PSE

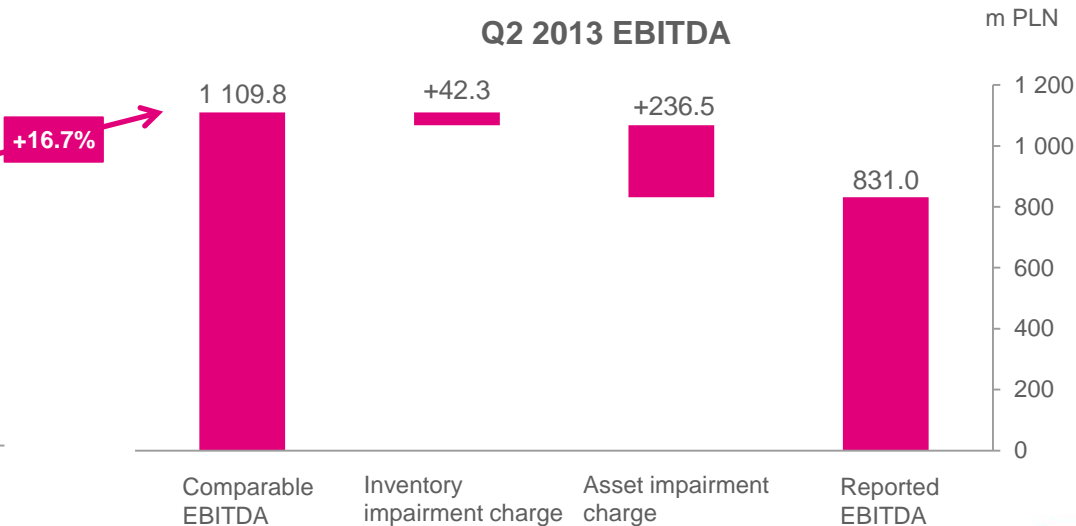
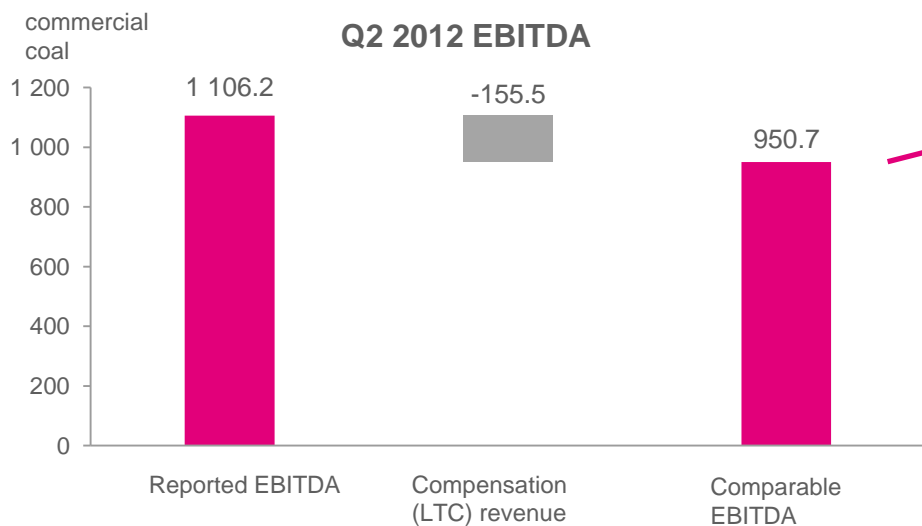
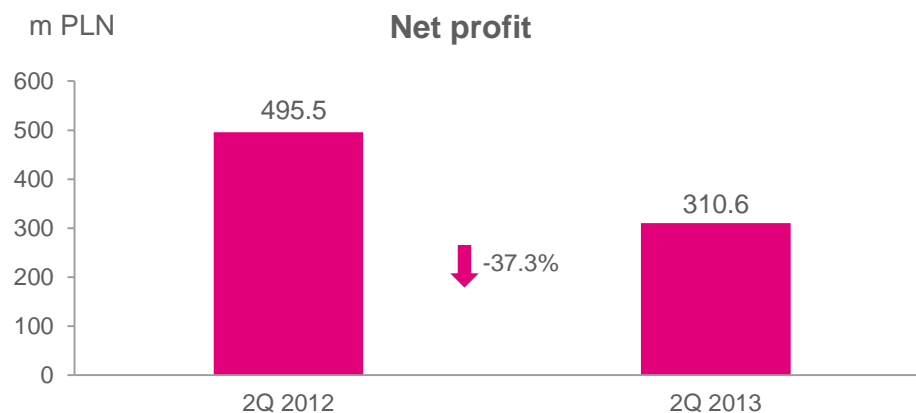
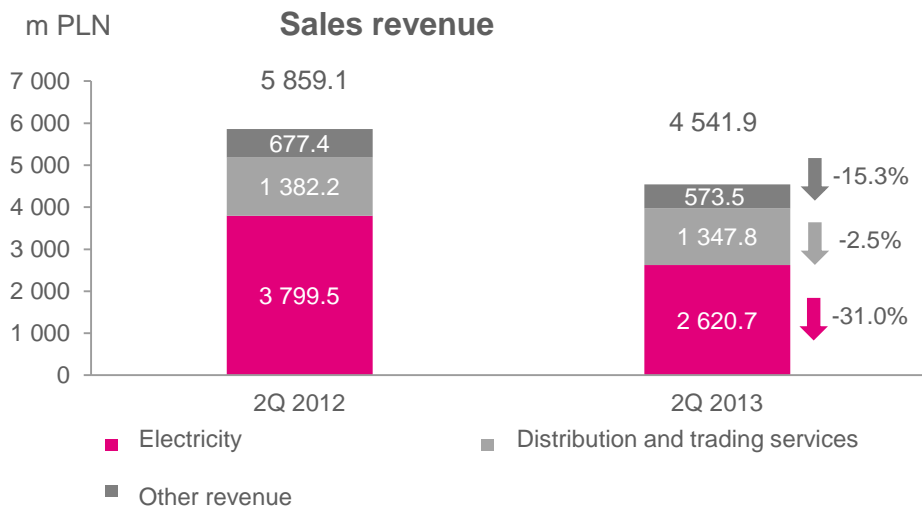
# Key operating data - Q2 2013



# Key operating data – H1 2013

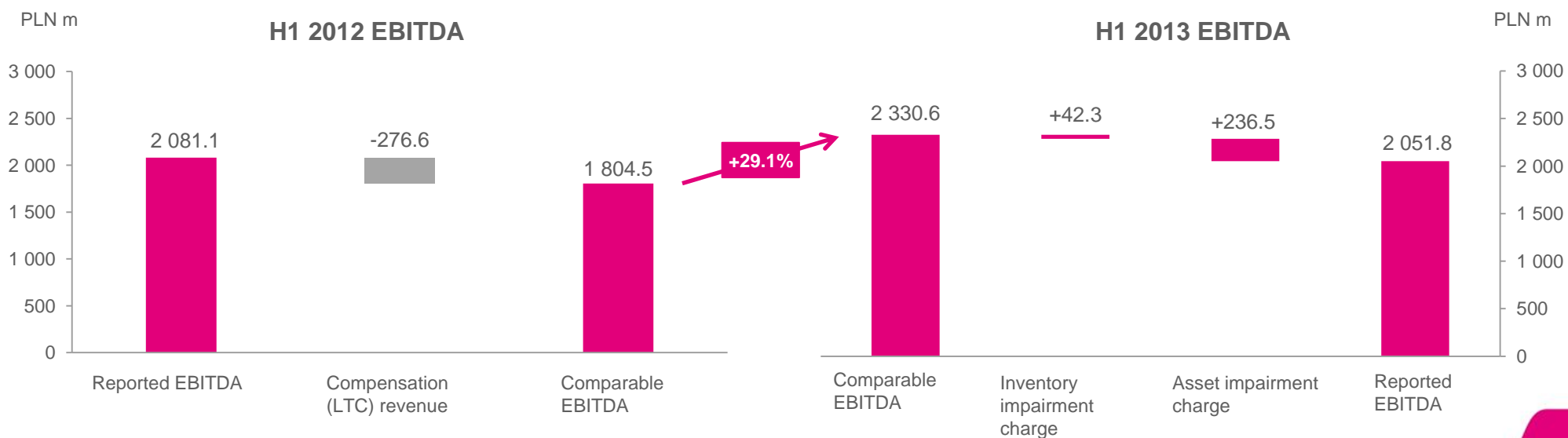
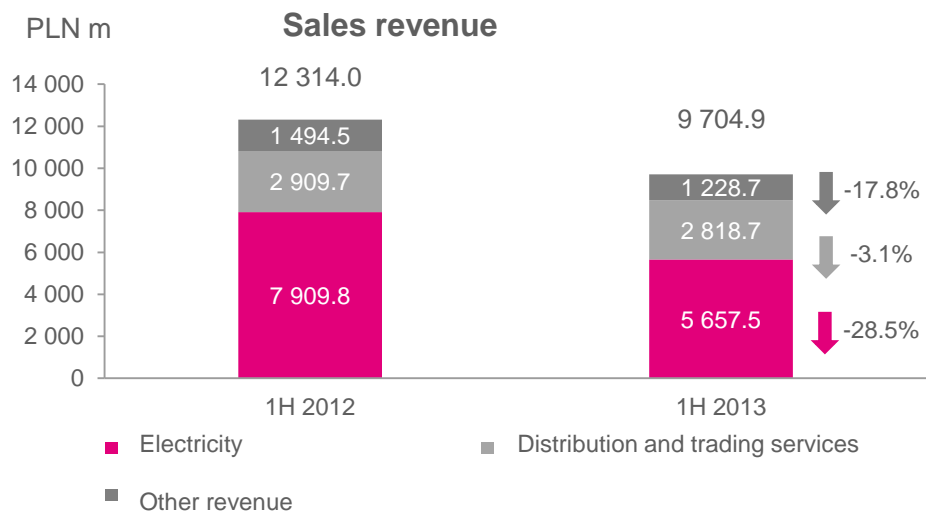


# Key financial data – Q2 2013

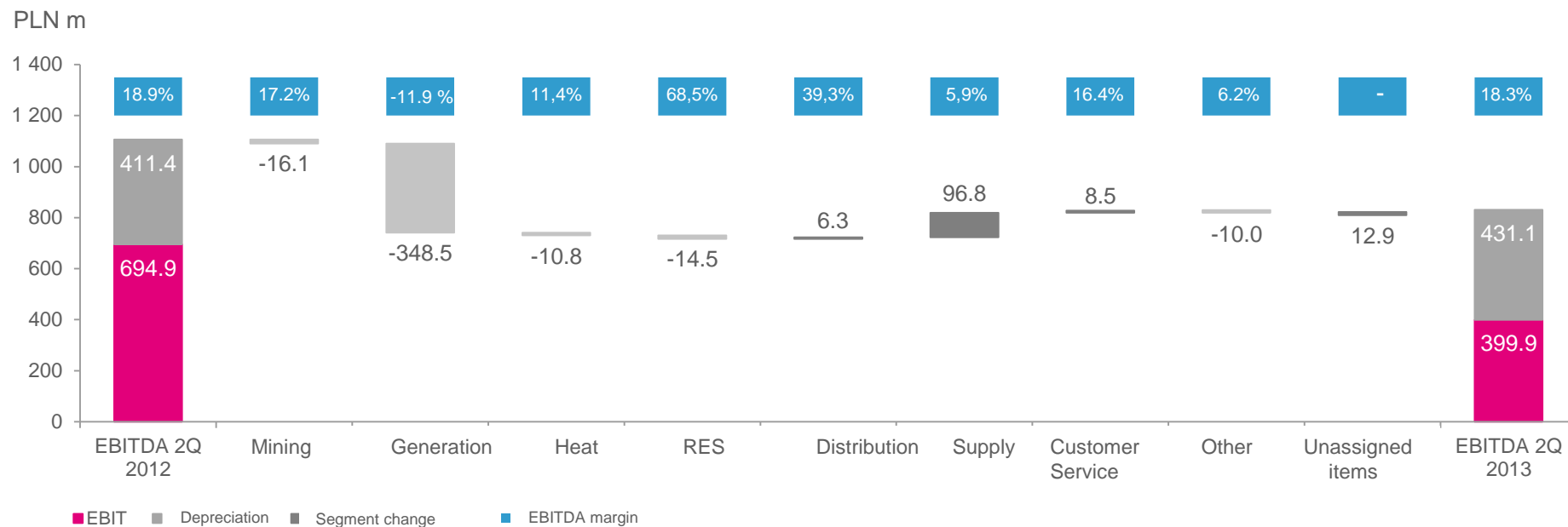




# Key financial data – H1 2013



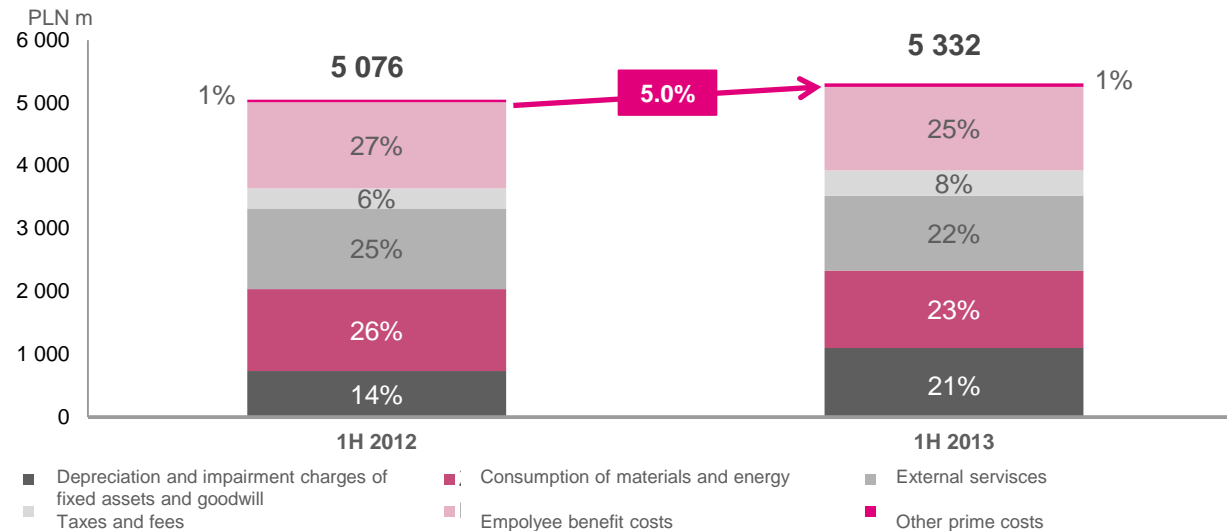
# EBITDA – Q2 2013



## Most important factors:

- Mining – declining coal market prices
- Generation – assets' impairment charge (PLN 237m), no revenue due to LTC compensation and lower wholesale market electricity prices
- Supply:
  - declining cost of the obligation to redeem green certificates (significant drop of green certificates' market prices)
  - lack of obligation to redeem cogeneration related property rights (certificates)
  - continued high spread between retail and wholesale electricity prices

# Prime costs structure



Increased costs in H1 2013 are mainly due to:

- depreciation (including generation assets' impairment charge of approx. PLN 237m)
- taxes and fees – costs of the provision set up for the CO<sub>2</sub> emission allowances

Declining costs in H1 2013 are mainly due to:

- external services – including distribution and transmission services (y/y reduction of the TSO transmission fee)
- consumption of materials and energy – primarily due to lower fuel costs
- employee benefit costs – mainly the result of the Voluntary Redundancy Programs implemented and the lower headcount

Cost structure:

in H1 2013: variable costs (excluding the value of goods and materials sold) approx. 36%, fixed costs 64%

in H1 2012: variable costs approx. 43%, fixed costs 57%

Change of structure caused by:

- Generation and Heat: reduction of variable costs (lower fuel costs)
- Distribution: lower transmission fee costs

# Generation – impairment charge

- Assets that were written down in H1 2013:

Unit	Capacity	Balance sheet value as of June 30, 2013 (pre-impairment) (PLN m)	Impairment value (PLN m)	Balance sheet value as of June 30, 2013 (post-impairment) (PLN m)*
Elektrownia Łaziska - units 1, 2	2x125 MW	29.3	29.3	0.0
Elektrownia Łagisza - unit 5	120 MW	23.5	22.6	0.9
Elektrownia Siersza - unit 5	120 MW	6.6	6.6	0.0
Elektrownia Siersza - units 3, 6	2x120 MW	34.4	34.1	0.3
Elektrownia Blachownia – collector system	165 MW	19.7	19.7	0.0
Elektrownia Stalowa Wola - units 7, 8	2x120 MW	73.7	71.4	2.3
Elektrownia Stalowa Wola – collector system	60 MW	63.0	53.0	10.0
<b>Total:</b>	<b>1 195 MW</b>	<b>250.2</b>	<b>236.7</b>	<b>13.5</b>

\* Balance sheet value > 0 is applicable to such assets that were covered by subsidies

- Next tests for the loss of assets' value subject to the auditor's review will be conducted in conjunction with the process of auditing the 2013 financial statements

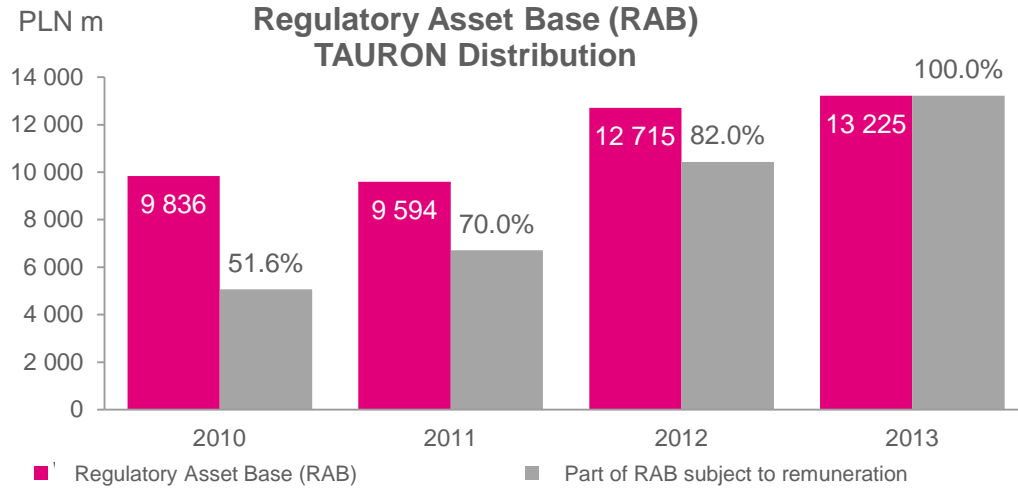
## Factors that may have a positive impact on the earnings in H2 2013:

- decline of electricity market prices – realizing a higher margin on electricity trading
- higher rate of utilizing the capacity of the 460 MW unit at Elektrownia Łagisza
- increasing prices of property rights to certificates of origin for electricity generated in RES
- lower per unit costs of hard coal and biofuels consumption (PLN/GJ)

## Factors that may have a negative impact on the earnings in H2 2013:

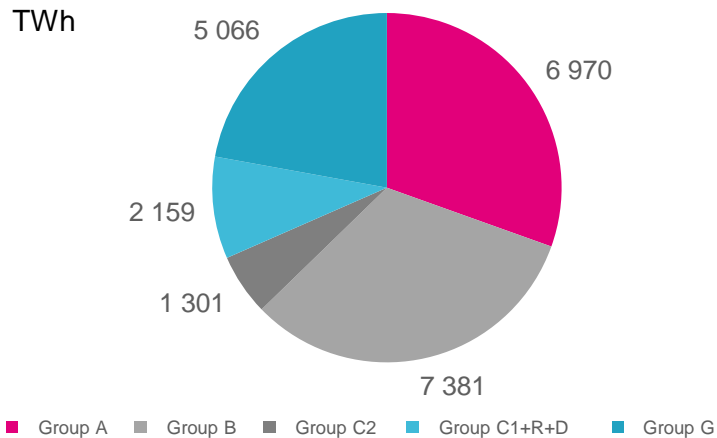
- higher fixed costs (upgrades, external services, labor costs)
- higher costs of the provision for CO<sub>2</sub>
- lower heat sales
- lower margin on the EUA/CER/ERU exchange transactions

# Distribution – key elements

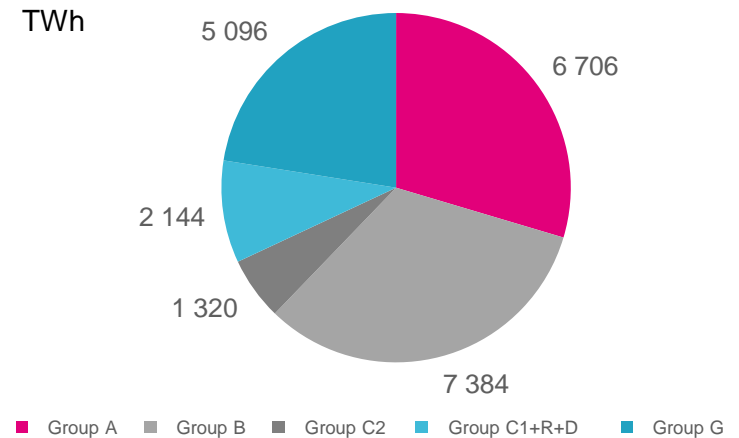


Negative impact of the planned changes to WACC (by approx. 1.15 percentage point) on the Distribution's EBITDA in 2014 is estimated to be worth approximately PLN 170m, assuming the current risk-free rate (excluding the impact of changes to other WACC parameters)

**Electricity distribution in H1 2012**



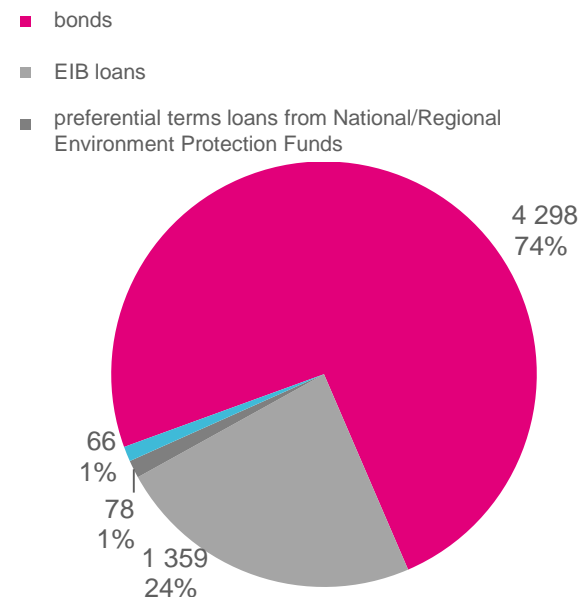
**Electricity distribution in H1 2013**



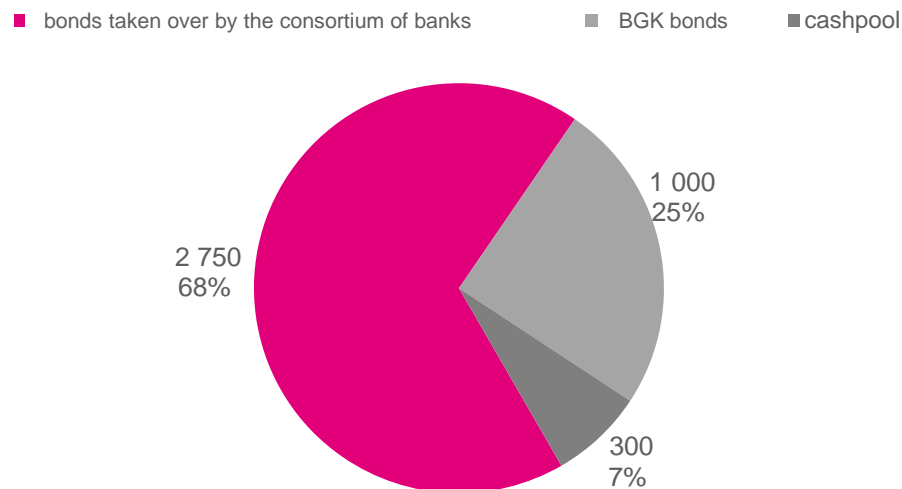
# Debt and financing



**TAURON Group's long term debt structure as of June 30, 2013 (in PLN m)**



**Financing available to TAURON Group as of July 31, 2013 (in PLN m)**



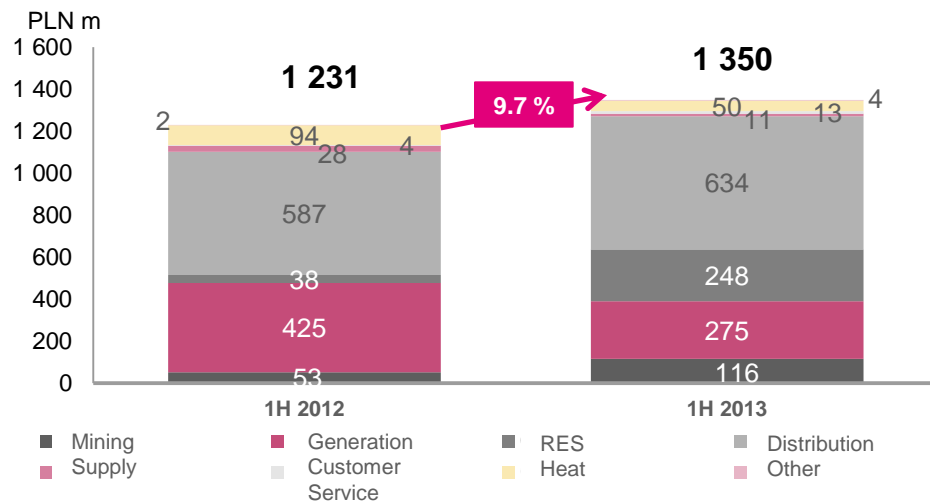
- Long term debt as of June 30, 2013: PLN 5 802m
- Net debt / EBITDA ratio: 1.31 (versus 1.18 at the end of 2012)
- Average weighted debt maturity as of June 30, 2013:
  - excluding BGK bonds 46 months
  - including BGK bonds 59 months
- EUR debt constitutes 0.07% of the total debt
- Structure of the debt according to interest rate:
  - 24% - fixed interest rate, i.e. PLN 1 368m
  - 76% - variable interest rate, i.e. PLN 4 434m, including:
    - unsecured amount – PLN 994m
    - secured amount – PLN 3 440m

Investment project	Type	Tauron's share	Capacity (MWt)	Capacity (MWe)	Progress	2013	2014	2015	2016	2017+
Elektrownia Jaworzno III	hard coal-fired unit	100%		910	1.7%	[Progress bar]				
Elektrownia Stalowa Wola	CCGT unit	50%	240	450	33.9%	[Progress bar]				
ZW Tychy	cogeneration unit	100%	86	50	0.8%	[Progress bar]				
ZW Nowa	turbogenerator TG 50	100%		50	0.8%	[Progress bar]				
Elektrownia Jaworzno III	upgrade of boilers	100%			47.3%	[Progress bar]				
Elektrownia Łaziska	upgrade of boilers	100%			44.8%	[Progress bar]				
Wicko	wind farm	100%		40	60.0%	[Progress bar]				
Marszewo	wind farm	100%		82	63.0%	[Progress bar]				
Elektrownia Blachownia*	CCGT unit	50%		850	0.8%	[Progress bar]				
ZW Katowice**	CCGT unit	100%	90	135	1.6%	[Progress bar]				
<b>Total</b>			<b>416</b>	<b>2 567</b>						

\*- project optimization works are underway

\*\*- submitted bids are being evaluated (deadline: September 30, 2013)

## CAPEX per segment



## Main investment projects carried out in H1 2013:

- Distribution – construction of new connections (PLN 210m) and upgrade and restoration of the grid assets (PLN 377m)
- RES – construction of the Marszewo and Wicko wind farms (PLN 208m)
- Generation - construction of new capacity (PLN 77m) and construction of the NOx emission reduction system (PLN 106m)
- Mining – construction of underground headings and purchase of devices (PLN 114m)

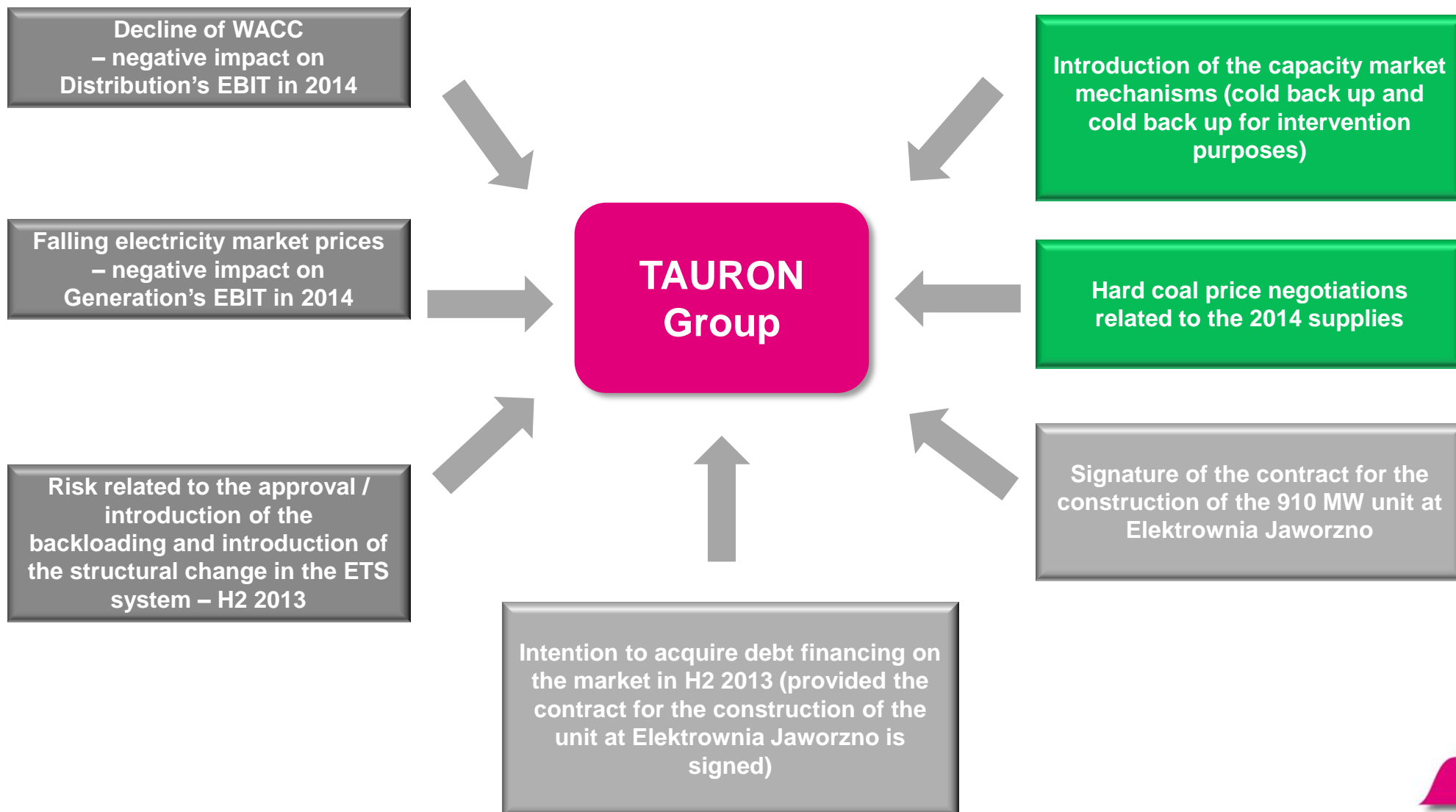


# OPEX reduction program

Segment	Savings realized in H1 2013	Savings planned for 2013-2015	Progress %	Main initiatives
Distribution	PLN 71m	PLN 416m	17%	<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 costs</li> <li>Optimization of the balancing differences</li> <li>IT processes optimization</li> <li>Integration of the business functions in the support (maintenance) area</li> <li>Optimization of external services</li> </ul>
Generation (including RES)	PLN 76m	PLN 387m	20%	<ul style="list-style-type: none"> <li>Employment restructuring and optimization of processes</li> <li>Reduction of upgrades (maintenance) for the least efficient units</li> <li>Optimization of overhead costs</li> <li>Outsourcing 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 farm's operation</li> </ul>
Heat	PLN 9m	PLN 33m	27%	<ul style="list-style-type: none"> <li>Employment restructuring</li> <li>Reduction of the compressed air losses</li> <li>Restructuring of assets</li> <li>Optimization of external services' costs</li> <li>Optimization of the procurement policy</li> </ul>
Mining	PLN 6m	PLN 28m	21%	<ul style="list-style-type: none"> <li>Construction of the nitrogen production system</li> <li>Expansion of the coal sludge (slurry) dewatering station</li> <li>Potable water treatment</li> <li>Electronic auctions in public procurement</li> <li>Use of the mechanical lining when drilling headings</li> </ul>
<b>Total</b>	<b>PLN 162m</b>	<b>PLN 864m</b>	<b>19%</b>	

- As of the end of Q2 2013 the program covered 258 persons. Over that period employment contracts were terminated with 446 persons (2940 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 in 2013 is envisaged.

# Summary – key factors



# Thank you – Q&A

## Investor Relations Office

Marcin Lauer

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

tel. + 48 32 774 27 06

Paweł Gaworzyński

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

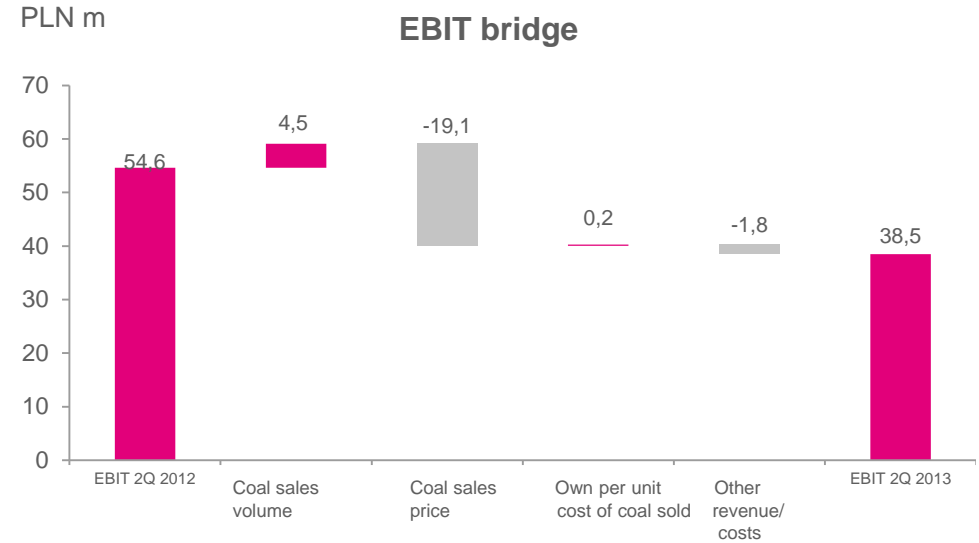
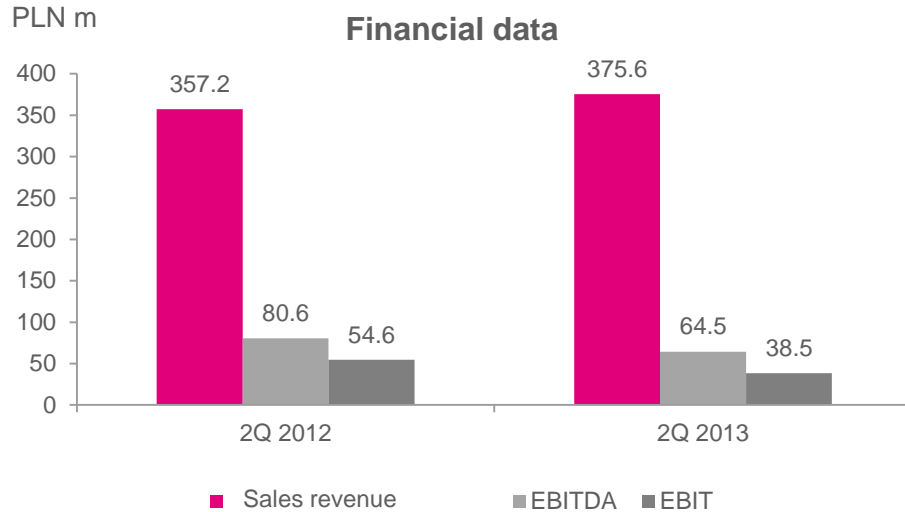
tel. + 48 32 774 25 34

Magdalena Wilczek

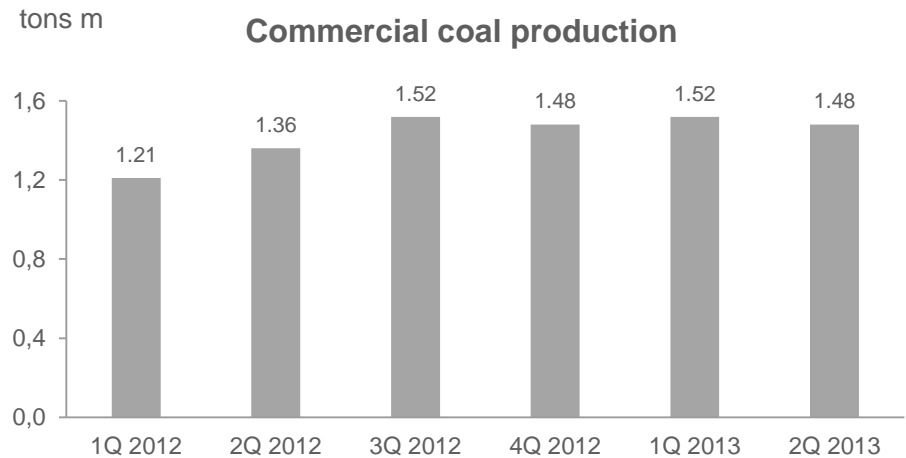
[magdalena.wilczek@tauron-pe.pl](mailto:magdalenawilczek@tauron-pe.pl)

tel. + 48 32 774 25 38

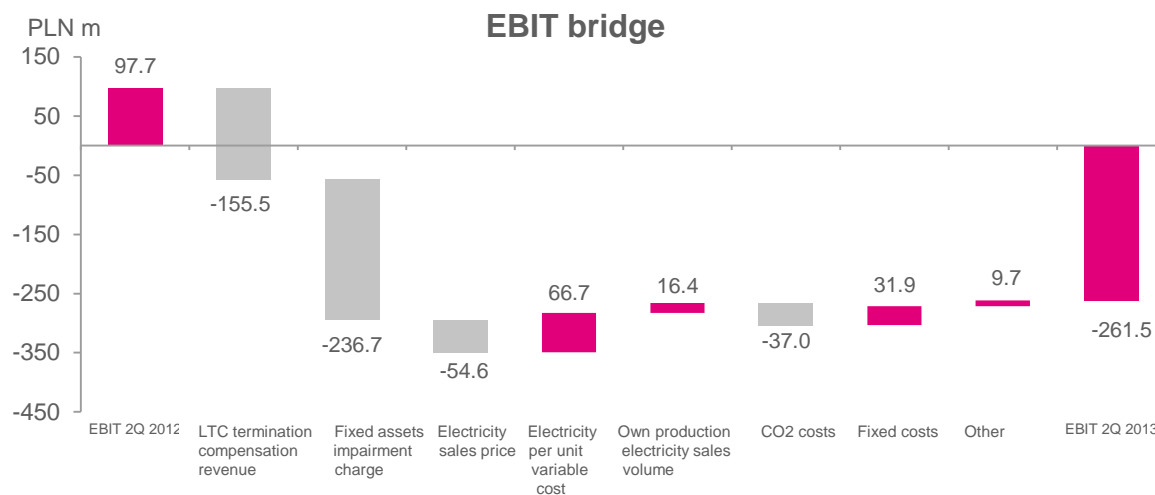
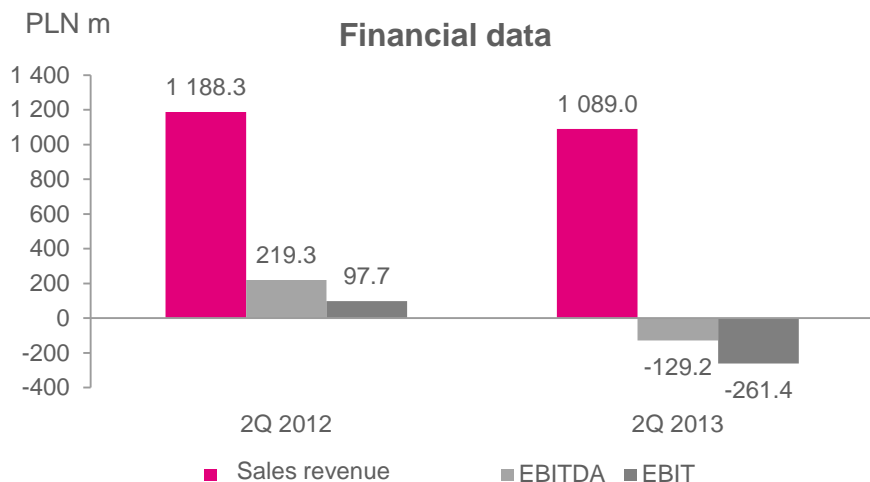




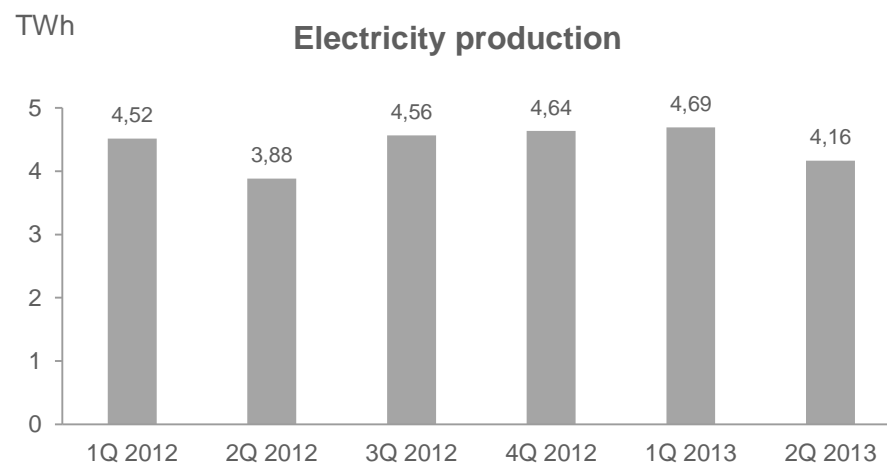
- Lower average hard coal sales price, mainly declining price of coal sludges sold intra-Group
- Revenue drop partly compensated by increased sales volume, along with the stronger growth of sales outside TAURON Group versus the intra-Group sales



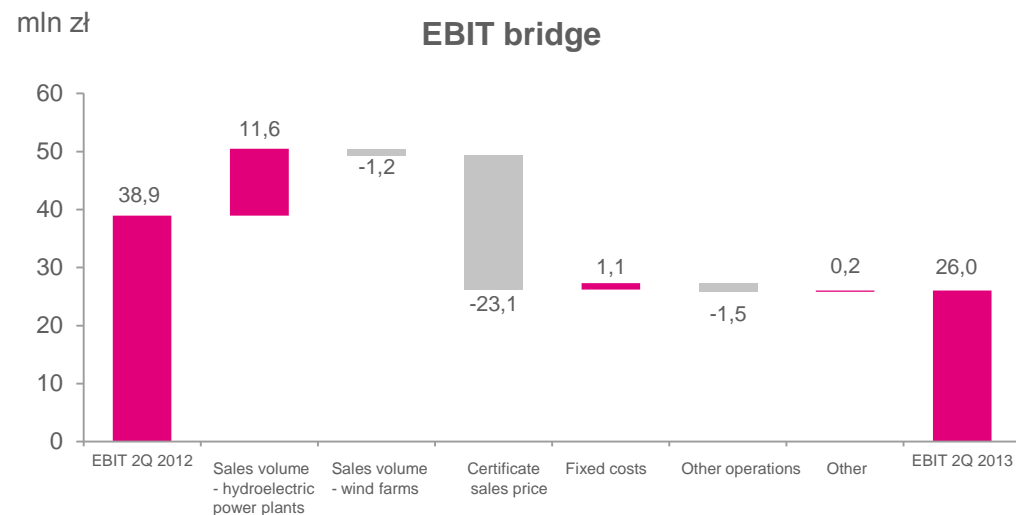
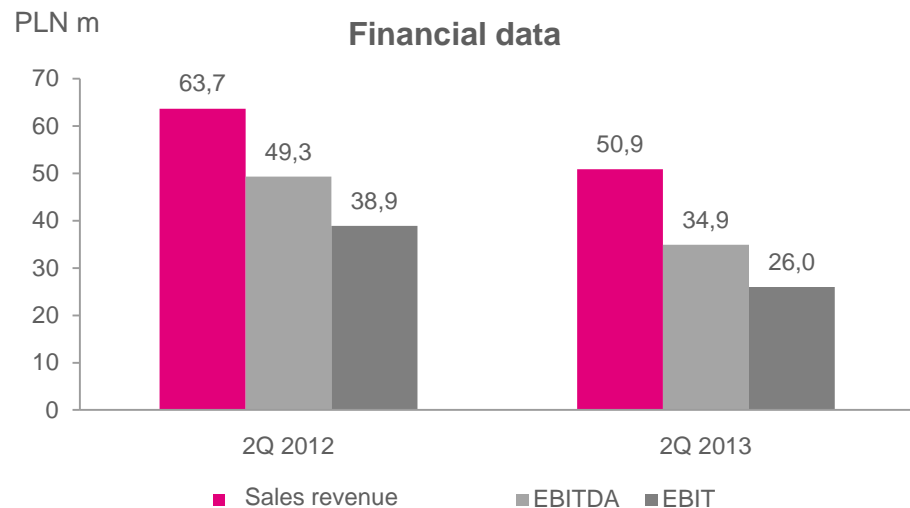
# Generation (conventional sources)



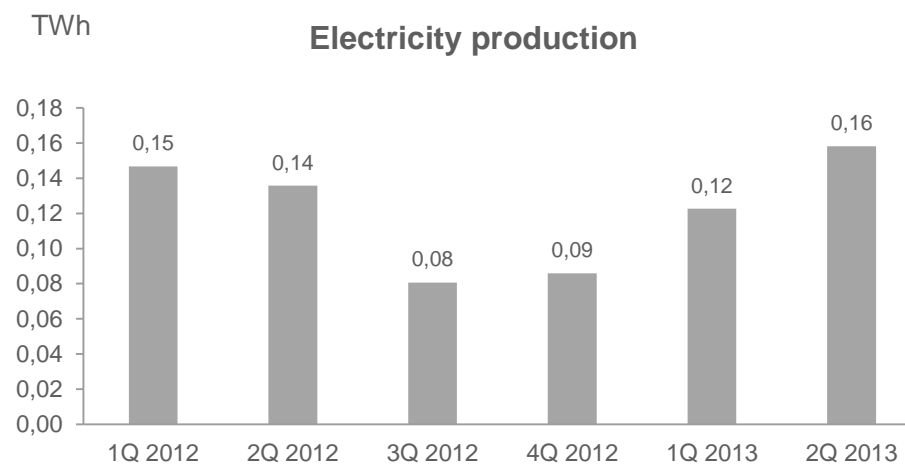
- Fixed assets' impairment charges (approx. PLN 237m)
- No revenue from LTCs
- Drop of electricity sales price
- Inclusion of the costs of the provision for the shortage of the CO<sub>2</sub> emission allowances
- Positive impact of the other operations related factors (electricity sales volume, per unit cost of generation and fixed costs)

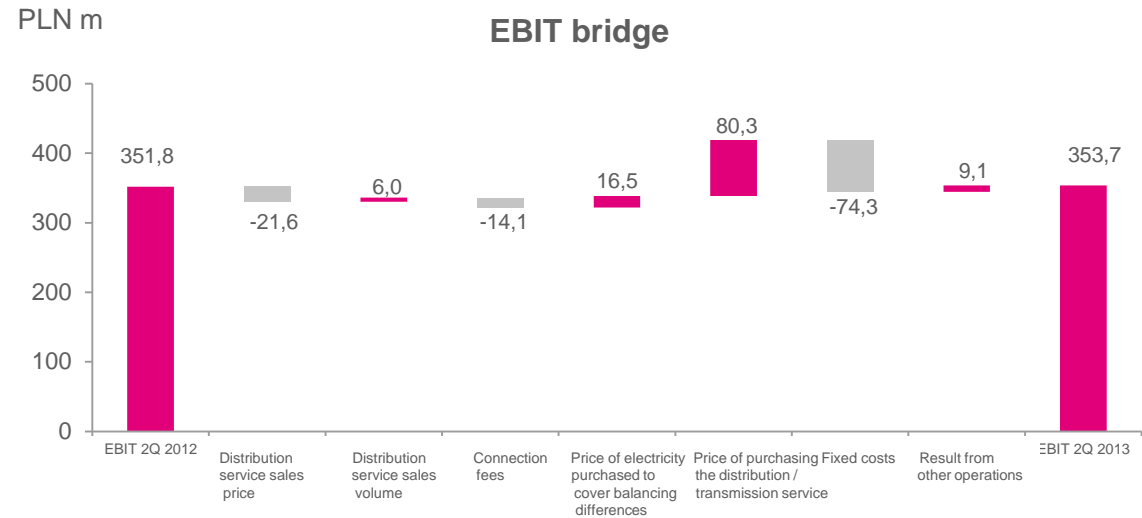
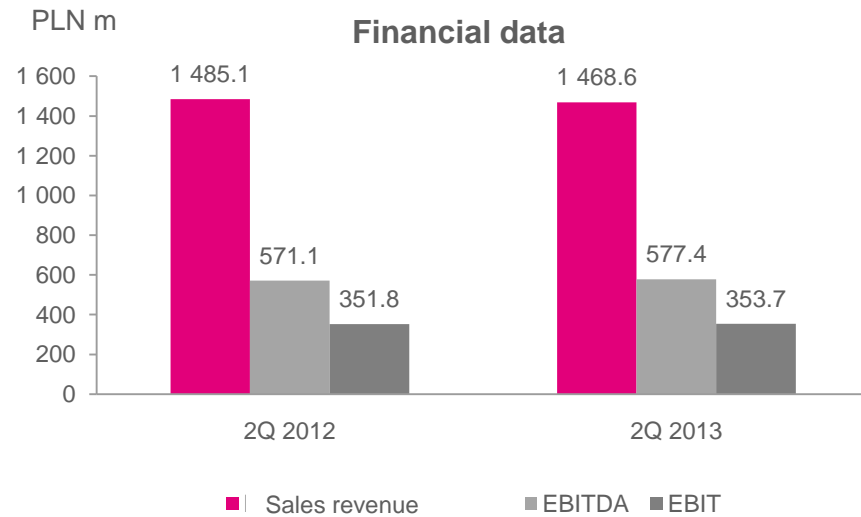


# Renewable Energy Sources (RES)

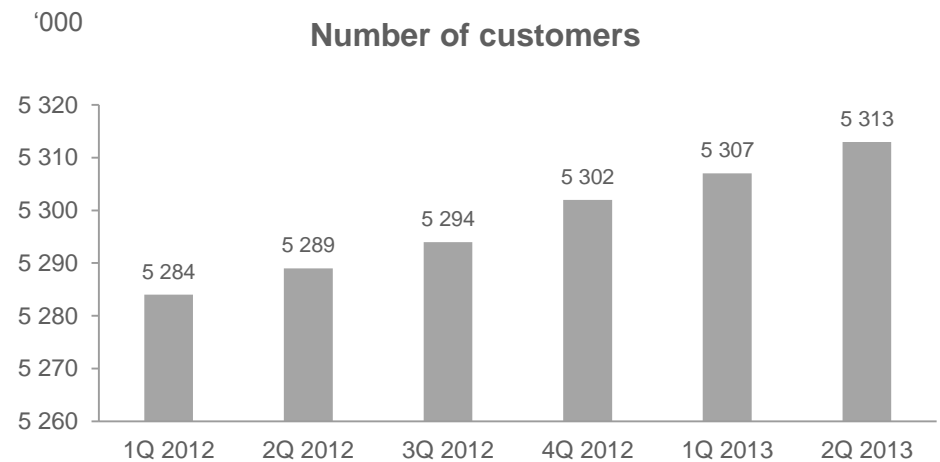


- Lower green certificates sales price
- Increased hydroelectric power plants' production



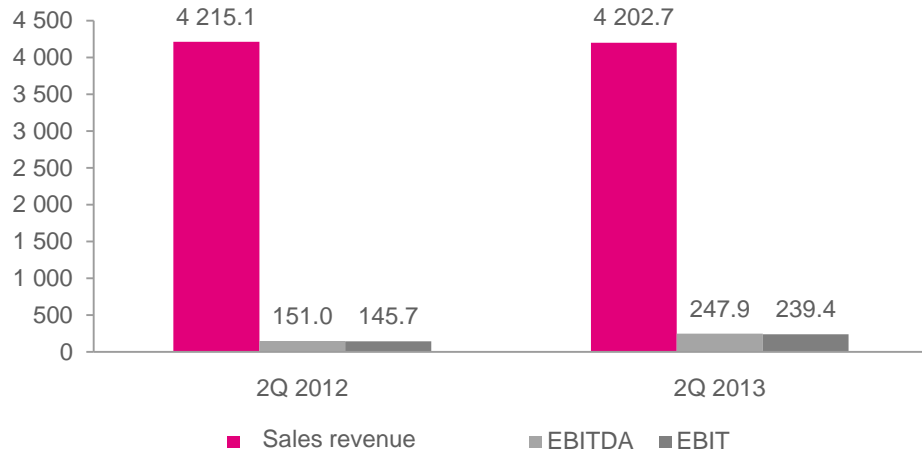


- Reduction of the transit fee for the Transmission System Operator
- Rising fixed costs related to the purchased customer service and the declining distribution service sales price
- Reduction of the distribution services' sales price and of the connection fees revenue



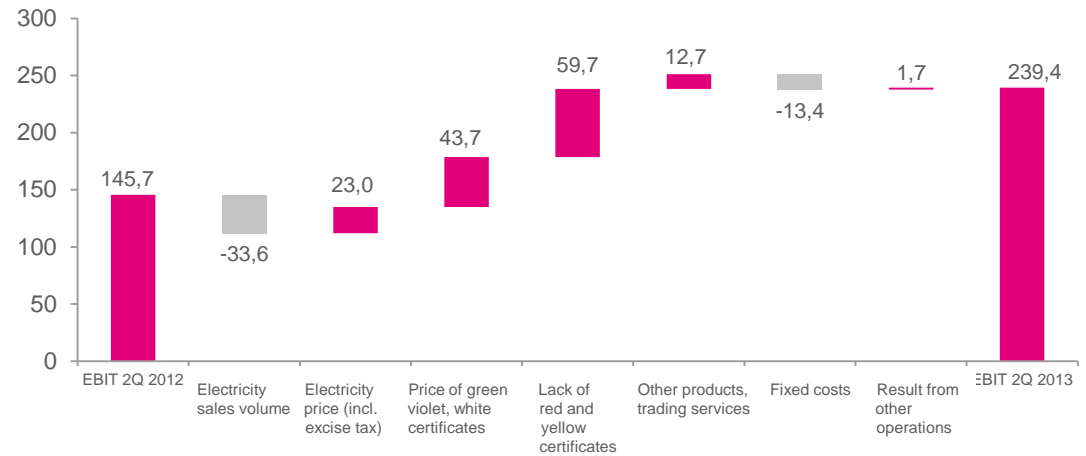
PLN m

## Financial data



PLN m

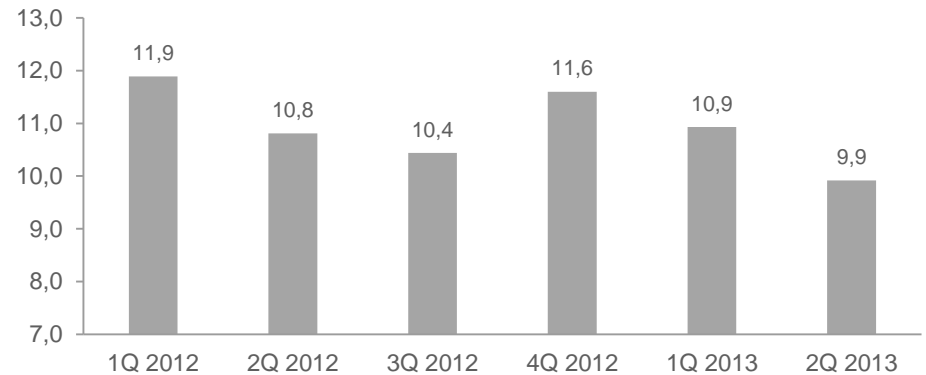
## EBIT bridge



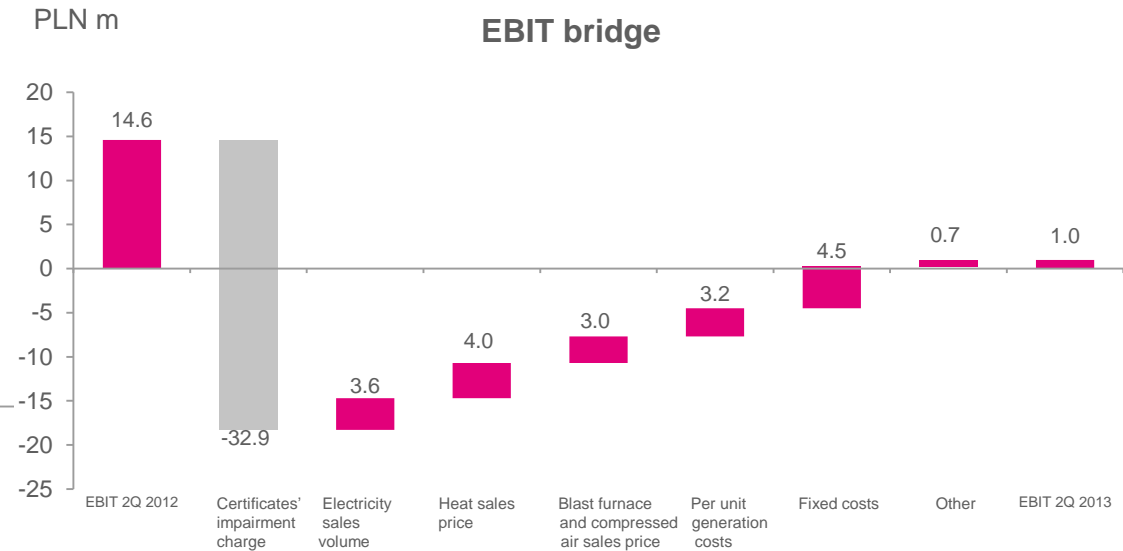
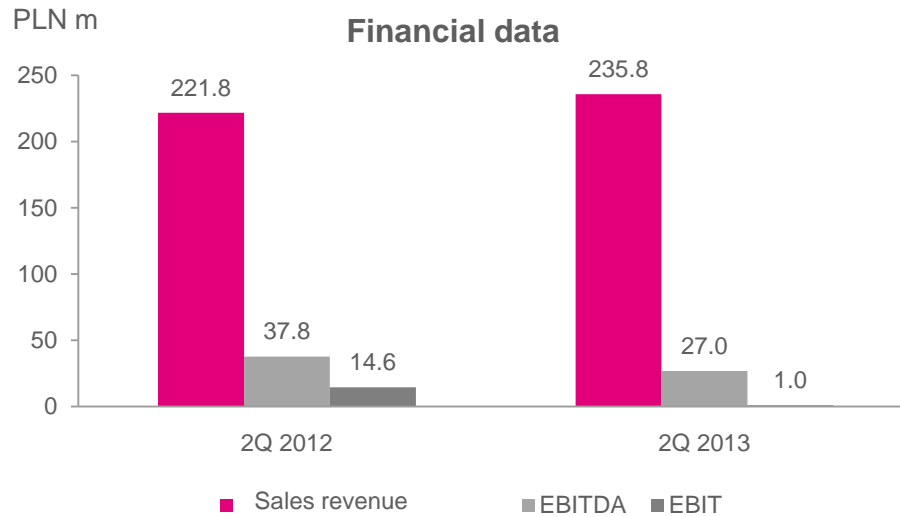
- Declining prices of green certificates
- Lack of legal regulations with respect to redeeming red and yellow certificates
- Lower electricity sales volume, in particular to the A and B group customers

TWh

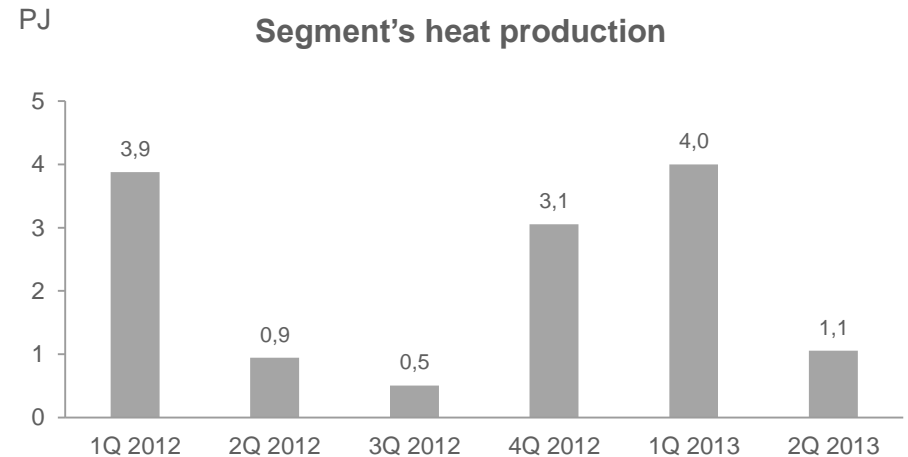
## Electricity retail sales

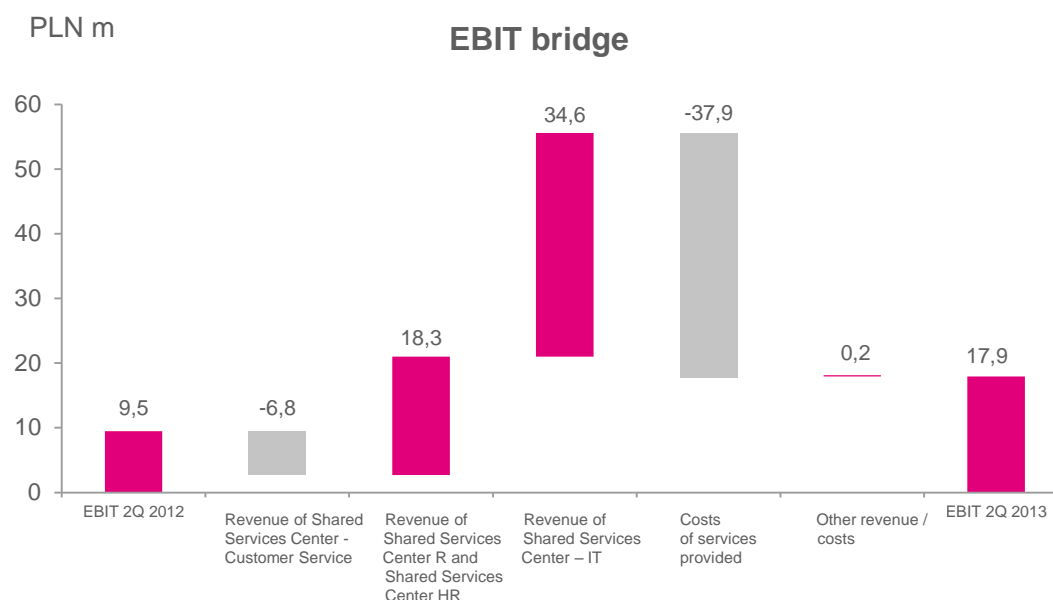
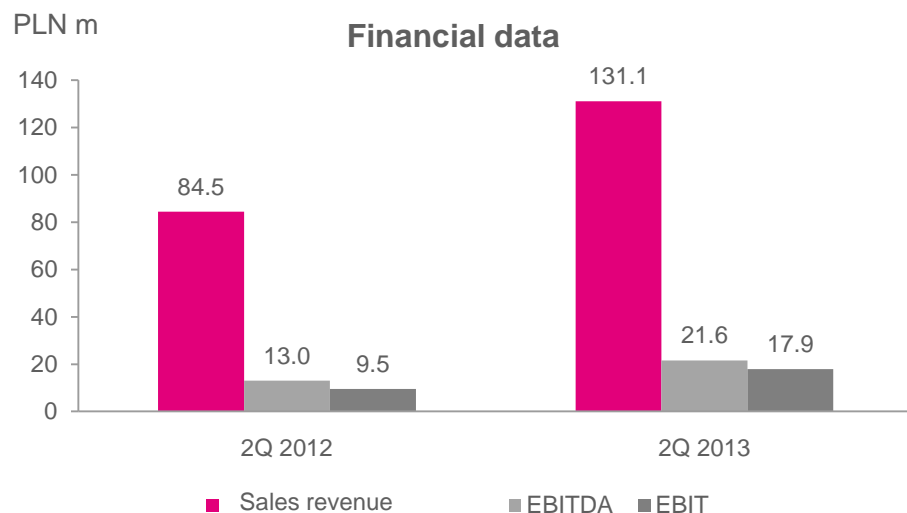






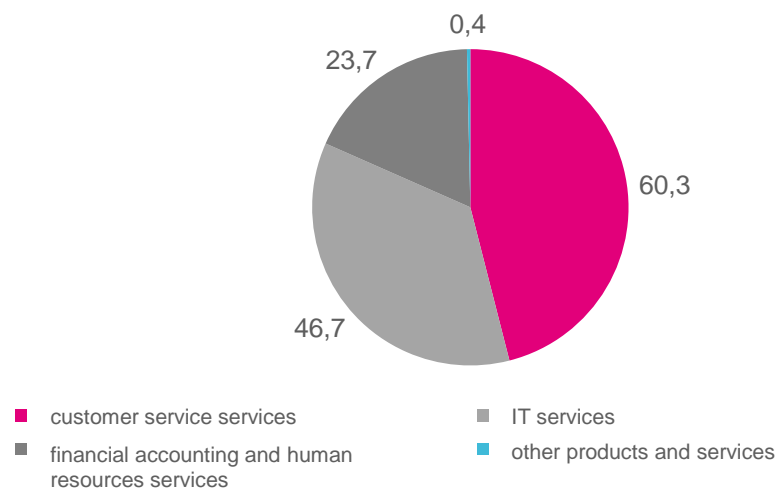
- Impairment charges reducing the value of the red and yellow certificates' inventory to zero
- Positive impact of the operations related factors (heat production, electricity production, heat price, per unit variable generation costs, fixed costs)





- Increased intra-Group revenue stemming from the expansion of the range of services rendered, as a result of centralizing the support functions and migrating the resources from TAURON Group's other subsidiaries
- Rising costs caused by the above factors (headcount growth by 740 persons)

Sales structure in Q2 2013 (PLN m)



# Electricity market price trends

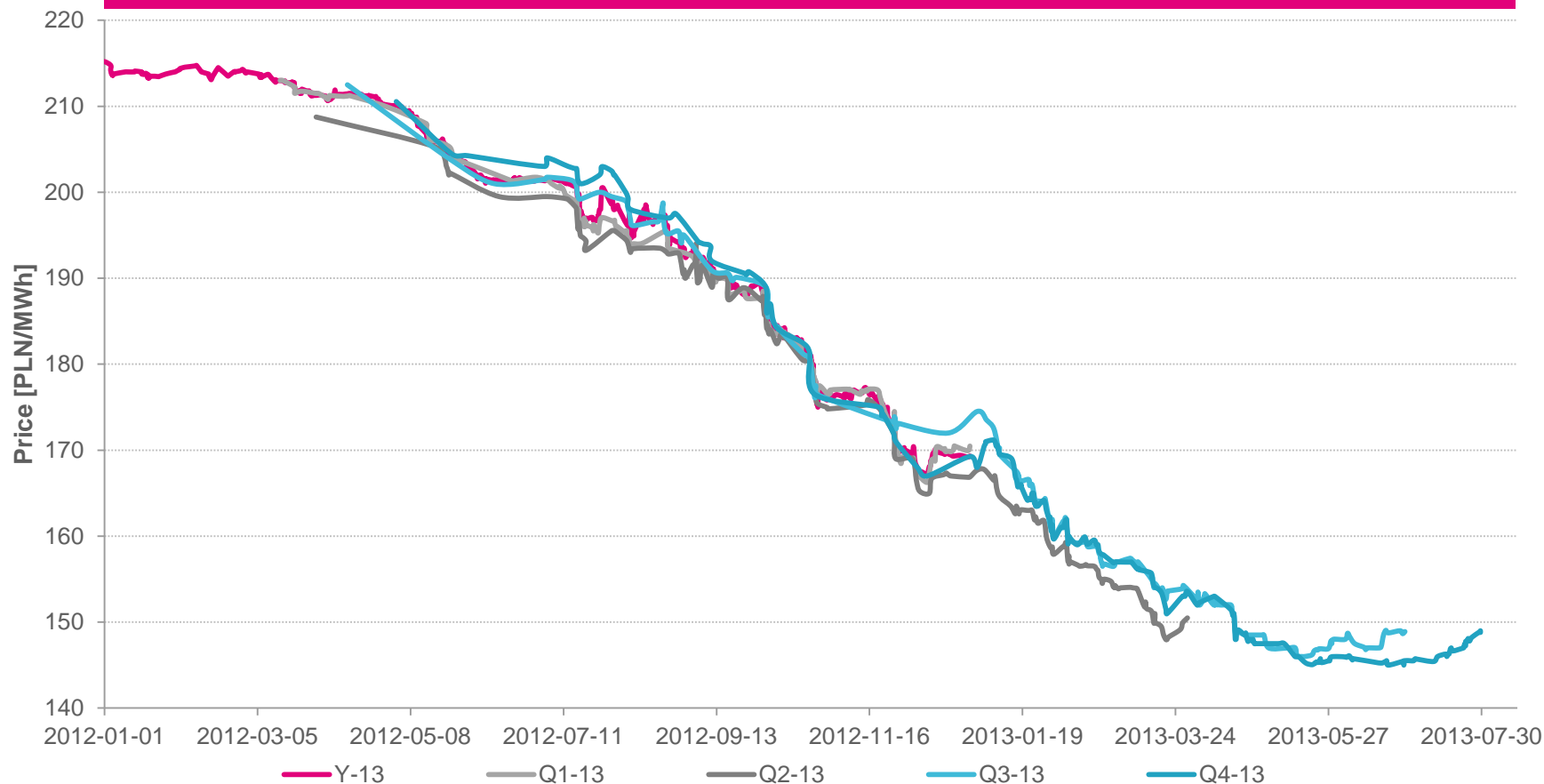
Electricity						
Platforms: TGE, TFS, GFI, GPW-POEE	2012		2013 (until July 30 2013)		2013/2012	
	Price PLN/MWh	Volume GWh	Price PLN/MWh	Volume GWh	Price %	Volume %
Forward BASE (Y+Q+M)	200.08	139 358	186.47	134 003	- 6.8%	- 3.8%
Forward PEAK (Y+Q+M)	225.56	17 161	205.38	14 165	- 8.9%	- 17.5%
Forward (weighted average)	202.88	156 519	188.28	148 168	- 7.2%	- 5.3%
SPOT (TGE + GPW-POEE)	173.58	20 388	155.00 (Forecast)	20 500 (Forecast)	- 10.7%	+ 0.5%
Total weighted average	199.50	176 907	184.24	168 668	- 7.7%	- 4.7%

CO <sub>2</sub> emission allowances (EUR/t):		Certificates (PLN/MWh)		
CO <sub>2</sub> market analysts' survey*	Price (EUR/t)	Certificate type	Market prices (average in July 2013)	Substitution fee and obligation for 2013
Average in 2013	4 – 5 EUR/t	RES (green)	144.97	297.35 (12.0%)
Average in 2014	6 – 8 EUR/t	Hard coal-fired cogeneration (red)	0.47	29.84 (not announced)
Average in 2015	8 – 10 EUR/t	Gas-fired cogeneration (yellow)	brak transakcji	149.30 (not announced)
<b>Average EUA price in 2013 forecast by TAURON</b>	<b>4 – 5 EUR/t</b>	Methane (violet)	57.57	60.00 (0.9%)

\*Sources: Deutsche Bank, Barclays Capital, Point Carbon

# BASE contracting for 2013

Prices of BASE contracts concluded for 2013



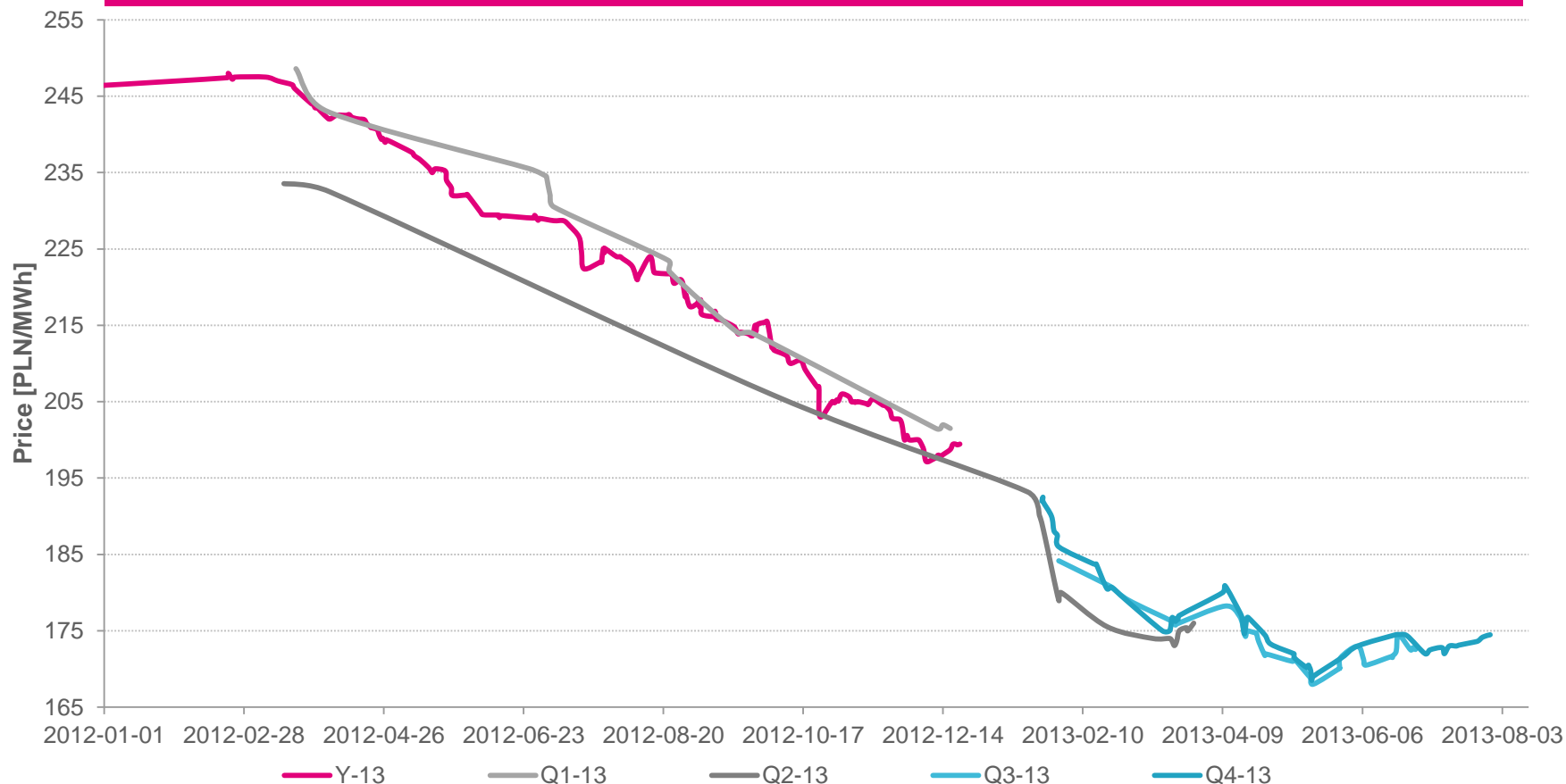
Average price of transactions concluded [PLN/MWh]:

Volume [GWh]

Annual	191.60	108 861
Quarterly	167.27	18 986
Monthly	155.13	6 157
<b>TOTAL</b>	<b>186.47</b>	<b>134 003</b>

# PEAK contracting for 2013

Prices of PEAK contracts concluded for 2013



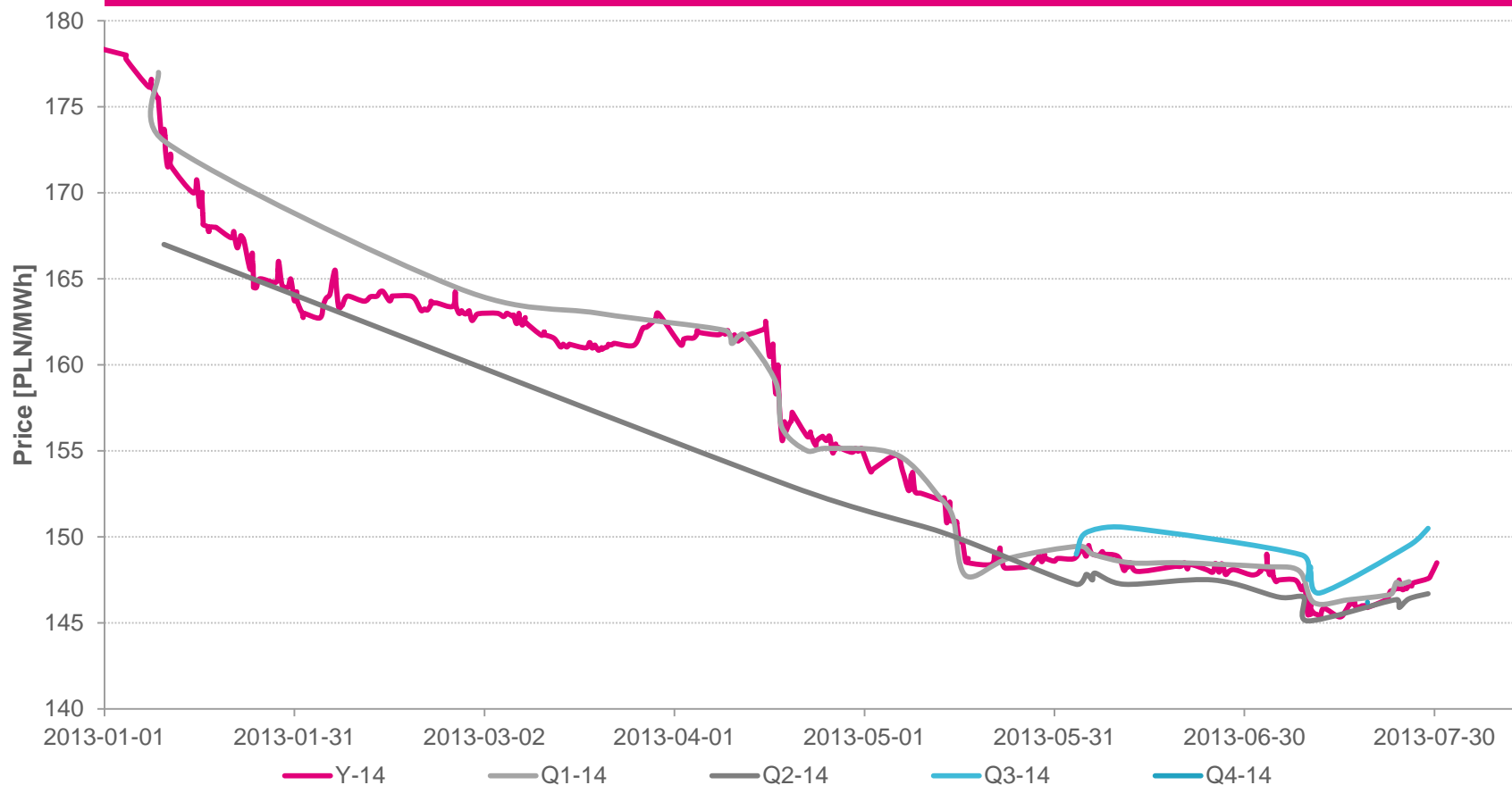
Average price of transactions concluded [PLN/MWh]:

Volume [GWh]

Annual	209.09	12 037
Quarterly	184.35	1 344
Monthly	184.45	784
<b>TOTAL</b>	<b>205.38</b>	<b>14 165</b>

# BASE contracting for 2014

Prices of BASE contracts concluded for 2014



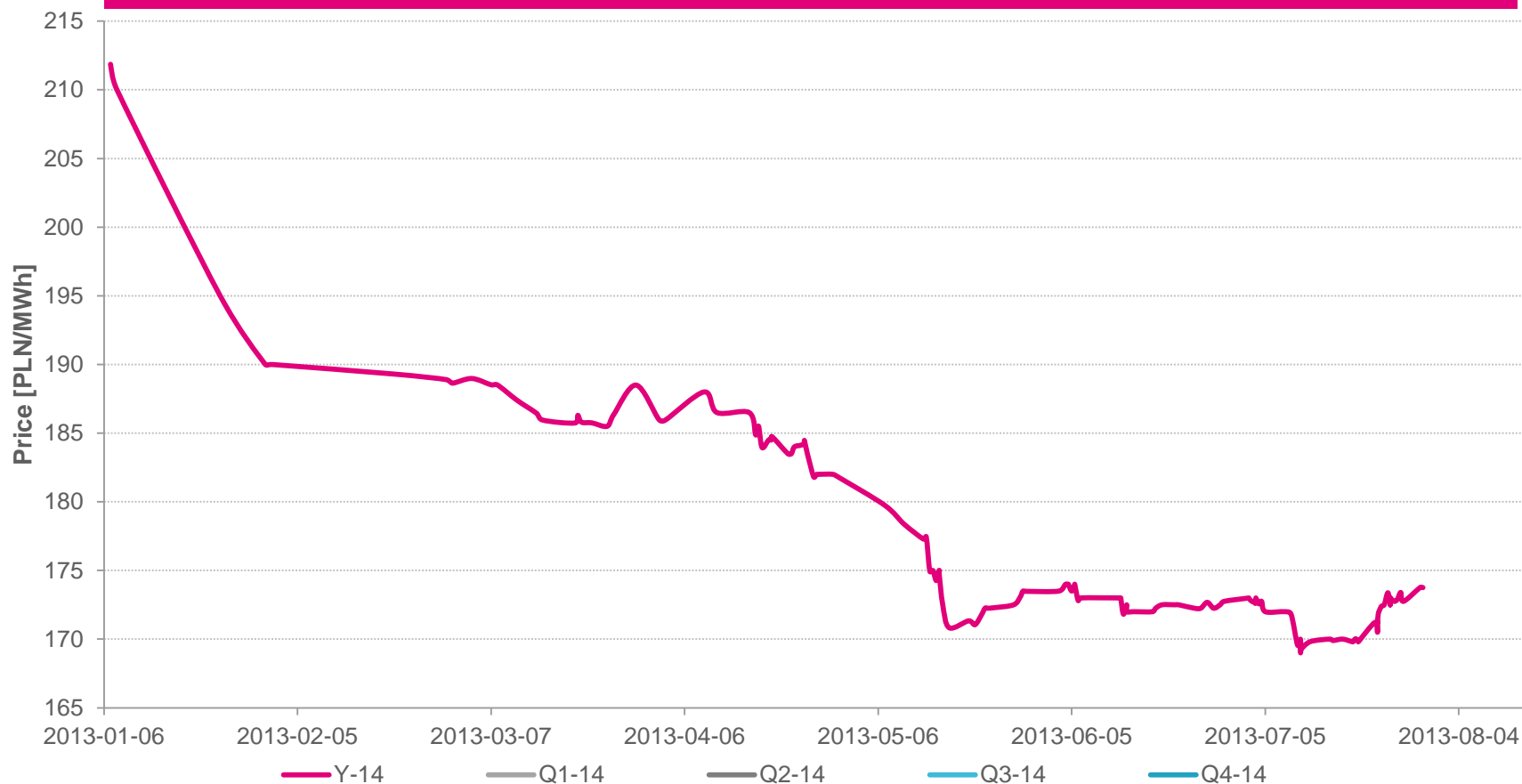
Average price of transactions concluded [PLN/MWh]:

Volume [GWh]

Annual	164.74	88 029
Quarterly	150.30	1 399
Monthly		
<b>TOTAL</b>	<b>164.52</b>	<b>89 428</b>

# PEAK contracting for 2014

Prices of PEAK contracts concluded for 2014



Average price of transactions concluded [PLN/MWh]:

Volume [GWh]

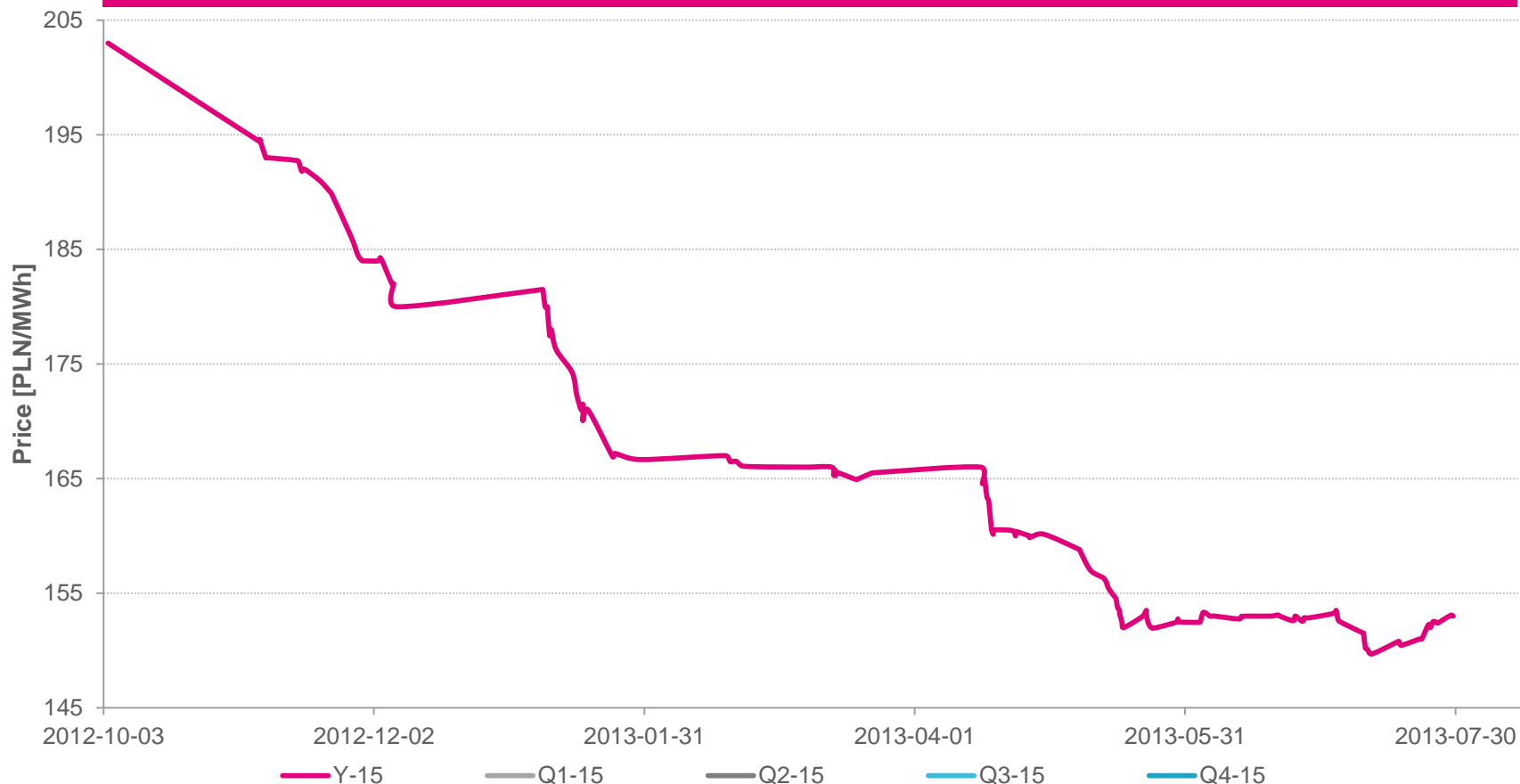
Annual  
Quarterly  
Monthly  
**TOTAL**

176.52  
  
  
**176.52**

5 186  
  
  
**5 186**

# BASE contracting for 2015

Prices of BASE contracts concluded for 2015



Average price of transactions concluded [PLN/MWh]:

Volume [GWh]

Annual  
Quarterly  
Monthly  
**TOTAL**

162.52  
  
  
**162.52**

10 670  
  
  
**10 670**