

## **Letter of the President of the Management Board of TAURON Polska Energia S.A.**

Ladies and Gentlemen,

I am pleased to provide you with the Annual Report of TAURON Capital Group, in which we present the financial results and the most important events of 2014.

Last year was full of events both significant for the whole market and directly related to TAURON Group. In 2014 we faced an unfavourable market situation in the energy sector. It is reflected in the decline of electric energy production in Poland by 3.7 per cent, whereas in case of hard coal based generation sources the decline exceeded 5 per cent. The level of domestic energy consumption was also unsatisfactory, reaching only 0.5 per cent. However, the past year brought a significant improvement in the scope of market prices of energy that stabilised at the level of approximately PLN 180/MWh.

Irrespective of the market situation, TAURON Group generates sound financial results, consistently implementing the assumptions of the corporate strategy. In the previous year, revenues of the Group amounted to PLN 18.4 billion, and EBITDA reached the level of PLN 3.6 billion, comparable to the value achieved in 2013. The growth in the EBITDA margin to approximately 20 per cent is worth noticing. The Distribution and Sales Areas played a key role, having jointly generated 76 per cent of the Group's EBITDA.

The significant events of positive impact on the generated results which should be listed include, in particular, the revenues due to Operating Power Reserve, savings associated with the effectiveness improvement programme under implementation and the minimum costs related to CO<sub>2</sub> emission. On the other hand, the financial result was reduced, among others, by the recovery of the redemption obligation of red and yellow certificates, lower energy sales volumes and prices and one-off events.

In 2014, the net profit attributable to shareholders of the parent company reached almost PLN 1.2 billion and it was lower by 9.7 per cent than a year earlier. I would like to stress that the company consistently shares its profit with the shareholders. In 2014 we allocated PLN 333 million for the dividend payment, which corresponds to 25 per cent of the Group's profit generated in 2013.

Taking into account the volatile market situation, in June 2014 we updated the corporate strategy. Its foundations remain unchanged, whereas we adjusted the assumptions of the strategy to the energy policy of the European Union and the ambitious targets related to CO<sub>2</sub> emission which shall to a large extent determine the shape of our energy market.

The updated strategy assumes, among others, the growth of generation capacity as a result of commissioning high efficiency power units in various technologies, with the total capacity of 2.2 GW. Important growth areas shall also include Distribution and Sales. The aggregate capital expenditures of TAURON Group in the years 2014–2023 shall amount to approximately PLN 37 billion. One of the flagship investments is the construction of the 910 MW coal-fired unit at Jaworzno III Power Plant. The agreement with the contractor – the Rafako-Mostostal Warszawa consortium – was signed in April 2014. We also implement significant investment projects in other areas, among others, we continue the construction of the CCGT Unit in Elektrociepłownia Stalowa Wola and the co-generation unit in Tychy. In the Mining Area construction works of the 800 m level in Zakład Górniczy Janina and the Grzegorz shaft in Zakład Górniczy Sobieski are in progress.

TAURON successfully acquires funds from external sources for financing of investments. The last year's issue of bonds ended with oversubscription provided PLN 1.75 billion for the Group whereas the considerable interest of investors enabled us to obtain attractive interest rates. We have also acquired a loan from the European Investment Bank, at a level of approximately PLN 300 million and we have

issued fifteen year bonds on the German market. The debt ratios of the Group are maintained at a safe level, which is reflected in the ratings granted by Fitch.

In parallel, we conducted many other corporate initiatives. We signed a joint venture agreement of the TAMEH Holding company with ArcelorMittal, to implement tasks in the area of industrial power engineering. We continued the activities aimed at reducing minority shareholders' share in subsidiaries. At present we hold nearly 100 per cent share in the capital of almost all subsidiaries. We carried out active measures oriented towards construction and maintaining of good relations with clients through the development of the product portfolio, improving customer service channels and numerous promotional and educational actions.

In 2015 we expect improvement of the economic climate. Forecasts indicate that in the following quarters the GDP growth shall exceed 3 per cent and the economic climate is the most important factor determining the electric energy demand. Based on these premises, we expect growth of volume in the Generation, Heat and Mining Areas. However, we shall also face challenges, including higher purchase costs of emission allowances, lower revenues from operating power reserve and the reduced return on equity in the Distribution Area.

I would like to assure our shareholders that the Management Board of TAURON Polska Energia S.A. shall endeavour to gain the best possible results in the demanding market. It is worth mentioning that this year the fifth anniversary of our presence at the GPW shall pass – I do believe that it shall be a successful year for our shareholders. Taking this opportunity I would like to summarise shortly our activities addressed to investors. In the previous year we held about 200 meetings with financial investors and analysts issued 33 recommendations, including 12 recommending the purchase of the company shares. Moreover, we implemented a number of initiatives dedicated to individual investors, including the Individual Investor's Day. The quality of the information policy has been recognised, among others, by the jury of *The Best Annual Report* competition, which granted the main award to the company for the annual report and distinction for the annual report on Internet.

On behalf of the Management Board, I would like to express our gratitude to our shareholders, Members of the Supervisory Board and our employees for their involvement in the implementation of the strategic objectives of TAURON Group.

Yours faithfully,

Dariusz Lubera



President of the Management Board,  
TAURON Polska Energia S.A.