

Bogdanka, 21 March 2013

Ladies and Gentlemen,

I am pleased to present an annual report of LW BOGDANKA for 2012.

It was again a year of hard work for the Company on the implementation of our strategy, the main objective of which is to increase the production capacities after completing the extension of the Stefanów Field to 11.5 million tonnes per year (from 5.8 million tonnes in 2011), and so to double our share in the market of hard coal producers in Poland.

Owing to consistent investments, we closed the year of 2012 with a historical record-breaking output of PLN 7.78 million, which was higher by 33.3% than a year ago. The financial results that we achieved were also record-breaking – our revenues were over PLN 1.8 billion, higher by nearly 42% than those in 2011, whereas the net profit grew by 31% and reached PLN 287 million.

At the same time, it was a year in which we faced many challenges. The most important was deteriorating condition on the domestic coal market and decreased demand for power coal, as a result of which many mines in Poland closed the year with growing reserves of coal on mounds.

Our sales policy, according to which over 80% of sales was effected pursuant to long-term trade agreements concluded with key customers, enabled us to close the year with minimum level of stock, equal to one day production volume, which is lower than optimum technical stock we would like to maintain.

In the fourth quarter we also had to cope with worse geological and mining conditions in the coal-ploughing panel in the Stefanów Field, consisting in a lack in seam continuity which resulted in lower output in that period.

The year of 2013 was started with the production already following our assumptions. At the same time, looking at the market we believe it may be a difficult year for our sector as the situation on the power coal market is still very demanding.

However, I am convinced that LW BOGDANKA, as the most effective and modern coal mine in Poland, has all necessary attributes to face up to difficult market conditions.

Therefore, our priority for this year is to continue the investments we planned in connection with the increase of our production capacities. We are also focused on further reduction and optimisation of the structure of production costs and continuous increase of efficiency and commercial coal output.

From November 2012, following installation and start-up in October 2012, we operate our second coal-ploughing system. We also signed an agreement for the third ploughing system to be delivered in June next year, and started in the third quarter of 2014. We also continue works with a view to commencing exploitation of new seams of the deposit.

While focusing on the pursuance of the strategy, we care about clear and open relations with our shareholders and stakeholders at the same time. We are glad that our efforts are appreciated – in 2012 we received a distinction for the application of International Financial Reporting Standards in the Financial Statements of the LW BOGDANKA Group, and at the beginning of this year the Company was included, already for the sixth time, in the Respect Index – a portfolio of responsible companies index on the Warsaw Stock Exchange.

The year of 2013 will be again a year of challenges for LW BOGDANKA trying to achieve ambitious plans. Our priority has remained unchanged to strengthen our market position in the long term and to create value of LW BOGDANKA for the Shareholders.

Yours truthfully,



Zbigniew Stopa  
President of the Management Board  
of LW BOGDANKA S.A.