

Bogdanka, 12 March 2015

Ladies and Gentlemen,

I am pleased to present the annual report of the LW BOGDANKA S.A. for 2014.

For our Company this was a year we may look at up with satisfaction. We performed as we assumed in our strategic plans and closed a multi-year capital investment process initiated with a view to doubling our production capacity. After the start-up of the Mechanical Coal Processing Plant, as the last stage of the investment programme, our capacity is now as much as 10.5 -11.5 million tonnes. As a result, and despite various headwinds in the coal market, our output rose to 9.19 million tonnes in 2014 from 8.35 million tonnes in previous year. Thus, we reinforced our market position as the leading supplier of coal for the commercial power sector in Poland. As at the end of 2014, our share in that market reached nearly 25%, while our share in the power coal market stood at 16.6%. For another year in a row we maintained our leadership in terms of extraction effectiveness as the most efficient mine in Poland since we were able to reduce our unit mining cash cost by as much as 12%, in real terms, as compared to 2012. I can proudly say that we had been implementing all the core elements of our 2013-2020 strategy consistently and as planned.

Our activities translated into robust financial results – the best proof that LW BOGDANKA once again outperformed Poland’s mining sector. Our revenues exceeded PLN 2 billion, EBIT reached PLN 358,6 million and net profit amounted to PLN 272.9 million. We are very proud of our performance, especially as we managed to achieve it in an extremely challenging market environment, in face of a continuous decline in prices of fine power coals for the commercial power sector (by as much as 17.5% between January 2013 and January 2015).

What makes us especially proud is the fact that the whole mining industry in Poland is watching, and appreciates, both what we do and how we do it. As an example, LW BOGDANKA was honoured with the “Mine of the Year 2014” award by the Mining Chamber of Industry and Commerce and the Underground Mining School. It is the eleventh award received by our Company in that competition.

Although we entered the year 2015 with our production running as intended, we assume, in the light of current market trends, that this will be an extremely difficult year for the entire mining sector. Our expectations are affected by the situation in the Silesian region and by the planned restructuring programme for Kompania Węglowa, which assumes that direct and indirect subventions to unprofitable mines will be continued, thus allowing them to sell coal much below their break-even points. And this situation strongly influences the price and demand levels in Poland’s market and is nothing but a hard hit that will certainly deteriorate the outlooks for other market participants, including

Bogdanka. The decision to stop the liquidation of unprofitable mines has considerably elevated the risk that the current coal oversupply in the market will maintain, or may even increase.

The headwinds in Poland's market are also reinforced by prices of coal and other fuels for the power industry, like oil and gas, in global markets, which have fallen to their long-time lows. In combination with a declining demand for coal among the largest global recipients, this may cause that the adverse trend will continue also in the mid-term perspective.

All those factors mean that the market will face far-reaching changes as compared to assumptions of our 2013-2020 strategy. As a result, we have decided to update the strategy to adjust it to prevailing market conditions, both current and expected over the next few years. Our goal is to enable our Company to get ready for operations in a market that will be undergoing extraordinary changes triggered by external drivers as well as fiercer and fiercer competition.

Our goal is to continue to defend LW BOGDANKA S.A.'s position as cost leader among domestic producers of hard coal. To this end, we need to optimise the structure and levels of our output and to continue cost reduction efforts. We also want to maintain our leadership among Polish hard coal producers and to reach a 30% market share in the power fine coal segment, *inter alia*, by increasing our sales to medium-sized and small customers. Our plans also assume that we will enter new market segments, such as the heat generation or chemical industry. And we are working hard to attract customers in international markets.

We will also carry on development, organisational and investment projects to acquire new resources in order to enable the Company to continue its operations in the long run. Simultaneously, we will reduce developmental investments, which are required to commence using new deposits, especially in 2015-2017, and we will downsize our capital expenditures aimed at increasing our production capacity above the current level. When the market situation improves, we will be able to restart, and even expand, our production growth plans.

Ensuring a satisfactory return on invested capital to our investors while maintaining stable liquidity and financial positions is also one of our priorities. We are preparing a dividend policy for the years to come which will take into account both local and global trends, as well as realisable prices. It will be adopted and announced after the market is stabilised. The dividend payout level should be based on the Company's free cash flows and its then current level of debt.

To recapitulate, the year 2015 will be a time of extraordinary challenges. There are months of hard work in a very difficult market environment ahead. We want to thank our Shareholders for the support they offered us last year and we are hoping we can rely on your assistance and trust also in 2015.

I strongly believe that LW BOGDANKA, as the most efficient and most technologically advanced mine in Poland, has all the strengths and resources it needs to once again win in a demanding market environment. Our top priority is still to reinforce our market position in the long run and to maximise the shareholder value of the LW BOGDANKA S.A..

Sincerely,

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