



**LUBELSKI WĘGIEL**  
**„BOGDANKA”**  
**SPÓŁKA AKCYJNA**

**DIRECTORS' REPORT ON OPERATIONS  
OF THE LUBELSKI WĘGIEL BOGDANKA GROUP**

**for the First Quarter of 2015  
ended on 31 March 2015**

**TABLE OF CONTENTS:**

<b>1.</b>	<b>BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP .....</b>	<b>3</b>
1.1.	Structure of the Lubelski Węgiel BOGDANKA Group .....	3
1.2.	Changes in the structure of the LW BOGDANKA Group.....	5
<b>2.</b>	<b>OWNERSHIP CHANGES IN LW BOGDANKA IN THE FIRST QUARTER OF 2015.....</b>	<b>6</b>
2.1.	Shareholders directly or indirectly holding substantial shareholdings .....	6
2.2.	Table of holdings of shares of LW BOGDANKA or entitlements to them by the management and supervisory personnel of LW BOGDANKA .....	6
<b>3.</b>	<b>BASIC FINANCIAL AND ECONOMIC FIGURES OF THE LW BOGDANKA GROUP .....</b>	<b>7</b>
3.1.	Information on current and forecast economic and financial position of the LW BOGDANKA Group with assessment of financial resources management.....	7
3.2.	Production, sale and inventories of coal.....	8
3.2.1.	Revenue and key customers.....	10
3.3.	Costs of LW BOGDANKA.....	11
3.3.1.	Costs by type .....	11
3.3.2.	Costs by function.....	14
3.4.	Provisions at the LW BOGDANKA Group.....	14
3.5.	Selected financial data of LW BOGDANKA Group .....	15
3.5.1.	Balance sheet .....	17
3.5.2.	Cash flows .....	18
3.5.3.	Debt and financing structure of the LW BOGDANKA Group.....	19
3.5.4.	Liquidity ratios .....	20
3.5.5.	Turnover ratios .....	20
3.6.	Information on sources of financing and financial instruments .....	21
3.7.	Capital investments and deposits in the LW BOGDANKA Group .....	22
3.8.	Assessment of the possibilities of investment plans' execution .....	23
<b>4.</b>	<b>INFORMATION ON MAJOR MATERIAL INVESTMENTS OF THE LW BOGDANKA GROUP.....</b>	<b>23</b>
<b>5.</b>	<b>DEVELOPMENT STRATEGY OF THE PARENT .....</b>	<b>25</b>
<b>6.</b>	<b>POSITION OF THE MANAGEMENT BOARD OF LW BOGDANKA REGARDING THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS FOR THE YEAR IN QUESTION, IN LIGHT OF THE RESULTS PRESENTED IN THE CONSOLIDATED QUARTERLY REPORT IN RELATION TO THE FORECAST RESULTS .....</b>	<b>27</b>
<b>7.</b>	<b>DESCRIPTION OF FACTORS WHICH, IN THE ASSESSMENT OF LW BOGDANKA, WILL AFFECT THE RESULTS ACHIEVED BY THE COMPANY AND ITS GROUP WITHIN AT LEAST THE FOLLOWING QUARTER .....</b>	<b>27</b>
<b>8.</b>	<b>PROCEEDINGS PENDING BEFORE COURT, RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR PUBLIC ADMINISTRATION AUTHORITY.....</b>	<b>32</b>
<b>9.</b>	<b>RELATED PARTY TRANSACTIONS .....</b>	<b>32</b>
<b>10.</b>	<b>INFORMATION WITH RESPECT TO THE COMPANY OR ITS SUBSIDIARY GRANTING SURETIES FOR A CREDIT FACILITY OR LOAN OR GRANTING GUARANTEES.....</b>	<b>32</b>
<b>11.</b>	<b>OTHER INFORMATION WHICH, IN THE OPINION OF THE COMPANY'S MANAGEMENT BOARD, IS SIGNIFICANT FOR ASSESSING THE HUMAN RESOURCES, ASSETS, FINANCIAL STANDING AND FINANCIAL RESULT AND CHANGES THEREIN, AS WELL AS INFORMATION WHICH IS SIGNIFICANT FOR ASSESSING THE POSSIBILITY OF THE LW BOGDANKA GROUP SETTLING ITS LIABILITIES.....</b>	<b>32</b>
11.1.	Conclusion of significant agreements.....	33
<b>12.</b>	<b>EMPLOYMENT .....</b>	<b>33</b>
<b>13.</b>	<b>TABLES.....</b>	<b>35</b>

## **1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP**

### **1.1. Structure of the Lubelski Węgiel BOGDANKA Group**

As at 30 April 2015, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA", the "Parent"), Łęczyńska Energetyka Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"), EkoTRANS Bogdanka Sp. z o.o. (hereinafter referred to as "EkoTRANS"), RG BOGDANKA Sp. z o.o. (hereinafter referred to as "RG Bogdanka") and MR Bogdanka Sp. z o.o. (hereinafter referred to as "MR Bogdanka") as the Subsidiaries.

As at the date of submitting this Report, i.e. 30 April 2015, LW BOGDANKA also held 22.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., the company in bankruptcy, with a share capital of PLN 750,000. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

#### **Information on the entities of the LW BOGDANKA Group covered by consolidation**

The Subsidiaries: Łęczyńska Energetyka, EkoTRANS Bogdanka, RG Bogdanka and MR Bogdanka were included in the Consolidated Quarterly Report of the LW BOGDANKA Group for the first quarter of 2015, by the full consolidation method.

#### **Information about the Parent of the LW BOGDANKA Group as at the date of submitting the quarterly report**

##### **Lubelski Węgiel BOGDANKA Spółka Akcyjna**

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	+48 81 462 51 00, +48 81 462 51 01
Fax:	+48 81 462 51 91
Website:	<a href="http://www.lw.com.pl">www.lw.com.pl</a> , <a href="http://www.ri.lw.com.pl">www.ri.lw.com.pl</a>
E-mail:	<a href="mailto:bogdanka@lw.com.pl">bogdanka@lw.com.pl</a>
Industry Identification Number (REGON):	430309210
Tax Reg. No. (NIP):	713-000-57-84

#### **Business activities**

The scope of the Parent's main business activity includes mining activities related to economic mining of hard coal and enriching excavated raw coal, sale of coal to consumers, and the protection and reclamation of mining areas.

According to the Articles of Association of LW BOGDANKA, the business activities of the enterprise are:

- a) agriculture, forestry, hunting and fishery (Section A);
- b) mining and production (Section B);
- c) industrial processing (Section C);
- d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D);
- e) water supply; liquid and solid waste management; activities related to reclamation (Section E);
- f) construction (Section F);
- g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G);
- h) transport and warehouse management (Section H);

- i) activities related to lodging and catering (Section I);
- j) information and communications (Section J);
- k) finance and insurance (Section K);
- l) real estate activities (Section L);
- m) professional, scientific and technical activities (Section M);
- n) administration and support activities (Section N);
- o) education (Section P).

### **Supplementary activities**

LW BOGDANKA's supplementary activity is the sales of building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EKOKLINKIER Construction Ceramics Plant.

### **Information about Subsidiaries**

#### **Subsidiaries:**

#### **A) Łęczyńska Energetyka sp. z o.o.**

Address: Bogdanka, 21-013 Puchaczów, Lublin Province  
Tel. +48 81 443 11 02, +48 81 462 55 53  
Fax: +48 81 443 11 01  
Website: [www.lebog.com.pl](http://www.lebog.com.pl)  
E-mail: [biuro@lebog.com.pl](mailto:biuro@lebog.com.pl)  
Industry Identification Number (REGON): 004164490  
Tax Reg. No. (NIP): 713-020-71-92

Share capital amounts to PLN 82,677,000 divided into 82,677 shares of PLN 1,000.

Shareholding structure:

- 88.697% LW BOGDANKA
- 11.297% Łęczna Municipality
- 0.006% Puchaczów Commune.

The business activities of Łęczyńska Energetyka Sp. z o.o. are: producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations.

Łęczyńska Energetyka Sp. z o.o. provides services to the mine involving supplying heat energy and conducts water/wastewater management. Moreover, the company provides heat energy to third parties such as residential estates and other facilities located in Łęczna.

#### **B) EkoTRANS BOGDANKA Sp. z o.o.**

Address: Bogdanka, 21-013 Puchaczów,  
Tel.: +48 81 462 52 15  
Fax: +48 81 462 52 15  
Website: [www.ekotrans-bogdanka.pl](http://www.ekotrans-bogdanka.pl)  
E-mail: [biuro@ekotrans-bogdanka.pl](mailto:biuro@ekotrans-bogdanka.pl)

Industry Identification Number (REGON): 061551847  
Tax Reg. No. (NIP): 505-012-39-60

Share capital amounts to PLN 100,000 divided into 100 shares of PLN 1,000.

Shareholding structure: 100% LW BOGDANKA.

EkoTRANS Bogdanka provides services to the mine with respect to transport, as well as disposal and management of spoil arising during coal- associated shale cleaning and washing.

### **C) RG BOGDANKA Sp. z o.o.**

Address: Bogdanka, 21-013 Puchaczów,

Tel.: +48 81 462 50 86

Fax: -

Website: [www.rgbogdanka.pl](http://www.rgbogdanka.pl)

E-mail: [poczta@rgbogdanka.pl](mailto:poczta@rgbogdanka.pl)

Industry Identification Number (REGON): 243255890

Tax Reg. No. (NIP): 627-273-54-05

Share capital of RB BOGDANKA Sp. z o.o. amounts to PLN 500,000 divided into 10,000 shares of PLN 50.

Shareholding structure: 100% LW BOGDANKA.

The business activity of the company consists in providing services, deliveries and construction works to LW BOGDANKA.

### **C) MR BOGDANKA Sp. z o.o.**

Address: Bogdanka, 21-013 Puchaczów,

Tel.: +48 81 462 53 34

Fax: +48 81 462 51 30

Website: [www.mrbogdanka.pl](http://www.mrbogdanka.pl)

E-mail: [biuro@mrbogdanka.pl](mailto:biuro@mrbogdanka.pl)

Industry Identification Number (REGON): 061626723

Tax Reg. No. (NIP): 505-012-41-90

Share capital of MR BOGDANKA Sp. z o.o. amounts to PLN 1,000,000 divided into 20,000 shares of PLN 50.

Shareholding structure: 100% LW BOGDANKA.

The business activity of the company consists in providing repair and regeneration services and manufacturing steel structures, as well as providing services to LW Bogdanka.

## **1.2. Changes in the structure of the LW BOGDANKA Group**

In the first quarter of 2015, there were no changes in the structure of the LW BOGDANKA Group or in the Group's organisational and capital associations with other entities. In the period in question, there was no change either in the structure of the LW BOGDANKA Group that would result from merger of business entities, takeover or sale of the Group's entities, long-term investments or division, restructuring or discontinuation of activities.

## 2. OWNERSHIP CHANGES IN LW BOGDANKA IN THE FIRST QUARTER OF 2015

### 2.1. Shareholders directly or indirectly holding substantial shareholdings

Table 1 The shareholding structure of LW BOGDANKA as at the date of submitting the previous periodical report, i.e. 12 March 2015 and 30 April 2015

Shareholder	12 March 2015		30 April 2015	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	4,379,207	12.87	5,157,502	15.16
Otwarty Fundusz Emerytalny PZU "Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63
Other	23,038,053	67.74	22,259,758	65.45
<b>Total</b>	<b>34,013,590</b>	<b>100.00</b>	<b>34,013,590</b>	<b>100.00</b>

\* According to the notification received on 7 April 2015 described in Current Report No. 3/2015.

\*\* According to the notification received on 18 March 2010 described in Current Report No. 10/2010.

\*\*\* According to the notification received on 11 August 2010 described in Current Report No. 35/2010.

### 2.2. Table of holdings of shares of LW BOGDANKA or entitlements to them by the management and supervisory personnel of LW BOGDANKA

Table 2 Table of holdings of shares of LW BOGDANKA as at the date of submitting the quarterly report

Name and surname	Number of the Company's shares as at the date of submitting the Report for 2014, i.e. 12 March 2015	Number of the Company's shares as at the date of submitting the Report for Q1 2015, i.e. 30 April 2015
<b>Management Board</b>		
Zbigniew Stopa	5,703	5,703
Roger de Bazelaire	0	0
Waldemar Bernaciak	2,162	2,162
Krzysztof Szlaga	0	0
<b>Supervisory Board</b>		
Witold Daniłowicz	0	0
Eryk Karski	0	0
Stefan Kawalec	0	0
Raimondo Eggink	0	0
Robert Bednarski	0	0
Dariusz Formela	0	0
Tomasz Mosiek	0	0
Michał Stopyra	0	0

\*According to declarations of the Management Board and Supervisory Board Members.

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672

Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management officers of key importance for the Company's development. This was announced by the Company in Current Report No. 35/2013 of 30 September 2013. Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

On 24 April 2014, having assessed the financial statements for 2013, the Supervisory Board concluded that the criteria for exercising the Options by persons covered by the Management Options Scheme have been fulfilled.

As at 31 March 2015, a total of 1,143,863 options were allocated within the Management Options Scheme. In line with the Terms and Conditions of the Scheme, the Supervisory Board allocated the additional 41,831 options from the reserve pool to the newly-employed senior management members of key importance for the Company's development on 3 March 2014 and 24 April 2014.

Upon assessment of the financial statements for 2014, the Company's Supervisory Board will determine whether the objectives were accomplished and criteria fulfilled with respect to exercising the Options by persons covered by the Management Options Scheme for 2014.

Notification of the allocation of Management Options for 2014 will be given in a periodical report for the first half of 2015.

Details about the Management Options Scheme are contained in the Terms and Conditions of the Management Options Scheme of LW Bogdanka S.A. with registered office in Bogdanka for 2013-2017, attached as Appendix to Current Report No. 35/2013 of 30 September 2013.

### **3. BASIC FINANCIAL AND ECONOMIC FIGURES OF THE LW BOGDANKA GROUP**

#### **3.1. Information on current and forecast economic and financial position of the LW BOGDANKA Group with assessment of financial resources management**

The Group's financial and economic situation is stable. Its financial performance, generated cash flows and cash funds confirm that the Group's financial position is good. The Parent monitors its ratios and cash levels on an ongoing basis to keep them optimal (in accordance with the strategy of the Parent). The Group has ensured itself access to debt financing for the next 3-5 years.

Works are consistently conducted to optimise the mining process (in terms of the technologies employed) and, simultaneously, is implementing a cost reduction program (to trim down the coal extraction unit cost). Works to prepare new excavations for operational exploitation are carried out in order to ensure the continuity of extraction. The Parent will soon finalise an investment program in accordance with the double the output Strategy. All works (including new excavation planning, extraction and sale of commercial coal) take into account existing and future market risks (a possible decline in demand for power coal and in its price). Global coal prices are monitored on an ongoing basis.

The LW BOGDANKA Group pays its liabilities when due. The Group effectively manages its financial resources and, at the same time, deposits free funds with banks (for durations and in amounts determined on the basis of in-house financial forecasts). As at the date of preparation of this information the Group discerns no threats that could deteriorate its ability to pay its liabilities in the future.

In the light of a significant change in the market situation, the Parent's Management Board has approved new assumptions in order to update its strategy announced on 3 June 2013 (for more details please refer to Section 5 of the Report).

### 3.2. Production, sale and inventories of coal

In the first quarter of 2015, the production of commercial coal in the Parent decreased by more than 11% compared to the same period of 2014.

Table 3 Commercial coal production by LW BOGDANKA for Q1 2015 and Q1 2014 ['000 tonnes]

2015	2014	Change 2015/2014
Q1		Q1/Q1
1,990	2,238	-11.1%

Table 4 Structure of commercial coal production by LW BOGDANKA for Q1 2015 and Q1 2014

	2015	2014
	Q1	
Fine coal	98.8%	98.9%
Nut coal	0.2%	0.2%
Pea coal	1.0%	0.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

In all analysed periods the structure of sales did not change significantly – power fine coal remained the dominant assortment (its share in the production accounted for approx. 99%).

In the first quarter of 2015 the sales of coal fell by nearly 13% compared to the first quarter of 2014.

Table 5 Commercial coal sales by LW BOGDANKA for Q1 2015 and Q1 2014 ['000 tonnes]

2015	2014	Change 2015 / 2014
Q1		Q1/ Q1
1,946	2,225	-12.5%

Chart 1 Analysis of the extraction of coal

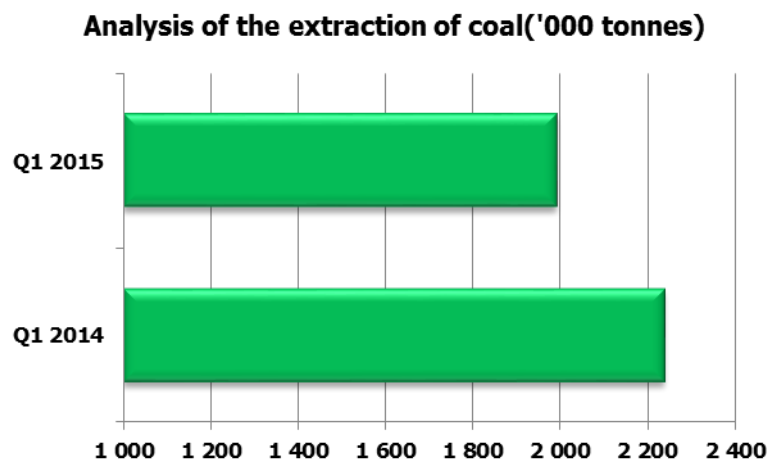
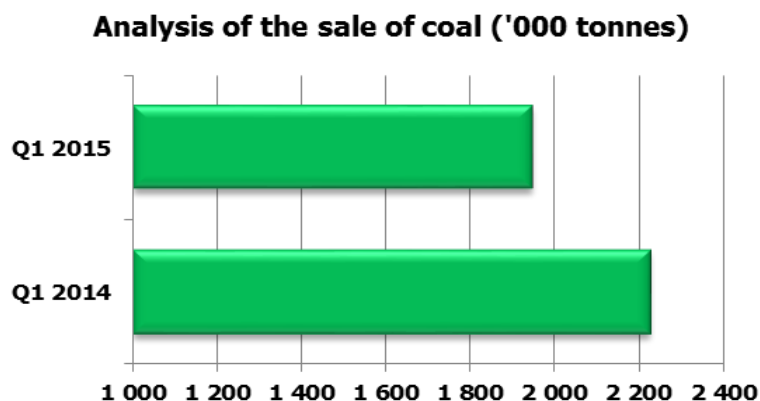




Chart 2 Analysis of the sale of coal



At the end of the first quarter of 2015 the level of coal inventories equalled 350,000 tonnes, which means an increase of 44,000 tonnes, i.e. by 14.4% compared to the level as at 31 December 2014. At the same time, inventories as at 31 March 2015 are higher by 121,000 tonnes, i.e. 52.8%, than inventories as at 31 March 2014. The level of coal inventories presented at the end of the first quarter of 2015 corresponds to ca. eleven days of commercial coal production of the Parent (based on average quarterly production).

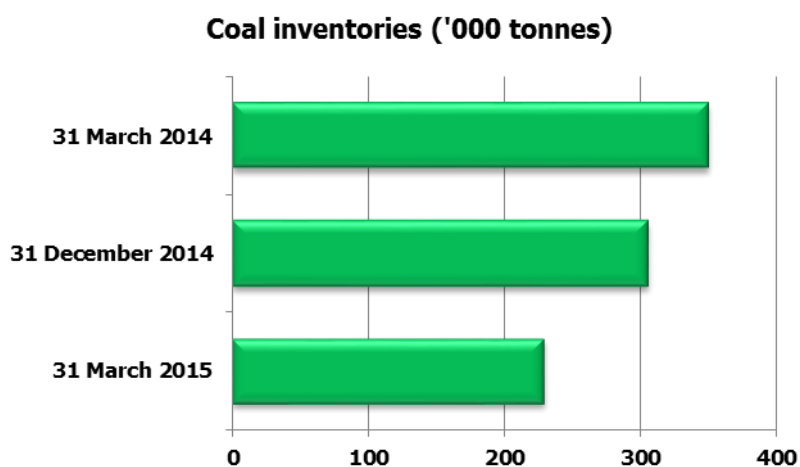
Table 6 Inventories of coal after Q1 2015 and Q1 2014 ['000 tonnes]

31 Mar. 2015*	31 Dec. 2014**	31 Mar. 2014	Change [%] 31 Mar. 2015 / 31 Dec. 2014	Change [%] 31 Mar. 2015 / 31 Mar. 2014
350	306	229	14.4%	52.8%

\*The level of the inventories of coal accounted for a coal deposit (33,000 tonnes) for one of the Company's customers. The Company sold the indicated volume of coal, and agreed to store it until the customer has disposed of its inventories. As at the date of this Report, the volume of the deposit remains the same.

\*\*The level of inventories of coal accounted for a coal deposit (116,000 tonnes) for several customers. The deposit was settled in full (delivered to the recipient) in the first quarter of 2015.

Chart 3 Coal inventories



### 3.2.1. Revenue and key customers

In the first quarter of 2015, the LW BOGDANKA Group generated revenue of PLN 428,279,000, which means a decrease by 11.1% compared to the first quarter of 2014.

The main source of the Group's revenue is the production and sale of power coal. In each of the compared reporting periods this activity generates nearly 95% of the Group's revenue.

In the consolidated annual financial statements published by the Group, for presentation purposes, data concerning revenue from coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained during drilling of excavations. Bearing in mind the above, the value indicated in the consolidated interim income statement for the period from 1 January to 31 March 2015 was adjusted by PLN 17,455,000, while in the same period of the previous year – by PLN 29,076,000.

Approx. 95% of coal sales (in terms of value) realised in the period from 1 January to 31 March 2015 were carried out on the basis of long-term trade agreements between the Parent and Elektrownia Koźienice S.A., GDF Suez Energia Polska S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty Zakłady Azotowe Puławy S.A., and EDF Paliwa Sp. z o.o. In the period from 1 January to 31 March 2014 the above mentioned customers held a similar share in the revenue from coal sales.

Table 7 Dynamics of changes in product range with respect to revenue of the LW BOGDANKA Group in Q1 2015 and Q1 2014 [PLN '000]

	2015	2014	Change 2015 / 2014
	Q1		
Sales of coal	406,613	456,944	-11.0%
Sales of ceramics	318	1,493	-78.7%
Other activities	18,973	20,565	-7.7%
Sales of goods and materials	2,375	2,538	-6.4%
<b>Total revenue</b>	<b>428,279</b>	<b>481,540</b>	<b>-11.1%</b>

Revenue from other activities (including revenue of subsidiaries) in the first quarter of 2015 amounted to PLN 18,973,000 compared to PLN 20,565,000 in the same period of 2014 (7.7%).

In the first quarter of 2015, the revenue from other activities accounted for 4.4% of the total revenue, compared to 4.3% a year before. A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by the LW BOGDANKA S.A. for the benefit of some customers (the highest impact on the decline of revenue in this group);
- revenue generated by Łęczyńska Energetyka from the sale of heat energy to third parties;
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in the first quarter of 2015 increased from 0.5% to 0.6% compared to the first quarter of 2014. In the analysed period of 2015 and 2014, the dominant position in the amount was revenue from the sale of scrap (on the part of the Parent).

Table 8 Structure of the LW BOGDANKA Group revenue by product range in Q1 2015 and Q1 2014

	2015	2014
	Q1	
Sales of coal	94.9%	94.9%
Sales of ceramics	0.1%	0.3%
Other activities	4.4%	4.3%
Sales of goods and materials	0.6%	0.5%
<b>Total revenue</b>	<b>100.0%</b>	<b>100.0%</b>

The activities of the Group are primarily concentrated in Poland. During the analysed period of 2015, share of export in the total revenue increased to 0.6% (PLN 2,560,000) primarily due to export of coal behind the eastern border. In the first quarter of 2014 export sales primarily concerned ceramics.

Table 9 Geographic structure of revenue of the LW Bogdanka Group in Q1 2015 and Q1 2014 [PLN '000]

	2015		2014	
	Q1	Structure	Q1	Structure
Domestic sales	425,719	99.4%	481,463	100.0%
Export sales	2,560	0.6%	77	0.0%
<b>Total revenue</b>	<b>428,279</b>	<b>100.0%</b>	<b>481,540</b>	<b>100.0%</b>

### 3.3. Costs of LW BOGDANKA

This section presents costs of LW BOGDANKA by type and function. The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs incurred, in accordance with the formula presented, reflect the use of a given production means or resources (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (commercial coal) or whether they have been used by the Company to finance the construction of a given facility with its own funds (incl. longwall galleries) and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as non-current assets, constituting depreciation costs of the period in question.

#### 3.3.1. Costs by type

In the first quarter of 2015 costs by type incurred by LW BOGDANKA S.A. amounted to PLN 438,508,000, which means that they were higher by 9.7% than in the first quarter of 2014. The decrease in costs in the first quarter of 2015 was largely the result of recorded decrease in costs of external services, employee benefits (remunerations together with mandatory contributions and other benefits in favour of the employees) and materials and energy consumption.

The value of external services in the first quarter of 2015 compared to the first quarter of 2014 went down from PLN 117,183,000 to PLN 89,735,000 (-23.4%).

The analysed period saw decreases in all types of external services, however, the most significant changes affected drilling and mining services (in connection with drilling and reconstructing excavations), repairs and maintenance, and transport of stone, which was caused by limitation of the production.

The value of employee benefits went down by PLN 11,501,000 on a year-to-year basis, remunerations and mandatory contributions on remunerations remained at the same level, while the write-off to the Company Social Fund decreased, at the same time the value of the option scheme recognised under costs in 2015 was lower.

The value of depreciation and amortisation went up by 8.3% (to PLN 94,963,000) – the value of depreciation of non-current assets went up, whereas the natural depreciation remained at more or less the same level on a year-to-year basis.

The value of taxes, fees and charges paid went down in the first quarter of 2015 to PLN 9,683,000 from PLN 9,820,000 in the first quarter of 2014 – the exploitation fee was lower, while real property tax was slightly higher.

The value of other costs increased from PLN 13,291,000 (Q1 2014) to 15,134,000 (Q1 2015), largely because of a higher property insurance premium.

The total value of materials and energy consumption decreased by 13.6% compared to the first quarter of 2014, and amounted to PLN 106,638,000. In the analysed period the value of energy (understood as the sum total of electricity, heat and water energy, and other utilities) remained at the same level, with the value of consumed

materials going down at the same time – it was caused by a smaller extent of performed preparatory works (in the first quarter of 2015 the Company completed 5,212 metres galleries compared to 9,713 in the previous year, which means a quarter-to-quarter decrease of 44%).

The result of an adjustment of costs by type by change in inventory of products and accruals and deferrals, the value of activities for the Company's own needs and the costs of goods and materials sold, will give own cost of sales for the first quarter of 2015 amounting to PLN 383,044,000. As compared to the same period of the previous year, it is lower by 4.4% (with a year-to-year decrease by 12.5% in the amount of coal sold).

Table 1 Costs by type of LW BOGDANKA S.A. [PLN '000]

Item	2015	2014	Change [%] 2015 / 2014
	Q1		
Net production [in '000 tonnes]	1,990	2,238	-11.1%
Sales [in '000 tonnes]	1,946	2,225	-12.5%
Amortisation/depreciation	94,963	87,717	8.3%
Materials and energy consumption	106,638	123,481	-13.6%
External services	89,735	117,183	-23.4%
Employee benefits	120,194	131,695	-8.7%
Entertainment and advertising costs	2,161	2,186	-1.1%
Taxes, fees and charges	9,683	9,820	-1.4%
Other costs	15,134	13,291	13.9%
<b>Total costs by type</b>	<b>438,508</b>	<b>485,373</b>	<b>-9.7%</b>
Activities for the Company's own needs	-52,712	-66,440	-20.7%
Accruals and deferrals	3,465	-4,351	-179.6%
Value of coal obtained from excavations	-17,455	-29,076	-40.0%
Provisions and other presentation adjustments (IAS)	18,519	13,311	39.1%
<b>Total costs of production</b>	<b>390,325</b>	<b>398,817</b>	<b>-2.1%</b>
Change in inventory of products	-9,612	-630	1,425.7%
Costs of goods and materials sold	2,331	2,498	-6.7%
<b>Own cost of sales, including:</b>	<b>383,044</b>	<b>400,685</b>	<b>-4.4%</b>
Costs of products, goods and materials sold	350,511	367,467	-4.6%
Selling costs	9,405	9,884	-4.8%
Administrative costs	23,128	23,334	-0.9%

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In the first quarter of 2015 (compared to the same period of the previous year) the share of depreciation and amortisation costs went up to 21.7%, while the share of external services costs went down to 20.5%. The sum total of employee benefits, external services and materials consumption generated in the first quarter of 2015 ca. 72% of the Company's total costs, while in the same period of 2014 they accounted for ca. 77% of the total costs.

Chart 4 Structure of costs by type in Q1 2015

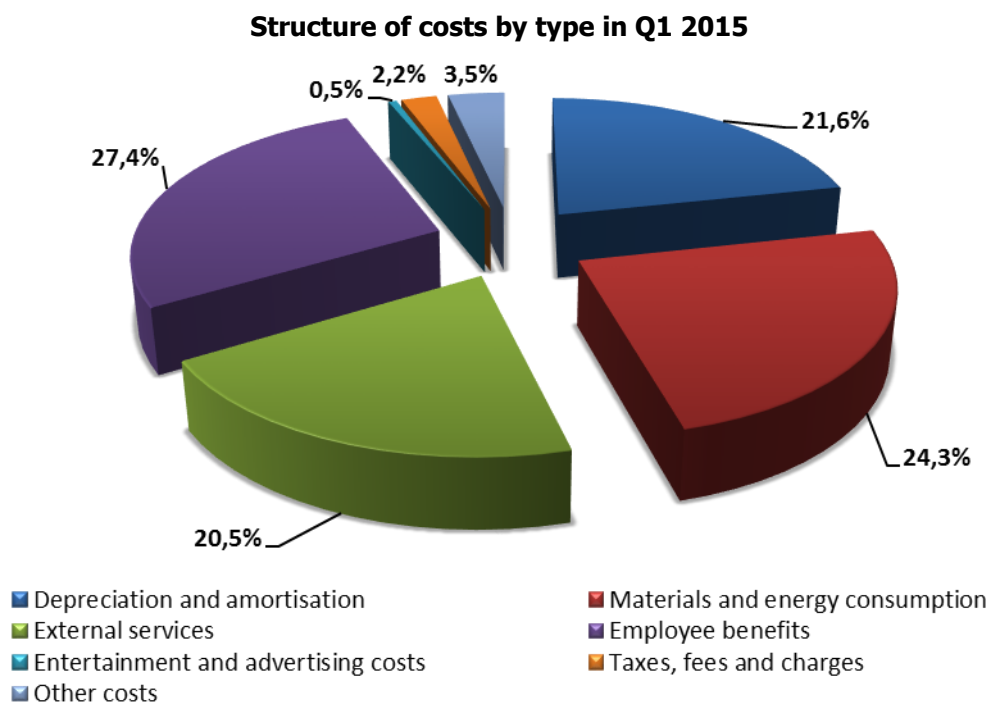
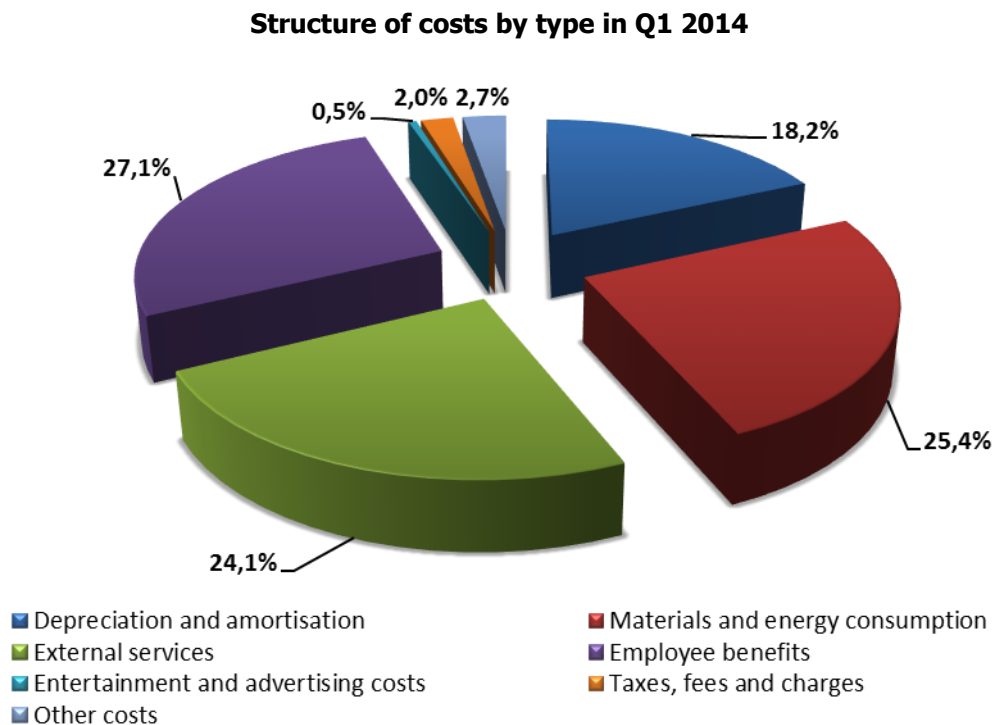


Chart 5 Structure of costs by type in Q1 2014



### 3.3.2. Costs by function

In the first quarter of 2015 the own cost of sales (by function) amounted to PLN 383,044,000 and was lower by 4.4% than the cost in the first quarter of 2014. A decrease in the own cost of sales between the first quarter of 2015 and the first quarter of 2014 is caused predominantly by lower costs by type incurred and higher inventories of coal during the first quarter of 2015.

Table 2 Costs by function of LW BOGDANKA S.A. [PLN '000]

Item	2015	2014	Change [%] 2015 / 2014
	Q1		
Net production [in '000 tonnes]	1,990	2,238	-11.1%
Sales [in '000 tonnes]	1,946	2,225	-12.5%
Costs of products, goods and materials sold	350,511	367,467	-4.6%
Selling costs	9,405	9,884	-4.8%
Administrative costs	23,128	23,334	-0.9%
<b>Own cost of sales</b>	<b>383,044</b>	<b>400,685</b>	<b>-4.4%</b>

The structure of costs by function is presented in the table below.

Table 3 Structure of costs by function at LW BOGDANKA S.A.

Item	2015	2014
	Q1	
Costs of products, goods and materials sold	91.5%	91.7%
Selling costs	2.5%	2.5%
Administrative costs	6.0%	5.8%
<b>Own cost of sales</b>	<b>100.0%</b>	<b>100.0%</b>

### 3.4. Provisions at the LW BOGDANKA Group

Table 13 Balance-sheet provisions in the LW BOGDANKA Group at the end of Q1 2015 and Q1 2014, and at the end of 2014 [PLN '000]

Item	As at 31 Mar. 2015	As at 31 Dec. 2014	As at 31 Mar. 2014	Change 31 Mar. 2015/ 31 Dec. 2014 [%]	Change 31 Mar. 2015/ 31.03.2014 [%]
Employee provisions	252,108	226,724	207,614	11.2%	21.4%
Provision for real property tax	22,687	23,258	30,186	-2.5%	-24.8%
Provision for mine closure costs	119,927	123,585	94,417	-3.0%	27.0%
Mining damage	8,493	9,155	12,605	-7.2%	-32.6%
Provision for Social Insurance Institution (ZUS) claims for accident contributions	17,740	15,901	0	11.6%	-
Other	27,534	25,295	24,721	8.9%	11.4%
<b>TOTAL</b>	<b>448,489</b>	<b>423,918</b>	<b>369,543</b>	<b>5.8%</b>	<b>21.4%</b>

The total provisions as at 31 March 2015 amounted to PLN 448,489,000, which means an increase by 5.8% compared to the value as at the end of 2014. Employee provisions on a year-by-year basis grew by 11.2% and amounted to PLN 252,108,000 as at 31 March 2015.

The change in provisions in the first quarter of 2015 amounted to PLN +24,571,000 compared to PLN +19,398,000 in the first quarter of 2014. The increase in provisions in 2015 primarily results from updated provisions for employee benefits.

Table 14 Change in provisions in the LW BOGDANKA Group for Q1 2015 and Q1 2014 [PLN '000]

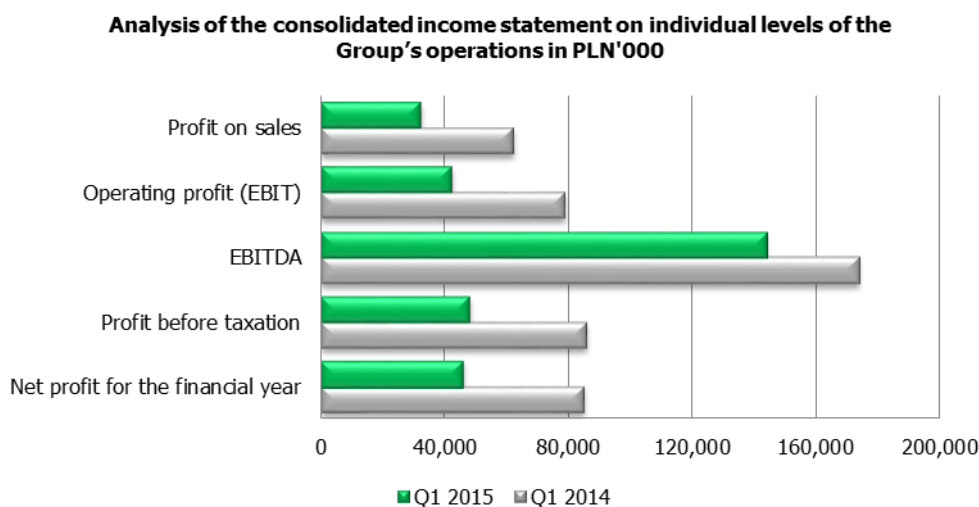
Item	Change in Q1 2015	Change in Q1 2014	Change 2015/2014 [%]
Employee provisions	25,384	7,584	234.7%
Provision for real property tax	-571	2,340	-
Provision for mine closure costs	-3,658	9,139	-
Mining damage	-662	-328	101.8%
Provision for Social Insurance Institution (ZUS) claims for accident contributions	1,839	0	-
Other	2,239	663	237.7%
<b>TOTAL</b>	<b>24,571</b>	<b>19,398</b>	<b>26.7%</b>

### 3.5. Selected financial data of LW BOGDANKA Group

Table 15 Analysis of the consolidated income statement [PLN '000]

	2015	2014	Change [%] 2015 / 2014
	Q1		
Revenue	428,279	481,540	-11.1%
Costs of products, goods and materials sold, selling and	381,825	396,435	-3.7%
<b>Profit on sales</b>	<b>46,454</b>	<b>85,105</b>	<b>-45.4%</b>
<i>Profit on sales margin (Gross margin)</i>	<i>10.8%</i>	<i>17.7%</i>	<i>-39.0%</i>
Other income	1,818	78	2230.8%
Other costs	268	471	-43.1%
<b>Net operating profit/loss</b>	<b>48,004</b>	<b>84,712</b>	<b>-43.3%</b>
Other net losses	148	1,246	-88.1%
<b>Operating profit (EBIT)</b>	<b>48,152</b>	<b>85,958</b>	<b>-44.0%</b>
<i>EBIT margin</i>	<i>11.2%</i>	<i>17.9%</i>	<i>-37.4%</i>
<b>EBITDA</b>	<b>144,395</b>	<b>174,149</b>	<b>-17.1%</b>
<i>EBITDA margin</i>	<i>33.7%</i>	<i>36.2%</i>	<i>-6.9%</i>
Finance income	1,506	2,351	-35.9%
Finance costs	7,048	9,095	-22.5%
<b>Profit before taxation</b>	<b>42,610</b>	<b>79,214</b>	<b>-46.2%</b>
<i>Pre-tax profit margin</i>	<i>9.9%</i>	<i>16.5%</i>	<i>-40.0%</i>
Income tax	9,920	16,614	-40.3%
<b>Net profit for the financial year</b>	<b>32,690</b>	<b>62,600</b>	<b>-47.8%</b>
<i>Net profit margin</i>	<i>7.6%</i>	<i>13.0%</i>	<i>-41.5%</i>
- attributable to shareholders of the Parent	32,522	62,381	-47.9%

Chart 6 Analysis of the consolidated income statement on individual levels of the Group's operations in Q1



### Revenue

The value of revenue for the first quarter of 2015 went down by 11.1% compared to the same period of the previous year and amounted to PLN 428,279,000.

### Costs of products, goods and materials sold, selling costs, administrative costs

In the first quarter of 2015 the costs of products, goods and material sold plus selling and administrative costs went down by 3.7% compared by the same period of the previous year and amounted to PLN 381,825,000.

### Profit on sales

The profit on sales in the first quarter of 2015 went down by 45.4% compared to the first quarter of 2014 and amounted to PLN 46,454,000.

### Other income

In the first quarter of 2015 other income amounted to PLN 1,818,000 compared to PLN 78,000 a year before. The value of liquidated damages (PLN 1,770,000) dominates the figure for 2015.

### Other costs and other net profits

In the first quarter of 2015 other profits amounted to PLN 148,000, while in the first quarter of 2014 they equalled PLN 1,246,000, which means a decline of PLN 1,098,000.

### EBIT

The operating profit in the first quarter of 2015 amounted to PLN 48,152,000 and was lower by 44.0% compared to the first quarter of 2014. EBIT margin in the first quarter of 2015 was 11.2%, i.e. it was lower by 6.7 p.p. than in the first quarter of the previous year.

### EBITDA

EBITDA, i.e. operating profit plus depreciation and amortisation, in the first quarter of 2015 went down by 17.1% compared to the first quarter of 2014 and amounted to PLN 144,395,000. Depreciation and amortisation in the first quarter of 2015 amounted to PLN 96,243,000 compared to 88,191,000 in the same period of 2014.

EBITDA margin in the first quarter of 2015 equalled 33.7%, which shows a decrease compared to the same period of 2014.



### Finance income

Finance income in the first quarter of 2015 amounted to PLN 1,506,000, which represents a decrease of about 36% compared to the same period of 2014. This is due to the fact that market interest rate on deposits was reduced (at the same time the annual average level of cash in the Group went up).

### Finance costs

The finance cost for the three months of 2015 amounted to PLN 7,048,000 compared to PLN 9,095,000 in 2014 (decrease by 22.5%). The total indebtedness of the Group amounted to PLN 853,979,000 as at 31 March 2015 compared to PLN 571,000,000 as at 31 March 2014. In 2015 lower reference rates were in place.

### Profit before taxation

In the first quarter of 2015, the Group generated pre-tax profit which was lower by 46.2% than in the first quarter of 2014. Pre-tax result amounted to PLN +42,610,000 (Q1 2015) compared to PLN +79,214,000 (Q1 2014).

### Net profit for the financial year

In the first quarter of 2015 the Group generated net profit lower by 47.8% than in the first quarter of 2014 – it amounted to PLN 32,690,000 in 2015 compared to PLN 62,600,000 in 2014. Net profit for the financial year in the period under analysis attributable to the shareholders of the Parent amounted to PLN 32,522,000 compared to PLN 62,381,000 in the same period of the previous year.

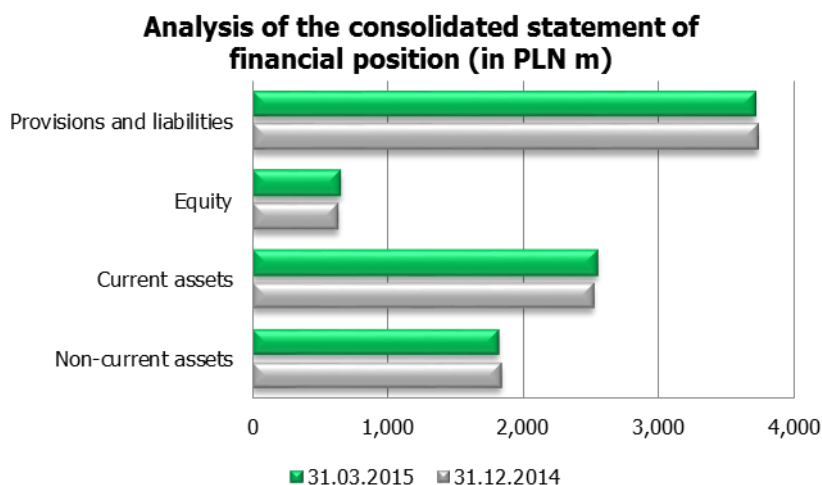
### 3.5.1. Balance sheet

Table 16 Selected financial information of the LW BOGDANKA Group [PLN '000]

	31 Mar. 2015	31 Dec. 2014	Change [%] 31 Mar. 2015 / 31 Dec. 2014
Total assets	4,365,783	4,364,415	0.0%
Return on Assets (ROA)*	5,6%	6,6%	-15.2%
Non-current assets	3,710,542	3,730,165	-0.5%
Current assets	655,241	634,250	3.3%
Equity	2,543,743	2,523,827	0.8%
Return on Equity (ROE)*	9,6%	10,9%	-11.9%
Provisions and liabilities	1,822,040	1,840,588	-1.0%

\* - the calculations consider the average level of assets and equity (as at 31 March 2015 + as at 31 December 2014)/2

Chart 7 Analysis of the consolidated statement of financial position



### Assets

The balance-sheet total as at 31 March 2015 went up to PLN 4,365,783,000 (i.e. by PLN 1,368,000) compared to the value as at 31 December 2014. Non-current assets remained on nearly the same level. Current assets went up by more than 3%, with the value of inventories going up by more than 4%, trade and other receivables going down by ca. 22%, and cash and cash equivalents going up by 41%. The quantitative level of coal inventories (which includes a deposit of PLN 33,000 tonnes) presented at the end of the first quarter of 2015 corresponds approximately to eleven days of commercial coal production (on the basis of quarterly average production).

As at 31 March 2015 ROA went down by 1.0 p.p. and equalled, as at the balance-sheet date, 5.6%.

### Equity and liabilities

The equity went up by 0.8%. It was mainly the result of adding net comprehensive income for the three months of 2015 to equity.

Provisions and liabilities went down by 1.0% compared to the value as at 31 December 2014: current liabilities decreased by 5.9% (mainly due to the decrease of "trade creditors and other liabilities"), while non-current liabilities increased by 1.8% (mainly in item "Provisions for employee benefits").

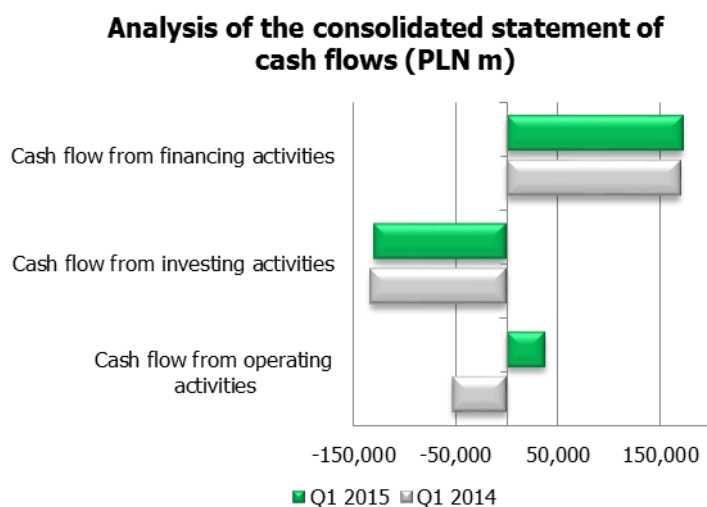
As at 31 March 2015, a decrease of 1.3 p.p. in return on equity was noted in relation to the end of 2014. The ratio as at 31 March 2015 accounted for 9.6% compared to 10.9% as at 31 December 2014.

### 3.5.2. Cash flows

Table 17 Consolidated cash flows in Q1 2015 and Q1 2014 [PLN '000]

	2015	2014	Change [%] 2015 / 2014
	Q1		
Cash flow from (used in) operating activities	172,081	169,564	1.5%
Cash flow from (used in) investing activities	-129,205	-132,872	-2.8%
Cash flow from (used in) financing activities	37,357	-52,687	-

Chart 8 Analysis of the consolidated statement of cash flows



In the first quarter of 2015 the Group generated net cash flow from operating activities higher by 1.5% than in the first quarter of 2014, in the period from 1 January 2015 to 31 March 2015 it amounted to PLN 172,081,000 compared to PLN 169,564,000 a year before.

Cash flow from investing activities decreased (in absolute terms) during the three months of 2015 by 2.8% (to PLN 129,205,000) compared to the same period of 2014.

In the period from 1 January to 31 March 2015 the Group recorded positive cash flow from financing activities in the amount of PLN 37,357,000 (the Parent raised PLN 37,734,000 from an overdraft facility).

### 3.5.3. Debt and financing structure of the LW BOGDANKA Group

Table 18 Debt ratios of the LW BOGDANKA Group.

	31 Mar. 2015	31 Dec. 2014	Change 31 Mar. 2015 / 31 Dec. 2014
Overall debt ratio	41.7%	42.2%	-0.5 p.p.
Ratio (debt* plus employee liabilities)/EBITDA	1.54	1.39	10.8%
Net debt /EBITDA ratio	0.80	0.82	-2.4%
Debt to equity ratio	71.6%	72.9%	-1.3 p.p.
Fixed capital to non-current assets ratio	97.4%	95.7%	1.7 p.p.
Current debt ratio	14.4%	15.3%	-0.9 p.p.
Non-current debt ratio	27.3%	26.8%	0.5 p.p.

\*debt=non-current liabilities for bond issue plus long-term loans and borrowings plus short-term loans and borrowings

#### Overall debt ratio

The overall debt ratio as at 31 March 2015 went down by 0.5 p.p. compared to the ratio as at 31 December 2014 and reached 41.7% - the share of borrowed capital in the overall financing sources of the Group decreased.

The level of the Group's debts as at 31 March 2015 did not pose any risk to the Group's operation and ability to settle liabilities in a timely manner. On the basis of medium and long-term forecasts, the financial needs of the Group are analysed in order to ensure liquidity and an appropriate level of cash.

### Ratio debt plus employee liabilities/EBITDA

The ratio showing debt to EBITDA increased at the end of the first quarter of 2015 by 10.8% and reached 1.54. A comparison between the ratio as at 31 March 2015 and the ratio as at 31 December 2014 shows, among other things, an increase of the value of debt liabilities (the overdraft facility taken out by the Parent and the investment loan taken out by the subsidiary) and the value of employee provisions.

### Ratio net debt/EBITDA

The ratio showing net debt (sum of interest-bearing current- and non-current liabilities minus cash and cash equivalents) to EBITDA went down from 0.82 as at 31 December 2014 to 0.80 as at 31 March 2015. Net debt went down by about PLN 40 million with a decrease of EBITDA by about PLN 30 million (EBITDA for the last 4 quarters).

### Debt to equity ratio

The debt to equity ratio as at 31 March 2015 went down by 1.3 p.p. compared to the ratio as at 31 December 2014 and reached 71.6% - the increase in equity with the liabilities going down.

### Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 97.4% (as at 31 March 2015) compared to 95.7% (as at 31 December 2014) – in the analysed period the value of fixed capital (equity plus non-current liabilities less provisions) grew with the value of non-current assets going down.

## 3.5.4. Liquidity ratios

Table 19 Liquidity ratios [days]

	31 Mar. 2015	31 Dec. 2014	Change 31 Mar. 2015 / 31 Dec. 2014
Current liquidity ratio	1.18	1.06	11.3%
Quick liquidity ratio	0.93	0.84	10.7%

In the period covered by the Consolidated Quarterly Report, the liquidity ratios of the Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities. Bearing in mind the development strategy pursued by the Group, the liquidity ratios are to be considered correct.

## 3.5.5. Turnover ratios

Table 20 Turnover ratios [days]

	Formula	31 Mar. 2015	31 Dec. 2014	Change 31 Mar. 2015 / 31 Dec. 2014
1. Inventory turnover	$\frac{\text{Average inventories}}{\text{costs of goods, products and materials sold}}$	35	30	16.7%
2. Debtors collection rate*	$\frac{\text{Average debtors}}{\text{revenue}}$	56	49	14.3%
3. Creditors payment rate**	$\frac{\text{Average creditors}}{\text{costs of goods, products and materials sold}}$	106	89	19.1%
4. Operating cycle	1 + 2	91	79	15.2%
5. Cash conversion cycle	4 - 3	-15	-10	50.0%

\* - Trade and other receivables

\*\* - Trade and other liabilities

### **Inventory turnover**

The inventory turnover ratio as at 31 March 2015 went up by 16.7% compared to the ratio as at 31 December 2014, which is largely the result of an increase in the average annual value of inventories.

### **Debtors collection rate**

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 56 days (as at 31 March 2015), as compared to 49 days (as at 31 December 2014). The increase in the rate is attributable to the average level of receivables compared to the Group's revenue.

### **Creditors payment rate**

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got longer by 17 days to 106 days, as compared to the end of 2014. In the analysed period the Group had higher average level of short-term trade liabilities.

### **Operating cycle**

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 91 days, as compared to 79 days as at 31 December 2014. The time necessary for realising the Group's current assets got longer by 12 days on average.

### **Cash conversion cycle**

As a result of the trends described above, a cash conversion cycle of -15 days was achieved as at 31 March 2015 compared to -10 days as at 31 December 2014. The negative value of the cash conversion cycle means that the Group uses non-interest-bearing borrowed capital.

## **3.6. Information on sources of financing and financial instruments**

### **Forward foreign exchange contracts:**

Derivative transactions are entered into in order to hedge cash flows resulting from payments under contracts denominated in a currency other than PLN. During the first quarter of 2015 the Parent was a party to three forward foreign exchange transactions.

The first and the second hedge of payment under contract was established for the performance of the agreement worth EUR 39.75 million covering the supply and assembly of a wall plough system for low seams. Forward transactions were entered into on 24 March 2014, with the value date falling in the first quarter of 2015. The total value of the hedge is EUR 27.83 million. On 27 February 2015 the forward transaction in the amount of EUR 23.85 million was settled, while on 31 March 2015 the next forward transaction in the amount of EUR 3.98 million was settled. The settlement was effected by physical currency delivery. The Company received funds but, as at the balance sheet date, the payments for the wall-ploughing system were not made.

The third hedge was established for the performance of the agreement for the sale of coal in which the payment was denominated in USD. The forward transaction was entered into on 23 December 2014 for an amount of USD 930,000. The transaction was settled by physical currency delivery on 27 February 2015.

### **Bonds:**

On 27 September 2013 under the "Bond Issue Program up to the Amount of PLN 300,000,000" the Parent issued, in two series, the total of 1,500 bonds with the nominal value of PLN 100,000 each – the value of the performed part of the program stood at PLN 200 million. In June 2014 the last series of bonds was issued – consequently the entire "Bond Issue Program up to the Amount of PLN 300,000,000" has been completed.

On 10 April 2014 a tender for a bank service entailing the advancement of a revolving overdraft credit facility in PLN up to the limit of PLN 150,000,000 and the servicing thereof was awarded (the agreement was signed on 24 May 2014). As at 31 March 2015, the Group made use of the above credit line available in the current account.

On 30 June 2014 the Parent concluded with Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego an agreement on a new bond issue program, which provides for the issue of bonds by LW BOGDANKA S.A. up to the amount of PLN 600,000,000. On 1 August 2014 Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego jointly acquired two series of bonds. In performance of the provisions of the Program, the Underwriters acquired jointly 300 registered bonds with a nominal value of PLN 1 million each, and jointly 100 registered bonds with a nominal value of PLN 1 million each. The aggregate amount of bonds acquired by the Underwriters stands at PLN 400 million. The bond redemption date is 30 June 2015. The Program envisages that the Company has the right to issue subsequent series of bonds under the tranche concerned in order to refinance the previous issue under the tranche concerned (rollover), which supports the long-term nature of the Program. As at 31 March 2015 the Parent issued bonds in the aggregate amount of PLN 400 million. Bonds still to issue stand at PLN 200 million.

#### **Loans:**

On 10 April 2014 a tender for a bank service entailing the advancement of a revolving overdraft credit facility in PLN up to the limit of PLN 150,000,000 and the servicing thereof was awarded (the agreement was signed on 24 May 2014). As at 31 March 2015, the Group made use of the above credit line available in the current account.

In the period from 1 January 2015 to 31 March 2015 the Group did not use any other financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of solvency.

The Group is of the opinion that the risk associated with trade receivables is limited as the Group transacts only with customers of confirmed credit ratings (major customers are entities of stable financial situation). Further, the Group continuously monitors its customers' arrears in settling their payments.

The Group is of the opinion that the risk associated with trade creditors is limited as the Group continuously analyses inflows and outflows - knows in advance what amounts will be due, and still has an unused limit with respect to bonds and a loan facility at mBank.

### **3.7. Capital investments and deposits in the LW BOGDANKA Group**

The value of cash held by the Group as at the end of March 2015 amounted to PLN 364,625,000, out of which the funds of PLN 344,424,000 belonged to the Parent. The amount of PLN 364,625,000 is disclosed as follows:

- PLN 88,911,000 is disclosed in non-current assets,
- PLN 275,714,000 is disclosed in current assets.

The amount of PLN 88,911,000 covers funds accumulated by the Parent in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in bank deposit).

The amount of PLN 275,714,000 includes cash (cash available) held in short- and mid-term bank deposits (including overnight deposits) – the level of deposits depends on internal forecasts regarding inflows and outflows. The funds accumulated at the Parent amount to PLN 255,513,000, while the funds accumulated at subsidiaries amount to PLN 20,201,000 (primarily to Łęczyńska Energetyka). The amount of PLN 255,513,000 disclosed in the Parent's balance-sheet included funds from foreign exchange contracts (EUR), which the Parent held for the purchase of a new plough system for low seams (the first out of two payments was made on 2 April 2015).

### 3.8. Assessment of the possibilities of investment plans' execution

The structure of financing property investment expenses will remain compliant with the adopted Strategy, i.e. they will be financed from equity and the debt held (bonds and loan). The Management Board expects an increase in the Group's debt financing. As at the date of providing this Report, the LW BOGDANKA Group sees no threat as to the possibility to acquire additional debt financing, however it indicates that the costs of acquiring the debt as well as the servicing thereof may be higher than currently.

The loans together with issued bonds (totalling PLN 853,784,000), disclosed in the Group's consolidated statement of financial position as at 31 March 2015, accounted for 33.6% of its equity and 19.6% of the balance-sheet total.

## 4. INFORMATION ON MAJOR MATERIAL INVESTMENTS OF THE LW BOGDANKA GROUP

In accordance with the assumptions presented in the Directors' Report of LW BOGDANKA for 2015, in 2015 the Company assumed investment outlays on the level of max. PLN 560 million. This level included reduction of development investments by, among others, upgrade of the 1.5 shaft in Nadrybie, which was included in the previous Strategy of the Company and would enable increasing the production capacity of the Company to 12 million tons a year.

As a result of further works on reduction of investment outlays, the Company adopted an updated plan that assumed further reduction of investment outlays, both development and replacement (by PLN 77 million). The table below shows the previous investment assumptions, their modification as a result of the update of the plan, and the execution of the plan in the first quarter of 2015.

On account of implementation of investments in the first quarter of 2015, the Company made outlays on non-current assets under construction for a total amount for the Group equal to PLN 82,482,000 including PLN 77,343,000 in the Parent.

Table 4 Selected investment outlays at the LW BOGDANKA Group [in PLN '000]

Specification	PTE 2015	Annex to PTE 2015	Implementation Q1 2015	Implementation of the plan [%]	Change to the plan
<b>Acquisition of new licenses*</b>	<b>49,972</b>	<b>49,972</b>	<b>1,373</b>	<b>2.7%</b>	<b>0</b>
<b>Maintenance of machinery</b>	<b>100,090</b>	<b>94,430</b>	<b>11,842</b>	<b>12.5%</b>	<b>-5,660</b>
<i>Purchase of machines and equipment</i>	63,880	61,430	11,842	19.3%	-2,450
<i>Upgrades and repairs of machines and equipment</i>	36,210	33,000	0	0.0%	-3,210
<b>Other development and replacement projects</b>	<b>99,878</b>	<b>84,849</b>	<b>9,838</b>	<b>11.6%</b>	<b>-15,029</b>
Central air conditioning for the Bogdanka Field	39,449	29,422	6,104	20.7%	-10,027
Enlargement of the Mechanical Coal Processing Facility	1,040	1,041	41	3.9%	1
Other development projects, including:	23,178	17,864	9	0.1%	-5,314
<i>Integrated production management system</i>	1,900	2,050	0	0.0%	150
<i>Enlargement of the coal storage yard</i>	5,790	0	0	0.0%	-5,790
<i>Enlargement of the mining waste neutralization facility</i>	4,880	4,880	9	0.20%	0
<i>Upgrade of the railroad route and enlargement of the track system</i>	9,632	9,512	0	0.0%	-120
Environmental protection	150	477	337	70.6%	327
Other operational investments	36,061	36,045	3,347	9.3%	-16
<b>Purchase and assembly of longwall systems</b>	<b>1,750</b>	<b>3,352</b>	<b>3,044</b>	<b>90.8%</b>	<b>1,602</b>
<b>New workings and upgrade of</b>	<b>309,112</b>	<b>250,570</b>	<b>51,246</b>	<b>20.5%</b>	<b>-58,542</b>

<b>existing ones</b>					
<i>New workings</i>	256,537	199,973	37,870	18.9%	-56,564
<i>Reconstruction and upgrade of workings</i>	50,575	48,597	13,376	27.5%	-1,978
<i>Upgrade of storage reservoirs</i>	2,000	2,000	0	0.0%	0
<b>TOTAL CAPEX AT LW BOGDANKA**</b>	<b>560,802</b>	<b>483,173</b>	<b>77,343</b>	<b>16.0%</b>	<b>-77,629</b>
<b>ŁĘCZYŃSKA ENERGETYKA</b>	<b>19,897</b>	<b>19,897</b>	<b>5,129</b>	<b>25.8%</b>	<b>0</b>
<b>OTHER SUBSIDIARIES</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>0.0%</b>	<b>0</b>
<b>TOTAL CAPEX AT THE LW BOGDANKA GROUP</b>	<b>580,699</b>	<b>503,070</b>	<b>82,482</b>	<b>16.4%</b>	<b>-77,629</b>

\* The plan for 2015 takes into account full payment for use of geological information, which is paid in installments over a longer period of time. The full value of geological information is equal to PLN 27,988,733. According to the plan, in 2015, a payment will be made that will be due immediately after the contract for use of geological information is signed, i.e. 10% of the value of the contract. The remaining part will be paid in ten yearly installments, payable starting from the year in which the Company will obtain the mining license.

\*\* The total investment outlays do not include capitalized costs of external financing.

The plan for Q1 2015 included groups of tasks: development investments, including the purchase of machines and equipment, and operational investments, including construction and upgrade of workings in the Bogdanka, Nadrybie, and Stefanów Fields, as well as upgrades and repairs of machines and equipment, etc.

### **Acquisition of new licenses**

The Parent has acquired licenses for mining in the K-3 area and for prospecting of the "Ostrów" deposit. The OS-1 test hole was drilled in the "Ostrów" area and the geological documentation for this hole was prepared. K-6-7 area - an appeal was filed against the negative decision of the Minister of Environment concerning the mining license - the procedure is ongoing.

### **Maintenance of machinery**

*Purchase and assembly of new machines and equipment to be assembled* - by the end of the first quarter, machines and equipment had been purchased and assembled that were worth a total of PLN 7,463,000 including the cost of assembly. The most important machines and equipment are overhead diesel locomotives, track diesel locomotives, equipment for drawing off and disassembly of gallery lining, a drilling-anchoring carrier, and a pump unit assembly.

*Purchase of finished goods* - the value of the finished goods that were purchased was equal to PLN 4,379,000. The most important finished goods that were purchased were: finished transport equipment (hoists, a track bulldozer), pumps and hydraulic units, electrical equipment (transformer stations, cable testers, a power generator), other finished equipment (fans, equipment for drilling holes in the plough face, guillotine shears for rods, tools considered as property, plant and equipment, bolting machines, purchase of computer and network equipment with software).

### **Other development and replacement projects**

*Central air conditioning for the Bogdanka field* - installation of the cooling system, including installation of specialized equipment, was started and the ammonia system was 90% completed. The company withdrew from the contract with the general contractor. A physical inventory of the progress of the works by an expert is pending.

*Enlargement of the Mechanical Coal Processing Facility* - the construction of steel platforms for equipment was completed.

*Enlargement of the mining waste neutralization facility in Bogdanka* - an annex to the designs is being prepared that increases the surface of phase II of Stage I by adding the plot of land no. 289/5 that was purchased. At the same time, a dendrological study report was prepared based on which the clearing of trees on the aforementioned plot of land will be performed.



*Environmental protection* - Approval by the Investment Project Evaluation Committee of the design documentation for the *Szczecin Reservoir*.

*Other operational investments:* Enlargement of the power supply networks and upgrade of the switching station and the 110/6 kV station were continued. The 110/6 kV main transformer and distribution station in Bogdanka was completed. In Stefanów, the following works were performed on the 110 kV switching station: the bay of coupling no 3 - the cutouts were replaced with new ones; the bay of the 110/6 kV T-8 transformer - the cutouts and switches were replaced with new ones, including the foundation, the construction of a new grounding system of section II was 60% completed. In the 6 kV switching station, section B of the switching station was disassembled and assembly of section B was about 30% completed. In the case of the 110/6 kV STR station in Nadrybie, the design was approved by the Investment Project Evaluation Committee of the LWB.

#### **Purchase and assembly of longwall systems**

The key investment was the purchase and installation of plough system 4 for wall no. 1/I/385 which enables 318 m long mining walls to be exploited. In the first quarter, the installation of the system was finished and the startup is planned for May.

#### **New workings and upgrade of existing ones**

Table 5. The value of investment outlays on the workings in the first quarter of 2015.

<b>Workings and works - total</b>	<b>Depreciation method</b>	<b>Length [m]</b>	<b>Value of the coal from the workings [PLN '000]</b>	<b>Full value of the investment outlays [PLN '000]</b>	<b>Value of the investment outlays [PLN '000]</b>
Wall workings	natural	4 528.2	17,455	68,701	51,246
Basic workings	linear	475.7			
Reconstructions	linear/natural	393.4			

The total length of the gallery workings that were built in the period of the first three months of 2015 was equal to 5,003.9 m. Reconstruction of workings was performed in accordance with the adopted schedules. The total expenditures on reconstruction of gallery workings in that period were equal to PLN 10,226,000. The total expenditures on new workings and upgrades of existing ones were equal to PLN 41,020,000 (including expenditures on new workings equal to PLN 37,870,000).

In the first quarter of 2015, the driving of the 1 fB transport gallery was completed and the driving of the N-0 connecting gallery, the bottom gate of wall 4/VI/385, and the bottom gate of wall 3/VIII/385 was started.

## **5. DEVELOPMENT STRATEGY OF THE PARENT**

The Company's existing Strategy for 2013-2020, the extent to which it was implemented, as well as reasons why it needs to be revised were presented in the Directors' Report on Operations for 2014. Below are the pillars of the revised Strategy, which is to be published by the end of June 2015.

#### **The revised Strategy:**

In view of the significant changes to market conditions, involving such factors as a substantial drop in coal prices, the size of the coal reserves in Silesian mines and power plants and the government intervention plans in the mining and energy sector, the Company's Management Board has decided to review its Strategy for 2015-2020.

**The Strategy's main goals:**

- Maintaining LW BOGDANKA's position of a cost leader – creating the conditions for keeping down extraction costs in the long term by optimising the structure and level of extraction and further reduction of operational costs;
- Selling coal to the power industry, heating and chemical sectors – by widening the audience of coal buyers and entering new and attractive market segments;
- Expanding on the domestic market – continuously monitoring new investment schemes and projects in the region;
- Getting a foothold in the foreign market.

**Strategic objectives:**

- Preparing the Company for operations on an increasingly volatile and competitive market affected by external factors;
- Executing conceptual, organisational and investment works aimed and obtaining new resources which would enable the Company to conduct its operations for a period extending significantly beyond what is currently planned;
- Further implementing a cost optimisation program with respect to coal extraction (including costs of labour) in the medium-term and optimising investment outlays;
- Maintaining the forefront position among domestic hard coal producers by achieving a 30% share in the sales of fine power coal – increasing the volume of sales to small and medium buyers;
- Ensuring a return on the capital employed to the investors.

In order to provide the Company with means to adapt to the changing market conditions, a number of alternative scenarios for business operations and development were analysed to reflect the possible change scenarios on the Polish coal market.

**The following has been adopted as the optimum scenario:**

- Continued exploitation of the Bogdanka and Stefanów Fields, commencing extraction from new Ostrów and Orzechów areas and, later on, the K6-K7 areas, making use of the existing mining infrastructure (without the need to build new shafts and increase yield);
- Limiting development investments to those essential from the viewpoint of opening new deposits, especially in the period between 2015 and 2017, and reviewing the planned investment outlays aimed at increasing production capacity until 2020;
- Optimising the level of production to reflect the market conditions, especially in the period between 2015 and 2017, at the same time increasing the yield from thicker seams (automated mining technology).
- Optimising the long-term investors' return, taking into account market risk.

The variant selected by the Management Board is the most flexible and provides for the possibility to restore planned production growth or even to expand it.

At present the Management Board is working on a multi-variant analysis of the Company's operations, taking into account the foreseen potential coal market development scenarios (demand and prices) until 2020, which will form the grounds for drawing up a revised Strategy.

In connection with work on revising the Strategy and necessity to adjust the investment assumptions to the current situation on the market and sale possibilities, the Management Board has updated the plan of investment outlays for 2015. Consequently, the above plan has been reduced by PLN 77,629,000 and stands at present at PLN 503,070,000.

In accordance with the saving plan, the Company also pursues a policy with an aim to reduce employment and adjust the same to the planned extraction level. Employment in 2015 is expected to go down by 145 persons on an annual average basis and by over 350 persons at the year end. The reduction of employment is made by planned retirement of eligible employees and non-renewal of agreements concluded with employees hired for definite time. The saving plan for 2015 envisages also the reduction of external services, including outsourcing, and adjustment of preparatory works to the planned extraction level.

The Management Board analyses the dividend policy for the upcoming years with due consideration for local and global trends as well as price conditions. The dividend policy for the upcoming years will have been adopted and announced until 30 June 2015 along with the Strategy for 2015-2020.

The Management Board recommends for 2015 that dividend be paid out in the amount of PLN 3 per share, i.e. 37.5% of the consolidated net profit for 2014 (PLN 102 million).

The application of the above assumptions will enable the Company to boost its effectiveness, while at the same time postponing the decisions regarding development projects until the Polish hard coal market stabilises.

**6. POSITION OF THE MANAGEMENT BOARD OF LW BOGDANKA REGARDING THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS FOR THE YEAR IN QUESTION, IN LIGHT OF THE RESULTS PRESENTED IN THE CONSOLIDATED QUARTERLY REPORT IN RELATION TO THE FORECAST RESULTS**

The LW BOGDANKA Group did not publish forecasts for financial results in 2015.

**7. DESCRIPTION OF FACTORS WHICH, IN THE ASSESSMENT OF LW BOGDANKA, WILL AFFECT THE RESULTS ACHIEVED BY THE COMPANY AND ITS GROUP WITHIN AT LEAST THE FOLLOWING QUARTER**

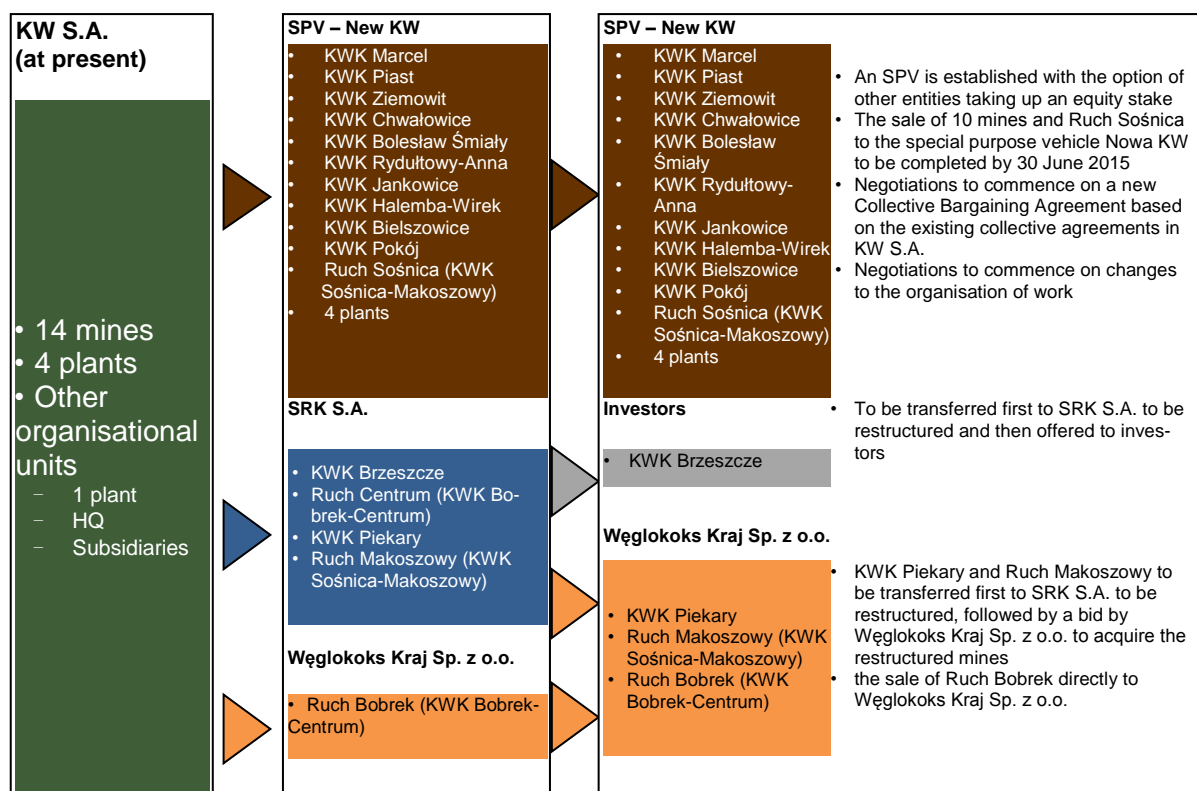
A complete description of risks concerning the Company's operations is contained in the Report for 2014. Below are the factors which, in the Company's assessment, are of key significance for the next (second) quarter.

**Factors associated with the economic policy of the State in relation to the hard coal mining sector**

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA market position.

The restructuring plan for Kompania Węglowa (KW) as adopted by the government entails great uncertainty as to the volume of power coal production in Poland and, consequently, the possibilities of its market position. Depending on the choice of a restructuring scenario to be executed, this will affect LW BOGDANKA's market standing.

Under the Act on the operations of the hard coal mining industry in 2008-2015 of 7 September 2007 in the wording adopted through its amendment of 22 January 2015 and as a consequence of the agreement reached on 17 January 2015 by the government and trade unions, a recovery plan has been developed which stipulates as follows:



Source: Presentation of KW S.A. – School of Underground Mining Krakow, February 2015

The initial government proposal (of 8 January 2015) stipulated that production be discontinued in four financially unprofitable mines, a move aimed at reducing the volume of the coal extracted by Silesian mines. However, under the present restructuring plan for KW, the oversupply of coal on the domestic market is set to continue. The mines initially earmarked for closure will now be transferred, partly through SRK, to Węglokoks Kraj and to an investor, potentially one of the energy companies with a majority stake held by the State Treasury.

The planned actions with respect to the fate of the remaining Nowa KW mines and the shareholding structure of the special purpose vehicle (SPV) are yet to be announced. Scenarios where the restructuring process of Kompania Węglowa S.A. would provide for the involvement of energy companies could prove problematic for the Company, as it would limit significantly the market for LW BOGDANKA along with other coal producers and would force the Company to search for buyers in other energy holdings or even beyond the energy sector.

The implementation of the government's restructuring plan for KW S.A. involves the provision of state aid. It should be noted that under Council Decision 2010/787/EU state aid is permissible only to facilitate the closure of unprofitable mines, rather than to carry out their restructuring. It is to be noticed that the state aid for liquidation may be granted until 31 December 2018. At this juncture it cannot be determined whether the proposed government assistance will be classified by the European Commission as permitted state aid.

It should also be noted that the acquisition by Węglokoks of the majority of KW S.A.'s mines will be supported by the Entrepreneurs' Restructuring Fund (in accordance with press releases, ERF has transferred PLN 600 million to Węglokoks). The granting of support in the form of an increase in share capital is contingent upon a wide range of factors, including the satisfaction by the entity receiving such support of the so-called private investor test, justifying the investment by the foreseeability of obtaining a return. Both the decision permitting state aid and the support given to the acquisition of the mines by Węglokoks or another investor may adversely affect the Company's standing. However, until the details of the recovery plan are made public, its nature and significance are at present difficult to assess.

Should the restructuring plan go ahead as provided for in the agreement, it is likely that the current production of KW S.A. will be concentrated in the most cost-competitive mines. The introduction of additional changes related to production and limiting extraction to 6 days a week in some of those mines will enable KW S.A. to reduce unit costs. The decision to abandon the closure of unprofitable mines and the need to further subsidise them, directly

or through entities with the majority stake held by the State Treasury, poses substantial risk of the oversupply of coal on the domestic market remaining at the current level or even increasing. Irrespective of the potential reduction of unit costs by KW S.A.'s mines, these costs shall remain above those recorded by LW BOGDANKA, who has been a leader with respect to costs for many years.

In view of high fixed costs in mining industry, the most natural step to reduce unit cost will be to increase production. Such increase in production will be possible thanks to new owners providing financial means for necessary investments (modernisation and preparatory works) and the introduction of a 6-day working week.

With the demand declining, the growth in output will result in steady increase of coal mounds, oversupply and price competition (as in 2012-2014), selling coal largely below the costs of production.

Consolidation of energy companies is also being considered. Irrespective of the scenario executed, this process may boost the bargaining power of LW BOGDANKA's buyers due to aggregate demand.

If the above scenarios materialise, the Company's buyer portfolio will need to be readjusted to incorporate heat plants and combined heat and power plants located much further away from the mines, industrial plants or even expanding abroad, which may pose new risk to the Company.

The decline in demand for fine power coal may continue until 2018, which will also affect LW BOGDANKA's coal pricing policy.

In light of significant changes to operational circumstances, the Company's Management Board presented suggested adjustments to the Strategy in section 5 herein.

The Company shall monitor the process of implementing the restructuring process in KW S.A. and react in line with the available legal measures to possible granting of illegal state aid.

#### **Factors associated with the levels of prices for raw materials for power production in Poland and the world**

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by LW BOGDANKA. The current difficult political situation, resulting mainly from the Ukraine crisis, and increases in unsold coal inventories faced by both global and domestic producers due to a decrease in demand for coal, a decrease in the coal and crude oil prices on the international market may also exert an influence on the change in the demand for fuel, and consequently, the change in prices of coal and energy on the global and domestic market, which may affect the financial results of the Company. LW BOGDANKA mitigates the risk associated with prices of raw materials for energy production by controlling costs and signing long-term commercial contracts with key customers purchasing power coal.

The impact on domestic coal prices will also depend on the execution of one of the proposed variants of Silesian mines' restructuring, discussed in section titled Risks associated with the economic policy of the State in relation to the hard coal mining sector. If further state aid is provided, there is tremendous risk of restricting free competition on the hard coal market, as subsidised entities will sell coal largely below the costs of its production. Such a scenario may adversely affect the prices of entities which do not benefit from state aid, such as LW BOGDANKA.

#### **Factors associated with a decrease in demand for hard coal from the Polish power industry**

There is a limited risk that the Polish power industry may be able to switch to a significant degree to a raw material other than hard coal within the next 10 years. LW BOGDANKA has long-term contracts which limit the risk of a change during the next few years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained. The Company takes measures aimed at further long-term securing of its provision of coal for commercial power production, relating to existing and prospective power units within the area of its operations. Also the imported coal poses risk to the demand on national coal.

A mild winter coupled with a decline in demand for energy led to an increase in the volume of coal remaining on coal mounds at commercial power plants. This may translate into a drop in the buyers' demand for coal in the nearest future. The downward trend affecting the demand for fine power coal may continue until 2018, which is certain to impact LWB's coal pricing policy.

This is due to:

- a further drop in coal consumption by industry and heat generation plants resulting from the IED Directive;
- a rise in efficiency of electrical power generation from coal owing to new power units;
- the development of gas co-generation in newly executed investments in heating plants;
- further, albeit slower than in the past, development of RES;
- electrical power imports (Germany, Sweden).

#### **Factors associated with competition by other power coal producers**

On both the Polish market and export markets, LW BOGDANKA S.A. is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazakhstan) as well as supplies by other global producers delivered by sea (from the ports of Amsterdam, Rotterdam and Antwerp). In the case of domestic coal companies, significant risk factors associated with competition are:

- consolidation processes in the mining and power industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop (including announcements of the Ministry of State Treasury regarding the consolidation of existing power groups and acquisition of shares in Nowa Kompania Węglowa by the power groups or their acquisition plans with respect to the mines restructured under SRK S.A.);
- restructuring processes leading to the functional separation of entities responsible for generating energy, selling energy or purchasing coal as part of energy holdings;
- government assistance for hard coal mines in the Silesia region covered by a restructuring program;
- large volumes in stock held by competitive coal producers and by electricity producers;
- poor financial standing of competitive coal producers (KW S.A., KHW S.A., JSW S.A.); and
- the resulting sales strategy of the Company's competitors that focuses on maintaining a healthy cash flow rather than on profitability.

In the case of coal suppliers from eastern markets, LW BOGDANKA has a significant logistics advantage. In comparison to Polish producers of hard coal, the Company's competitive strengths minimise the risk associated with price competition. Owing to its location in the Lublin Coal Basin, the mine finds itself among the suppliers offering the lowest costs to key customers, due to the so-called transportation allowance in the south-eastern part of Poland. LW BOGDANKA is also favoured to a certain extent by its distance from the Upper Silesian Coal Basin, currently responsible for the oversupply of power coal, which until recently secured the demand for LWB's coal and its profit margins.

Another significant risk factor associated with competition are the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content), which limits the range of applications of the coal extracted in LW BOGDANKA S.A. to industry and power production and forces the Company's customers to invest in fume desulphurisation installations. Because customers for power coal have technologies which are prepared for burning coal with a particular calorific value and because, as at the date of submitting this Report, all the key customers have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the produced coal is significantly limited.

The specific parameters of the coal produced by the Company provide it with a competitive advantage when supplying coal mainly to commercial power producers, whilst limiting however the possibility of selling to individual buyers due to the restricted capacity to produce thicker coal assortments.

In a sustainable market the risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company is remote. The Company's operations so far aimed at ensuring a steady disposal of increasing yield have been successful, as reflected by the rising share in the power coal market as of 2011.

### **Factors associated with the launch of extraction of new deposits at LW BOGDANKA**

A material aspect of the operations conducted by the Group is the necessity to secure future extraction possibilities by providing access to new coal resources.

If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity could be limited, which in consequence may shorten the life of the mining plant and/or reduce the assumed level of extraction of hard coal thus decreasing future financial results. At the moment the Company is undertaking activities with the aim of obtaining new licences in order to double its resources and secure a raw material base for extraction until 2050.

Recently we have noted growing interest on the part of domestic (Kompania Węglowa S.A.) and international business entities (PD Co being a part of a capital group established by the Australian Company Prairie Downs Metals) in the coal deposits in the Lublin Coal Basin. Some of those entities have been granted a licence to conduct prospecting and mining works in areas adjacent to the Group's mining area. Consequently, these entities may in the near future apply for mining licences. The Group holds a competitive advantage over prospective rivals in the form of extensive technical infrastructure necessary to conduct its operations, as well as unique know-how related to coal extraction in the mining and geological conditions of the Lublin Coal Basin deposit.

In June 2014 the Group was granted an exploration licence for the K-3 area (south of the present Puchaczów V area) and a prospecting licence for Ostrów (north of the present Puchaczów V area) and Orzechów areas. In September 2014 the Group was refused an exploration licence for K-6 and K-7 areas, where another entity holds a prospecting licence. A petition for another review was filed and also rejected. The Group has taken further steps to obtain mining licences for K-6 and K-7 (filing a lawsuit with administration court), as well as exploration licences for the Ostrów and Orzechów areas.

### **Technical and technological factors**

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and therefore on the financial results achieved by the Group in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that the mine uses the longwall system. Currently coal is extracted from four operating and one reequipped mining faces, which operate simultaneously. At the target production capacity, however, coal is obtained from four operating and two reequipped mining faces operating simultaneously. Technical and technological mining conditions the planned level of extraction can be maintained if a periodic stoppage occurs at one of the faces by intensifying work on the other. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.1 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the mine has a system of underground coal storage reservoirs. Three new reservoirs have been constructed in Stefanów. Raw coal reservoirs are also located on the surface. It should also be pointed out that the Company uses advanced mining equipment and machines in its mining operations. The Company conducts intensive research and development work aimed at increasing the productivity of its operations, introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the technical and technological risk.

In this group of risks, there is also the risk of unexpected, usually local, deterioration of the quality of the deposit, for example due to reduction of the thickness of the seam, uncovering waste rock concentrations or waviness of the seam, which will result in deterioration of the coal (an increase in amount of stone mined with the coal). In such a case, in spite of achievement of the full gross output and increased costs thereof (difficulties with mining the stone, greater wear of tools and means of transport, increased costs of processing and storage of stone, etc.), the amount of commercial coal obtained will be reduced, which will influence economic performance. Events of such disruptions in mining seams being laid out took place in November and December 2012 in wall 7/VII/385, and in September 2014 in wall 6/VII/385 in Stefanów.

### **Factors associated with the strong position of the trade unions in the Group**

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group, associating in total approx. 64% of the employees (in LW there are four trade union organisations, associating 69% of the employees). The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of the LW BOGDANKA Group. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Group could affect the operating activities conducted by the LW BOGDANKA Group.

### **Factors associated with retaining and attracting human resources for LW BOGDANKA**

The LW BOGDANKA Group's demand for human resources results from the strategy, therefore no recruitment is anticipated until the end of 2015.

Due to ongoing works on amendments to the Collective Bargaining Agreement which shall consider the change of work organisation and remuneration, there is a risk that an increased number of experienced employees entitled to retirement benefits will leave the Company. The fear of losing retirement benefits upon rules applicable in the previous provisions of the Collective Bargaining Agreement, the anniversary award and other benefits, as well as reluctance to introduce any changes may, in case of unfavourable course of events, lead to numerous retirements in a short period of time by people who have already acquired the so-called industry-specific rights, but would otherwise be willing to continue to work, putting their retirement off until a little later. These are especially valuable employees because of their knowledge and experience. Their sudden departure in a short period of time could disrupt the generational continuity, which is being rebuilt, and thus the mild gradual staff turnover.

## **8. PROCEEDINGS PENDING BEFORE COURT, RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR PUBLIC ADMINISTRATION AUTHORITY**

As of the date of preparing the Directors' Report on Operations of the LW Bogdanka Group for the first quarter of 2015, neither LW BOGDANKA nor any of its subsidiaries has been a party in any proceedings pending before a court, the relevant authority for arbitration proceedings or a public administration authority, concerning:

- liabilities or claims of LW BOGDANKA or its Subsidiary worth at least 10% of LW BOGDANKA's equity,
- two or more proceedings concerning liabilities or claims worth a total of at least 10% of LW BOGDANKA's equity.

## **9. RELATED PARTY TRANSACTIONS**

During three months of 2015, neither the Parent nor its Subsidiaries concluded any significant transactions with related entities which were individually or jointly significant and concluded on terms other than on an arm's length basis. Information about transactions of LW BOGDANKA with related entities is contained in Section 12 of the Quarterly Consolidated Report of the LW BOGDANKA Group for the three months ended on 31 March 2015.

## **10. INFORMATION WITH RESPECT TO THE COMPANY OR ITS SUBSIDIARY GRANTING SURETIES FOR A CREDIT FACILITY OR LOAN OR GRANTING GUARANTEES**

In the period from 1 January 2015 to 31 March 2015, neither LW BOGDANKA nor its subsidiaries granted sureties for a credit facility or loan, nor did they grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's equity.

## **11. OTHER INFORMATION WHICH, IN THE OPINION OF THE COMPANY'S MANAGEMENT BOARD, IS SIGNIFICANT FOR ASSESSING THE HUMAN RESOURCES, ASSETS, FINANCIAL STANDING AND FINANCIAL RESULT AND CHANGES THEREIN, AS WELL AS INFORMATION WHICH IS SIGNIFICANT FOR ASSESSING THE POSSIBILITY OF THE LW BOGDANKA GROUP SETTLING ITS LIABILITIES**



### 11.1. Conclusion of significant agreements

#### Conclusion of an Annex to the Annual Agreement with ENEA Wytwarzanie Sp. z o.o.

On 25 March 2015 the Management Board of LW BOGDANKA concluded an Annex to the Annual Agreement for the supply of power coal in 2015, attached as Appendix 6 to the Long-Term Agreement, with ENEA Wytwarzanie Sp. z o.o. with registered office in Świerże Górne, 26-900 Kozienice.

The Long-Term Agreement was referred to in Current Reports Nos. 5/2010 of 5 March 2010, 44/2010 of 20 December 2010, 31/2011 of 27 December 2011, 3/2013 of 15 January 2013, 9/2013 of 29 March 2013 and 3/2014 of 15 January 2014.

The Annex specifies prices of coal supply for 2015 covered by the Annual Agreement which is in effect from 1 January 2015 to 31 December 2015 and concerns basic coal supplies in 2015 for the ENEA Wytwarzanie Sp. z o.o. (power plant) in Kozienice, in compliance with the Long-Term Agreement.

As a result of concluding the Annex, the value of the Annual Agreement for 2015 which is in effect from 1 January 2015 to 31 December 2015 and concerns the terms and conditions of coal supplies in 2015 for the ENEA Wytwarzanie Sp. z o.o. in Kozienice, amounts currently to PLN 766 million (i.e. by 0.9% less than the amount indicated in report no. 3/2014).

As a result of concluding the Annex, the value of the entire Long-Term Agreement, valid from 2011 to 2025, currently amounts to approx. PLN 10,603 million net (i.e. by 0.69% less than the value indicated in report No. 3/2014).

Other terms and conditions of the Agreement remain unchanged and do not differ from the market standards applied in such agreements.

The criterion for deeming the Agreement material is that it exceeds 10% of the value of the Company shareholders equity.

This was announced by the Company in Current Report No. 2/2015 of 25 March 2015.

## 12. EMPLOYMENT

Employment at the Group as at 31 March 2014 and 2015 and as at 31 December 2014 is presented in the table below:

Table 23 Employment at the LW Bogdanka Group as at 31 March 2014 and 2015 and as at 31 December 2014

Employment	31 Mar. 2014	31 Dec. 2014	31 Mar. 2015	Change Q1 2015/ Q1 2014 [%]	Change Q1 2015/ Q4 2014 [%]
Total workers	4,191	4,265	4,221	0.7%	-1.0%
Underground workers	3,234	3,282	3,245	0.3%	-1.1%
Surface workers	957	983	976	2.0%	-0.7%
Full-time employees underground	352	359	342	-2.8%	-4.7%
Full-time employees on the surface	298	306	318	6.7%	3.9%
Total underground	3,586	3,641	3,587	0.0%	-1.5%
<b>Total LW Bogdanka</b>	<b>4,841</b>	<b>4,930</b>	<b>4,881</b>	<b>0.8%</b>	<b>-1.0%</b>
Total RG Bogdanka	547	532	471	-13.9%	-11.5%
Total MR Bogdanka	1	207	226	-	9.2%
Total EkoTrans Bogdanka	2	2	2	0.0%	0.0%
Total Łęczyńska Energetyka	115	114	113	-1.7%	-0.9%
<b>Total LWB Group staff</b>	<b>5,506</b>	<b>5,785</b>	<b>5,693</b>	<b>3.4%</b>	<b>-1.6%</b>

At the end of the first quarter of 2015, employment at the Group decreased by 92 people, i.e. by 1.6% compared to the level of employment at the end of 2014. Employment at the end of the first quarter of 2015 increased by 187 people, i.e. by 3.4% as compared to the level of employment at the end of the first quarter of 2014. Due to organisational optimisation, the employment reveals a decreasing tendency.

LW BOGDANKA employed 16 new employees in the first quarter of 2015. By way of contrast, there were 65 people in the first quarter of 2015, who left the Company.

### **13. TABLES**

Table 1 The shareholding structure of LW BOGDANKA as at the date of submitting the previous periodical report, i.e. 12 March 2015 and 30 April 2015.....	6
Table 2 Table of holdings of shares of LW BOGDANKA as at the date of submitting the quarterly report.....	6
Table 3 Commercial coal production by LW BOGDANKA for Q1 2015 and Q1 2014 ['000 tonnes].....	8
Table 4 Structure of commercial coal production by LW BOGDANKA for Q1 2015 and Q1 2014 .....	8
Table 5 Commercial coal sales by LW BOGDANKA for Q1 2015 and Q1 2014 ['000 tonnes] .....	8
Table 6 Inventories of coal after Q1 2015 and Q1 2014 ['000 tonnes].....	9
Table 7 Dynamics of changes in product range with respect to revenue of the LW BOGDANKA Group in Q1 2015 and Q1 2014 [PLN '000].....	10
Table 8 Structure of the LW BOGDANKA Group revenue by product range in Q1 2015 and Q1 2014.....	10
Table 9 Geographic structure of revenue of the LW BOGDANKA Group in Q1 2015 and Q1 2014 [PLN '000] .....	11
Table 10 Costs by type of LW BOGDANKA [PLN '000] .....	12
Table 11 Costs of LW BOGDANKA S.A. by function [PLN '000].....	14
Table 12 Structure of costs by function at LW BOGDANKA S.A. ....	14
Table 13 Balance-sheet provisions in the LW BOGDANKA Group at the end of Q1 2015, Q1 2014 and 2014 [PLN '000] .....	14
Table 14 Change in provisions in the LW BOGDANKA Group for Q1 2015 and Q1 2014 [PLN '000] .....	15
Table 15 Analysis of consolidated income statement [PLN '000] .....	15
Table 16 Selected financial information of the LW BOGDANKA Group [PLN '000].....	17
Table 17 Consolidated cash flows in Q1 2015 and Q1 2014 [PLN '000] .....	18
Table 18 Debt ratios of the LW BOGDANKA Group.....	19
Table 19 Liquidity ratios [days] .....	20
Table 20 Turnover ratios [days] .....	20
Table 21 Selected investment outlays at the LW BOGDANKA Group [in PLN '000].....	23
Table 22 The value of investment outlays on the excavations in the four quarters of 2015.....	25
Table 23 Employment at the LW BOGDANKA Group as at 31 March 2014 and 2015 and as at 31 December 2014.....	33

**Signatures of Members of the Management Board**

<b>Name and surname</b>	<b>Position</b>	<b>Date</b>	<b>Signature</b>
Zbigniew Stopa	President of the Management Board	29 April 2015	
Roger de Bazelaire	Vice-President of the Management Board, Economic and Financial Affairs	29 April 2015	
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics	29 April 2015	
Krzysztof Szlaga	Vice-President of the Management Board, Procurement and Investments	29 April 2015	

**Bogdanka, 29 April 2015**