

Presentation of financial results for 1H 2011

August 2011



LUBELSKI WĘGIEL
„BOGDANKA”
SPÓŁKA AKCYJNA

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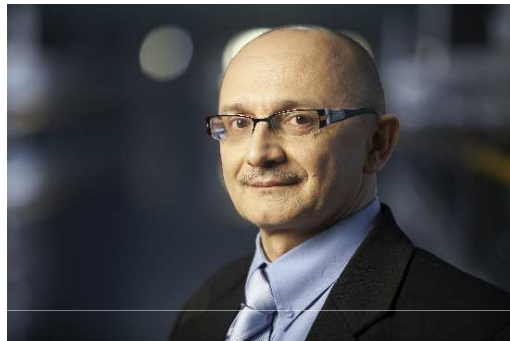
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Introduction

Hard coal market

Bogdanka in 1H2011

Investments in 1H2011

Appendices

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Effectiveness leader



- One of **the largest and most state-of-the-art hard coal mines** in CEE,
- Producer of power coal used for production of electricity,
- **Recoverable resources: 247 million metric tonnes** of coal (current licence ensures the mine's life until 2034),
- **Good geographic location** (Lublin Coal Basin) for major customers (location advantage) and **good natural conditions** (low recultivation costs, regular geological structure and low threat of crumps and methane explosions),
- **Cutting-edge technologies** and world-class machinery used in the process of hard coal extraction – low **failure rate**, no unscheduled stoppages, and high **extraction efficiency**,
- Continued implementation of the investment programme aimed at **doubling the output capacity** and a significant **increase in the extraction efficiency**,
- **Experienced Management Board** working for many years in the hard coal industry.

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Introduction

Hard coal market

Bogdanka in 1H2011

Investments in 1H2011

Appendices

www.bogdanka.eu



Increase in demand on the domestic market ...

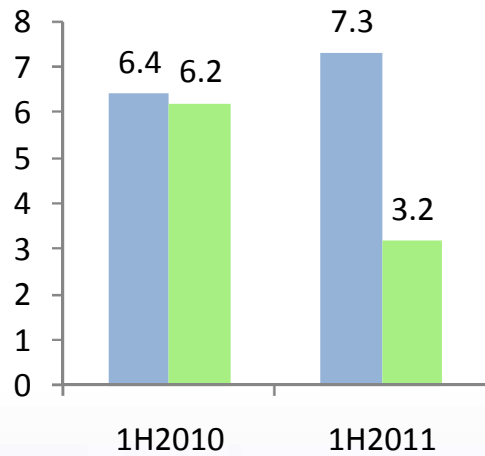
- In 2011 an increase in demand for power coal on the domestic market is observed. Coal reserves on mounds have decreased significantly.
- An average price of power coal (in all sizes) in the period between January and June 2011 amounted to PLN 270.92 per tonne and was higher by 8.69% in comparison with the analogous period of the previous year.
- Situation of Silesian companies:
 - ✓ Extraction of hard coal in the Silesian companies in the first half of 2011 amounted to 34.88 million tonnes and was higher by 0.58% in comparison with the analogous period of the previous year. Included in this result was the extraction of power coal which amounted to 29.07 million tonnes and was higher by 0.97% than in 2010.
 - ✓ Stock of hard coal in mines as at the end of June 2011 amounted to 2,193,000 tonnes which represents a decrease in comparison with the analogous period of the previous year by 3,676,400 tonnes. Stock of power coal decreased as at the end of May by 3,856,300 tonnes, while stock of coking coal increased by 24,000 tonnes.
 - ✓ In the period between January and June 2011, total sales of power coal amounted to 29,832,200 tonnes (83.0% of total coal sales) and was higher by 10.5% (by 2,839,400 tonnes) in comparison with the analogous period of 2010.
 - ✓ An average cost of coal sold in the period between January and June 2011 in the hard coal sector amounted to PLN 276.09 per tonne and was higher in comparison with the analogous period of 2010 by 3.07%.
 - ✓ The level of investments executed in the industry does not allow a significant growth as per the indicated market demand, which results in a higher coal import.



... creates import growth and environment for price increases

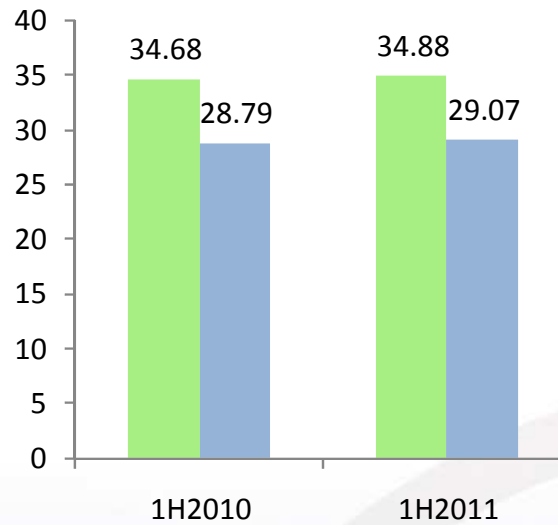
Import and export of coal
(million of tonnes)

Import growth - 14.1%



■ Import ■ Export

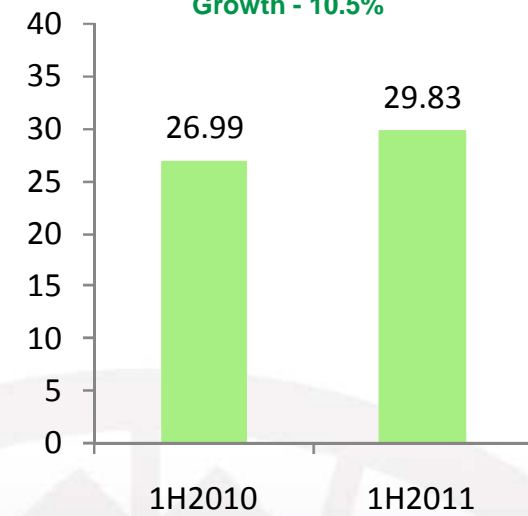
Coal output in the industry
(million of tonnes)



■ Total coal output
■ Power coal output

Coal sales in the industry
(million of tonnes)

Growth - 10.5%



■ Coal sales in the industry

Source: GUS (bez kopalni ZG „SILTECH” oraz LW „BOGDANKA” S.A.) - Informacja o funkcjonowaniu górnictwa węgla kamiennego - Ministerstwo Gospodarki, Agencja Rozwoju Przemysłu

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Introduction

Hard coal market

Bogdanka in 1H2011

Investments in 1H2011

Appendices

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Results for H1 2011 meet the assumptions

PLN (000')	1H2011	1H2010	Change (%)
Revenue	582 081	578 099	0.69
Gross profit	121 616	183 103	-33.58
EBITDA	145 185	194 709	-25.43
EBIT	70 409	126 638	-44.40
Net profit	62 163	106 920	-41.86
Earnings per share (PLN)*	1.79	3.08	-41.88

* On a stand alone basis

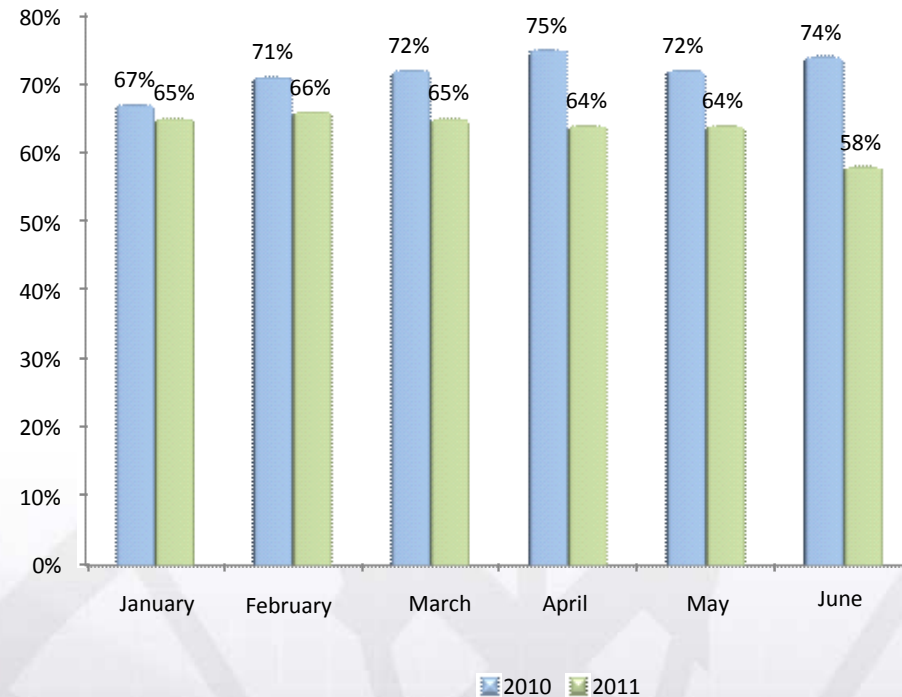
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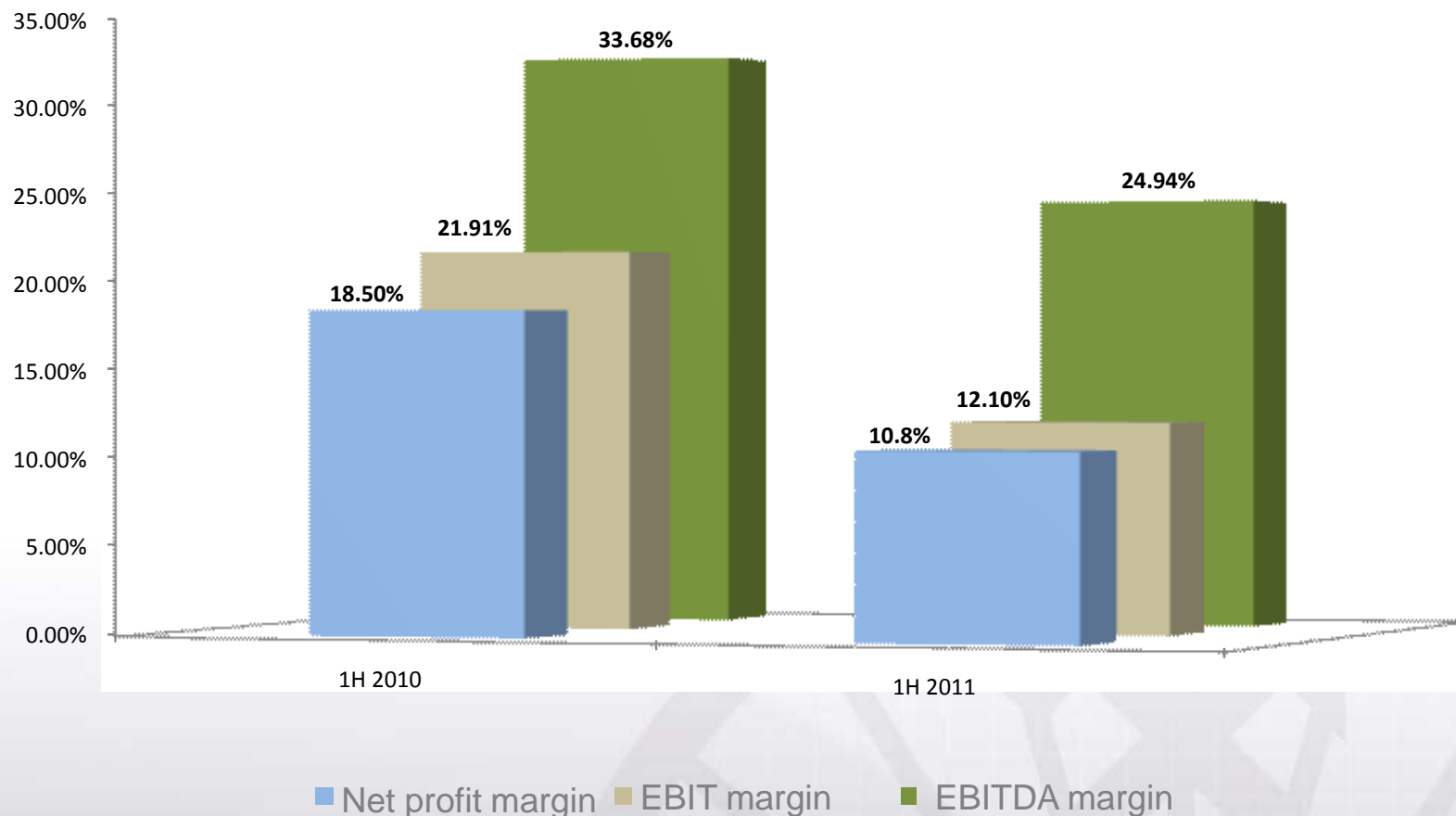
Commercial coal extraction in H1 2011 with the intensified preparatory works ...

- Gross extraction (H1 2011/H1 2010 +1.2%) is executed with the use of maximum power and extraction capacity.
- Net extraction (H1 2011/H1 2010 -9.9%) depends on the intensity of preparatory works (opening new panels) and geological characteristics of the extracted seams — the more uniform, the greater the output.
- In 2011 coal was not extracted with the use of the longwall coal ploughing system (its launch is scheduled to take place in Stefanów in September 2011).
- It is anticipated that the output ratio will improve after the planned cut into the deposit.
- LW Bogdanka S.A. is expecting the net output to increase in the explored deposit.

Commercial coal yield



... which is reflected in profitability ratios



Source: Company

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Results for H1 2011 meet the assumptions



Results for H1 2011 meet the assumptions

- Slight increase in sales revenue (by 0.69%) despite of a fall of the revenue on sales of coal, is a consequence of an increase in revenue on sales of goods and materials and other activity as well as an increase in the revenue on sales of ceramics.
- Decrease in revenue on core activity, i.e. sales of coal (by 4.22%) results from lower volume of sales of commercial coal by 2.64% with a concurrent slightly higher (compared to H1 2010) average price of coal sold and a stronger presentation adjustment (downwards) of revenue by the value of coal sold which was extracted while drilling the headings

Operating expenses

- Increase in operating expenses of the LW BOGDANKA Group results mainly from higher costs of products, goods and materials sold (by 16.6%) and administrative costs (by 15.1%) – (employee costs, insurance of the Company's property).
- The increase in LW BOGDANKA S.A.'s operating expenses was primarily attributable to the increases in:

- ✓ Contracted services – by 22.2%,
- ✓ Materials and energy consumption – by 14.7%;

Wymienione wyżej grupy kosztów są ściśle powiązane z bezpośrednią działalnością Spółki. Zasadniczy wpływ na wzrost ww. grup kosztów miał zrealizowany większy zakres prac przygotowawczych i udostępniających, gdzie w I pół. 2011 r. wykonano 1.708 m.b. więcej chodników, tj. o ok. 15% więcej, aniżeli miało to miejsce w analogicznym okresie roku ubiegłego, co miało znaczący wpływ na spadek uzysku i jakości węgla handlowego

- ✓ Depreciation – by 9.9%
- ✓ Other costs which increased by almost 18%; the recorded increase in other costs results primarily from an increase in property insurance costs, which is the effect of both higher rates and more property being subject to insurance (expanding assets of the Stefanów Field).

Maintaining a stable level of sales revenues in the periods under analysis with a simultaneous increase in operating expenses (pursuance of development strategy) led to a decrease in EBIT by 44.4%. The situation will not change until the first output from the Stefanów Field is obtained (Q4 2011).

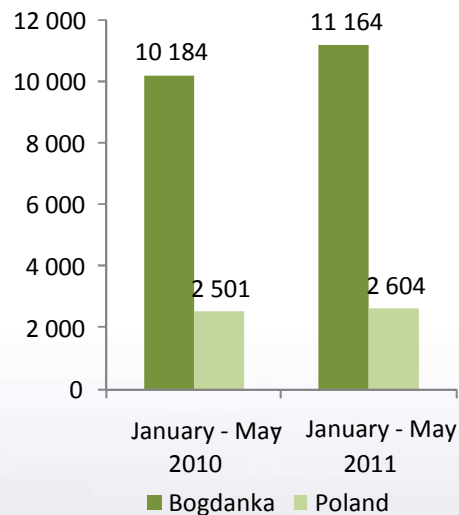
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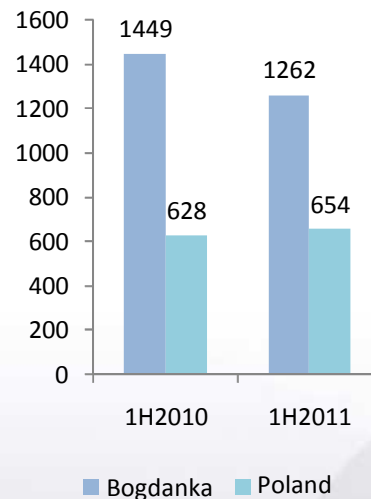
High operational indicators in the industry despite ongoing preparatory works

- **Much higher coal extraction efficiency than the average of the industry** in Poland:
 - general efficiency in 1H2011: **236.14%** of the industry average (266.93% in 1H2010);
 - underground efficiency in 1H2011: **313.96%** of the industry average (293.70% in 1H2010).

Productivity (t/wall/day)



Efficiency (t/employee/year)



The high efficiency, compared to the rest of the industry, was a result of the following factors:

- use of modern technology solutions for coal mining
- fully (optimally) used modern technology park
- regular overhauls, inspections and checks (in accordance with the manufacturers' recommendations) of plant and machinery – the Company reported almost no downtime in the production of coal

Source: Company's calculations based on 'Informacja o funkcjonowaniu górnictwa węgla kamiennego' – Ministry of Economy, Agencja Rozwoju Przemysłu

'Poland' represents average for Polish mines excluding the Company

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Introduction

Hard coal market

Bogdanka in 1H2011

Investments in 1H2011

Appendices

www.bogdanka.eu



Key investments in the first half of 2011

■ Continued construction of the excavation and ventilation shaft 2.1 in the Stefanów Field along with the ancillary facilities

On 24 August 2011 works on optimising the mining shaft hoist of shaft 2.1 were launched (loading the output to the skip, load testing commenced). Commissioning of the lift machinery room and the hoist tower of shaft 2.1 are under way.

■ Extension of the Mechanical Coal Processing Plant:

— Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h: According to a new timetable provided by Mostostal Warszawa, the investment contractor, the first stage of works will have been completed by 24 September 2011, and the final commissioning of the investment will take place in August 2012 (formerly scheduled for 31 December 2011).

— construction of the excavated material haulage system from the Stefanów Field to the Mechanical Coal Processing Plant:

Construction facilities have been commissioned and a permit has been obtained for using the construction facilities, the start-up and commissioning of machines, devices and installations in construction facilities are in progress. Currently a load start up is carried out on the machines in the Stefanów Field's facilities.

— Coal storage area extension:

The concept for extension of the existing commercial coal storage area is completed, and geotechnical examinations of the ground under the tracks

■ Making coal seams in the Stefanów Field available

— Drilling works of all workings at a level of 990 were completed

■ Construction of central air-conditioning system of the Stefanów Field

— In the first half of 2011, the construction of the basic part of the air conditioning station was completed – a certificate of occupancy for the air-conditioning station was obtained.

■ Extension of the Bogdanka station's track system

— The construction and start-up of the first stage of the extension of the Bogdanka station's track system was completed.

■ Purchases of finished products

— Agreement with Bucyrus Europe GmbH for the supply of the second longwall plough system

At the current stage of the investment, despite some delays, the Company is planning to mine approx. 8 million tonnes in 2012 and achieve a target capacity of 11.5 million tonnes at the end of 2013.



Key material investments of the LW BOGDANKA Group in the 6 months of 2011 and the 6 months of 2010



Key material investments [PLN '000]	Outlays incurred from 1 January 2011 to 30 June 2011	Outlays incurred from 1 January 2010 to 30 June 2010
Construction and assembly work	252 556	158 213
Completion of deliveries and purchases of finished goods	102 213	192 118
Other	1 055	1 104
Prepayments for fixed assets under construction	40	39
Total	355 864	351 474

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Thank You



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Introduction

Hard coal market

Bogdanka in 1H2011

Investments in 1H2011

Appendices

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Profit and loss account – 1H 2011

(PLN '000)	1H 2011	1H 2010	Change % 2011/2010 [%]
Revenue	582 081	578 099	0.69
Cost of products, goods and materials sold, sales and administrative costs	516 996	446 617	15.76
Gross profit on sales	65 085	131 482	- 50.50
Other revenue	7 951	2 251	253.22
Other costs	514	1 745	- 70.54
Operating profit (loss) net	- 2 113	- 5 350	- 60.50
EBIT margin (%)	12.10	21.91	-44.77
EBITDA	145 185	194 709	- 25.43
EBITDA margin (%)	24.94	33.68	-11.10
Financial income	9 444	12 869	- 26.61
Financial costs	2 806	6 664	- 57.89
Profit before tax	77 029	132 819	- 42.00
Income tax	14 866	25 899	- 42.60
Net profit	62 163	106 920	- 41.86
Net profit margin (%)	10.68%	18.50%	- 42.27
- Profit attributable to company's shareholders	61 935	106 208	- 41.69



Balance sheet

PLN (000')	30.06.2011	31.12.2010
Fixed assets, including:	2 443 488	2 163 972
Cash and cash equivalents	52 673	50 909
Current assets, including:	442 665	664 073
Cash and cash equivalents	261 271	472 101
Total assets	2 886 153	2 828 045
Current liabilities	448 465	403 139
Non-current liabilities	454 125	455 887
Total liabilities	902 590	859 026
Equity	1 983 563	1 969 019
Current loans	54 000	50 000
Non-current loans	190 000	200 000



Cash Flow

(‘000 PLN)	1H 2011	1H 2010
Operating cash flow	167 952	160 393
Operating cash inflow	180 386	190 830
Interest paid	-	-5 192
Income tax paid	- 12 434	-25 245
Investing cash flow	- 372 782	- 264 882
Acquisition of tangible fixed assets	- 378 672	- 275 245
Acquisition of intangible fixed assets	-393	-55
Inflow from the sale of tangible fixed assets	55	15
Interest received	7 992	11 596
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	- 1 764	- 1 193
Financing cash flow	- 6 000	-
Net proceeds from the sale of shares	-	-
Loans and borrowings received	- 6 000	-
Loans and borrowings repaid	-	-
Dividend paid to shareholders of the parent entity	- 210 830	-104 489
Net increase / (decrease) in cash and cash equivalents	472 101	681 659
Cash and cash equivalents at beginning of period	261 271	577 170



Sales structure – 1H 2011

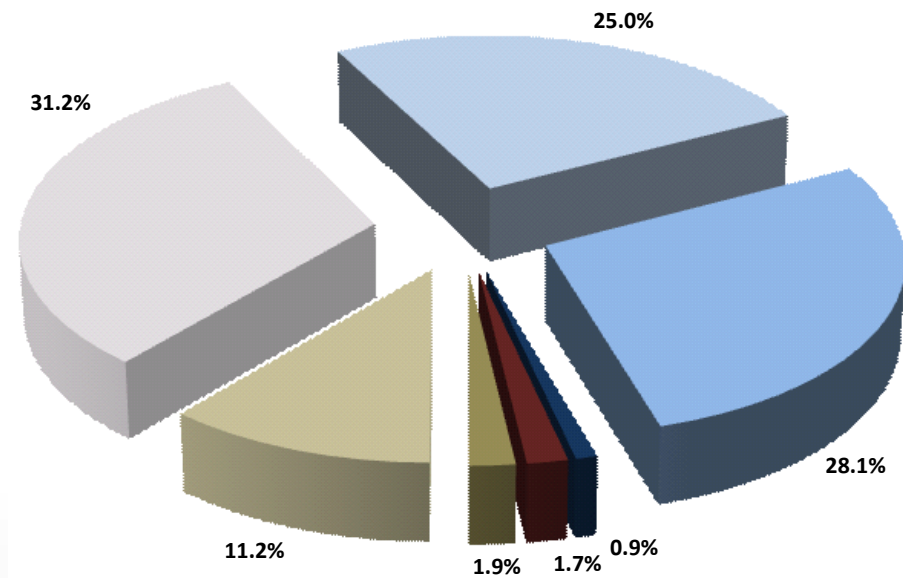
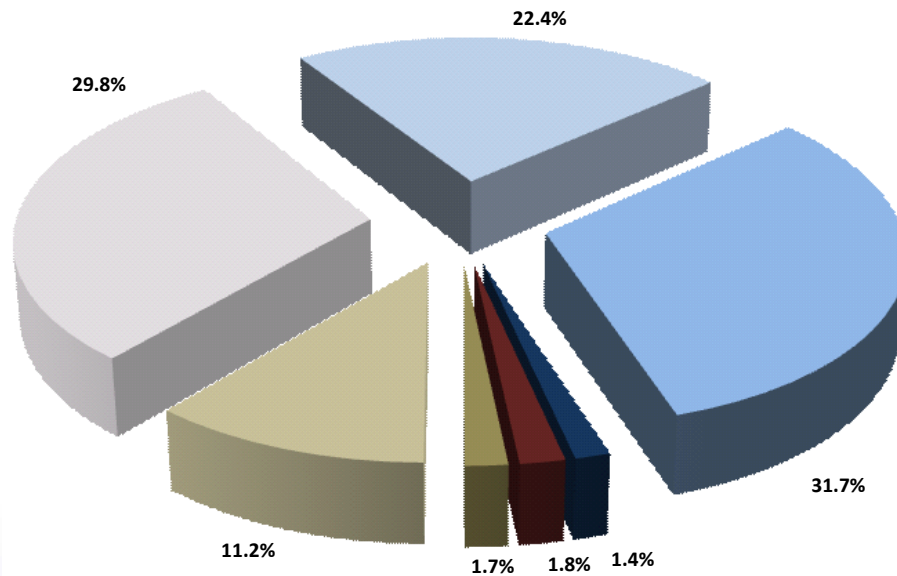
(PLN '000)	1H 2011	share	1H 2010	share
Coal sales	536 281	92.13%	559 914	96.85%
Sales of ceramics	4 649	0.80%	3 535	0.61%
Other activities	23 765	4.08%	10 700	1.85%
Sales of goods and materials	17 386	2.99%	3 950	0.69%
Total sales revenue	582 081	100%	578 099	100%

- Majority of sales (approx. 85%) is performed under long-term trade agreements with permanent customers, primarily Elektrownia Kozienice S.A., Elektrownia Połaniec S.A. - GDF Suez Energia S.A., ENERGA Elektrownie Ostrołęka S.A., Grupa Ożarów S.A.
- A drop in revenue on coal sales was caused by a lower amount of coal sold (-2.64%), at a higher unit sale price.



Structure of costs by type at Bogdanka – 1H2011

1H2010



- Depreciation and amortisation
- External services
- Entertainment and advertising expenses
- Other expenses



Ventilation channel of shaft 2.1

Hoist tower for skip shaft
2.1 and lift machinery
room building

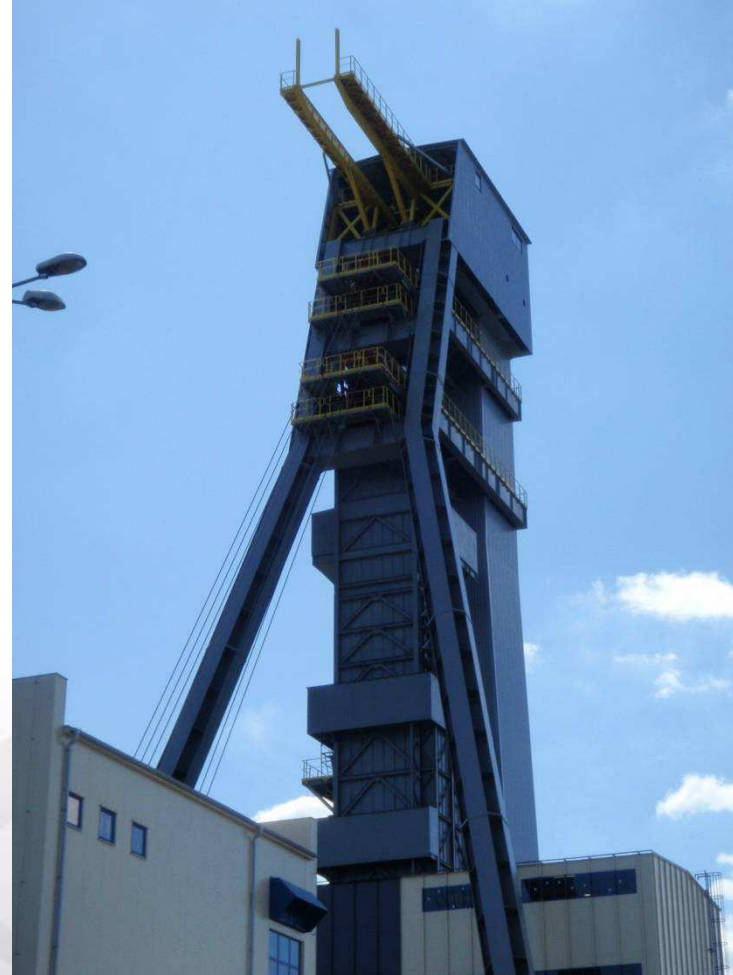


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Hoist tower for skip shaft 2.1 and lift machinery room building – another angle



Ventilation channel of shaft 2.1 – view from the tower



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Flyover for coal transport from Stefanów to Bogdanka – storage reservoir for raw coal



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Initial section of coal transport line from Stefanów to Bogdanka



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Rozruch urządzenia ciągu transportowego węgla ze Stefanowa do Bogdanki



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Start-up of coal transport line from Stefanów to Bogdanka



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Start-up of coal transport line from Stefanów to Bogdanka



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Extension of the Mechanical Coal Processing Plant in Bogdanka



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View on hoist tower for skip shaft 1.3 in Bogdanka



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