



LUBELSKI WĘGIEL  
„BOGDANKA”  
SPÓŁKA AKCYJNA

PRESENTATION AND RESULTS FOR

✓ Q1 2014

GK LW BOGDANKA



Warsaw 08.05.2014



# MANAGEMENT BOARD MEMBERS



## **Zbigniew Stopa**

President of the  
Management Board



## **Roger de Bazelaire**

Vice-President of the  
Management Board,  
Chief Financial Officer



## **Waldemar Bernaciak**

Vice-President of the  
Management Board,  
Sales and Logistics



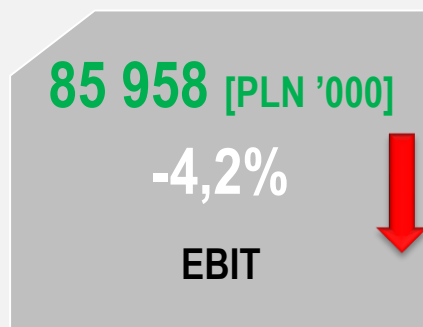
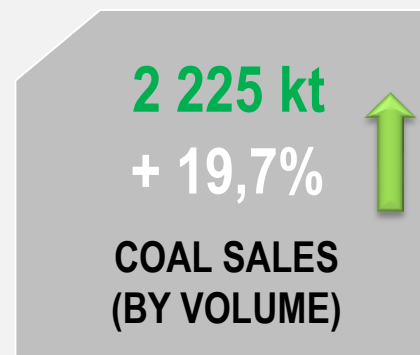
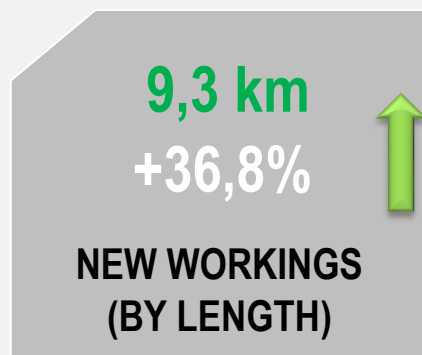
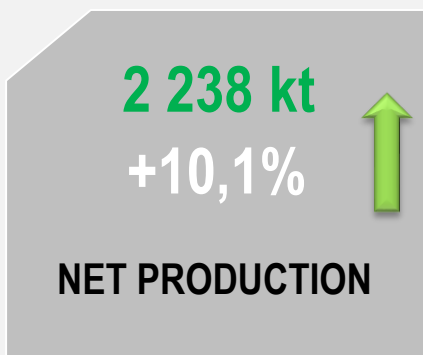
## **Krzysztof Szlaga**

Vice-President of the  
Management Board,  
Procurement and Investments

# LW BOGDANKA GROUP RESULTS FOR Q1 2014



## YEAR-ON-YEAR CHANGE IN LW BOGDANKA GROUP RESULTS FOR Q1 2014 AND Q1 2013



Q1 2014 value



Q1 2014/Q1 2013 change [%]

# AGENDA



- 1.** Key operating data
2. Coal market overview
3. Financial highlights
4. Capex projects in Q1 2014
5. Appendices – Financial information

# PRODUCTION AND SALES OF COMMERCIAL-GRADE COAL AT LW BOGDANKA S.A. IN Q1 2014



## Gross production

- **3 342,8 thousand tonnes** in Q1 2014 (up by **12,8%** on Q1 2013)

## Net production

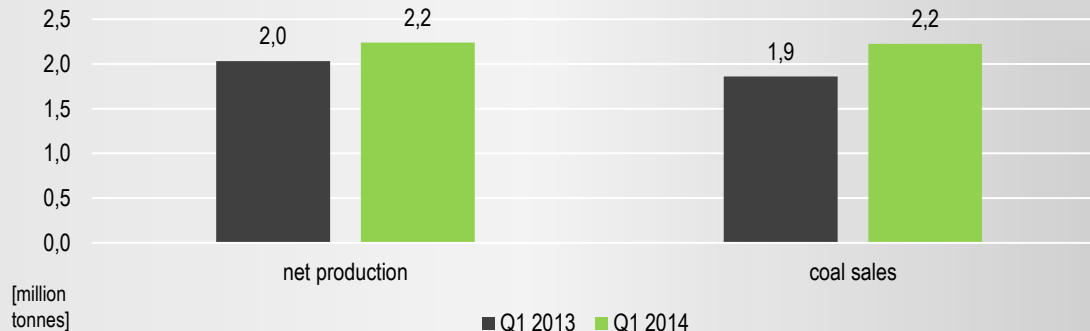
- **2 238,2 thousand tonnes** in Q1 2014 (up by **10,2%** on Q1 2013)
- Coal production in Q1 2014 was **in line with the plan**, therefore we are confirming our guidance for output in 2014 in a range of **9.3 to 10 million tonnes**

## New galleries

- Work is ongoing to **open up new coal seams**: in Q1 2014 **9,3 km of new galleries** were developed compared with **6,8 km** in Q1 2013 (y-o-y change of **+36,8%**),
- In Q1 2014 there was a significant increase in newly developed workings, as a result of the Company's Development Strategy

## Coal sales

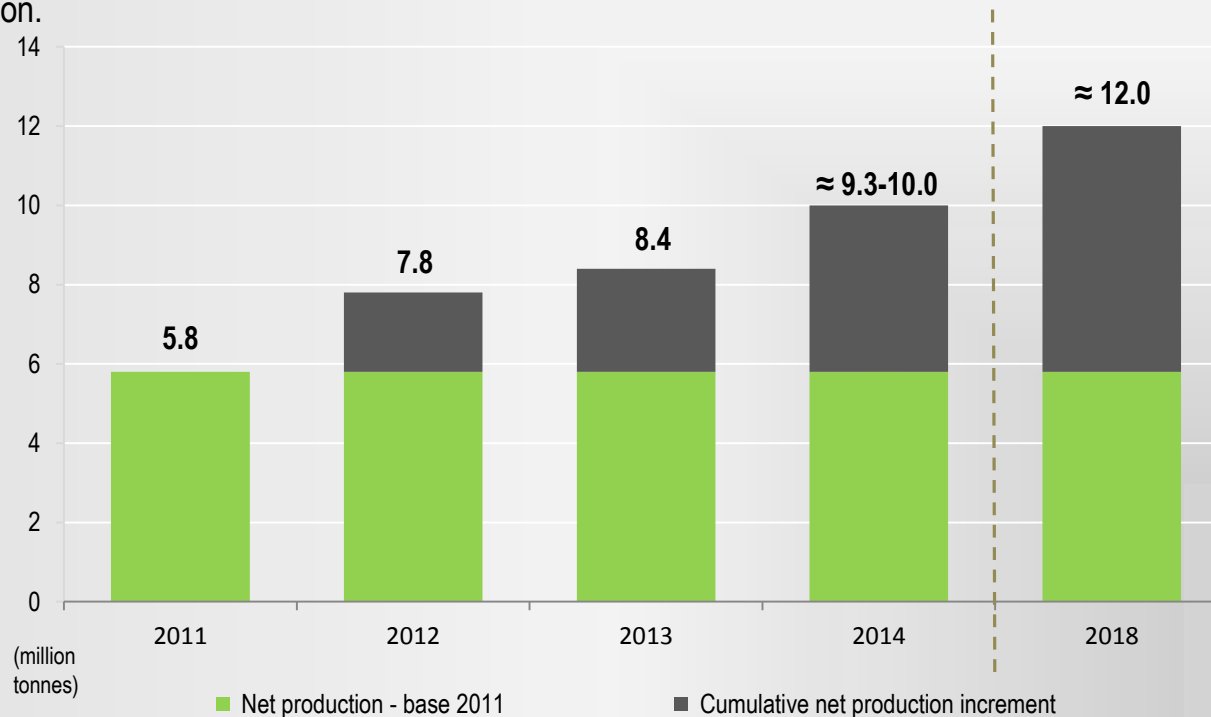
- There was a significant increase in coal sales in Q1 2014, where **2 225,3 thousand tonnes** of coal was sold, i.e. **19,7%** (**366,2 thousand tonnes**) more than in Q1 2013



# PRODUCTION OBJECTIVES FOR 2014



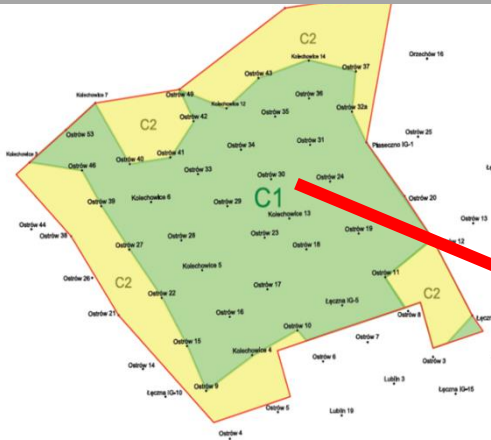
- The Company has been consistently pursuing its Development Strategy, which provides for doubling of production volumes.
- Coal production in Q1 2014 was **in line with the plan**, therefore we are confirming our guidance for output in 2014 in a range of **9.3 to 10 million tonnes**
- Reaching full processing capacity of the mine, currently planned for September 2014, will allow us to enrich the entire volume of extracted product and consequently to achieve our strategic objectives in the following years.
- The Company has maintained its lead in efficiency of mining operations, thanks to continuing cost optimisation, consistent development, improved work organisation and reliance on outsourcing, all of which contributes to lowering the unit cash cost of production.



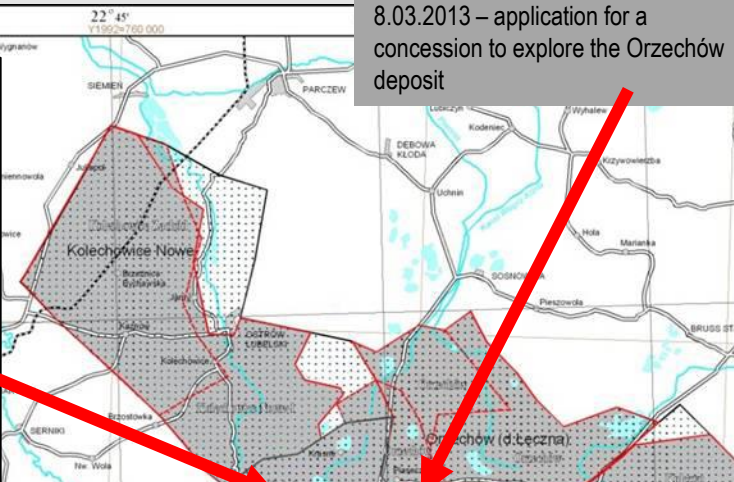
# DOUBLING OF RESOURCES – CONCESSIONS



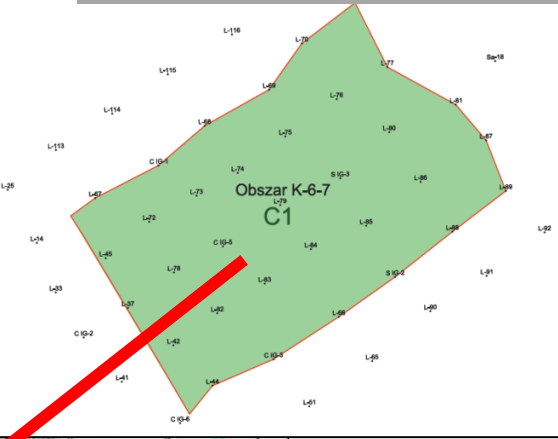
29.01.2013 – application for a concession to explore the Ostrów deposit



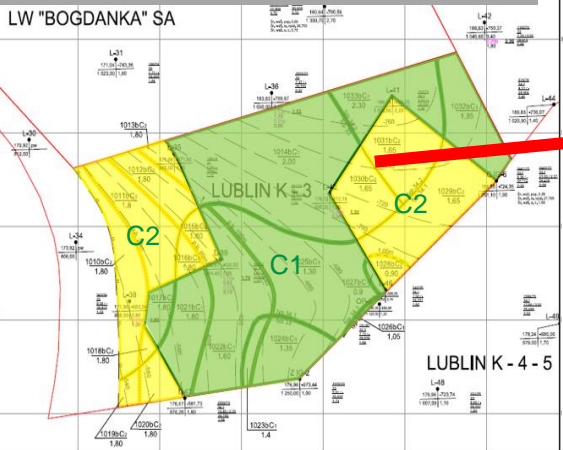
8.03.2013 – application for a concession to explore the Orzechów deposit



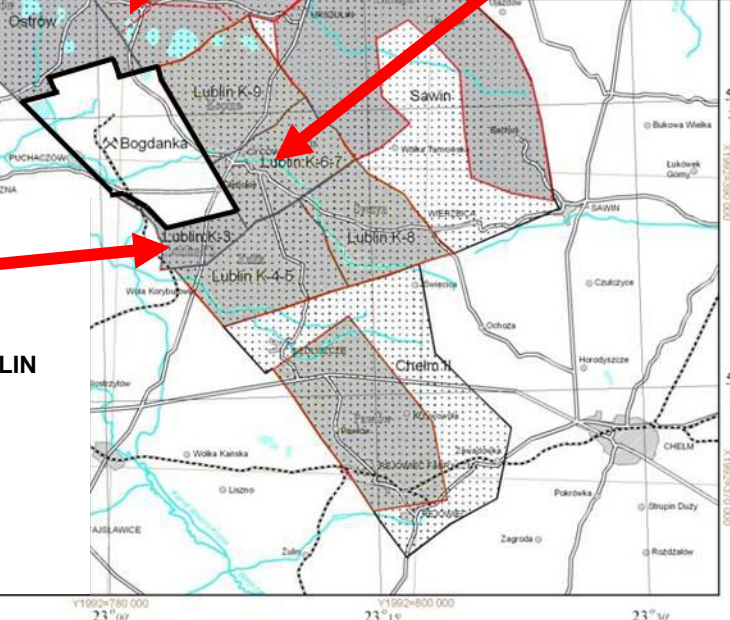
20.12.2013 – application for a mining concession for area K-6-7



20.12.2013 – application for a mining concession for area K-3



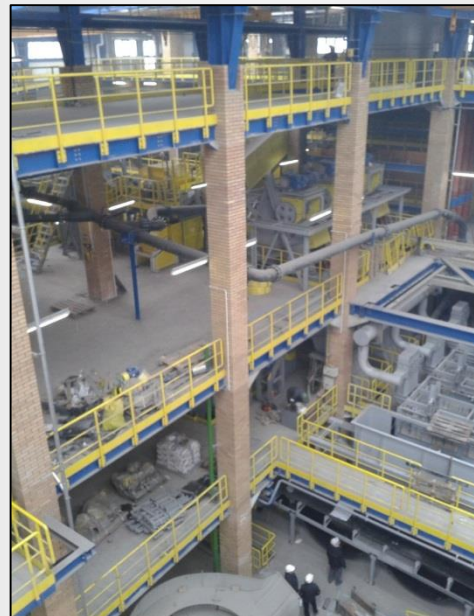
DETAIL OF THE LUBLIN COAL BASIN



# LAUNCH OF MECHANICAL COAL PROCESSING PLANT



- Expansion of the Mechanical Coal Processing Plant will enable the Company to double the production by doubling its nominal capacity to 2,400 tonnes/h on the “wet” line.
- The “wet” part of the Mechanical Coal Processing Plant will enable the processing of coal from deposits of lower quality so that it reaches the parameters of commercial coal.
- The final stages of construction and assembling works are progressing in accordance with the plan.
- At the moment, the commissioning of the Mechanical Coal Processing Plant, which will begin in July 2014, is of key importance to meeting the production targets for 2014.
- The project is planned to be completed in September 2014.

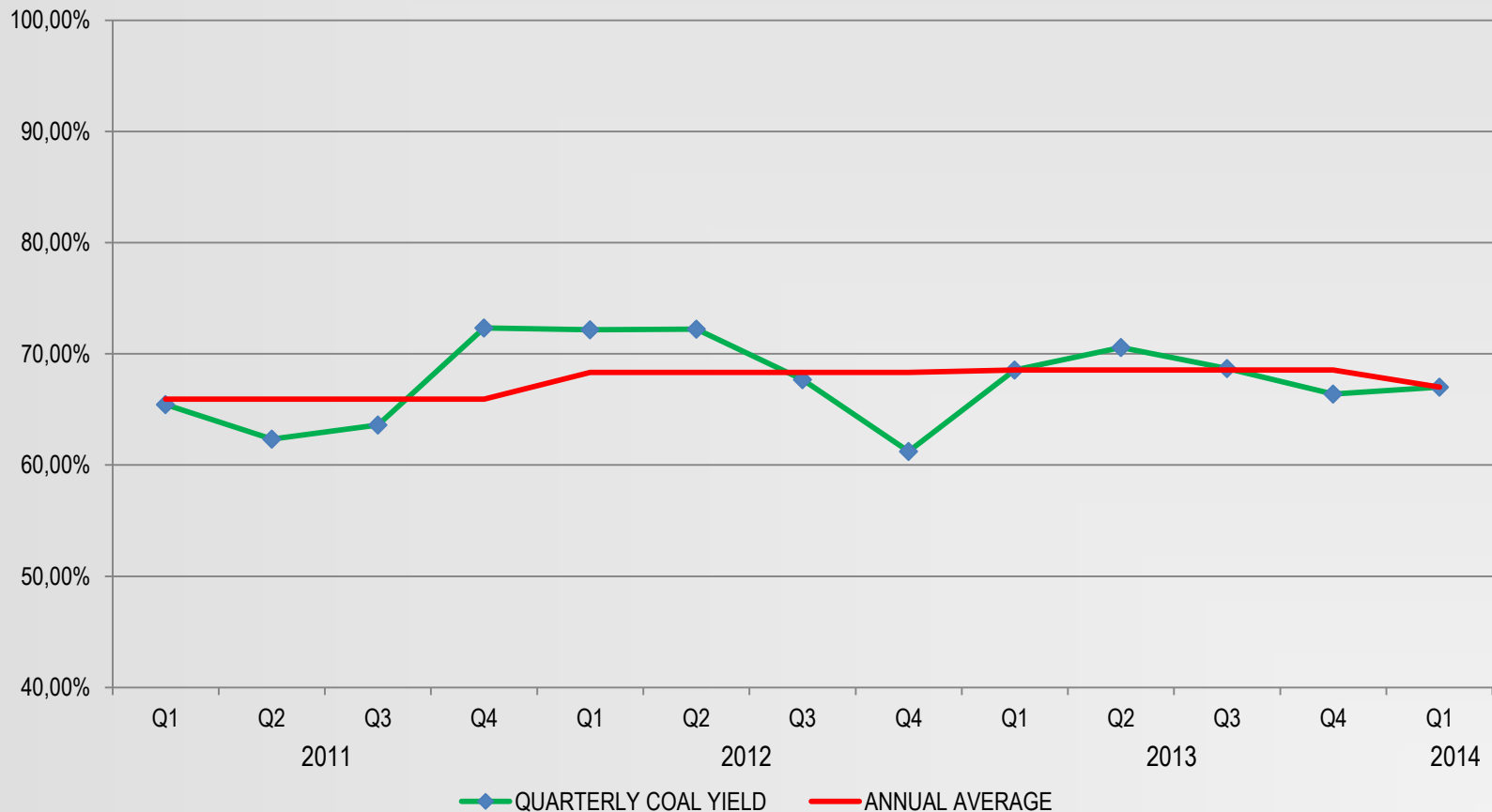




# COAL YIELD AT LW BOGDANKA S.A.



## COAL YIELD AT LW BOGDANKA S.A. [2011 – 2014]



# AGENDA



**1.** Key operating data

**2.** Coal market overview

**3.** Financial highlights

**4.** Capex projects in Q1 2014

**5.** Appendices – Financial information

# DOMESTIC DEMAND FOR THERMAL COAL...\*



## COAL PRICES

- The average price of thermal coal in the domestic market in Q1 2014 was **PLN 258.52/tonne**
- The average price of coal sold to commercial power plants in Q1 2014 was **PLN 223.34/tonne**

## OTHER EVENTS

- Q1 2014 saw a **decline in market demand** for thermal coal
- **The decline in demand** was related to a mild winter and a decrease in energy consumption in Q1 2014 by 1.5%
- Very large quantities of coal still remain stockpiled at mines and power plants

## HARD COAL MARKET

## PERFORMANCE OF POLISH COMPANIES\*

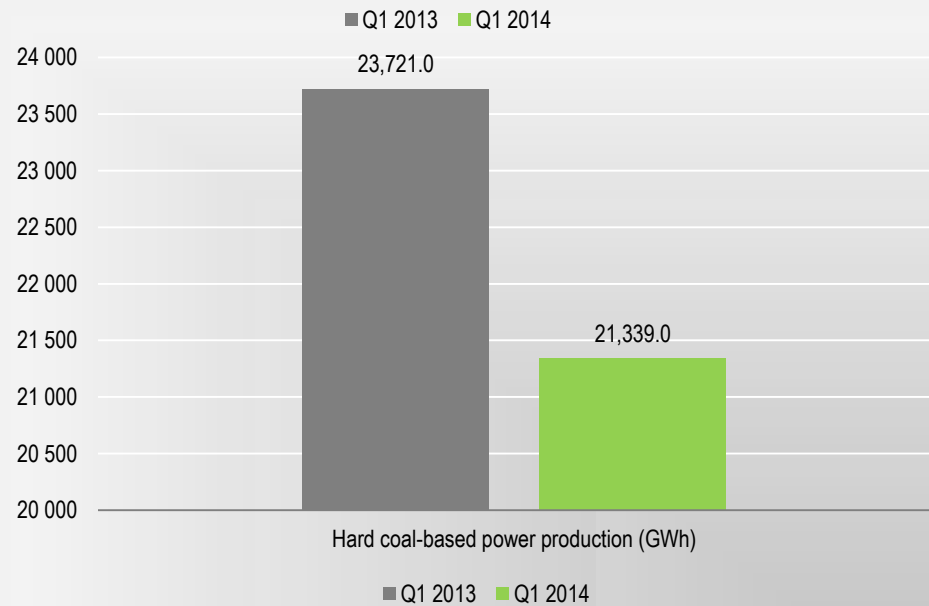
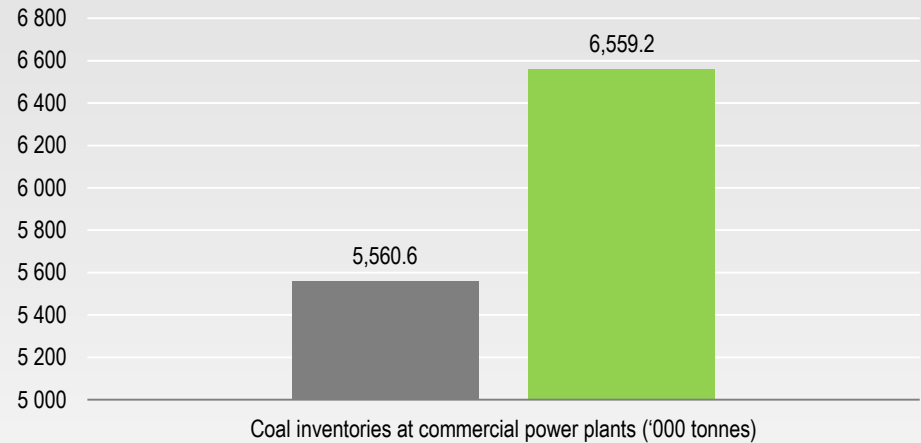
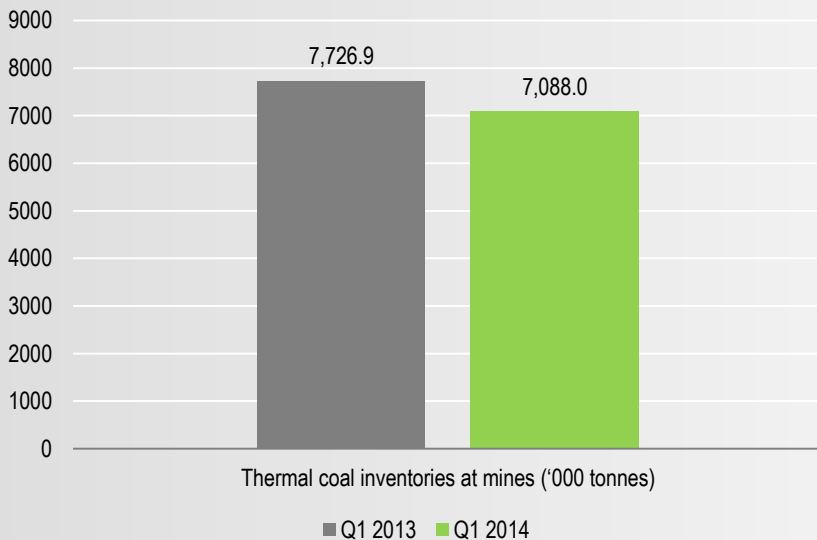
- Silesian mines produced a total of **12.6 million tonnes** of thermal coal in Q1 2014 which represented a **7.2%** decline year on year
- **Stocks** of thermal coal at mines at the end of Q1 2014 amounted to **7,088.0 thousand tonnes** and was lower by nearly **638.9 thousand tonnes**, or **8.3%**, compared to Q1 2013. However, in Q1 2014, the amount of coal stockpiled at commercial power plants has increased
- W Q1 2014 **domestic sales of thermal coal** amounted to **9,759.0 thousand tonnes** (almost 67.3% of total sales of coal) down **10.6%** (**1,151.4 thousand tonnes**) on Q1 2013
- The average **cost of thermal and coking coal sold** in Q1 2014 was **PLN 304.36/tonne** up by **3.0%** on Q1 2013

# DOMESTIC DEMAND FOR THERMAL COAL...\*



## INVENTORIES OF COAL

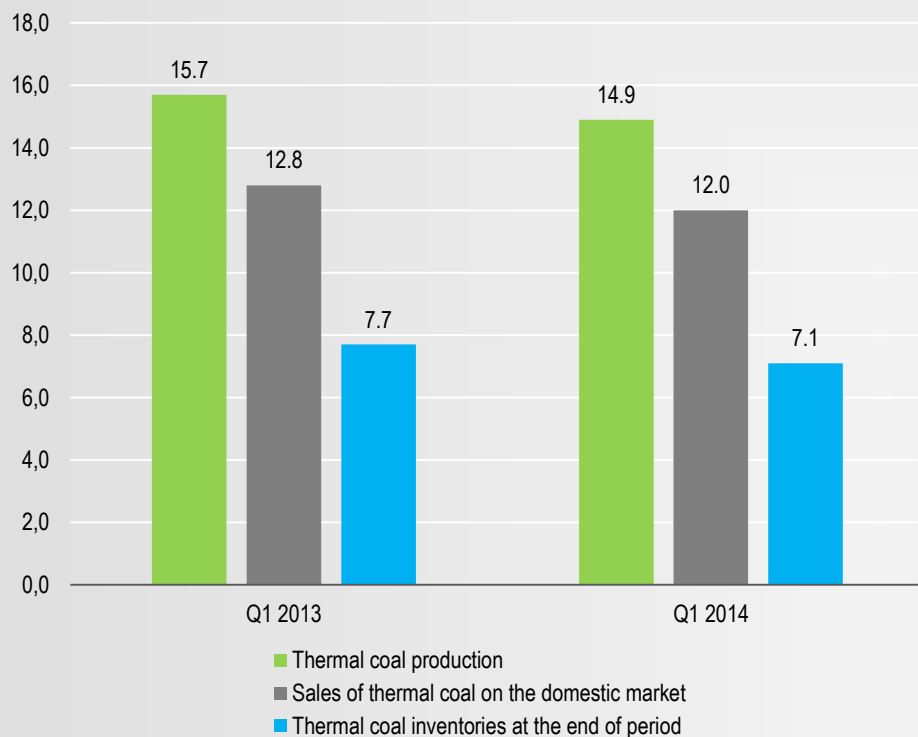
- Q1 saw a slight decrease in the amount of coal stockpiled at mines, but the inventories at commercial power plants have significantly increased.
- It is estimated that a total of approx. 13.6 million tonnes of coal remains stockpiled in the Polish market.
- The situation is additionally negatively impacted by a significant 10% decrease in hard coal-based energy production, which was caused by a mild winter (temperatures in March 2014 were, on average, 8°C higher than the year before) and an increase in the production of energy based on the cheaper lignite.



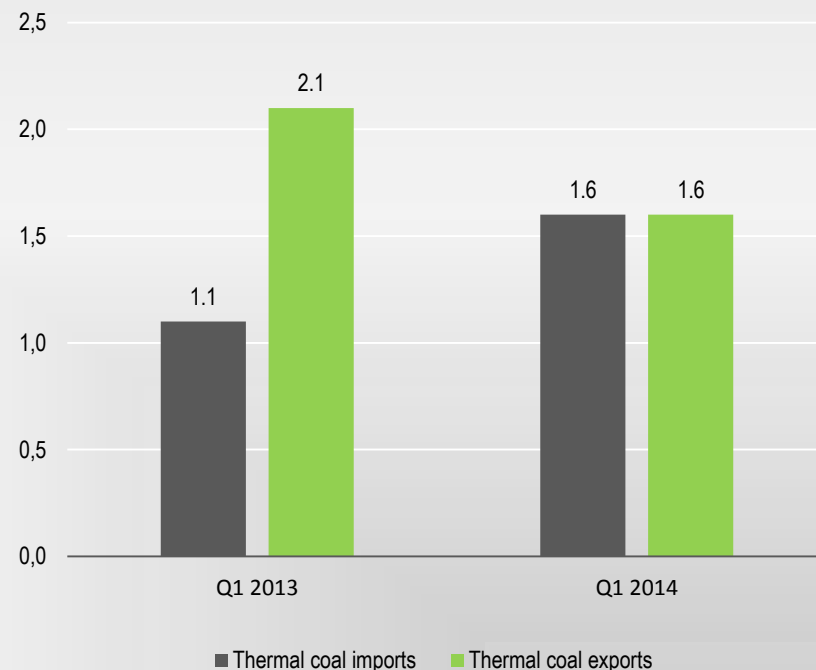
# ... AS A FACTOR DETERMINING LEVELS OF COAL PRODUCTION, SALES AND INVENTORIES\*



**Thermal coal production, domestic sales and inventories  
(million tonnes)**



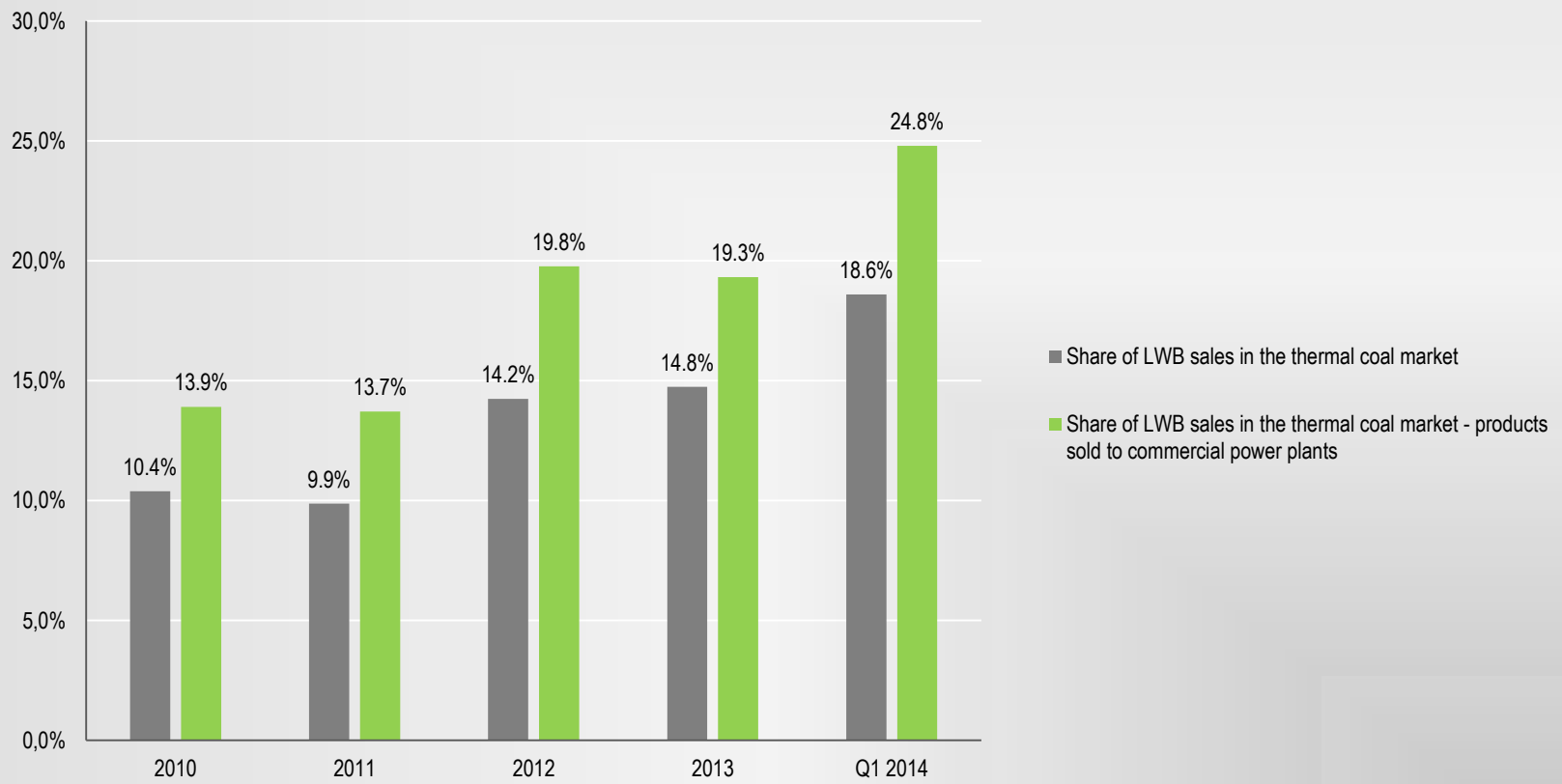
**Thermal coal imports and exports  
(million tonnes)**





# LW BOGDANKA S.A.'S STRONG MARKET POSITION

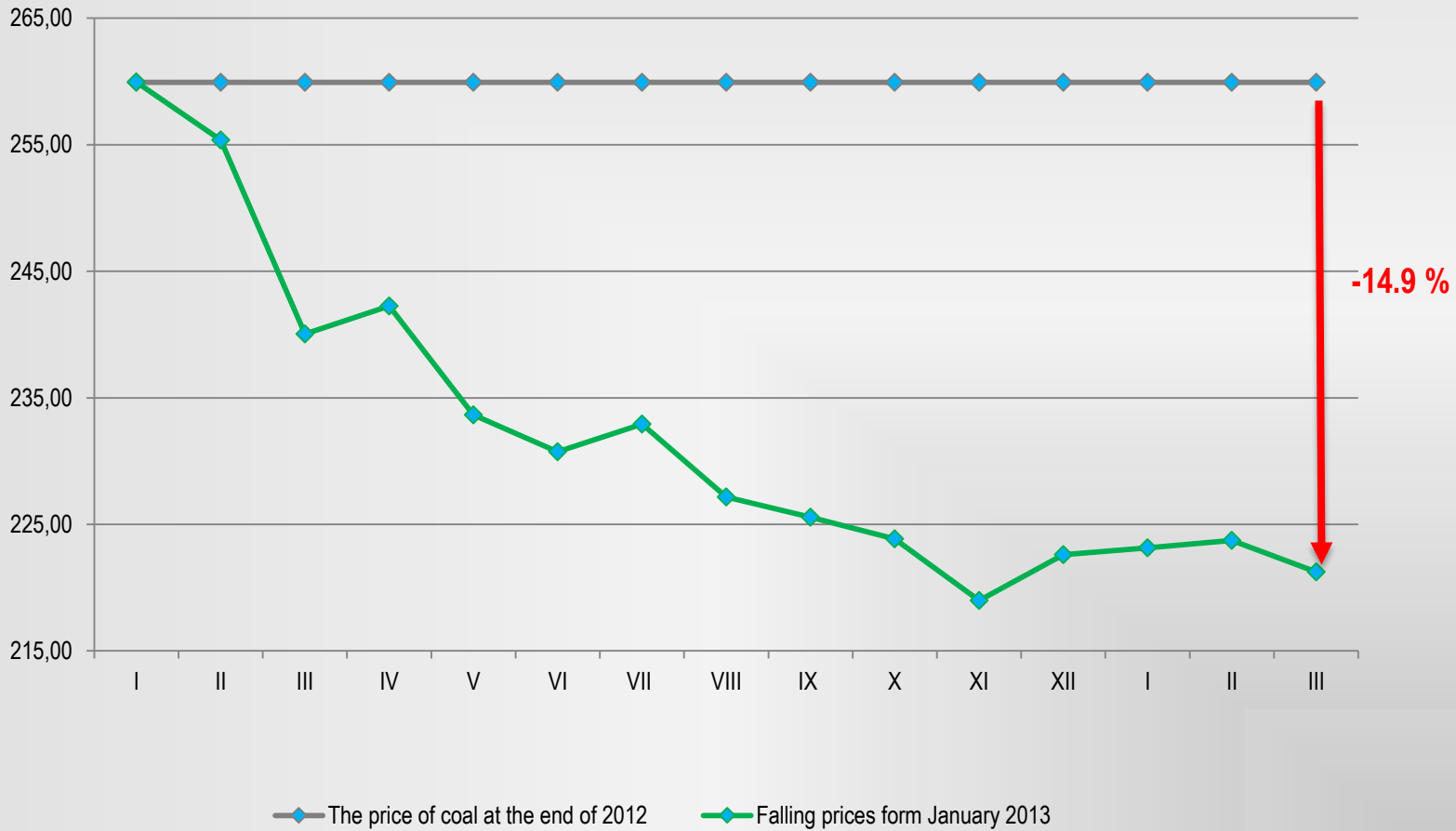
## MARKET SHARE IN [2010 – 2014]





# PRICES IN THE THERMAL COAL MARKET – COAL SOLD TO COMMERCIAL POWER PLANTS IN POLAND\*

## Prices of coal sold to commercial power plants in Poland



Source: In-house estimates based on available market data

# AGENDA



**1.** Key operating data

**2.** Coal market overview

**3.** Financial highlights

**4.** Capex projects in Q1 2014

**5.** Appendices – Financial information





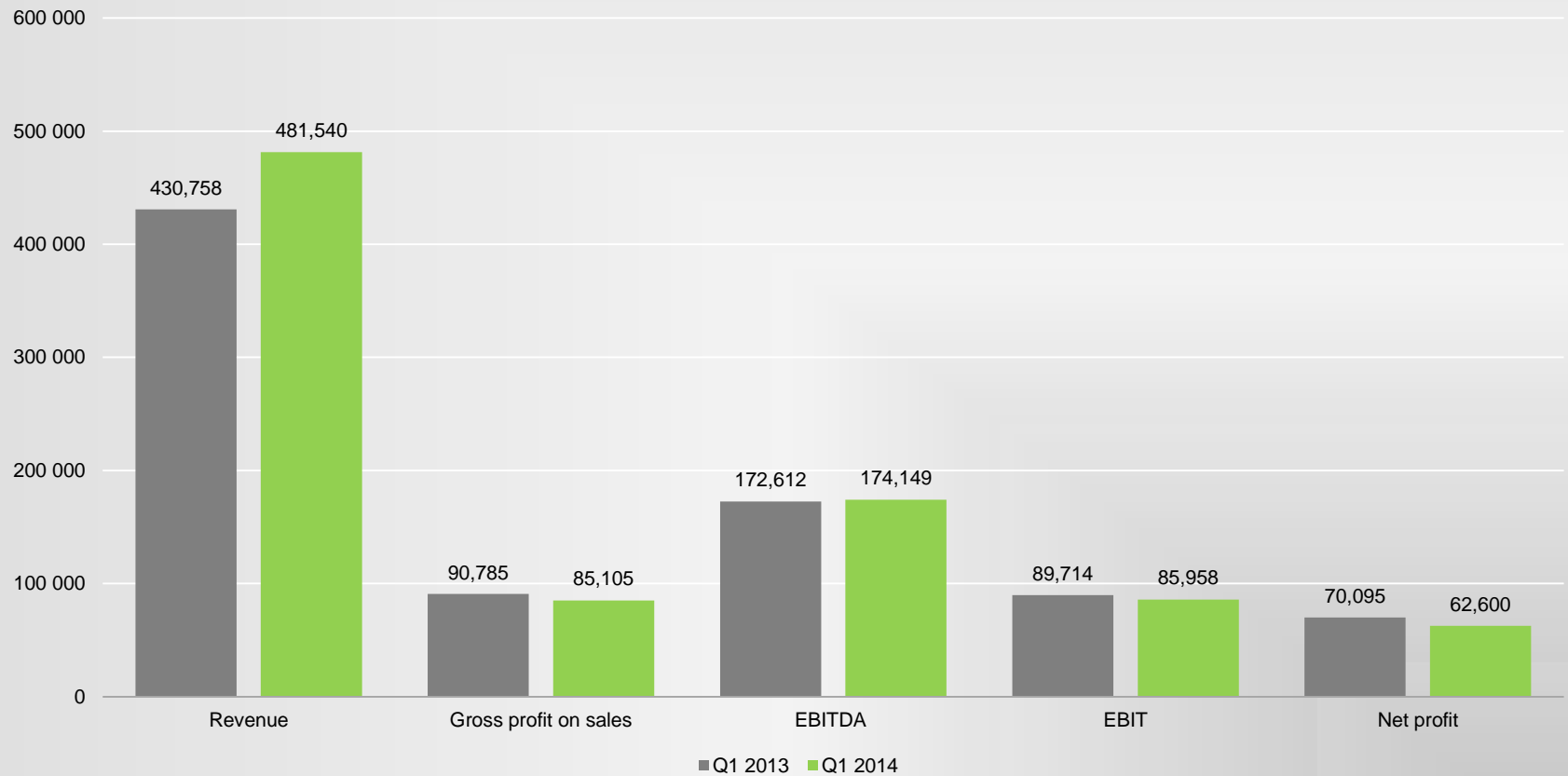
# LW BOGDANKA GROUP RESULTS FOR Q1 2014 AND Q1 2013

Item	Unit	Q1 2014	Q1 2013	Change % (Q1 2014/ Q1 2013)
<b>Technical and operating data</b>				
<b>Gross production</b>	'000 tonnes	<b>3,343</b>	<b>2,964</b>	<b>12.8%</b>
Net production	'000 tonnes	2,238	2,032	10.1%
<b>Coal sales</b>	'000 tonnes	<b>2,225</b>	<b>1,859</b>	<b>19.7%</b>
Inventories (end of period)	'000 tonnes	229.3	190.9	20.1%
<b>New workings (by length)</b>	<b>km</b>	<b>9.3</b>	<b>6.8</b>	<b>36.8%</b>
Coal yield	%	66.9%	68.6%	-2.5%
<b>Financial data</b>				
<b>Revenue</b>	<b>PLN '000</b>	<b>481,540</b>	<b>430,758</b>	<b>11.8%</b>
Gross profit	PLN '000	85,105	90,785	-6.3%
<b>EBITDA</b>	<b>PLN '000</b>	<b>174,49</b>	<b>172,612</b>	<b>0.9%</b>
EBITDA margin	%	36.2%	40.1%	-9.7%
<b>EBIT</b>	<b>PLN '000</b>	<b>85,958</b>	<b>89,714</b>	<b>-4.2%</b>
EBIT margin	%	17.9%	20.8%	-13.9%
<b>Net profit</b>	<b>PLN '000</b>	<b>62,600</b>	<b>70,095</b>	<b>-10.7%</b>



# LW BOGDANKA GROUP RESULTS FOR Q1 2014 AND Q1 2013

## RESULTS FOR Q1 2014 AND Q1 2013 [PLN ' 000]





# LW BOGDANKA GROUP RESULTS FOR Q1 2014 AND Q1 2013

## Revenues

In Q1 2014 the Group generated revenue of **PLN 481,540,000**, up by **nearly 12%** as compared to the same period in 2013.

## Cost of products, merchandise and materials sold

In Q1 2014 **cost of products, goods and materials sold increased by 18.8%** in relation to Q1 2013 (PLN 309,274,000) and amounted to **PLN 367,467,000**.

## Gross profit on sales

**Gross profit on sales** in Q1 2014 **decreased by 6.3%** in relation to Q1 2013 and equalled **PLN 85,105,000**.

## Sales and administration expenses

In Q1 2014 **total selling and administrative costs** amounted to **PLN 33,218,000**, which represents an **increase of 4.5%** in relation to Q1 2013 (PLN 31,788,000).

## Operating profit (EBIT)

Operating profit generated in Q1 2014 totalled **PLN 85,958,000**, which shows a **decrease of 4.2%** in relation to Q1 2013 (**PLN 89,714,000**).

## Net profit

**Net profit** generated by the Group in Q1 2014 was by **10.7% lower** than in Q1 2013. **Net profit in 2014 amounted to PLN 62,600,000**, while in 2013 totalled **70,095,000**. **Net profit** of the financial year attributable to the Company's shareholders amounted to **PLN 62,381,000**, as compared to **PLN 69,863,000** in Q1 2013.

# LW BOGDANKA GROUP'S BALANCE - SHEET PROVISIONS



## GROUP'S ON-BALANCE-SHEET PROVISIONS AT THE END OF Q1 2013 AND AT THE END OF Q1 2014

Item [PLN '000]	As at 31.03.2014	As at 31.03.2013	Change 2014/2013 [%]
Employee provisions	207,614	194,396	6.8%
Liabilities under local property tax (incl. workings)	30,186	10,588	185.1%
Mine decommissioning provision	94,417	89,861	5.1%
Mining damage	12,605	12,643	-0.3%
Other	24,721	23,520	5.1%
<b>TOTAL</b>	<b>369,543</b>	<b>331,008</b>	<b>11.6%</b>

# LW BOGDANKA GROUP'S BALANCE-SHEET PROVISIONS – CONTD.



## GROUP'S PROVISIONS AT THE END OF Q1 2014 AND AT THE END OF Q1 2013

Item [PLN '000]	Provisions in Q1 2014	Provisions in Q1 2013	Change 2014/ 2013 [%]
Employee provisions (including subsidiaries)	7 584	1 728	338,9%
Liabilities under local property tax (incl. workings)	2 340	1 086	115,5%
Mine decommissioning provision	9 139	-	-
Mining damage	-328	-827	-60,3%
Other	663	494	34,2%
<b>TOTAL</b>	<b>19 398</b>	<b>2 481</b>	<b>681,9%</b>

# LW BOGDANKA S.A.'S EXPENSES BY NATURE IN Q1 2014



## BOGDANKA S.A.'S EXPENSES BY NATURE IN Q1 2014 AND Q1 2013

Item [PLN '000]	Q1 2014	Q1 2013	Change [Q1 2014 / Q1 2013]
Depreciation and amortization	87,717	81,970	7.1%
Materials and energy	123,481	124,304	-0.7%
External services	117,183	105,476	11.1%
Employee cost and benefits	131,695	121,089	8.8%
Entertainment and advertising	2,186	2,334	-6.3%
Taxes and charges	9,820	8,945	9.8%
Other expenses	13,291	11,348	17.1%
<b>Costs by type</b>	<b>485,373</b>	<b>455,466</b>	<b>6.6%</b>
Cost of own work*	-66,440	-66,904	-0.7%
Deferred expenses and rebates	-4,351	3,013	-244.4%
Provisions and other IAS presentation adjustments	-15,765	-22,418	-29.7%
<b>Total production costs</b>	<b>398,817</b>	<b>369,157</b>	<b>8.0%</b>
Change in products	-630	-30,768	-97.6%
Value of goods and materials sold	2,498	2,673	-6.5%
<b>Own cost of production sold, including</b>	<b>400,685</b>	<b>341,062</b>	<b>17.5%</b>
Costs of products, goods and materials sold	367,467	309,274	18.8%
Selling costs	9,884	10,171	-2.8%
Administrative costs	23,334	21,617	7.9%

\*this item includes costs of constructing galleries and coal from excavations Interest paid on loans in connection with financial activity

# LW BOGDANKA S.A.'S EXPENSES BY NATURE IN Q1 2014 ROKU – CONTD.



In Q1 2014, the total costs by type of current operations amounted to PLN 485,373,000 and were higher than in Q1 2013 by 6.6%, or PLN 29,907,000, with an increase in gross production by 12.8% and an increase in the amount of preparatory works by 36.8%.

The value of employee cost and benefits has increased by about 9% – the average number of employees has increased in Q1 2014 compared to Q1 2013 by 5%; in addition, those costs include the 2014 part of the value of the share option scheme.

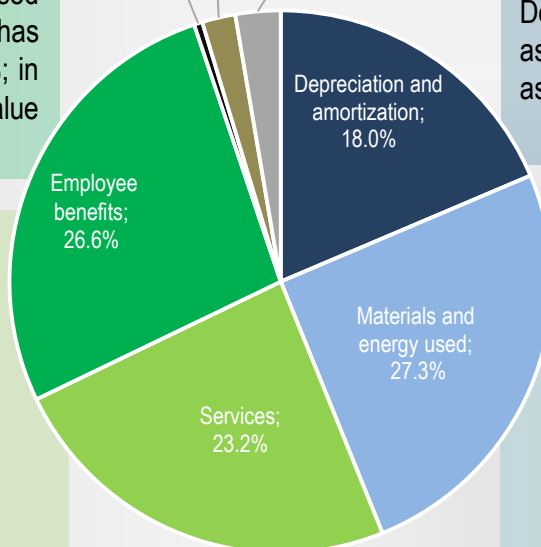
During Q1 2014, the value of third-party services has increased by 11%; after excluding re-invoiced freight costs, the increase amounts to about 8%. The value of drilling and mining services (due to drilling and rebuilding of workings) remained at a similar level with an increased amount of preparatory works; the value of other services outsourced to external companies (such as transportation of stone) has increased.

Entertainment and advertising;  
0.5%

Taxes and charges;  
2.0%

Other expenses  
2.7%

The value of taxes and charges paid has increased in Q1 2014 to PLN 9,820 thousand from PLN 8,945 thousand in Q1 2013 as a result of an increase in the amount of mining fee and property tax.



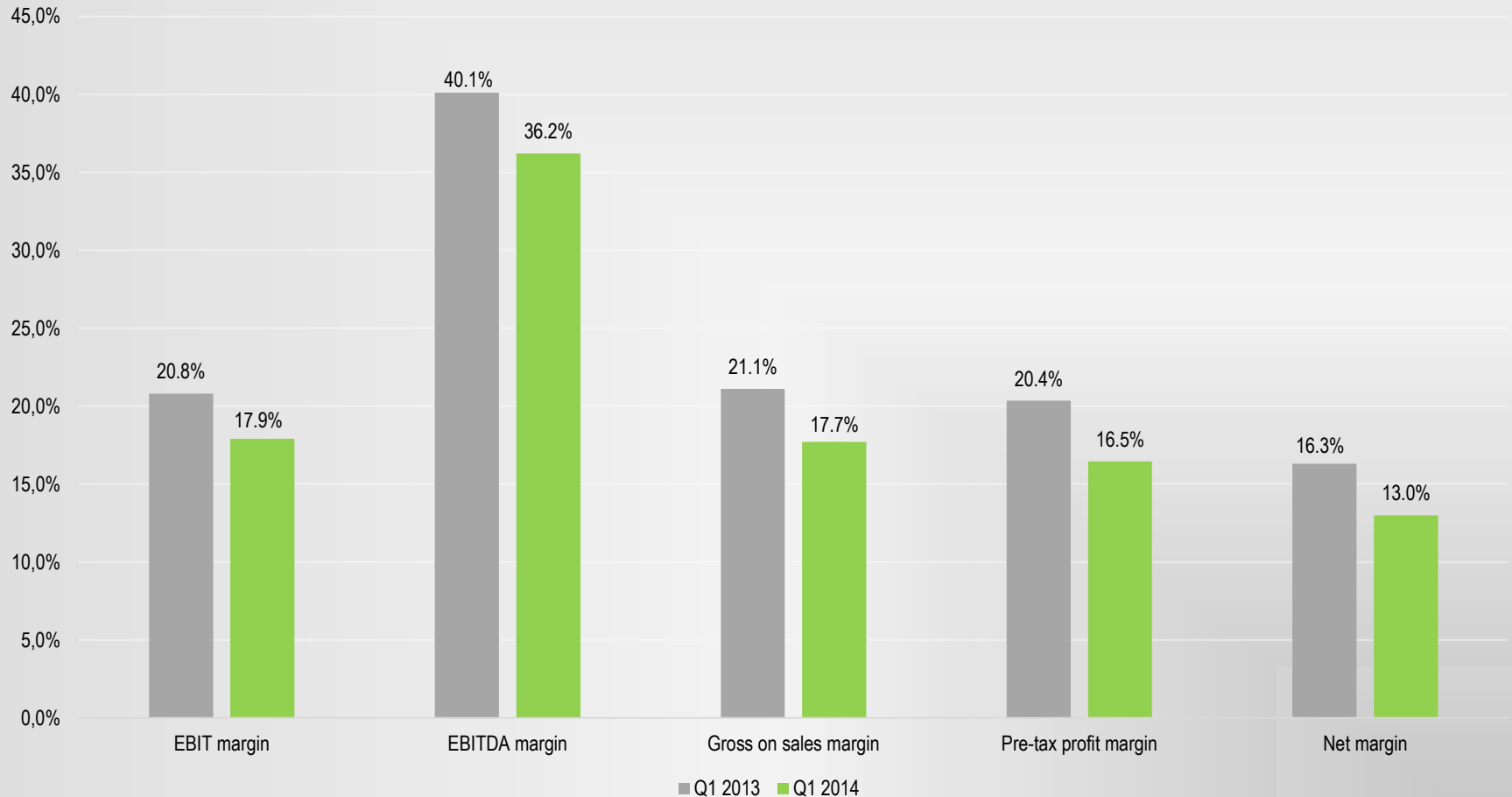
Depreciation has increased by 7.0% (to PLN 87,717,000) as a result of an increase in the value of non-current assets (in connection with the implemented Strategy).

The total cost of materials and energy has decreased compared to Q1 2013 by 0.7% and amounted to PLN 123,481,000. In the analysed, period, the costs of energy (which is the sum of the costs of electricity, heat, water and other utilities) have decreased with a simultaneous increase in material consumption – it was caused by the larger scope of preparatory works performed (in Q1 2014, 9.3 km of galleries, compared to 6.8 km in the previous year, were constructed, which is a 36% increase quarter-on-quarter).

# PROFITABILITY RATIOS FOR Q1 2014 AND Q1 2013



## PROFITABILITY IN Q1 2013 AND Q1 2014





# AGENDA



1. Key operating data
2. Coal market overview
3. Financial highlights
- 4. Capex projects in Q1 2014**
5. Appendices – Financial information

# LW BOGDANKA'S CAPEX IN Q1 2014 AND BUDGET FOR 2014



Item [PLN '000]	Budget for 2014	Actual capex in Q1 2014
<b>DEVELOPMENT CAPEX</b>	<b>385,781</b>	<b>35,497</b>
Extension of the Coal Dressing Plant, central air conditioning system, other projects	62,951	25,025
Other development projects, including:	322,830	10,472
<i>purchase and assembly of longwall systems</i>	247,259	-
<i>purchase of machinery, equipment and ready-to-use assets</i>	75,571	10,472
<b>OPERATING CAPEX</b>	<b>299,767</b>	<b>80,033</b>
New workings and modernisation of existing workings	238,651	71,140
Modernisation and repair of machinery and equipment	13,430	625
Environmental protection	11,610	4,514
Other operating investments	36,076	3,754
<b>TOTAL CAPEX</b>	<b>685,548</b>	<b>115,530</b>

# SUMMARY & CONCLUSION



**Coal production in Q1 2014 was in line with the plan, therefore we are confirming our guidance for output in 2014 in a range of 9.3 to 10 million tonnes**



**Works in the Mechanical Coal Processing Plant are progressing according to plan. However, it is the commissioning stage that is of key importance and it may affect production in Q3 and Q4 2014.**



**Q1 and Q2 2014 have been difficult in terms of negotiations on the volumes of coal supplied to power plants. This is due to the decreased energy production and a large amount of coal stockpiled at power plants and mines in Silesia.**



**The Company is gradually implementing its cost optimisation program to achieve the level assumed in the Strategy.**



**We continue to raise productivity through investment in modern equipment, such as the purchase of the ploughing complex at the end of the year.**



**Falling prices are clearly causing a decrease in EBIT margin and net profit margin, however those indicators still remain above average for our industry.**



**We are continuing the process of obtaining mining concessions in order to increase useful resources from approx. 237 million tonnes to approx. 450 million tonnes and to extend the life of the mine until 2050.**

# THANK YOU



## CONTACT DETAILS

### **Lubelski Węgiel BOGDANKA S.A.**

Bogdanka, 21-013 Puchaczów

Tel. +48 81 462 51 00

[bogdanka@lw.com.pl](mailto:bogdanka@lw.com.pl)

### **Investor relations**

Tel. +48 81 462 55 44

Tel. +48 81 462 50 29

Fax +48 81 462 54 26

[ri@lw.com.pl](mailto:ri@lw.com.pl)

# AGENDA



1. Key operating data
2. Coal market overview
3. Financial highlights
4. Capex projects in Q1 2014
- 5. Appendices – Financial information**

# ANALYSIS OF THE CONSOLIDATED INCOME STATEMENT OF LW BOGDANKA GROUP



Item [PLN '000]	Q1 2014	Q1 2013	Change (Q1 2014/ Q1 2013)
<b>Revenue</b>	<b>481,540</b>	<b>430,758</b>	<b>11.8%</b>
Cost of products, merchandise and materials sold, distribution cost, administrative expenses	396,435	339,973	16.6%
<b>Gross profit</b>	<b>85,105</b>	<b>90,785</b>	<b>-6.3%</b>
<i>Gross margin</i>	17.7%	21.1%	-16.2%
Other income	78	2,427	-96.8%
Other expenses	471	356	32.3%
<b>Net operating profit/loss</b>	<b>84,712</b>	<b>92,856</b>	<b>-8.8%</b>
Other net gains/(losses)	1,246	-3,142	-139.7%
<b>Operating profit (EBIT)</b>	<b>85,958</b>	<b>89,714</b>	<b>-4.2%</b>
<i>EBIT margin</i>	17.9%	20.8%	-14.3%
<b>EBITDA</b>	<b>174,149</b>	<b>172,612</b>	<b>0.9%</b>
<i>EBITDA margin</i>	36.2%	40.1%	-9.7%
Finance income	2,351	1,268	85.4%
Finance costs	9,095	3,344	172.0%
<b>Profit before tax</b>	<b>79,214</b>	<b>87,638</b>	<b>-9.6%</b>
Pre-tax profit margin	16.5%	20.4%	-19.2%
Income tax	16,614	17,543	-5.3%
<b>Net profit for the reporting period</b>	<b>62,600</b>	<b>70,095</b>	<b>-10.7%</b>
<i>Net margin</i>	13.0%	16.3%	-20.1%
- attributable to owners of the Company	62,381	69,863	-10.7%

# STATEMENT OF FINANCIAL POSITION OF LW BOGDANKA GROUP



Item [PLN '000]	31.03.2014	31.12.2013
Non-current assets, including:	3,353,167	3,274,004
Cash and cash equivalents	77,933	77,912
Current assets, including:	603,011	570,126
Cash and cash equivalents	196,009	212,004
<b>Total assets</b>	<b>3,956,178</b>	<b>3,844,130</b>
Current liabilities	843,009	808,968
Non-current liabilities	588,430	579,631
<b>Total liabilities</b>	<b>1,431,439</b>	<b>1,388,599</b>
<b>Equity</b>	<b>2,524,739</b>	<b>2,455,531</b>
Current borrowings	371,000	421,000

# CASH FLOWS OF LW BOGDANKA GROUP



Item [PLN '000]	Q1 2014	Q1 2013
<b>Net cash flows from (used in) operating activities</b>	<b>169,564</b>	<b>133,391</b>
Cash inflow from operating activities	181,265	145,701
Interest received	1,737	420
Income tax paid	(13,438)	(12,730)
<b>Net cash flows from (used in) investing activities</b>	<b>(132,872)</b>	<b>(173,816)</b>
Acquisition of property, plant and equipment	(137,146)	(168,571)
Interest paid regarding investing activity	(2,598)	(4,389)
Acquisition of intangible assets	(33)	(565)
Inflow from the sale of property, plant and equipment	5,679	9
Interest received	1,247	499
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	(21)	(799)
<b>Net cash from (used in) financing activities</b>	<b>(52,687)</b>	<b>(5,762)</b>
Repayments of loans and borrowings	(50,000)	(5,000)
Interest and commissions paid on loans and borrowings	(2,691)	(762)
Other net cash flow from (used in) financing activities	4	-
Net decrease in cash and cash equivalents	(15,995)	(46,187)
Cash and cash equivalents at beginning of the period	212,004	120,551
<b>Cash and cash equivalents at end of the period</b>	<b>196,009</b>	<b>74,364</b>



# SALES STRUCTURE AT LW BOGDANKA GROUP IN Q1 2014



Item [PLN '000]	Q1 2014	Share [%]	Q1 2013	Share [%]
Coal sales	456,944	94.9%	410,624	95.3%
Ceramics sales	1,493	0.3%	336	0.1%
Other activities	20,565	4.3%	17,111	4.0%
Sales of merchandise and materials	2,538	0.5%	2,687	0.6%
<b>Total revenue</b>	<b>481,540</b>	<b>100.0%</b>	<b>430,758</b>	<b>100.0%</b>

# DISCLAIMER



This presentation (the “Presentation”) has been prepared by BOGDANKA S.A. (the “Company”). The information contained in this Presentation has been compiled and prepared with due care, based on facts and data taken from sources believed by the Company to be reliable, in particular based on the Company’s own research and estimates prepared on the basis of publicly available information, or Company data not constituting inside information within the meaning of Art. 154 of the Act on Trading in Financial Instruments. The Company shall not be held liable for anything resulting from the use of information contained in this Presentation.

No information contained in this Presentation shall be construed as a recommendation or as investment, legal or tax advice, nor is it an indication that any investment or strategy is suitable or addressed individually to any investor. The Company does not guarantee that the information contained herein is complete and does not accept any liability for the consequences of investment decisions made on the basis of this Presentation. Sole responsibility for such investment decisions and any resulting losses shall lie with the investor. Every investor making an investment decision in reliance on this Presentation is obliged to make its own assessment of the risks and benefits of the sale or acquisition of Company shares, based on all information made available by the Company in this Presentation as well as its current and periodic reports.

Such information is based on assumptions relating to the Company’s current and future strategies, and to the economic environment in which the Company will be operating in the future. Such information is based on assumptions relating to the Company’s current and future strategies, and to the economic environment in which the Company will operate in the future. Accordingly, actual performance may significantly differ from the plans, objectives and expectations expressed herein. Further, the Company notes that some of the information may become outdated, and the Company does not undertake any obligation to update such information.

This Presentation is not an offer within the meaning of civil law, nor is it a public offering within the meaning of the Public Offering Act, nor is it a proposal, advertisement or invitation to purchase Company shares, and has been prepared for information purposes only.

Nothing in this Presentation shall be taken as a commitment to enter into any agreement or establish any legal relationship involving the Company.



LUBELSKI WĘGIEL  
„BOGDANKA”  
SPÓŁKA AKCYJNA

THANK YOU FOR YOUR ATTENTION

GK LW BOGDANKA

Warsaw 08.05.2014