



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

**UPDATE OF PLANS**  
**TO ADAPT THE COMPANY**  
**TO THE MARKET SITUATION**



11 June 2015

# AGENDA



**1.** Situation on the coal market

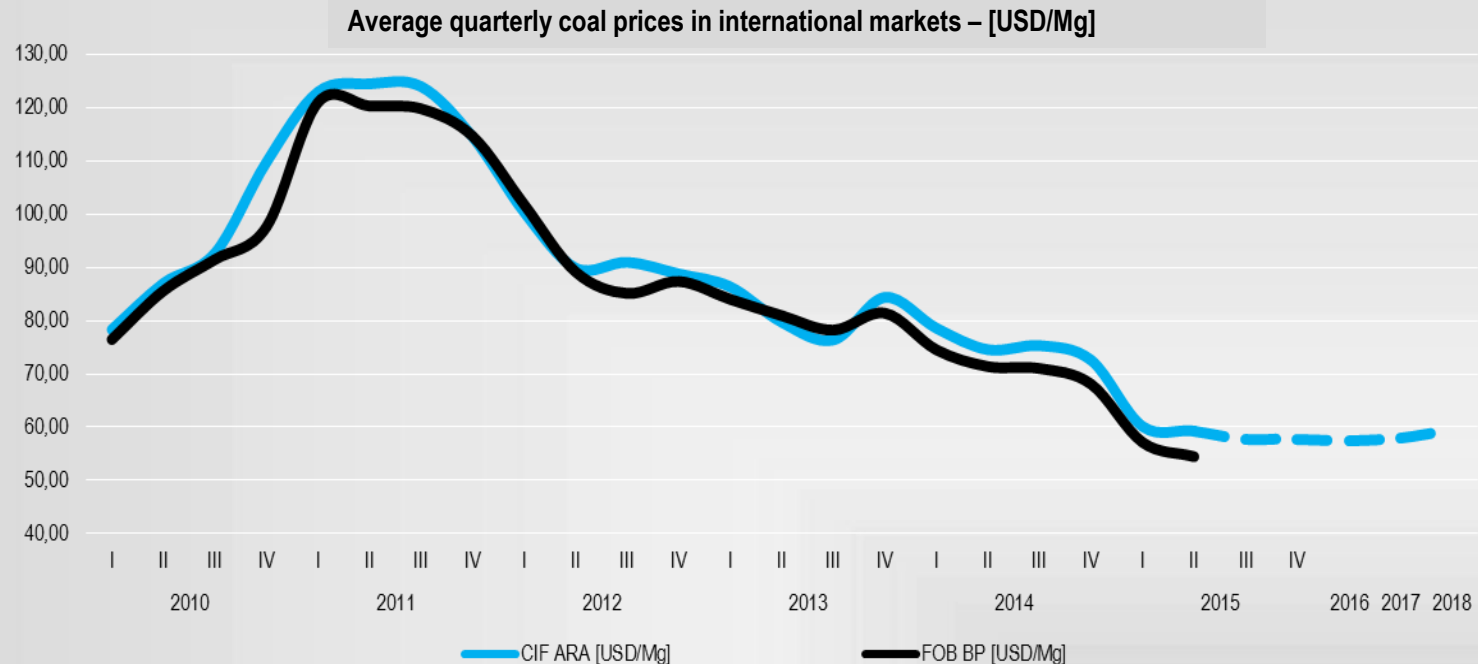
**2.** Production targets for 2015

**3.** Company's operations in 2015

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# GLOBAL MARKET UNDER PRESSURE – PROSPECTS OF STAGNATION

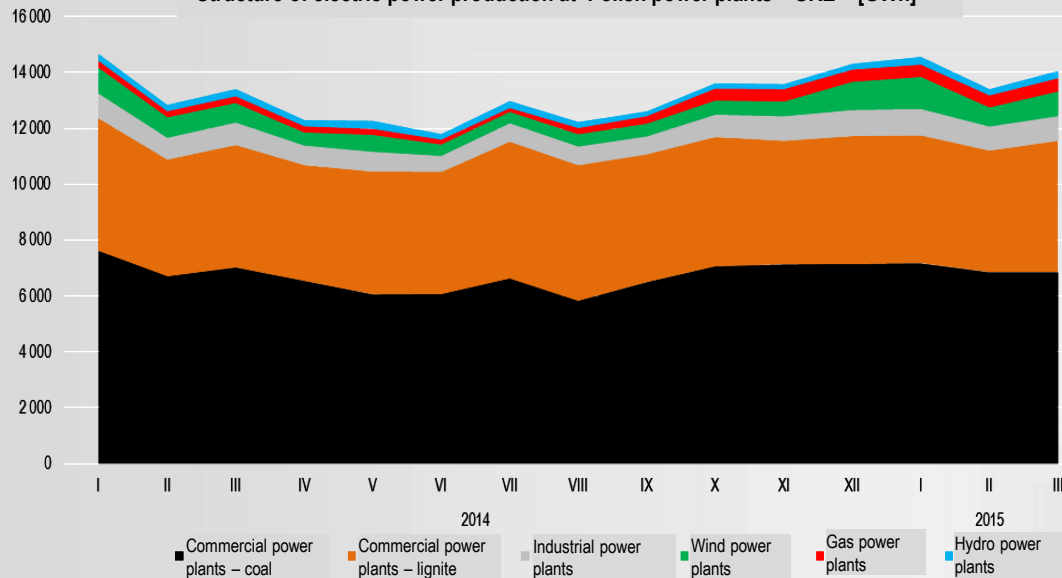


- CIF ARA coal price in Q2 2015 is about USD 60/Mg.
- Since Q3 2011, the coal price in ARA-ports has decreased by as much as 52%.
- Argus Media estimates that API2 (CIF ARA – Forward Prices) will remain at about USD 60/Mg until 2018.
- FOB BP coal listings are closely related to CIF ARA listings.
- Current FOB BP coal price is USD 55/Mg.
- Since Q2 2011, the coal price from Baltic Ports has decreased by 54%.
- In the long term, an increase in the demand for coal is expected due to greater coal consumption, e.g. in India and other developing countries.

# STEADY DEMAND FOR COAL ON POLISH MARKET



Structure of electric power production at Polish power plants – URE – [GWh]



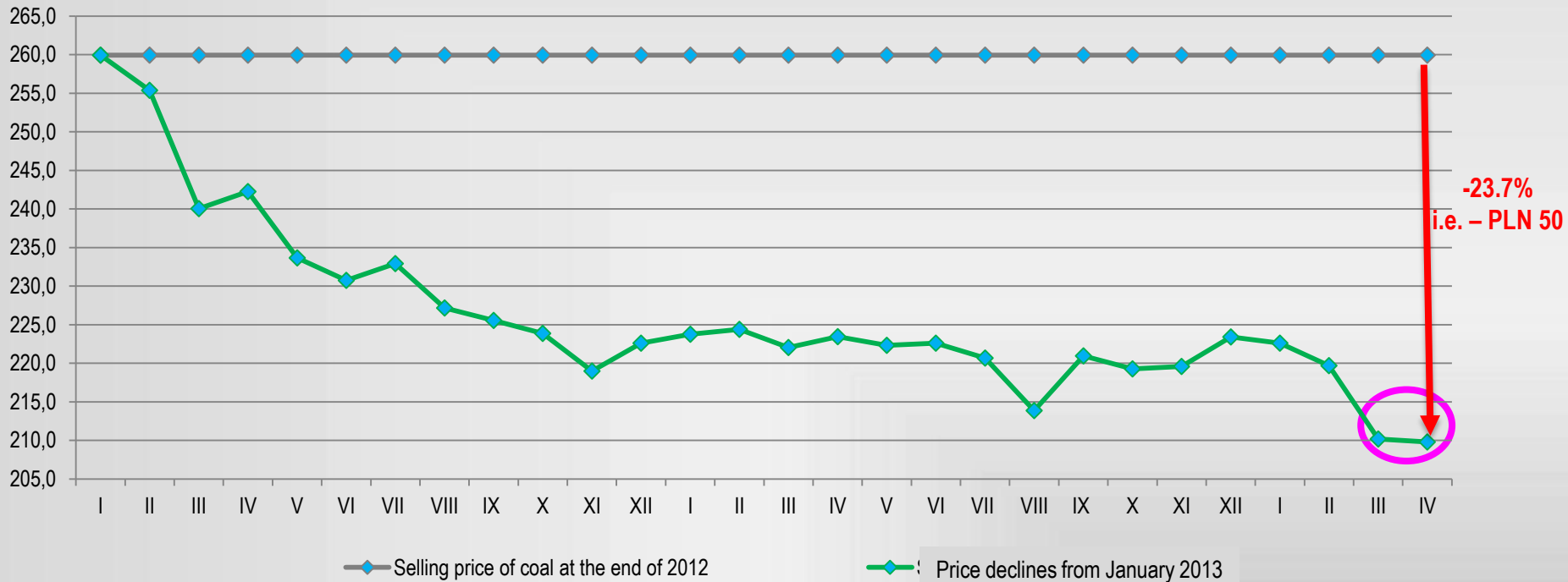
Year	Coming online			
	Entity	Power plant	Type of investment	Power - [MW]
2015	GDF	Połaniec	modernisation	34
	EDF	Rybnik	modernisation	5
2016	EDF	Rybnik	modernisation	20
2018	ENEA	Kozienice	new	1,075
2019	PGE	Opole	new	1,800
2020	Tauron	Jaworzno III	new	910
<b>Total power</b>				<b>3,844</b>

- Demand for power produced from coal is relatively stable in Poland.
- Coal is and will be the main raw material for production of electric power in Poland.
- Construction of new power units in Kozienice, Opole and Jaworzno is continuing according to plan, while total production capacity of power units planned to be taken offline by 2020 is 1,990 MW.
- Bogdanka concluded an agreement to supply the new unit in Kozienice with over 2 million tonnes of coal per year, starting as of the end of 2017.
- Draft of the new Polish Energy Policy until 2050 provides for at least a 75% share of coal in the total power production in Poland.

# CONTINUAL DECLINES IN PRICES OF THERMAL COAL



## Selling price of fine power coals for commercial power industry in Poland



- Extremely unfavourable situation on the power coal market related to the price dumping by KW.
- In March 2015, the price of power coal dropped by about PLN 10 per tonne. The price in April was PLN 209.80/t.



# CONTINUAL DECLINES IN PRICES OF THERMAL COAL

The ongoing “restructuring” of Kompania Węglowa has a crucial impact on the power coal market in Poland through:

- Continued oversupply of commodity on the power coal market:
  - Continued production in permanently unprofitable mines
  - Limited number of “independent” customers on the market
- KW sells out its production and stock (continually decreasing the product price), which results in rapidly dropping prices:
  - Due to state subsidies, KW sells its coal for as little as PLN 7-8/GJ while the production cost is about PLN 12-14/GJ
  - Various forms of subsidies, e.g.:
    - Between 2003 and 2011, according to the website of BIP (KW S.A.), it received PLN 6,380 million in state aid.
    - In recent months: PLN 600 million from the Business Restructuring Fund (through Węglokoks), advance payments from customers dependent on the state for the purchase of coal in the future, extending deadlines for payment of social insurance contributions and taxes, “unilaterally” extending payment terms up to 240 days etc.
- In 2015 and 2016 further pressure to reduce prices is expected.

**The shape of the New KW and the extraction level and mix in all of Silesia will be key for the Polish market.**

# AGENDA



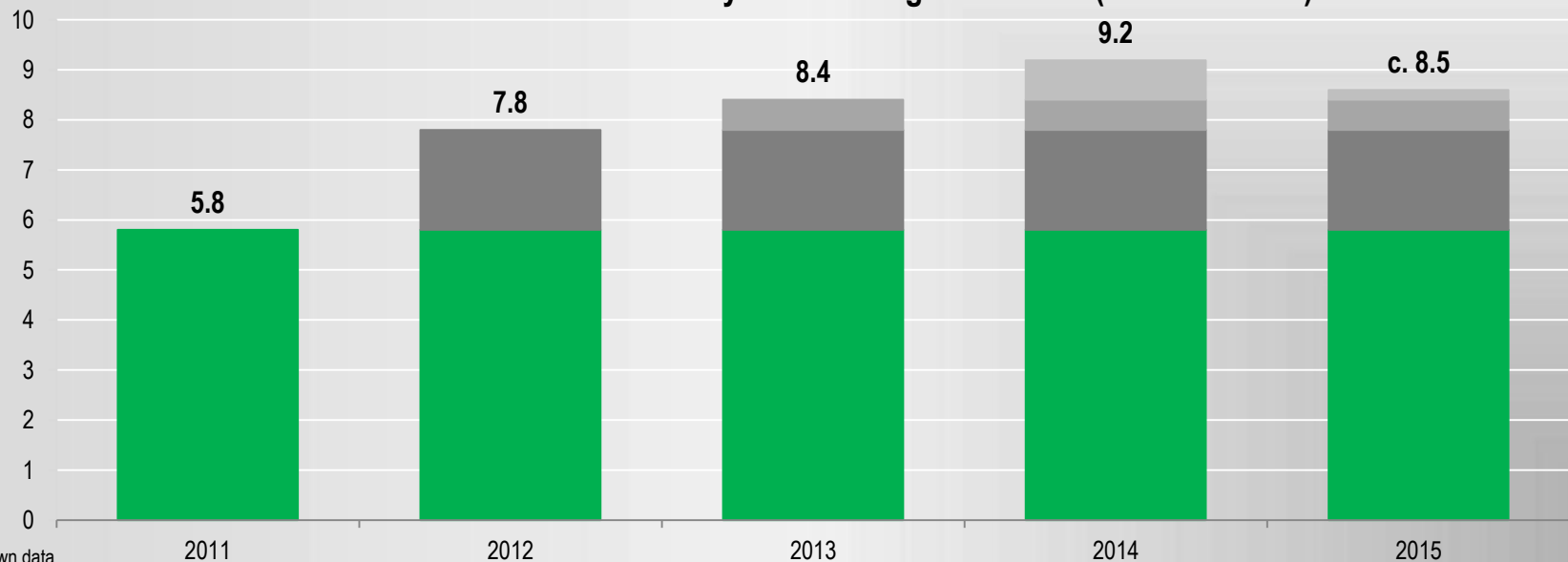
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# REVISION OF PRODUCTION TARGETS FOR 2015



- The risk of reduction of volumes in agreements with customers controlled by the State Treasury has materialised:
  - Customers of LW Bogdanka coal use every opportunity reduce consumption delivery coal, causing a significant decrease in delivery.
  - We estimate that in 2015 the delivery of coal from LWB will drop by about 1 million tonnes.
- Contracts in Ukraine – commercial negotiations are still being conducted – there are no definite results yet.
- LWB strengthens its sales forces and has been working on acquiring new contracts among small and medium-sized customers, however new contracts will not compensate for the current reduction by key customers in the short term.
- **Sales targets in 2015 at about 8.5 million tonnes of coal.**

**Sale of coal in successive years and targets for 2015 (million tonnes)**





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# UNFAIR COMPETITION AND UNLAWFUL STATE AID



The Management Board of LW Bogdanka is taking measures aimed at intervention against unfair market practices applied by entities subsidised by the State (price dumping). The following actions have been taken in this respect:

- Correspondence with the Office of Competition and Consumer Protection indicating that some entities are offering coal at prices significantly below production costs.
  - KW S.A. is able to sell below the cost of production because it expects a “subsidy to coal prices”, which should thus be treated as state aid.
  - State aid also includes the deferral of tax arrears or outstanding social insurance contributions, as well as other forms of unsanctioned aid from the state, unless the aid meets specified criteria.
  - The relevant market, in terms of both geography and product, is the Polish market of fine coals, in which KW is the dominant player.
- Letter to the European Commission concerning unlawful subsidising of entities owned by the State Treasury, indicating among other factors:
  - Inconsistency between the state aid and the objective specified in the Council Decision\*
  - Discrepancy between the state aid and the schedule specified in the Council Decision\*
  - Discrepancy between the amount of state aid and the limit agreed in the Council Decision\*
  - Unjustified waiver of enforcement of public levies
  - Abuse of dominant position and unlawful subsidies to coal sale prices.

\* Council Decision 2010/787/EU of 10 December 2010 on State aid to facilitate the closure of uncompetitive coal mines

# ASSUMPTIONS OF RESTRUCTURING PROGRAMME – SCENARIO FOR 2015



In connection with forecasts of further pressure on global coal prices and the oversupply on the Polish market caused by the aggressive pricing policy of the state-subsidised KW S.A., Bogdanka adopted a “conservative scenario” for implementation.

The key objective is to “secure cash” through significant savings in costs and investment plans, on the basis of three key elements:



optimisation of  
production plan

**about 8.5m tonnes**



significant reduction in “permanent”  
headcount and outsourced services

**-417 staff**  
**(previously 350)**



cut of capex

**PLN 460m**  
**(previously PLN 503m)**



# OPTIMISATION OF PRODUCTION PLAN

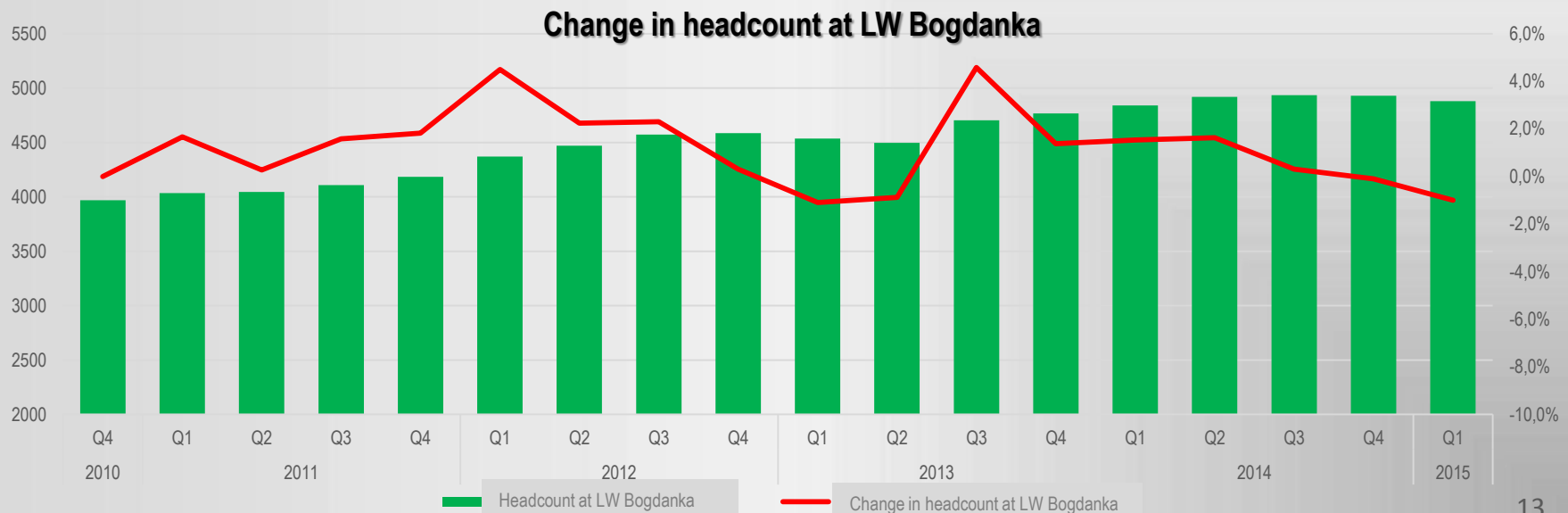
## Modification of production plan for 2015 provides for:

- Reduction of fixed costs on the basis of the production plan of **about 8.5 million tonnes in 2015**
- Maintaining **cost flexibility** by reduction of work on Saturdays during the entire year
- Reduction of preparatory works to **about 23.6 km** (during the entire year), which translates into a decrease in both costs by nature and costs of own work (including materials, power, outsourced services, employee costs, costs by type)
- Conducting preparatory works so as to enable the soonest possible optimisation of production mix, consisting in **increasing the share of cutter-loader face** in the overall extraction.



# REDUCTION OF HEADCOUNT IN 2015

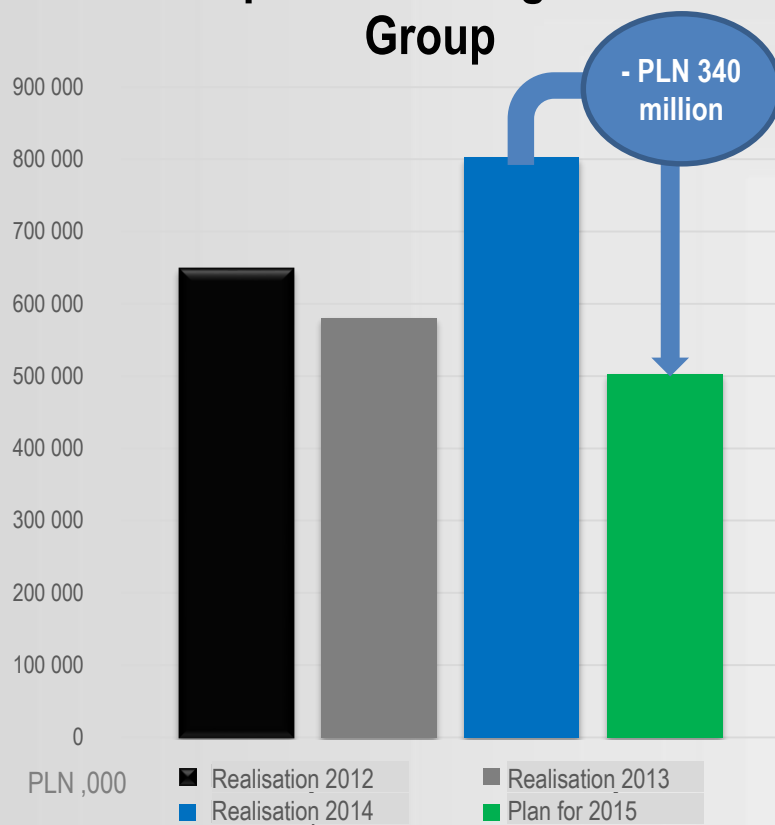
- A drop in headcount by 417 persons is planned in 2015, i.e. 67 persons more than assumed after Q1 2015 (by 10 June 2015 – decrease in headcount by 164 persons).
- Headcount is reduced through planned retirement of employees with pension rights and not extending contracts with fixed-term employees.
- Reduction of the average remuneration is planned, by about 2% compared to 2014.
- Work is underway to revise the company's Collective Labour Agreement, as a result of which the remuneration system is to be simplified and greater emphasis will be put on employee motivation.
- Reduction of outsourcing costs (reduction of work at weekends during the year).



# LIMITATION OF CAPEX FOR 2015 TO A CRUCIAL MINIMUM



## Capex of LW Bogdanka Group



### Reduction of investment plan for 2015 by a further PLN 43m:

- As part of the applied revision, the investment plan was **decreased by PLN 43m** and now amounts to about **PLN 460m**.
- Reduction of investment programme included the following investments:
  - Central air-conditioning system of the Bogdanka Field (**about – PLN 8m**)
  - Purchase and installation of belt conveyors (**about – PLN 15m**)
- Reduction of preparatory works will translate into a reduction of the length of galleries planned for 2015 to **23.6 km**. This means a reduction compared to 2014 by **6.2 km**.
- Increase in the item “New workings and modernisation of existing workings” by **PLN 7m** results from the necessity to perform a greater number of functional workings in order to reach better seams and enable the optimisation of production mix in the future.

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# OPTIMISATION OF PRODUCTION PLAN AND HEADCOUNT BETWEEN 2016 AND 2020

In the event of an ongoing negative market situation, the company intends to implement the **2nd stage of the restructuring programme**, which involves:

- Modification of the production plan providing for reduction of fixed costs on the basis of the production plan of **8.0–8.5 million tonnes** between 2016 and 2020 by, among other measures:
  - Reduction of the average number of walls from **6** in 2014 to **4** in 2017
  - Reduction of the number of production units from **6** to **4**, and
  - Reduction of the number of preparatory units from **5** to **3**
- Further **progressive reduction of permanent headcount**, based on the above assumptions, to the optimum level from the perspective of the planned production
- Flexible use of agreements for outsourced services to meet day-to-day needs
- Maintaining cost flexibility through the possibility of regulating production by work on Saturdays:
  - Addition of **work on Saturdays** allows for regulation of production at the level of **1.0–1.5 million tonnes per year** compared to production conducted during a 5-day workweek
- Modification of the wall mix providing for **an increase in production from cutter-loader face** compared to low ploughing walls:
  - **Providing access to new deposits (Ostrów) from the current infrastructure** allowing production from high and “clean seams” – after obtaining the mining licence (2018).





# REDUCTION OF CAPEX OF LWB GROUP 2016–2020

Items (PLN '000)	Plan for 2015 (30.04.2015)	Plan for 2015 (11.05.2015)	Estimated average annual plan for 2016–2020
Obtaining new licences	49,972	49,972	25,000
Other development and reconstruction investments	84,849	54,255	
Maintenance of machine park	94,430	76,629	70,000
Purchase and installation of panel complexes	3,352	3,064	
New workings and modernisation of existing workings	250,570	257,283	235,000
<b>TOTAL LW BOGDANKA CAPEX</b>	<b>483,173</b>	<b>441,203</b>	<b>330,000</b>
Łęczyńska Energetyka and other subsidiaries	19,897	19,085	10,000
<b>TOTAL LW BOGDANKA GROUP CAPEX</b>	<b>503,070</b>	<b>460,288</b>	<b>340,000</b>

- Capex limited to crucial minimum for maintaining operation of the mining plant, bearing in mind the implemented investment programme (2 x 2 programme)
- Reduction of the average annual plan from PLN 600 million (Strategy 2013) to PLN 340 million in 2016–2020
- Reduction of preparatory works (new workings), translating into a decrease in both costs by nature and costs of own work.

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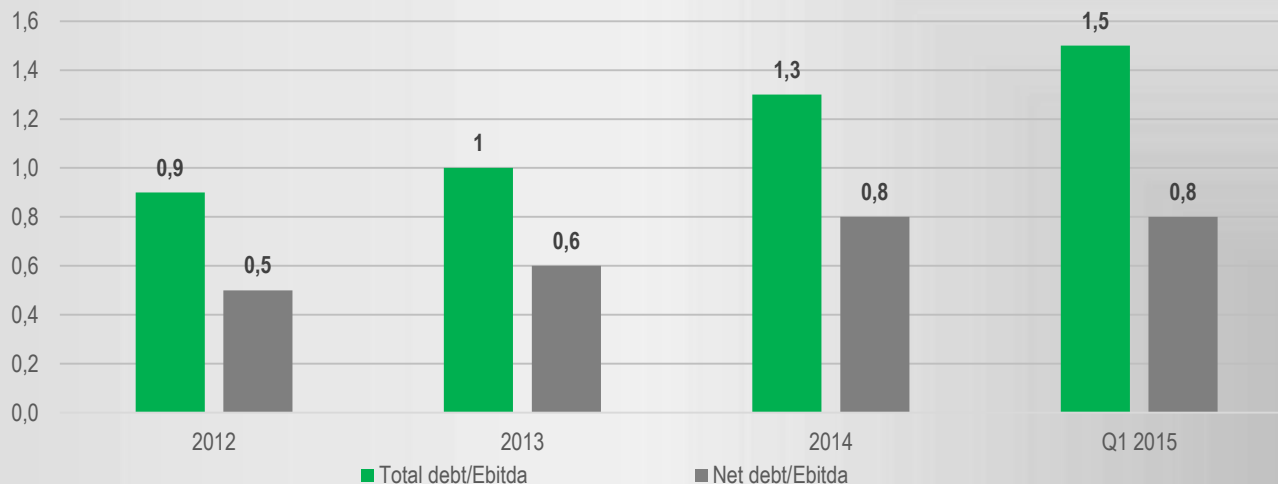


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# FOCUSING ON “SECURING CASH” AND LIQUIDITY TO ENDURE DIFFICULT TIMES



- Restructuring plan:
  - Focusing on generating cash flow in view of dropping sale volumes and further price pressure in 2015–2016 will allow the company to maintain adequate liquidity until the market stabilises.
- Maintaining external financing at a “secure level”:
  - Bond issue programme for PLN 700 million with a repayment schedule of PLN 75 million per quarter, starting as of March 2018
  - Availability of PLN 200 million (bond issue programme) to be used before June 2016
  - Overdraft of PLN 150 million (maturity in June 2016)
  - Ratio of total debt (including non-current employee liabilities) to EBITDA of 1.5 and net debt to EBITDA of 0.8 as at Q1 2015.



# RECOMMENDATION FOR DIVIDEND DISTRIBUTION FOR 2014



LWB paid out over PLN 500 million in dividends in 2012–2014 (60% of consolidated net profit, dividend rate of about 4.5%), compared to CFFO of about PLN 160 million with increasing company leverage.



The Management Board decided to distribute the net profit generated by the Company in 2014 in the amount of **PLN 272,942,404.07** (two hundred and seventy-two million nine hundred forty-two thousand four hundred and four zlotys 7/100) as follows:

- ✓ **PLN 119,047,565.00** (one hundred and nineteen million forty-seven thousand five hundred sixty-five zlotys 00/100) – allocate for a dividend, i.e. **PLN 3.50** (three zlotys 50/100) per share.
- ✓ The remainder, i.e. **PLN 153,894,839.07** (one hundred fifty-three million eight hundred ninety-four thousand eight hundred thirty-nine zlotys 7/100) – to the Company's reserve capital.

The number of shares subject to dividend is 34,013,590.

The Annual General Shareholders Meeting scheduled the dividend date for 17 September 2015 and the dividend payment date for 8 October 2015.

# THANK YOU



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