



LUBELSKI WĘGIEL
„BOGDANKA”
SPÓŁKA AKCYJNA

**Presentation of results
the LW Bogdanka Group
IQ, 2016**

We strive for the highest efficiency

Warsaw, 16 May 2016



Situation on the coal market and key operating data

**Financial highlights of the LW Bogdanka Group
in IQ 2016**

Performance of the plan in IQ 2016

Appendices – Financial information



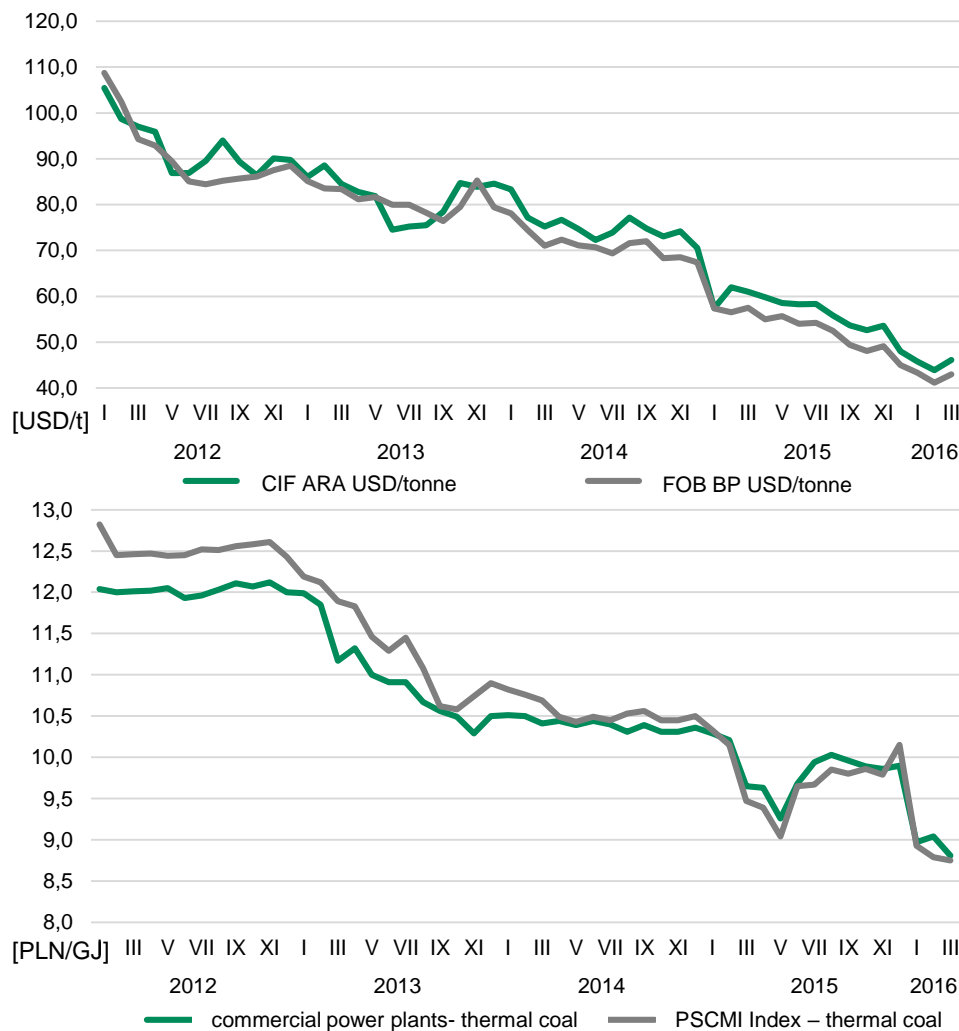


Operations in the current market environment continue to be a challenge



Coal prices on the international and domestic market in IQ 2016 remained at a low level

- The average annual coal price (CIF ARA) was about USD 46 per tonne in Q1 2016
 - As at the end of 2015, the coal inventories in ARA ports totalled about 5.9 million tonnes, i.e. increase by about 700,000 tonnes year on year
 - Share of coal in electricity generation in the UK dropped from 28.2% in 2014 to 20.5% in 2015
 - In 2015 China imported about 30% less coal than in 2014
 - In 2016 it is expected that China's imports will continue the downward trend – by about 10%
 - Coal production in China declined by about 3.8% year on year
 - By about 2020 China want to cut coal production by 500 million tonnes, i.e. about 13.6%
-
- In Q1 2016 the average price of fine thermal coal for commercial power plants was PLN 8.94 per GJ
 - The price trend shows a decline of about 10.9% quarter on quarter
 - Average heating value of fine coal for commercial power plants is about 21.4 GJ / tonne
 - Price of fine coal for commercial power plants declined by about 26.8% between January 2012 and March 2016
 - In Q1 2016 the average price based on the PSCMI index was about PLN 8.82 per GJ
 - Decline was about 9.5% versus the Q4 2015 average price





Low prices, oversupply and a slight increase in demand in the Polish coal market

COAL PRICES

- Average price of thermal coal in IQ 2016 was **PLN 220.8/t**, in IQ 2015 **PLN 247.8/t**
- Average price of coal sold to the commercial power industry in IQ 2016 was **PLN 192.2/t**, in IQ 2015 **PLN 217.2/t**

COAL MARKET

DEMAND/SUPPLY

- In IQ 2016 saw a slight increase in the demand on the domestic market of thermal coal (by 5.9%, from 12.7 million tonnes in IQ 2015 to 13.5 million tonnes in Q1 2016), resulting from approx. a 4% increase in the production of hard-coal based electric energy in relation to IQ 2015**
- Significant amounts of coal are piled on heaps of mines and power plants (approx. 12 million tonnes), however this figure is lower than in IQ 2015. The decrease is attributable to a drop in coal inventories mainly on mine heaps where a part of coal of commercial power plants is deposited (the amount is additional to the indicated 12 million tonnes)

SITUATION OF POLISH COMPANIES*

- ✓ Extraction of thermal coal in the Silesian companies in IQ 2016 amounted to **11.8 million tonnes**, which means an increase by **2.6%** compared to IQ 2015 (11.5 million tonnes)
- ✓ Inventories of thermal coal in mines as at IQ 2016 amounted to **4,582,600 tonnes** and were lower by almost **3,061,600 tonnes, 40.1%** than in IQ 2015
- ✓ In IQ 2016 sales of thermal coal on the domestic market were **10,182,900 tonnes** (68.8% of the total coal sales) higher by **2.0%** (i.e. by **222,800 tonnes**) than in IQ 2015
- ✓ Average cost of coal sold (thermal and coke) in IQ 2016 was **PLN 275.9/t** and comparing to IQ 2015 it went down by **16.4%** (**PLN 329.9/t**)

*data do not include LW Bogdanka SA, Silesia, Siltech, Ekoplus

**PSE SA

Source: ARP



A slight increase of production and sales, low prices, a slight increase in demand for coal market in Poland

PERFORMANCE OF POLISH COMPANIES*:

Coal price:	IQ 2015	IQ 2016	Change
Extraction (million tonnes)	11.5	11.8	2.6%
Sales (million tonnes)	10.0	10.2	2.0%
Average cost of coal sold (PLN)	329.9	275.9	-16.4%

COAL PRICES:

Average price of power coal	247.8	220.8	-10.9%
Average price of coal sold to commercial power industry	217.2	192.2	-11.5%

DEMAND/SUPPLY:

Production of electric power in commercial power plants with the use of hard coal**	20,843	21,646	3.9%
Inventories of coal in mines and power plants	14.7	12.0	-18.4%

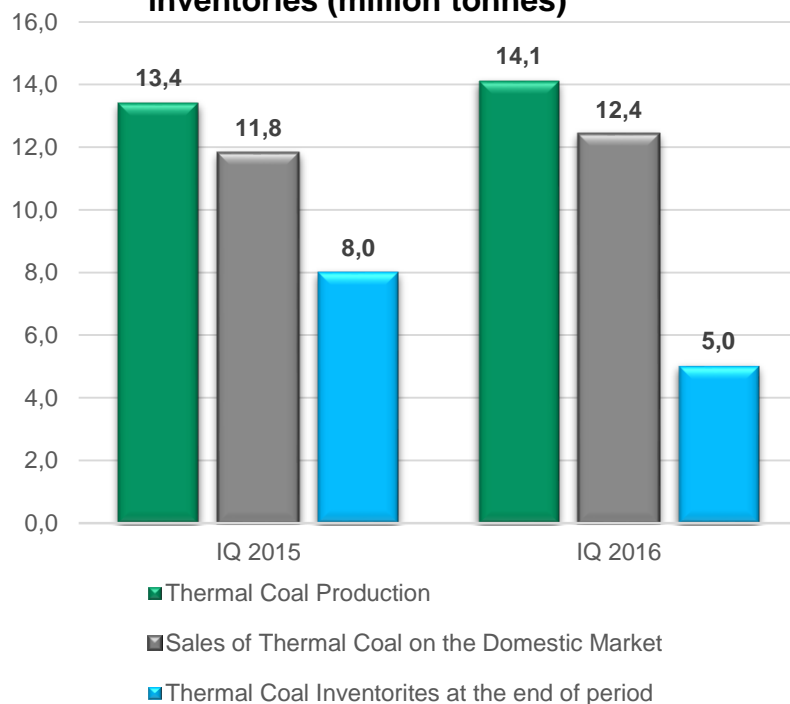
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**PSE SA

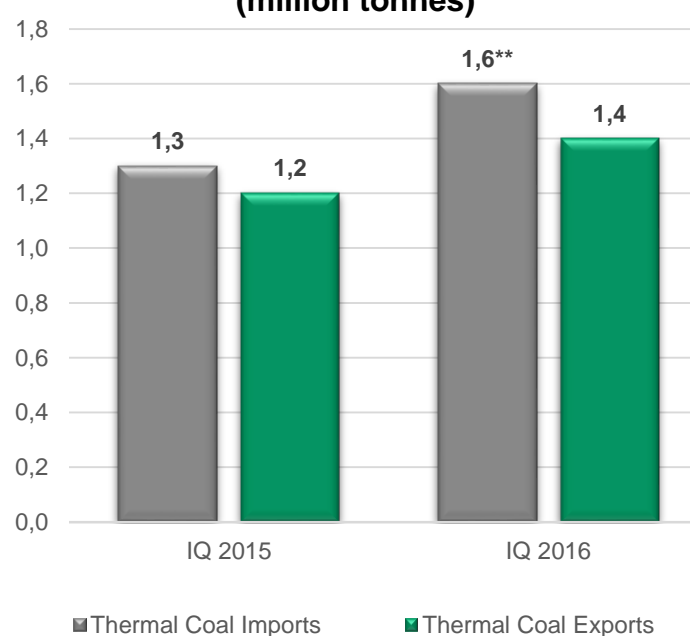


Increase in coal extraction and in sales and lower coal inventories in Polish mines

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



Thermal coal imports and exports (million tonnes)*



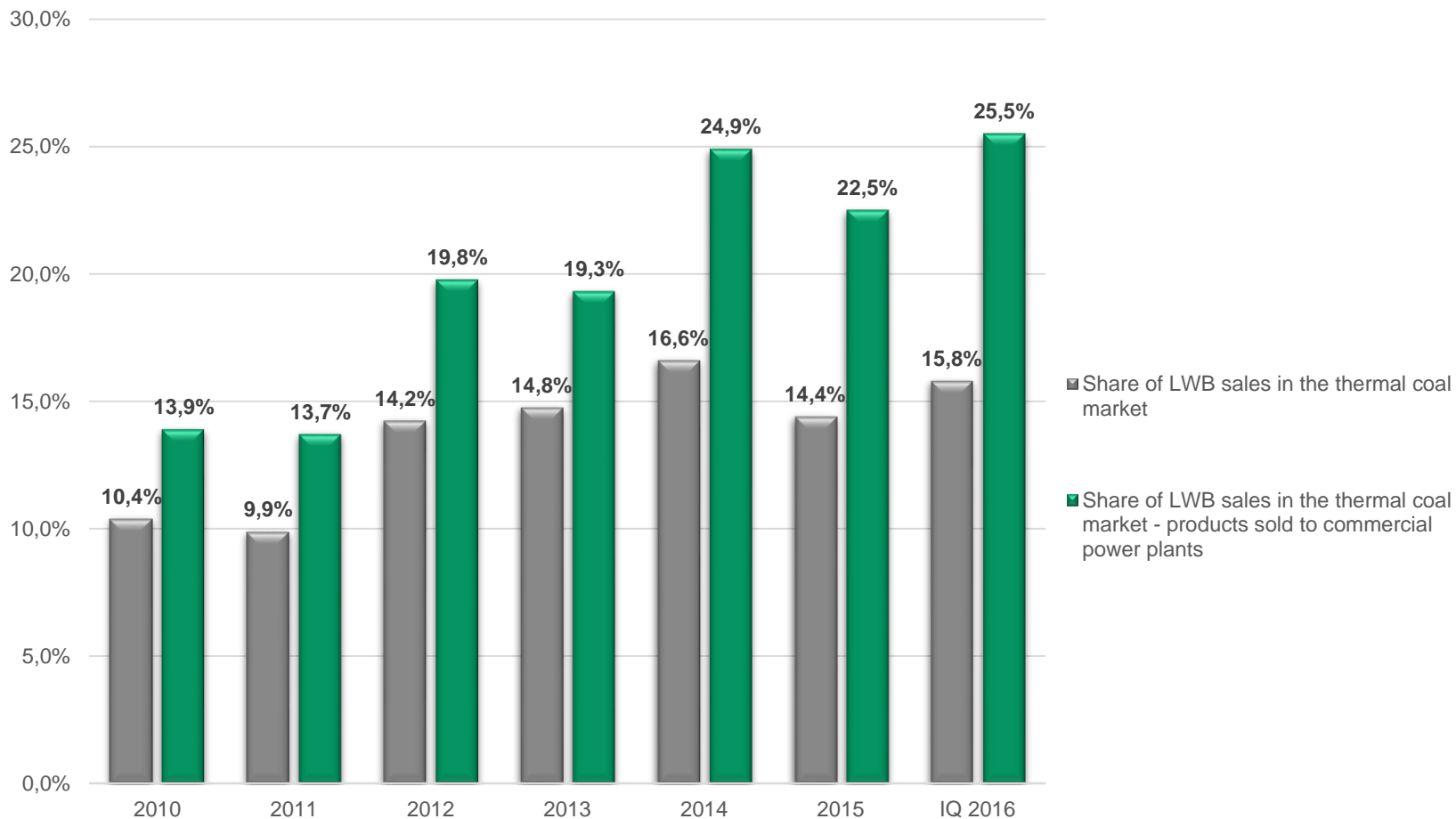
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**data estimated on the basis of data from two months of 2016

Source: ARP



We keep a very strong position on the coal market – 25.5% of share in sales to commercial power plants

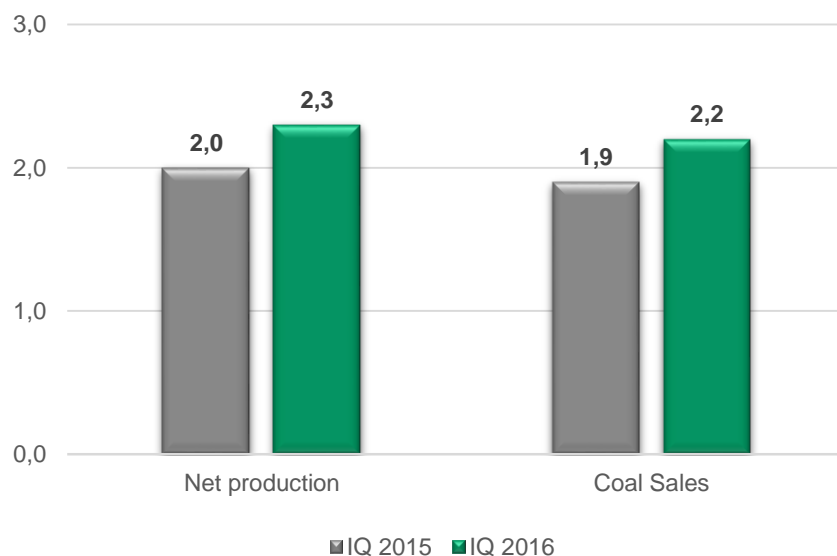


Source: ARP



More excavations in relation to a higher extraction and sales in IQ 2016 compared to IQ 2015

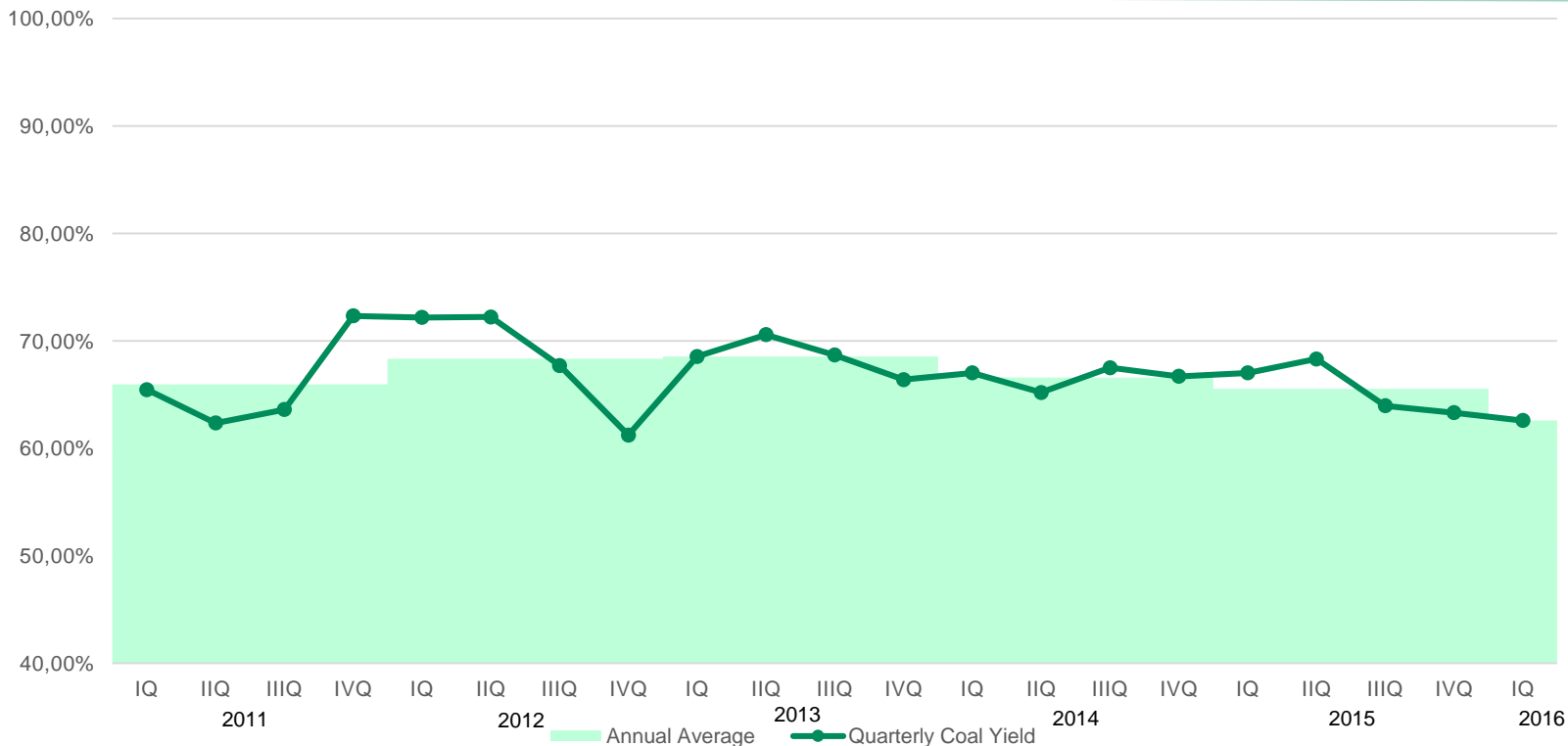
	IQ 2015	IQ 2016	Zmiana
Gross production ('000 tonnes)	2,974	3,733	25.5%
Net production ('000 tonnes)	1,990	2,335	17.3%
New workings (by length) (km)	5.2	6.4	23.1%
Coal sales ('000 tonnes)	1,946	2,184	12.2%



- Production in IQ 2016 was conducted on 73 days, compared to 65 days in 2015



Coal yield at a level of 62.6%



- ✓ Coal yield in IQ 2016 was about 62.6% lower than in IQ 2015 (66.9%)
- ✓ Drop in coal yield resulted from a changed extraction structure:
 - in IQ 2016 - 3 plough walls and one shearer wall
 - in IQ 2015 - 3 shearer walls



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Appendices – Financial information



We generated good operating results and stable Cash Flow



We achieved good operating results

Item	Unit	IQ 2015	IQ 2016	Change
Technical and operating data				
Gross production	'000 tonnes	2,974	3,733	25.5%
Net production	'000 tonnes	1,990	2,335	17.3%
Coal yield	%	66.9%	62.6%	-4.3 p.p.
Coal sales	'000 tonnes	1,946	2,184	12.2%
Inventories (end of period)	'000 tonnes	350,0**	379.9	27.7%
New workings (by length)	km	5.2	6.4	23.1%
Financial data				
Revenue	PLN '000	428,279	420,569	-1.8%
EBITDA	PLN '000	144,395	173,345	20.0%
EBITDA margin	%	33.7%	41.2%	7.5 p.p.
EBIT	PLN '000	48,152	78,885	63.8%
EBIT margin	%	11.2%	18.8%	7.6 p.p.
Net profit	PLN '000	32,690	54,446	66.6%
Net debt/EBITDA*	-	0.7	0.5	-0.2 pp.

*Debt = non-current liabilities due to bonds issue + non-current loans and borrowings + short-term loans and borrowings

**The presented level of inventories as at 31 March 2015, took into account a coal deposit (33,000 tonnes) for one of the customers. This deposit was accounted for in total by the Parent (supplied to customers) by the end of 2015.

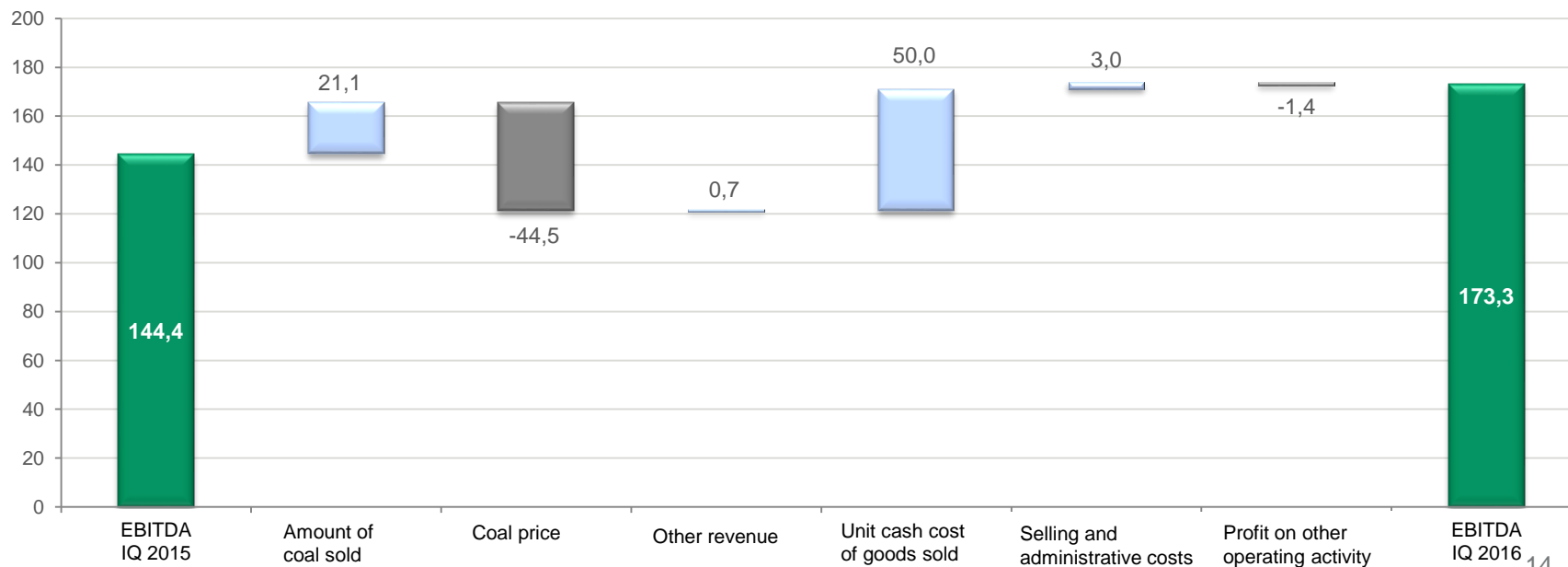


Unstable market situation affects financial results

[PLN million]	IQ 2015	IQ 2016	Change
EBITDA LW Bogdanka Group	144.4	173.3	+20.0%

IQ 2016

- Increase in EBITDA by PLN 28.9 million (+20.0%)
- Increase in volume by ca. 12.2%
- Drop in price of coal sold by 10.5%
- Decrease in unit cash cost of products, goods and materials sold (decreased costs nominally while coal sales increased)
- Increase in other revenue (from sales of scrap)
- Drop in selling and administrative costs (lower provisions, including for long-service awards, allowances, and severance pays)
- Negative result on other operating activity (lower liquidated damages received, higher damages paid and donations granted)



Source: In-house data



Costs by type of LW Bogdanka S.A. despite higher production at a level of IQ 2015

Item [PLN '000]	IQ 2015	IQ 2016	Change
Net production ['000 tonnes]	1,990	2,335	17.3%
Coal sales ['000 tonnes]	1,946	2,184	12.2%
Depreciation and amortization	94,963	91,910	-3.2%
Materials and energy	106,638	105,835	-0.8%
External services	89,735	94,153	4.9%
Employee cost and benefits	120,194	127,903	6.4%
Entertainment and advertising	2,161	2,730	26.3%
Taxes and charges	9,683	10,643	9.9%
Other expenses	15,134	4,013	-73.5%
Cost by nature	438,508	437,187	-0.3%
Activities for the Company's own needs	-52,712	-46,868	-11.1%
Accruals and deferrals	3,465	18,104	422.5%
Value of coal produced from excavations	-17,455	-20,962	20.1%
Provisions and other presentation adjustments (IAS)	18,519	-21,928	-218.4%
Impairment loss of property, plant and equipment and intangible assets	390,325	365,533	-6.4%
Total production costs	-9,612	-24,906	159.1%
Change in product inventories	2,331	3,086	32.4%
Value of goods and materials sold	383,044	343,713	-10.3%
Own cost of production sold, including	350,511	313,539	-10.5%
Costs of products, goods and materials sold	9,405	9,851	4.7%
Selling costs	23,128	20,323	-12.1%



Stabilisation of costs by type with growing production

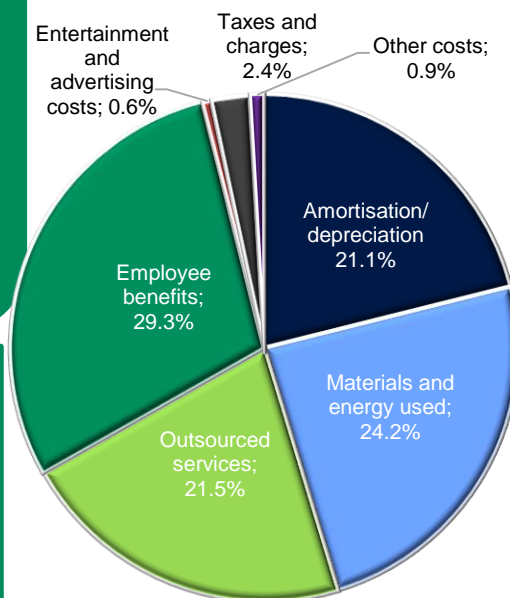
Total costs by type for Q1 2016 - PLN 437 million – drop in relation to Q1 2015 by **0.3%**, i.e. by **PLN 1 million**
Cash costs (net of depreciation/amortisation) - increase by **0.5%**, i.e. by **PLN 2 million**
Gross extraction – increase by 17.3%
Length of walls - increase by 23.6% (6.4 km in Q1 2016 vs. 5.2 km in Q1 2015)

Increase in benefits for employees by 6.4%

- employment downsizing by 341 people (change between 31 Mar. 2015 and 31 Mar. 2016)
- increase in average monthly remuneration (an additional annual bonus was paid to the employees - in Q4 2015 a provision was created for this purpose; the provision has been released in Q1 2016).

Increase in outsourced services by 4.9%

- the value of work on Saturdays and Sundays increased (in 2016 mining was performed on Saturdays)
- the value of drilling and mining works dropped (smaller scope of works, e.g. drilling of excavations, was outsourced).
- reduction of railway transport costs (-68.5%) – (lower coal sales where ensuring transport to the customer was LW Bogdanka S.A. responsibility) - costs are reinvoiced to the customer (neutral to EBIT)



Depreciation/amortisation went down by 3.2%:

- depreciation/amortisation of non-current assets decreased (as a result of impairment charges made in Q4 2015 of non-current assets and intangible assets)
- activity depreciation increased (higher extraction → higher progress in walls → higher activity depreciation).

Decrease in value of materials and energy used by 0.8%:

- value of materials used dropped by 5.1% (due to a simultaneous drop of operation parts to machinery and equipment), with a higher use of components related to the construction of new underground infrastructure.
- increase in costs of energy use by 15.9% (higher value of energy used related to a higher extraction and industrial water)



Provisions at the LW Bogdanka Group

Item [PLN '000]	31.03.2015	31.12.2015	31.03.2016	Change	Change
				31.03.2016/31.03.2015	31.03.2016/31.12.2015
Employee provisions	252,108	251,537	245,273	-2.7%	-2.5%
Liabilities under local property tax	22,687	23,881	25,975	14.5%	8.8%
Mine decommissioning provision	119,927	130,179	131,012	9.2%	0.6%
Mining damage	8,493	8,497	8,397	-1.1%	-1.2%
Accident insurance premium (ZUS)	17,740	18,727	19,055	7.4%	1.8%
Other	27,534	29,907	31,304	13.7%	4.7%
TOTAL	448,489	462,728	461,016	2.8%	-0.4%



Change in provisions at the LW Bogdanka Group

Item [PLN '000]	Change in provisions in IQ 2015	Change in provisions in IQ 2016	Change
Employee provisions	25,384	-6,264	-
Liabilities under local property tax	-571	2,094	-
Mine decommissioning and reclamation provision	-3,658	833	-
Mining damage	-662	-100	-84.9%
Accident insurance premium (ZUS)	1,839	328	-82.2%
Other	2,239	1,397	-37.6%
TOTAL	24,571	-1,712	-



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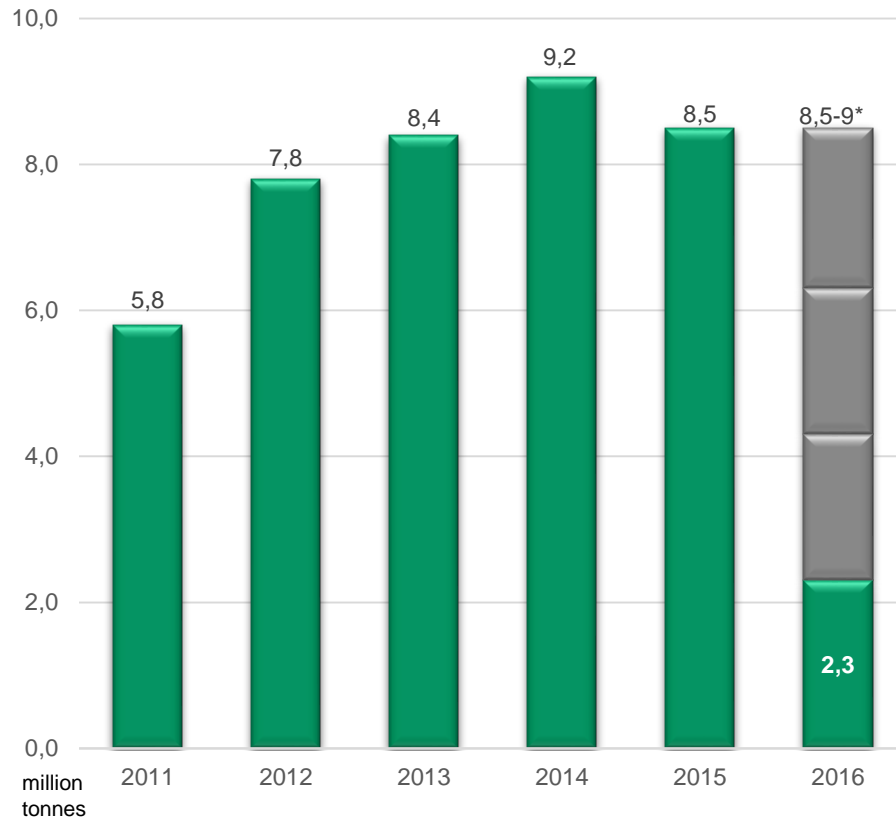


Sales in IQ 2016 performed along with the plan



IQ 2016 saw the production of 2.3 million tonnes and sales of 2.2 million tonnes

PRODUCTION



*Plan

- the sales assumptions for 2016 provide for production at a level of approx. 8.5 - 9 million tonnes of coal, with production capacities maintained at a level of 10.0 – 10.5 million tonnes



Optimum use of CAPEX in IQ 2016

Item [PLN '000]	Plan for 2016	Realization of plan IQ 2016 [PLN]	Realization of plan IQ 2016 [%]
Obtaining new concessions*	45,384	439	1.0%
Modernization and repair of machinery and equipment	62,655	3,093	4.9%
Other operating investments	68,700	12,327	17.9%
New workings and modernization of existing workings	254,978	44,795	17.6%
TOTAL CAPEX FOR LW BOGDANKA	431,717	60,654	14.0%
Łęczyńska Energetyka	6,200	124	2.0%
Other subsidiaries	-	-	-
TOTAL CAPEX FOR GK LW BOGDANKA**	437,917	60,778	13.9%

* plan for 2016 includes the full value of a fee for the use of geological information, which is payable in ten annual instalments. Total value of the geological information is PLN 28 million.

** The sum of capital expenditures does not include the capitalized costs of external financing



Summary

In Q1 2016 despite a difficult market, the Company performed the sales plan at a level of 2.2 million tonnes and production plan at a level of 2.3 million tonnes.

Due to cost control and investment expenditure optimisation started in 2015, the Company achieved the best results in the industry, despite a very difficult market environment.

The Company maintains a very strong market position, increasing the share in thermal coal sales market in Q1 2016 to 15.8%, and thermal coal sold to commercial power plants to 25.5%.

Considering an uneasy situation on the domestic and global markets resulting from oversupply of coal and dropping raw material prices, a strong pressure on prices and sales volumes continues.

Thank you



Contact:

Lubelski Węgiel Bogdanka SA

Bogdanka, 21-013 Puchaczów

Tel. +48 81 462 51 00

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





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Changes in provisions at LW Bogdanka Capital Group and their impact on financial result

Item [PLN '000]	Change in provisions in IQ 2016	Impact on financial result in IQ 2016	Change in provisions in IQ 2015	Impact on financial result in IQ 2015
Employee provisions	-6,264	-1,673	25,384	-21,183
Liabilities under local property tax	2,094	-2,094	-571	-1,884
Mine decommissioning and reclamation provision	833	-1,475	-3,658	-1,720
Mining damage	-100	-	-662	-
Accident insurance premium (ZUS)	328	-328	1,839	-1,839
Other	1,397	-1,469	2,239	-2,239
TOTAL	-1,712	-7,039	24,571	-28,865



Changes in provisions at LW Bogdanka Capital Group and their impact on financial result

Change in provisions	Change in provisions in IQ 2015	Including:					Change reflected only in balance sheet – use of provisions
		Change reflected in operating activity (EBITDA)	Change reflected below operating result – interest	Change reflected only in balance sheet – increase in balance sheet value of fixed assets	Change reflected in Other Total Income	Change reflected only in balance sheet – increase in balance sheet value of fixed assets	
Employee provisions	25,384	19,855	1,328	-	11,617	-7,416	
Liabilities under local property tax	-571	1,884	-	-	-	-2,455	
Mine decommissioning and reclamation provision	- 3,658	871	849	-5,378	-	-	
Mining damage	-662	-	-	-	-	-662	
Accident insurance premium (ZUS)	1,839	1,600	239	-	-	-	
Other	2,239	1,777	462	-	-	-	
TOTAL	24,571	25,987	2,878	-5,378	11,617	-10,533	



Changes in provisions at LW Bogdanka Capital Group and their impact on financial result

Change in provisions	Change in provisions in IQ 2016	Including:					Change reflected only in balance sheet – use of provisions
		Change reflected in operating activity (EBITDA)	Change reflected below operating result – interest	Change reflected only in balance sheet – increase in balance sheet value of fixed assets	Change reflected in Other Total Income	Change reflected only in balance sheet – increase in balance sheet value of fixed assets	
Employee provisions	-6,264	218	1,455	-	16,608	-24,545	
Liabilities under local property tax	2,094	2,094	-	-	-	-	
Mine decommissioning and reclamation provision	833	604	871	-642	-	-	
Mining damage	-100	-	-	-	-	-100	
Accident insurance premium (ZUS)	328	-	328	-	-	-	
Other	1,397	1,182	287	-	-	-72	
TOTAL	-1,712	4,098	2,941	- 642	16,608	-24,717	

The Consolidated Income Statement of LW Bogdanka Group



Item [PLN '000]	IQ 2015	IQ 2016	Change
Revenue	428,279	420,569	-1.8%
Cost of products, merchandise and materials sold, distribution cost, administrative expenses	381,825	341,953	-10.4%
Gross profit	46,454	78,616	69.2%
Gross margin	10.8%	18.7%	7.9 p.p.
Other income	1,818	1,059	-41.7%
Other expenses	268	583	117.5%
Net operating profit/loss	48,004	79,092	64.8%
Other net gains/loss	148	-207	-
Operating profit (EBIT)	48,152	78,885	63.8%
EBIT margin	11.2%	18.8%	7.6 p.p.
EBITDA	144,395	173,345	20.0%
EBITDA margin	33.7%	41.2%	7.5 p.p.
Finance income	1,506	1,615	7.2%
Finance costs	7,048	7,671	8.8%
Profit before tax	42,610	72,829	70.9%
Pre-tax profit margin	9.9%	17.3%	7.4 p.p.
Income tax	9,920	18,383	85.3%
Net profit for the reporting period	32,690	54,446	66.6%
Net margin	7.6%	12.9%	5.3 p.p.
- attributable to owners of the Dominant Entity	32,522	54,088	66.3%

Source: In-house data



Statement of Financial Position of LW Bogdanka Capital Group

Item [PLN '000]	31.12.2015	31.03.2016
Non-current assets, including:	3,003,073	2,978,990
Cash and cash equivalents	90,872	100,370
Current assets, including:	640,951	701,545
Cash and cash equivalents	262,037	352,117
Total assets	3,644,024	3,680,535
Current liabilities	404,118	388,366
Non-current liabilities	1,117,284	1,127,885
Total liabilities	1,521,402	1,516,251
Equity	2,122,622	2,164,284
Current borrowings	3,036	3,255



Cash flows of LW Bogdanka Capital Group

Item [PLN '000]	IQ 2015	IQ 2016
Net cash flows on operating activities	172,081	158,785
Cash inflow from operating activities	178,363	164,931
Interest received	1,909	2,314
Income tax paid	(8,191)	(8,460)
Net cash flows on investing activities	(129,205)	(69,374)
Acquisition of property, plant and equipment	(127,146)	(58,951)
Interest paid regarding investing activity	(2,775)	(877)
Acquisition of intangible assets	(91)	(1,087)
Inflow from the sale of property, plant and equipment	10	6
Interest received	876	1,033
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	(79)	(9,498)
Net cash flows on financing activities	37,357	669
Proceeds from loans and borrowings	40,106	4,984
Repayments of loans and borrowings	-	(759)
Repayments of loans and borrowings	(2,749)	(3,556)
Interest and commissions paid due to financing activities	-	-
Net increase (decrease) in cash and cash equivalents	80,233	90,080
Cash and cash equivalents at beginning of period	195,481	262,037
Cash and cash equivalents at end of period	275,714	352,117



Sales structure at LW Bogdanka Capital Group

Item [PLN '000]	IQ 2015	Share [%]	IQ 2016	Share [%]
Coal sales	406,613	94.9%	405,020	96.4%
Other activities	18,973	4.4%	12,358	2.9%
Sales of merchandise and materials	2,375	0.6%	3,093	0.7%
Ceramics sales	318	0.1%	98	0.0%
Total revenue	428,279	100.0%	420,569	100.0%



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Thank you for your attention

We strive for the highest efficiency