



# 2018

Presentation of results  
the LW Bogdanka Group  
Q4 2018, 2018



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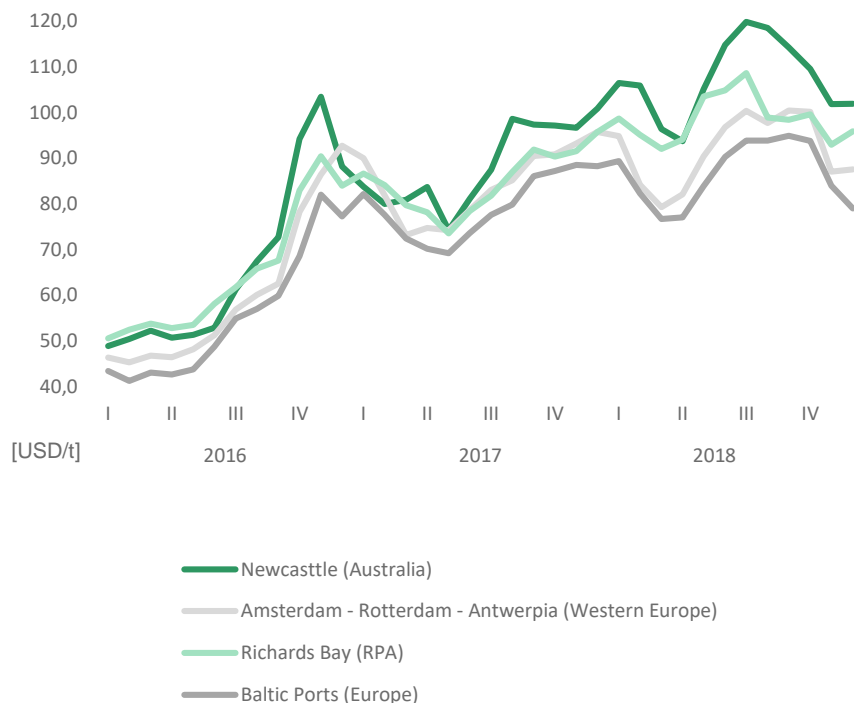


1

Situation on the coal market and key operating data



## Rises of coal prices on the global market in 2018 compared to 2017 by 8.8%



### CIF ARA coal prices:

- ✓ USD 91.7/tonne - the average coal price (CIF ARA) in 2018, i.e. +8.8% (compared to USD 84.3/tonne in 2017)
- ✓ USD 91.6/tonne - the average coal price (CIF ARA) in Q4 2018, i.e. -2.1% (compared to USD 93.6/tonne in Q4 2017), comparing Q3 2018 - decrease by 7.9%

### Inventories in ARA ports:

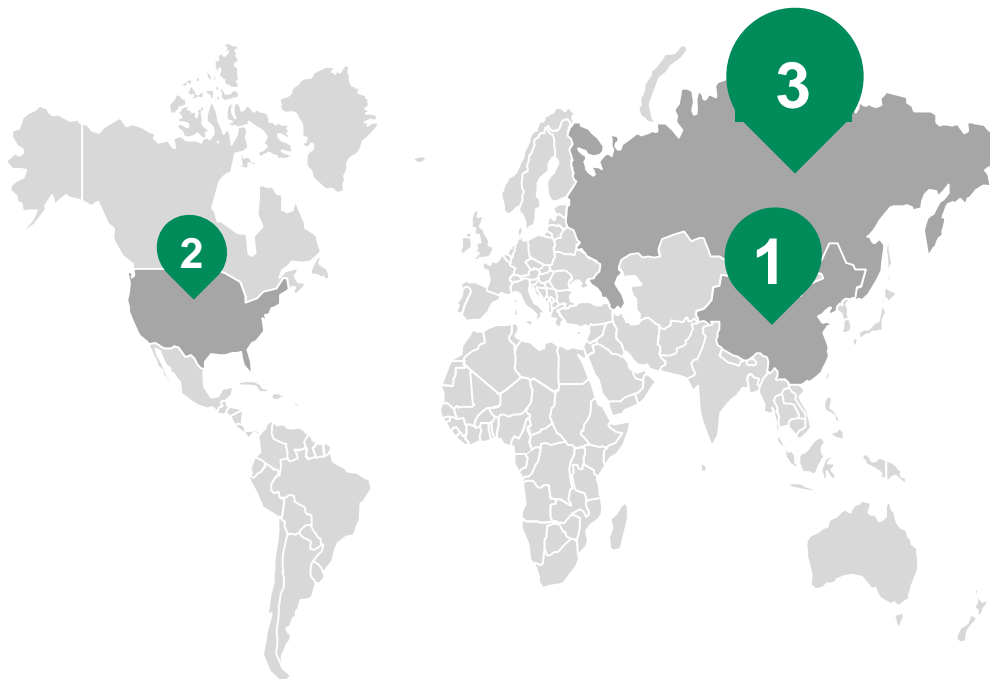
- ✓ 6.7 million tonnes of coal inventories at the end of December 2018 in the ARA ports – increase by 0.8 million tonnes compared to September 2018 (5.9 million tonnes)

### FOB BP coal prices:

- ✓ The average coal price FOB Baltic Ports in 2018 amounted to USD 86.6/tonne, i.e. +9.3% (USD 79.2/tonne) compared to 2017
- ✓ The average coal price FOB Baltic Ports in Q4 2018 amounted to USD 85.6/tonne – which represents a decrease by 9.1% compared to Q3 2018 average (USD 94.2/tonne); compared to Q4 2017 average (USD 88/tonne) it represents a decrease by 2.7%



## Increase of coal production in China and Russia in 2018



### 1. China:

- ✓ approx. 3.6 billion tonnes of coal were produced in 2018, +2.9% compared to 2017 (3.5 billion tonnes)
- ✓ imports in 2018 were 281 million tonnes and were higher by approx. 3.7% compared to 2017 (271 million tonnes)

### 2. USA:

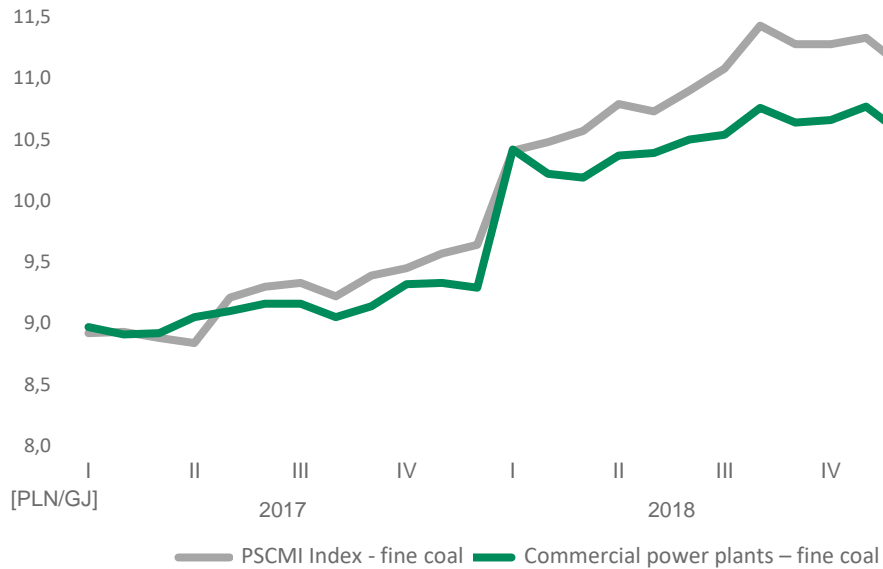
- ✓ production in 2018 – 684 million tonnes, i.e. -2.4% compared to 2017 (701 million tonnes)
- ✓ production in 2018 – 625 million tonnes, i.e. -4.3% compared to 2017 (653 million tonnes)
- ✓ exports in 2018 – 105 million tonnes of hard coal, i.e. +20.7% y/y

### 3. Russia:

- ✓ exports in 2018 (191 million tonnes), +3.0% y/y
- ✓ production in 2018 – 433 million tonnes, i.e. +6.1% y/y



## Rises of thermal coal prices sold to commercial power plants on the domestic market in 2018 vs. 2017 by 15.2%



### Thermal coal prices

- ✓ in 2018, the average annual price of fine thermal coal for commercial power plants was PLN 10.50 per GJ, the change dynamics was ca. 15.2% y/y
- ✓ in Q4 2018, the average price of fine thermal coal for commercial power plants was PLN 10.66 per GJ, comparing to Q3 2018 the price increased by 0.1%; the change dynamics in respect of average prices in Q4 2018 vs. Q4 2017 was ca. 14.5%
- ✓ average heating value of fine coal for commercial power plants was about 21.2 GJ

### Thermal coal prices based on the PSCMI index

- ✓ in 2018 the average price based on the PSCMI index was approx. PLN 10.95 per GJ, which compared to average price in 2017 (PLN 9.22 per GJ) represents an increase by approx. 18.7%
- ✓ in Q4 2018 the average price based on the PSCMI index was about PLN 11.24 per GJ, the price decreased by approx. 0.2% compared to Q3 2018 (PLN 11.26 per GJ), and compared to Q4 2017 (PLN 9.55 per GJ) the PSCMI index price increased by 17.6%



## Decrease in extraction and sales of thermal coal market in Poland in 2018 compared to 2017

### PERFORMANCE OF POLISH COMPANIES\*:

	Q4 2017	Q4 2018	Change	2017	2018	Change
Extraction of thermal coal in domestic coal market (million tonnes)	12.9	12.9	0.0%	50.4	49.2	-2.4%
Sales of thermal coal in domestic coal market (million tonnes)	12.6	11.7	-7.1%	47.7	46.7	-2.1%
Average cost of coal sold (PLN)	298.9	343.2	14.8%	273.4	327.9	19.9%

### COAL PRICES:

Average price of power coal (PLN)	247.1	267.9	8.4%	238.5	270.4	13.4%
Average price of coal sold to commercial power industry (PLN)	196.6	225.2	14.5%	192.9	221.3	14.7%

### DEMAND/SUPPLY:

Production of electric power in commercial power plants with the use of hard coal (GWh)**	20,431	21,881	7.1%	79,868	82,375	3.1%
Inventories of coal in mines (million tonnes)***	0.7	1.6	128.6%	0.7	1.6	128.6%

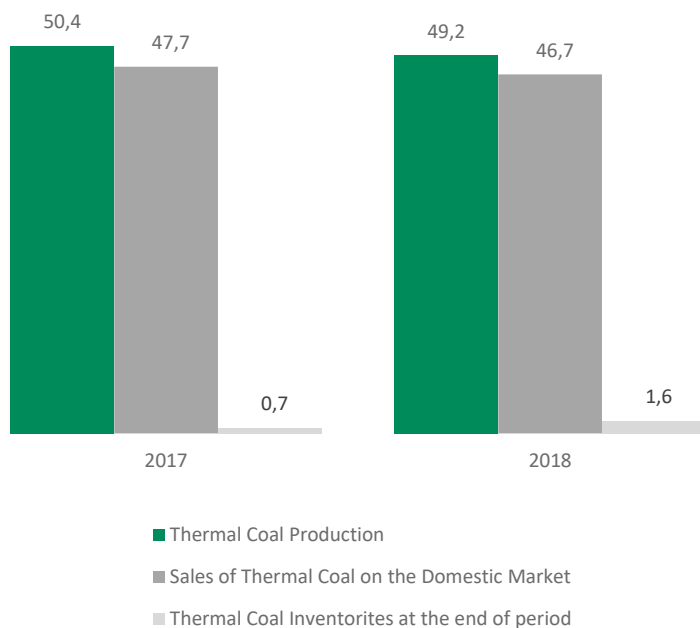
\*PSE SA

\*\*data do not include Silesia, Siltech, Ekoplus

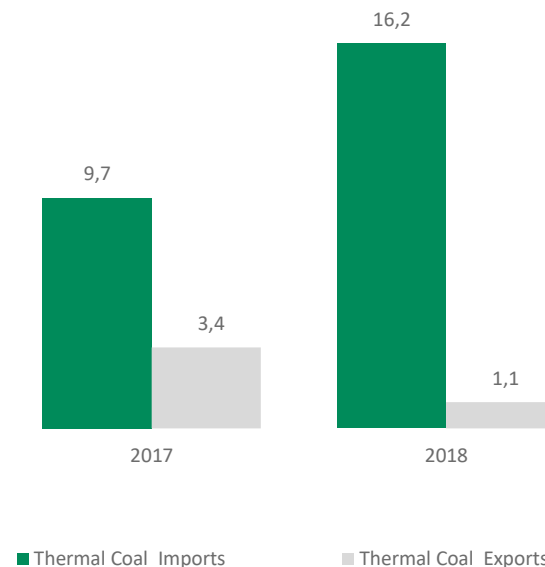


## Drop in extraction and sales of thermal coal in Polish mines with significant increase in import

Thermal coal production, domestic sales and inventories in Polish mines [million tonnes]\*



Thermal coal imports and exports [million tonnes]\*

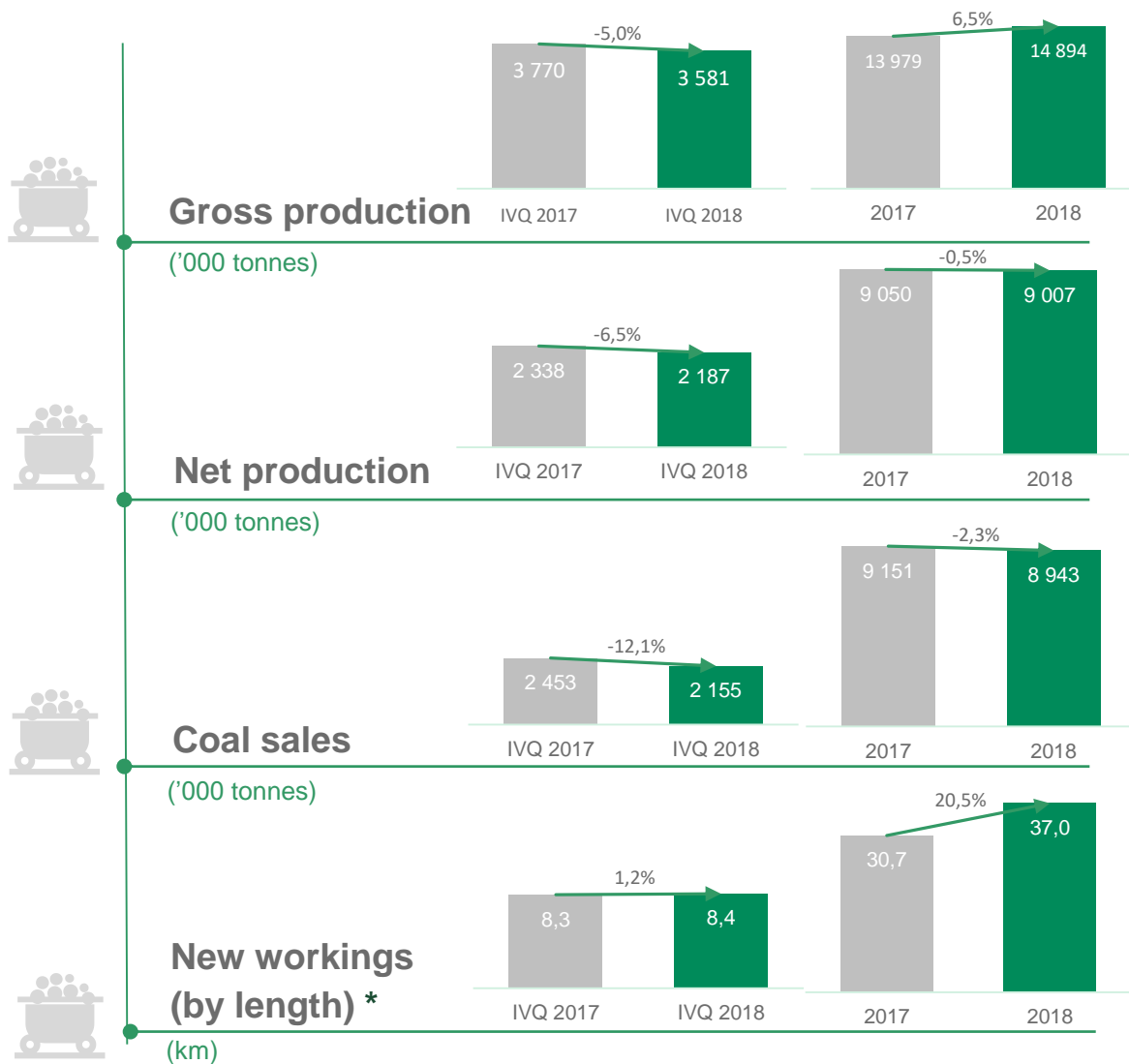


\*data do not include Silesia, Siltech, Ekoplus .





## GK LW Bogdanka – increase of gross production and new workings in 2018 compared 2017



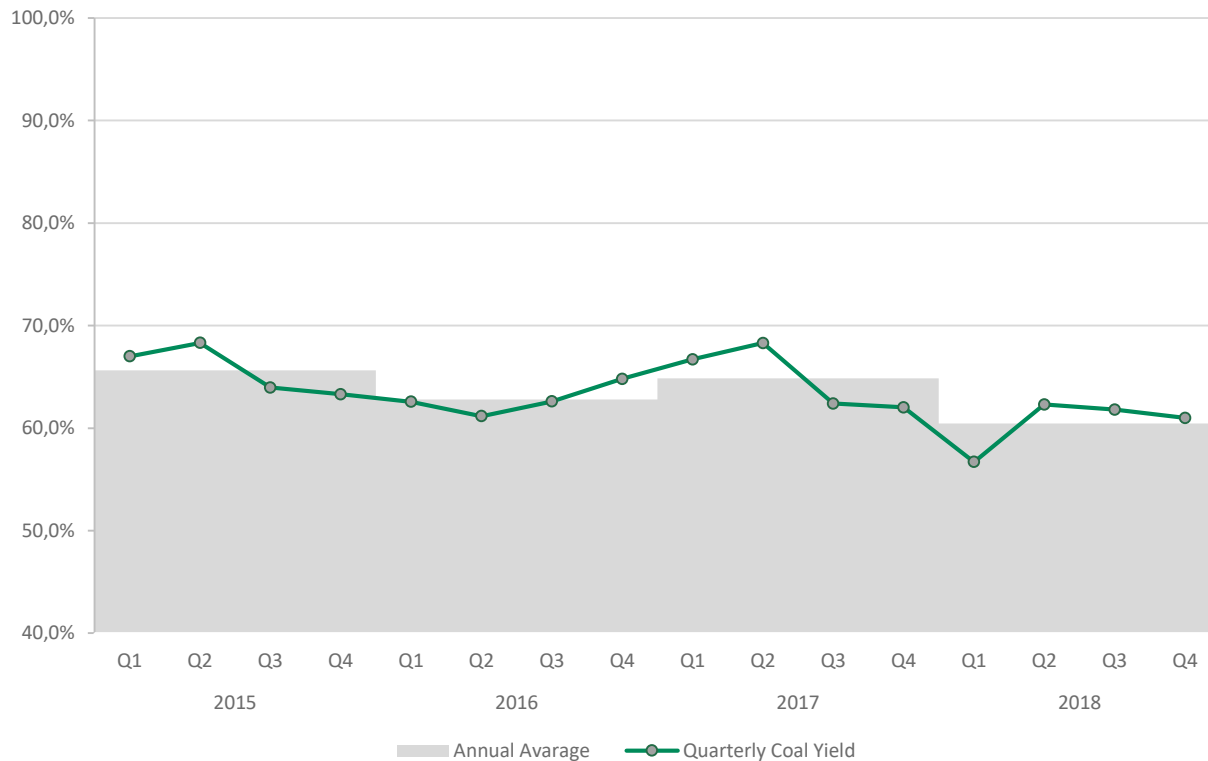
- ✓ more new workings in pursuance of the flexible development scenario (Strategy)
- ✓ production in 2018 was conducted on 306 days, compared to 302 days in 2017

\*Length of excavations made includes reconstruction works

Source: In-house data



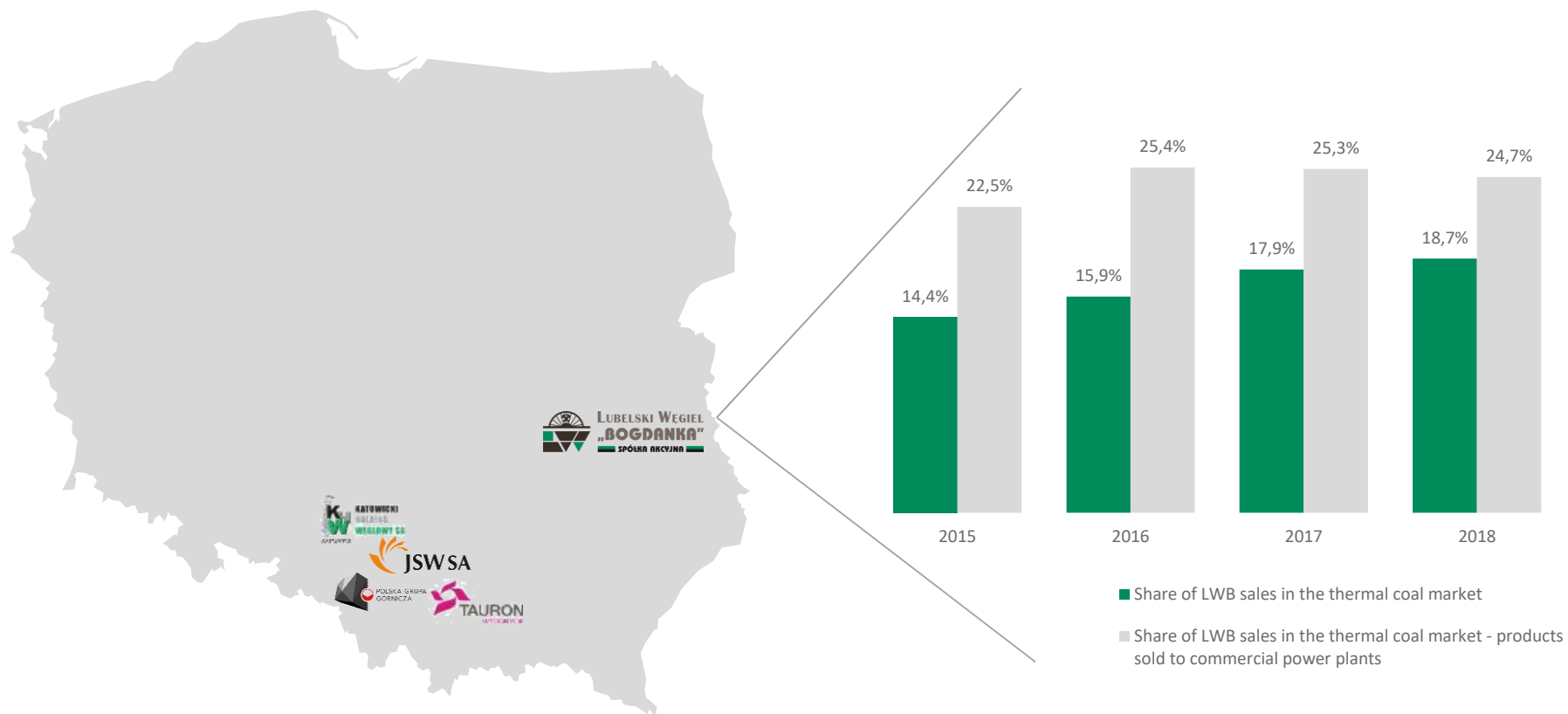
## Coal yield at a level of 60.5% in 2018



- ✓ coal yield in Q4 2018 was about 61.0% and was lower than in Q4 2017 (62.0%) and lower than in Q3 2018 (61.8%)
- ✓ average yield in 2018 was 60.5% compared to 64.7% in 2017
- ✓ in Q4 2018 45.3% of raw coal was obtained from plough walls and 54.7% shearer walls. In the same period of 2017 this ratio was 48.5% compared to 51.5%. In 2018 61.2% of raw coal was obtained from plough walls and 38.8% from shearer walls. In the same period of 2017 this ratio was 53.4% to 46.6%



We keep a strong position on the coal market – 24,7% of share in sales to commercial power plants





# 2

Financial highlights  
of the LW Bogdanka  
Group in Q4 2018,  
2018



## Increase in gross production and new workings in 2018 compared to 2017

Item	Unit	Q4 2017	Q4 2018	Change	2017	2018	Change
<b>Technical and operating data</b>							
Gross production	'000 tonnes	3,770	3,581	-5.0%	13,979	14,894	6.5%
Net production	'000 tonnes	2,338	2,187	-6.5%	9,050	9,007	-0.5%
Coal yield	%	62.0%	61.0%	-	64.7%	60.5%	-
Coal sales	'000 tonnes	2,453	2,155	-12.1%	9,151	8,943	-2.3%
Inventories (end of period)	'000 tonnes	24	88	266.7%	24	88	266.7%
New workings (by length)*	km	8.3	8.4	1.2%	30.7	37.0	20.5%
<b>Financial data</b>							
Revenue	PLN' 000	473,189	421,034	-52,155	1,780,321	1,756,671	-23,650
EBITDA	PLN' 000	256,405	69,746	-186,659	708,944	469,191	-239,753
EBITDA [net of one-off events]	PLN' 000	141,474	69,746	-71,728	594,013	469,191	-124,822
EBIT	PLN' 000	655,384	-30,586	-685,970	847,270	62,027	-785,243
EBIT [net of one-off events]	PLN' 000	44,471	-30,586	-75,057	236,357	62,027	-174,330
Net profit	PLN' 000	524,270	-22,217	-546,487	667,925	53,796	-614,129
Net profit [net of one-off events]	PLN' 000	29,430	-22,217	-51,647	173,085	53,796	-119,289

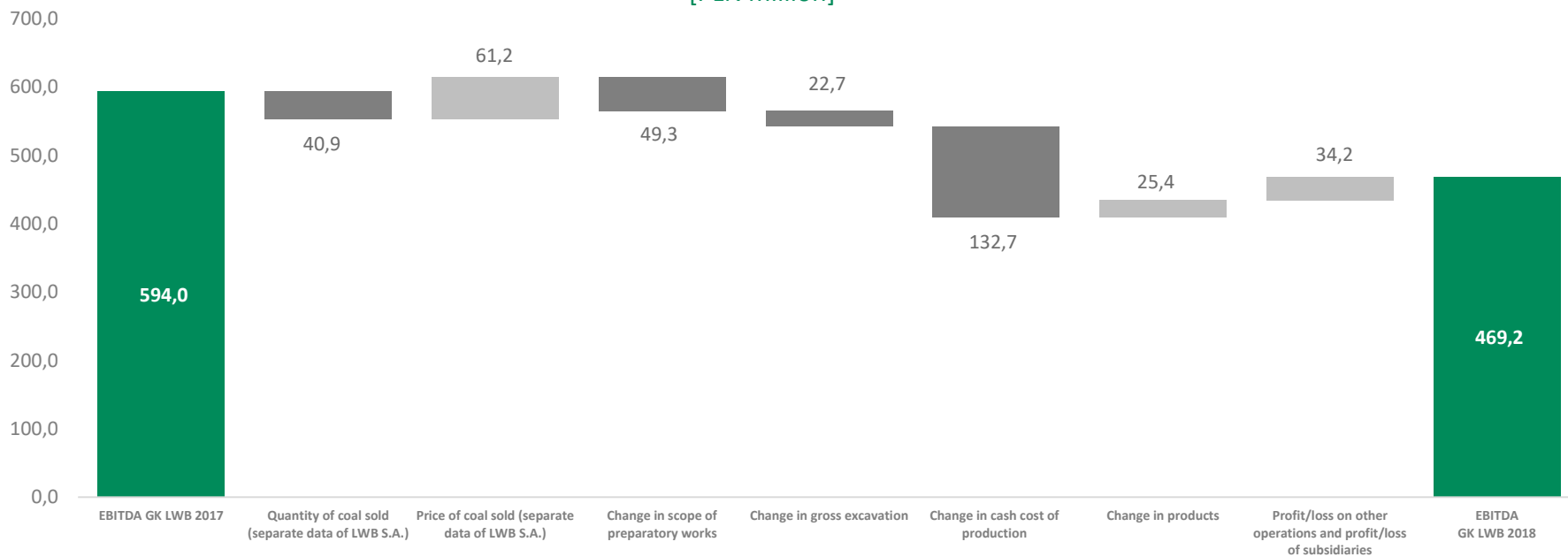
Material one-off events in 2017:

- release of impairment loss, created in 2015, on the property, plant and equipment as well as intangible assets
- change in balance of provisions as a result of the repurchase of the right to coal allowance from existing and future retirees



## Drop in EBITDA in 2018 compared to 2017

**Factors influencing EBITDA (net of one-off events)**  
[PLN million]



### 2018

EBITDA for 2017 net of one-off events related to the repurchase of the right to coal allowance from the current and future retirees - PLN 594.0 million; drop in EBITDA y/y by PLN 124.8 million (-21.0%)

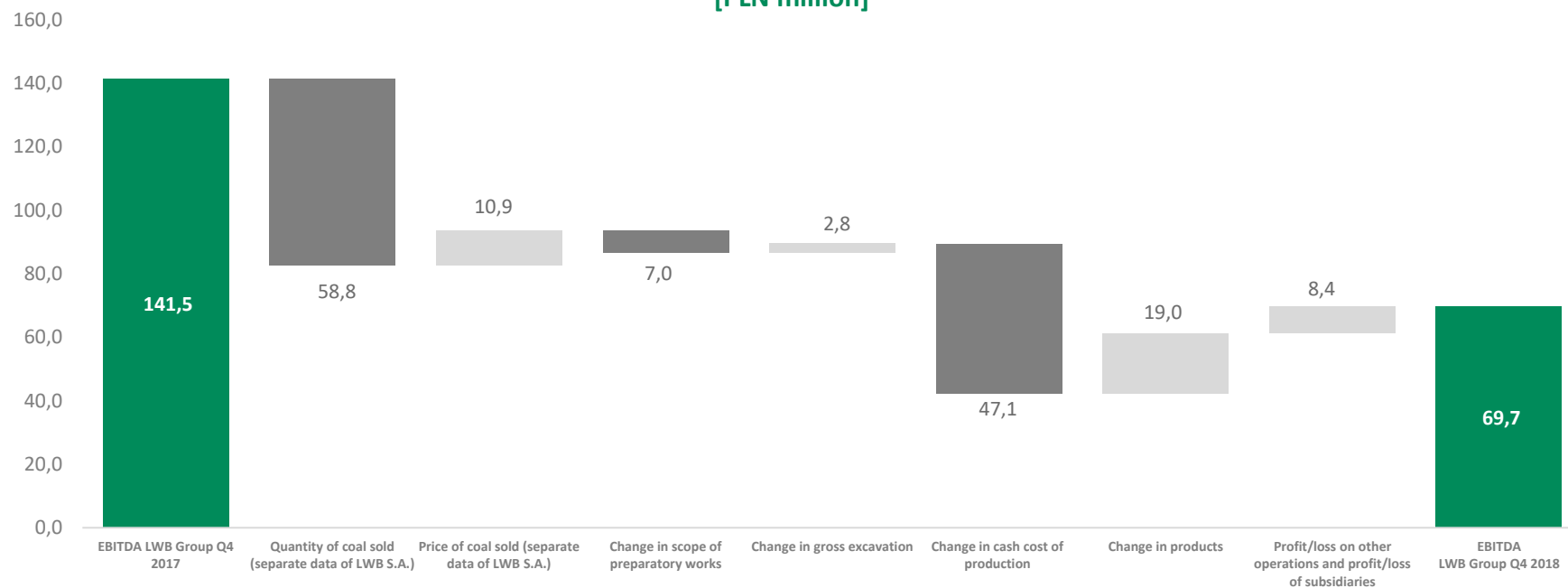
- (+) increase in revenue on sales of coal: quantitative sales lower by PLN -208,000 (-2.3%), with a higher price (+3.5%)
- (-) higher adjustment of revenue by coal obtained from mining excavations - greater range of gallery works (+6.3 km) with a higher coal price
- (-) gross production higher by 915,000 tonnes (+6.5%) – increase in production cost
- (-) change in cash cost of production (net of depreciation/amortisation):
  - increase in outsourced services (broader scope of works outsourced to third-party companies: mining and drilling services, transportation and stone loading services, output dump at weekends and on holidays and higher service rates)

- higher costs of remuneration (increase in salaries, additional award, as well as increase in average employment by 157 persons)
- increase in costs of materials and energy
- increase in taxes, fees and charges (increase in real property tax and payments to the National Fund for the Disabled)
- (+) in 2018 increase in value of inventories by PLN 13.8 million (drop in costs) compared to a decrease in inventories by PLN 11.6 million in 2017
- (+) higher result on other operations – the settlement between LW Bogdanka S.A. and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras; a positive impact on EBITDA: PLN 28.7 million



## Drop in EBITDA in Q4 2018 compared to Q4 2017

**Factors influencing EBITDA (net of one-off events)  
[PLN million]**



### Q4 2018

EBITDA for 2017 net of one-off events related to the repurchase of a right to the coal allowance from current and future retirees - PLN 594.0 million; drop in EBITDA y/y by PLN 124.8 million (-21.0%)

(+) drop in revenue on sales of coal (PLN -47.9 million, -9.9%): quantitative sales lower (PLN -298,000, -12.1%), with a higher price (+2.6%)

(-) higher adjustment of revenue by coal obtained from mining excavations - similar range of preparatory works (+0.15 km) with a higher coal price

(-) extraction lower by 189,000 tonnes (-5.0%) – decrease in production cost

(-) increase in employee benefits – higher average employment (by approx. 250 people in LWB S.A. alone), increased salaries paid out and additional bonus (settled through accruals)

(-) increase in costs of materials and energy

(-) higher costs of external services, primarily cost of work performed on Saturdays and Sundays and drillings

(+) in Q4 2018 increase in inventories by PLN 5.8 million (decrease in costs) in 2017, decrease in inventories by PLN 13.2 million (increase in costs)



The result in 2018 was influenced by lower sales with the simultaneous increase in gross production and the scope of preparatory works

Item [PLN '000]	Q4 2017	Q4 2018	Change	2017	2018	Change
Revenue	473,189	421,034	-11.0%	1,780,321	1,756,671	-1.3%
Costs of products, goods and materials sold, selling and administrative expenses	-181,531	454,265	-350.2%	934,179	1,728,459	85.0%
<b>Profit on sales</b>	<b>654,720</b>	<b>-33,231</b>	<b>-105.1%</b>	<b>846,142</b>	<b>28,212</b>	<b>-96.7%</b>
Gross sales margin	138.4%	-7.9%	-146.3 p.p.	47.5%	1.6%	-45.9 p.p.
Other income	2,961	3,796	28.2%	5,104	34,621	578.3%
Other costs	601	42	-93.0%	1,161	1,118	-3.7%
<b>Net operating profit</b>	<b>657,080</b>	<b>-29,477</b>	<b>-104.5%</b>	<b>850,085</b>	<b>61,715</b>	<b>-92.7%</b>
Other net losses	-1,696	-1,109	-34.6%	-2,815	312	-111.1%
<b>Operating profit (EBIT)</b>	<b>655,384</b>	<b>-30,586</b>	<b>-104.7%</b>	<b>847,270</b>	<b>62,027</b>	<b>-92.7%</b>
EBIT margin	138.5%	-7.3%	-145.8 p.p.	47.6%	3.5%	-44.1 p.p.
<b>EBITDA</b>	<b>256,405</b>	<b>69,746</b>	<b>-72.8%</b>	<b>708,944</b>	<b>469,191</b>	<b>-33.8%</b>
EBITDA margin	54.2%	16.6%	-37.6 p.p.	39.8%	26.7%	-13,1 p.p.
Finance income	1,606	2,691	67.6%	7,253	14,542	100.5%
Finance costs	8,046	52	-99.4%	25,762	11,649	-54.8%
<b>Profit before taxation</b>	<b>648,944</b>	<b>-27,947</b>	<b>-104.3%</b>	<b>828,761</b>	<b>64,920</b>	<b>-92.2%</b>
Pre-tax profit margin	137.1%	-6.6%	-143.7 p.p.	46.6%	3.7%	-42.9 p.p.
Income tax	124,674	-5,730	-104.6%	160,836	11,124	-93.1%
<b>Net profit for the financial year</b>	<b>524,270</b>	<b>-22,217</b>	<b>-104.2%</b>	<b>667,925</b>	<b>53,796</b>	<b>-91.9%</b>
Net sales margin	110.8%	-5.3%	-116.1 p.p.	37.5%	3.1%	-34.4 p.p.





## In 2018 increase in gross production by 6.5% and in new workings by 20,5% with higher cost by nature of LW Bogdanka SA by 12.7%

Item [PLN '000]	Q4 2017	Q4 2018	Change	2017	2018	Change
Net production ['000 tonnes]	2,338	2,187	-6.5%	9,050	9,007	-0.5%
Coal sales ['000 tonnes]	2,453	2,155	-12.1%	9,151	8,943	-2.3%
Depreciation and amortization	93,678	98,144	4.8%	347,997	398,178	14.4%
Materials and energy	140,814	157,727	12.0%	494,927	572,379	15.6%
External services	118,058	135,604	14.9%	418,889	495,394	18.3%
Employee cost and benefits	208,520	197,648	-5.2%	562,352	583,295	3.7%
Entertainment and advertising	1,355	1,811	33.7%	6,633	8,808	32.8%
Taxes and charges	8,957	9,013	0.6%	38,183	39,695	4.0%
Other expenses	1,101	1,167	6.0%	6,944	17,268	148.7%
<b>Cost by nature</b>	<b>572,483</b>	<b>601,114</b>	<b>5.0%</b>	<b>1,875,925</b>	<b>2,115,017</b>	<b>12.7%</b>
Cost of activities for the Company's own needs	-78,699	-92,071	17.0%	-284,243	-300,594	5.8%
Accruals and deferrals	-48,101	-45,522	-5.4%	6,978	1,346	-80.7%
Value of coal obtained from excavations	-18,533	-25,535	37.8%	-63,887	-113,225	77.2%
Provisions and other presentation adjustments between costs by type and by function	-627,279	17,257	-	-622,641	17,326	-
<b>Total production costs</b>	<b>-200,129</b>	<b>455,243</b>	<b>-</b>	<b>912,132</b>	<b>1,719,870</b>	<b>88.6%</b>
Change in product inventories	13,167	-5,843	-	11,571	-7,675	-
Value of goods and materials sold	3,527	4,797	36.0%	12,820	18,622	45.3%
<b>Own cost of production sold, including:</b>	<b>-183,435</b>	<b>454,197</b>	<b>-</b>	<b>936,523</b>	<b>1,730,817</b>	<b>84.8%</b>
Costs of products, goods and materials sold	-160,632	415,681	-	861,576	1,585,719	84.0%
Selling costs	11,249	11,275	0.2%	41,999	44,010	4.8%
Administrative costs	-34,052	27,241	-	32,948	101,088	206.8%



## In 2018 increase in extraction by 6.5% and in preparatory works by 20.5% with higher costs by type of LW Bogdanka S.A. by 12.7%

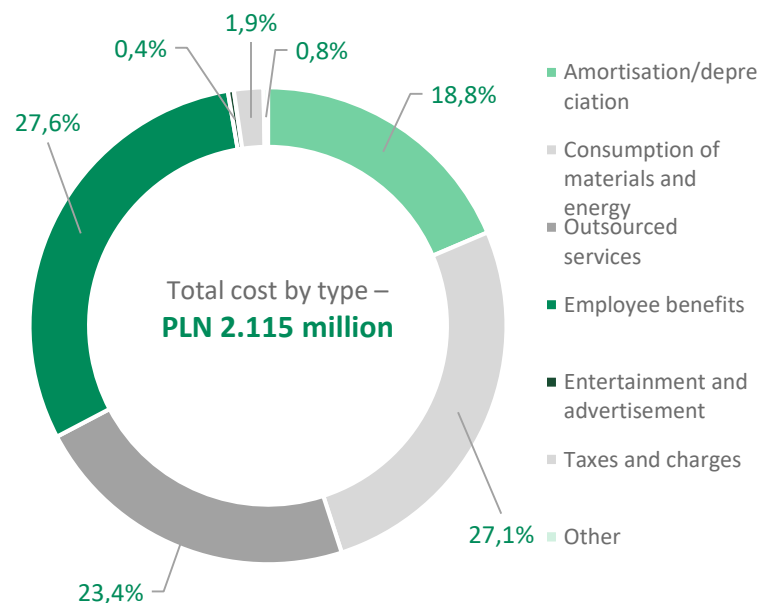
**Gross extraction** – increase by 6.5%, i.e. by 915,000 tonnes

**Net extraction** – decrease by 0.5%, i.e. by 44,000 tonnes

**New excavations** – increase by 20.5% (37.0 km in 2018 compared to 30.7 km in 2017)

**Total costs by type** – PLN 2.115 million in Q1-Q4 2018, increase in relation to Q1-Q4 2017 by 12.7%, i.e. by PLN 239 million

**Cash costs (net of depreciation / amortisation)** – increase by 12.4%, i.e. by approx. PLN 189 million



Source: In-house data

### Taxes and charges (+4.0% y/y):

- ✓ increase in real property tax
- ✓ increase in payments to the National Fund for the Disabled

### Other costs (+148.7% y/y):

- ✓ an insurance policy regarding the Company's assets was excluded from the costs of the period - settled through accruals and deferrals

### Depreciation / Amortisation (+14.4% y/y):

- ✓ increase in value of depreciation / amortisation of non-current assets (reversal of impairment losses)
- ✓ increase in value in natural depreciation (higher gross extraction with a similar net production)

### Materials and energy consumption (+15.6% y/y):

- ✓ increase in the value of parts to conveyors and to other machinery and equipment
- ✓ higher scope of preparatory works performed (35 km of galleries in 2018 compared to 29.3 km in 2017)
- ✓ increase in fuel price
- ✓ increase in value of purchased energy - the value of consumed electric energy went up (higher nominal use); similarly, the value of thermal energy went up (hot utility water and central heating)

### Entertainment and advertising costs (+32.8% y/y):

- ✓ new sponsorship agreements

### Employee benefits (+3.7% y/y):

- ✓ average employment in 2018 - 4,635, i.e. +157 people compared to 2017
- ✓ increase in employee benefits as a consequence of the agreement signed with the trade unions, whereby a 5% increase and a payment of an incentive bonus were agreed upon
- ✓ decrease in other employee benefits (in 2017 the Company repurchased the right of existing and future retirees to a "retirement" coal allowance)

### Outsourced services (+18.3 y/y):

- ✓ higher costs of mining and drilling services (in respect of preparatory works)
- ✓ higher costs of work performed on Saturdays and Sundays, auxiliary works
- ✓ higher costs of repairs and maintenance of mining machinery and equipment
- ✓ increase in cost of waste management (higher extraction)

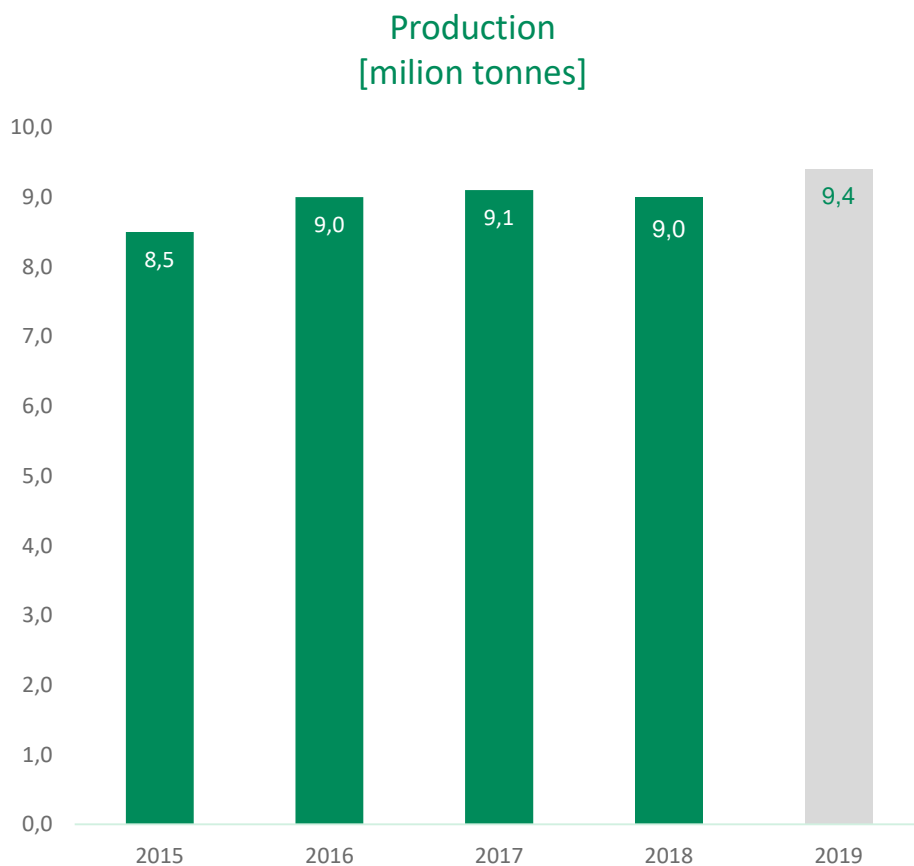


# 3

Performance of the plan in Q4 2018, 2018 and plan for 2019



## We completed production plan – 9.0 million tonnes in 2018

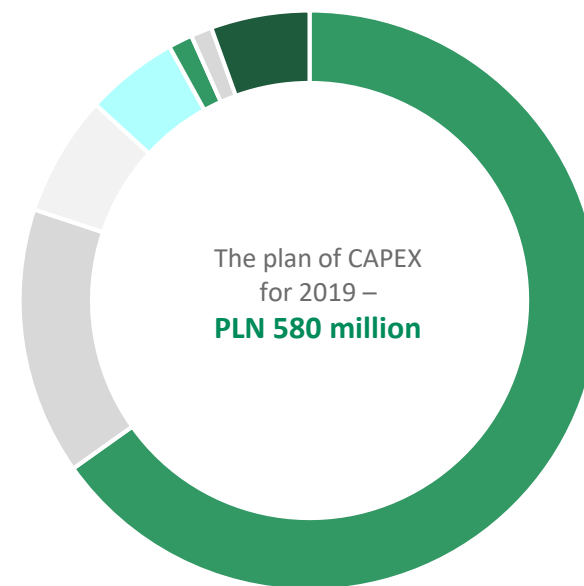


- ✓ According to the adopted Strategy, the Company assumed production of approximately 9.0 million tonnes of coal in 2018
- ✓ In 2018 LW Bogdanka SA produced over 9.0 million tonnes of coal, and sales were at the level of almost 8.9 million tonnes
- ✓ Production plan for 2019–9,4 million tonnes



## The use of CAPEX in 2018 – in accordance with the Strategy is over PLN 463 million

Item [PLN '000]	Realization of plan 2018	Realization of plan 2018 [%]	Plan for 2019
New excavations and upgrades of existing ones	300,174	103.0%	378,273
Maintenance of machinery	121,709	85.2%	86,608
Obtaining new licences	1,089	27.9%	6,850
Ostrów Field	429	66.5%	7,805
Longwalls	0	0.0%	30,000
Other development investments	20,843	74.4%	39,006
ICT	4,692	67.4%	7,568
Administration	47	78.3%	20
Transport	166	97.6%	2,186
Other	6,149	54.3%	7,870
<b>TOTAL CAPEX in LW Bogdanka SA</b>	<b>455,298</b>	<b>93.8%</b>	<b>566,186</b>
Łęczyńska Energetyka sp. z o.o.	7,148	75.2%	13,000
Other subsidiaries	655	57.4%	1,312
<b>TOTAL CAPEX AT THE LW BOGDANKA GROUP</b>	<b>463,101</b>	<b>93.4%</b>	<b>580,498</b>



- New excavations and upgrades of existing ones
- Maintenance of machinery
- Other development investments
- Longwalls
- Ostrów Field
- Obtaining new licences
- Other



- 2018 saw a further increase in coal prices both on the international market (**+8.8%** compared to 2017) and domestic market (**+13.4%** compared to 2017).
- In 2018 the Company performed its production plan at a level of more than **9 million tonnes** and sales plan at a level of **8.9 million tonnes**. At the same time a record-breaking length of galleries was made, totalling 37 km (+20.5% compared to 2017).
- The Company retains a strong market position achieving, in 2018, the share in the market of thermal coal sales of **18.7%**, and the share in the market of thermal coal sales to commercial power plants of **24.7%**.
- Financial results in 2018, were achieved due to completion of production assumptions with an increase of gross extraction by almost 1 million tonnes y/y and the increase in length of excavations made by **6.3 km** y/y.
- The Company's plans for 2019 assume annual coal production at a level of **9.4 million tonnes**.



Thank you

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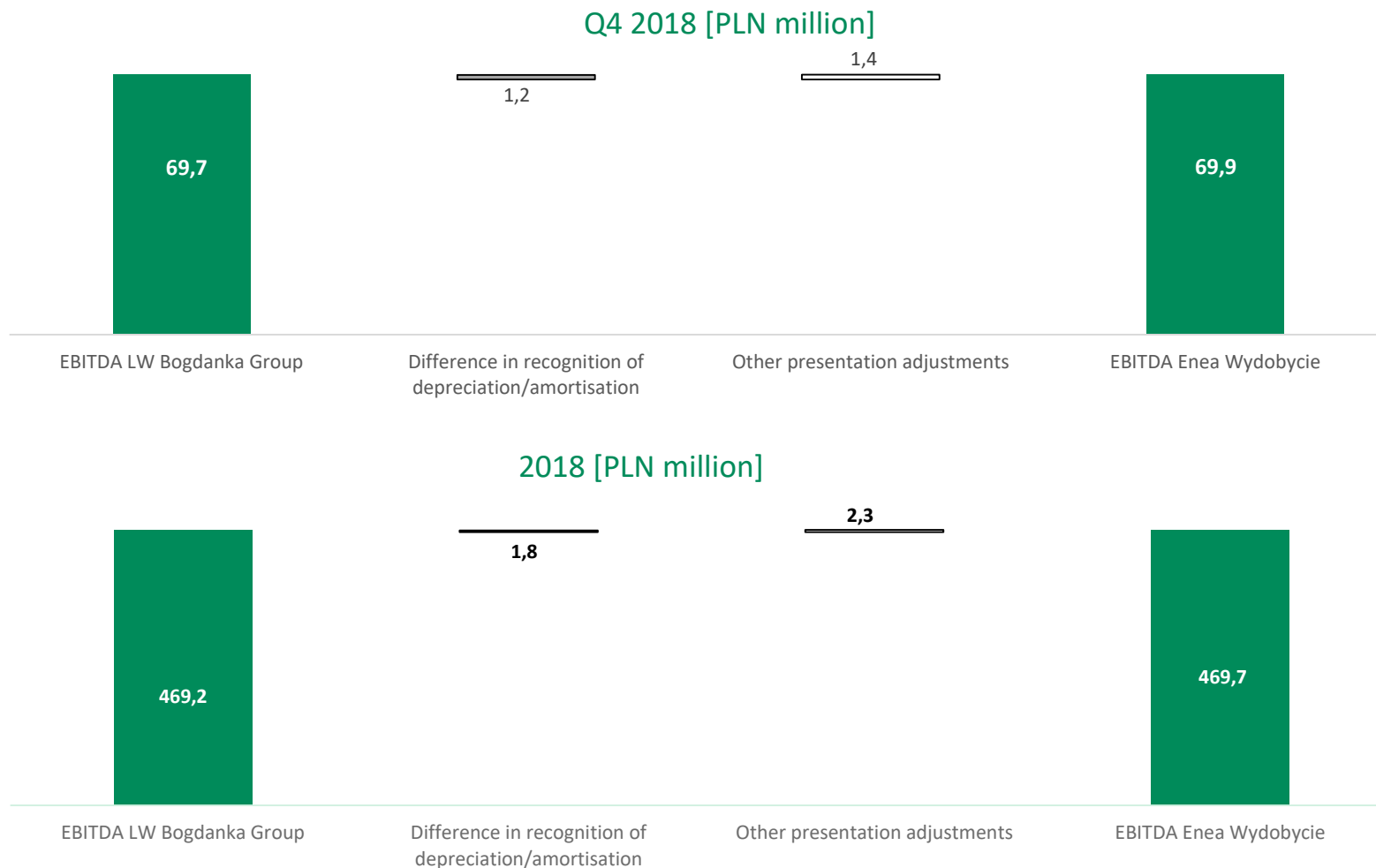
# 4

Appendices –  
Financial information





## EBITDA presentation differences between the LW Bogdanka Group and Enea Wydobycie





## Statement of Financial Position of LW Bogdanka Capital Group

Item [PLN '000]	31.12.2017	31.12.2018
Non-current assets, including:	3,428,805	3,463,822
Cash and cash equivalents	121,806	128,279
Current assets, including:	730,067	469,529
Cash and cash equivalents	434,928	170,793
<b>Total assets</b>	<b>4,158,872</b>	<b>3,933,351</b>
Current liabilities	744,910	446,803
Non-current liabilities	512,435	536,432
<b>Total liabilities</b>	<b>1,257,345</b>	<b>983,235</b>
<b>Equity</b>	<b>2,901,527</b>	<b>2,950,116</b>
Current borrowings	3,242	3,212



## Cash flow GK LW Bogdanka

Item [PLN '000]	2017	2018
<b>Net cash flows on operating activities</b>	<b>608,517</b>	<b>458,874</b>
Cash inflow from operating activities	640,096	460,563
Interest received	-1,531	-9,545
Income tax paid	-30,048	7,856
<b>Net cash flows on investing activities</b>	<b>-372,052</b>	<b>-418,232</b>
Acquisition of property, plant and equipment	-368,174	-415,277
Interest paid regarding investing activity	-3,126	-5,544
Acquisition of intangible assets	-1,160	-5,243
Inflow from the sale of property, plant and equipment	3,924	3,613
Interest received	7,072	8,623
Expenditure on other current investments	-	-153,098
Proceeds from current investments	-	155,167
Outflow on account of funds being deposited in the bank account of the Mine Closure Fund	-	-6,473
<b>Net cash flows on financing activities</b>	<b>-342,643</b>	<b>-304,777</b>
Bond redemption	-300,000	-300,000
Repayments of loans and borrowings	-3,036	-3,036
Interest and commissions paid due to financing activities	-5,137	-1,741
Dividends paid	-34,470	
Net decrease in cash and cash equivalents	-106,178	-264,135
Cash and cash equivalents at beginning of period	541,106	434,928
<b>Cash and cash equivalents at end of period</b>	<b>434,928</b>	<b>170,793</b>



## Sales structure at LW Bogdanka Capital Group

Item [PLN '000]	Q4 2017	Share [%]	Q4 2018	Share [%]
Coal sales	457,198	96.6%	407,942	96.9%
Other activities	12,456	2.6%	8,201	1.9%
Sales of merchandise and materials	3,535	0.8%	4,891	1.2%
<b>Total revenue</b>	<b>473,189</b>	<b>100.0%</b>	<b>421,034</b>	<b>100.0%</b>



## Provisions at the LW Bogdanka SA

### Balance-sheet provisions

[PLN '000]	As at 31.12.2017	As at 31.12.2018	Change 2018/31.12.2017
Employee provisions	153,562	161,735	5.3%
Liabilities under local property tax	42,353	41,431	-2.2%
Mine decommissioning and land reclamation provision	114,448	124,207	8.5%
Mining damage	4,434	3,184	-28.2%
Accident insurance premium (ZUS)	21,340	22,658	6.2%
Other	17,417	11,858	-31.9%
<b>Total</b>	<b>353,554</b>	<b>365,073</b>	<b>3.3%</b>

The total provisions as at 31 December 2018 amounted to PLN 368,519,000, which means an increase by 3.2% compared to the value as at 31 December 2017.

### Change in provisions

[PLN '000]	Change Q4 2017	Change Q4 2018	Change Q4 2018/ Q4 2017	Change in 2017	Change in 2018	Change 2018/2017
Employee provisions	-140,501	7,774	-	-109,914	8,173	-
Liabilities under local property tax	2,414	-7,494	-	9,897	-922	-
Mine decommissioning and land reclamation provision	-2,588	-698	73.0%	-2,975	9,759	-
Mining damage	822	-266	-	-6	-1,250	2,0733.3%
Accident insurance premium (ZUS)	325	335	3.1%	1,298	1,318	1.5%
Other	4,462	-238	-	3,754	-5,559	-
<b>Total</b>	<b>-135,066</b>	<b>-587</b>	<b>99.6%</b>	<b>-97,946</b>	<b>11,519</b>	<b>-</b>



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attention