28 September 2015

Position of the Management Board of Lubelski Węgiel BOGDANKA S.A. on the tender offer for shares of Lubelski Węgiel BOGDANKA S.A. announced by Enea S.A. on 14 September 2015

The Management Board of Lubelski Węgiel BOGDANKA S.A. with registered office in Bogdanka ("Management Board" and "Company" respectively), acting on the basis of Article 80.1 – 80.3 of the Polish Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies of 29 July 2005 ("Act"), hereby presents its position on the tender offer ("Tender Offer") announced on 14 September 2015 ("Tender Offer Date") by Enea S.A. ("Enea", "Acquirer") regarding the sale of 21,962,189 shares of the Company.

According to the Tender Offer, as a result of the Tender Offer announced in accordance with Article 73.1 of the Act, the Acquirer intends to acquire 21,962,189 the Company's shares including:

a) dematerialised, ordinary bearer A, B and C series shares, marked by the National Depository of Securities (Krajowy Depozyt Papierów Wartościowych S.A.) ("NDS") with the ISIN code: PLLWBGD00016, admitted and introduced to trading on the regulated market – the market of official stock exchange listings operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) ("WSE") ("Dematerialised Shares"); and
b) non-dematerialised, ordinary registered B series shares ("Non-dematerialised Shares"), jointly with the Dematerialised Shares – the "Shares"),

altogether representing 64.57% share in the share capital of the Company and conferring the right to 21,962,189 votes at the General Shareholders Meeting ("GSM") of the Company, which accounts for 64.57% of the total vote at the Company's GSM.

As at the Tender Offer Date, the Acquirer directly held no Company's shares. As at the Tender Offer Date, Enea Wytwarzanie Sp. z o.o., Enea's subsidiary, ("Enea Wytwarzanie" or "Subsidiary") was an owner of 486,780 Company's shares, conferring the right to 1.43% votes in the total vote at the Company's GSM.

As a result of the Tender Offer, the Acquirer intends to achieve the ownership (along with its Subsidiary) of 22,448,969 Shares of the Company, conferring the right to 22,448,969 votes, i.e. 66% votes in the total vote at the Company's GSM.

The opening and closing dates, as specified in the Tender Offer, of the subscription period regarding the sale of the Company's Shares are as follows: 2 October 2015 and 16 October 2015 ("Subscription Period").

Enea makes the acquisition of the shares in the Tender Offer contingent upon the fact that at the end of the Subscription Period the subscriptions are made for at least 16,520,016 (sixteen million five hundred twenty thousand and sixteen) Company's Shares, conferring the right to 16,520,016 votes at the Company's GSM, which will account for 48.57% of the total number of Shares and of the total number of votes at the GSM, which, jointly with the shares held currently by Enea Wytwarzanie, will confer the right to exercise 50.00% of the total number of votes plus one vote at the Company's GSM.

The Tender Offer is announced subject to a legal condition of the Acquirer obtaining unconditional consent of the President of the Office for Competition and Consumer Protection to a concentration or the lapse of the statutory time limit to grant it. The Acquirer assumes that the legal condition will have been fulfilled by 14 October 2015.

I. Grounds for the Management Board's Position

In order to express its position on the matter, the Company's Management Board have analysed the following information and data regarding the Tender Offer available to it:

a) the published Tender Offer,
b) the Company's Shares listings from six months preceding the Tender Offer,

c) publicly available information on the functioning, financial standing and current market prices of shares of selected companies operating in the mining industry,

d) updated 2015 Corporate Strategy of the Enea Group for the period 2014-2020, as provided for in Enea's current report No. 35/2014 of 14 September 2015.

Further, considering the context of the Tender Offer as well as events which occurred shortly before the Tender Offer (including in particular the termination by Enea Wytwarzanie, on 21 August 2015, of a long-term agreement for the supply of coal by the Company), the Company's Management Board commissioned to KPMG Advisory Spółka z ograniczoną odpowiedzialnością sp.k. ("KPMG" or "Advisor") to conduct an analysis of options and strategic scenarios of the Company's functioning in the future ("Options Analysis") and to prepare an estimate of the Company's Shares fair value ("Fair Value Estimate"). The reports, showing a summary of the analyses and estimates were presented to the Company's Management Board before the present position has been formulated.

Next, in order to examine whether the price offered in the Tender Offer corresponds to the fair value of the Company's Shares, the Company's Management Board, acting in accordance with Article 80.3 of the Act, commissioned to KPMG to prepare an independent opinion regarding the price of the Shares, as offered in the Tender Offer ("Opinion"). On 28 September 2015, KPMG presented to the Company's Management Board the Opinion which is attached to this document.

In none of the cases described above, the fee of KPMG was made conditional upon the contents of the Opinion or results of the Tender Offer.

II. Disclaimer

Apart from the review of the information referred to above, the Company's Management Board have undertaken no actions intended at analysing, collecting, or verifying any information coming from sources other than the Company, and it assumes no responsibility for truthfulness, accuracy, completeness and adequacy of the information which served as a basis for formulating this position, except for information deriving from the Company.

The present position is not a recommendation regarding acquisition or sale of financial instruments referred to in Article 42 of the Polish Act on Trading in Financial Instruments of 29 July 2005. Each Company's shareholder, in order to decide upon an answer to the Tender Offer, should make their own assessment of the terms and conditions of the Tender Offer, and seek advice of their advisors having relevant qualifications. A decision on selling the Shares in response to the Tender Offer should be an independent decision of each shareholder.

The Management Board wishes to note that there may exist opinions other than those presented herein with respect to the Company's value.

III. The influence of the Tender Offer on the Company's interests, including employment at the Company, strategic plans of the Acquirer towards the Company and their likely influence on employment at the Company and the location of conducting operations.

Having consideration for the context of the Tender Offer, the Company's Management Board along with its Advisor referred to above, have analysed potential scenarios and options for the future development of the Company.

The analyses covered the scenario in which the Company operates as a stand-alone and independent entity, and as a part of a larger power and mining group (being the subject of an acquisition, including by Enea, or acquiring other entities by itself).

The above analyses cover circumstances key for the Company's financial standing in the future, including:

- the fact of terminating the long-term agreement for the supply of coal by Enea Wytwarzanie, on 21 August 2015;
- possible continuation of cooperation with Enea and the scope of such a cooperation;
- possible sales volumes to customers other than the Acquirer's Group;
- current situation of the mining sector in Poland and globally, political context, and possible trends of coal pricing in the future;
- other material issues with a direct bearing on the Company's future operations.

The abovementioned analyses served as a basis for developing individual parts of the present position and the opinion drafted by KPMG.

Please also note that in recent years the Company conducted a number of investments necessary for doubling its production capacities in 2015 compared to 2011 (with a target figure of 10.5-11.5 million tonnes per year). The investment plan covered development investments, including preparation and modernisation of excavations in the Bogdanka, Nadrybie and Stefanów fields as well as modernisation and repairs of plant and equipment. As part of the investment plan, the expansion of the Mechanical Coal Processing Plant was completed, and the last ploughing complex ”Bogdanka 4” was delivered, which now allows the Company to achieve full production capacity while mining from four or five walls at the same time.

In the first half of 2015, due to the change of situation on the market and revision of production and sales plans, the investment programme for 2015 has been updated and amounts currently to nearly 200 million less than assumed at the beginning of the year.

In the second half of 2015 and in the years to follow, the Company intends to move on with its investment plans allowing the mine’s functioning to be optimised and adjusted to the current economic conditions.

In the Tender Offer the Acquirer has noted that it intends to develop the existing activities of the Company without changing the core profile of the Company’s operations. It does not rule out that its involvement in the Company will increase to 100% of the Company’s shares depending on market situation and the Acquirer’s financial capabilities. Subject to the above, the Acquirer has not presented detailed information on the Tender Offer’s impact on the Company’s interests. However, having due regard to: (i) the Acquirer’s position on the Polish power market, (ii) the existing cooperation between the Acquirer and the Company, (iii) investment plans of the Acquirer, including in particular modernisation of the existing power units and building new ones, and (iv) its need of the raw material supplied, among other entities, by the Company, as well as (v) possible synergies between the Acquirer and the Company (following the completion of the Tender Offer), the Management Board is of the opinion that the Tender Offer is in line with the Company’s interest.

In the Tender Offer, the Acquirer did not present detailed information regarding the impact of the Tender Offer on the employment at the Company and on the location of its operations. Additionally, the Company’s Management Board have not received the position of its trade unions so far. Nevertheless, taking into consideration such factors as: (i) the specific nature of the Company’s operations, (ii) its currently high operating efficiency (comparing to other entities in the industry) and (iii) possible, following the completion of the Tender Offer, achievement of earlier estimated production volumes, one may presume that the Tender Offer will have no impact on the location of the Company’s operations or a significant change in the level of employment at the Company.

IV. Position of the Management Board on the price for the Company’s Shares suggested in the Tender Offer. A statement on whether or not, in the opinion of the Management Board, the price suggested in the Tender Offer corresponds to the fair value of the Company.

Based on the analyses described above, it was concluded that any and all potential benefits resulting from the possibility that the Company functions as a subsidiary of the Acquirer, which may be gained by both the Acquirer and the Company, seem to be unique for Enea, and for this reason, they should be regarded as synergies specific to the Acquirer (i.e. unavailable for other market participants).

Given the fact that Article 80.2 of the Act concerns a fair value which, in accordance with the definition specified in the International Financial Reporting Standard 13 and Article 28.6 of the Accounting Act of 29 September 1994, does not take into account any synergies available exclusively for a specific buyer, a scenario that provides for a lack of capital engagement of Enea in the Company’s shares forms a basis for presenting this position.

The above-mentioned scenario assumes that the Company will continue to function as an independent entity. However, the Management Board shall take appropriate measures to maintain the current level of sales, despite an oversupply of power coal and a reduction in its price, as well as a possible partial decrease of the sales volume to ENEA Wytwarzanie starting from 2018, as a result of the termination of the long-term agreement for the supply of coal effected on 21 August 2015.

Notwithstanding the above, account should be taken of the fact that the current macroeconomic and political situation, as well as the economic situation of the hard coal sector in Poland, including uncertainty with respect to the restructuring of Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A. and Katowicki Holding Węglowy S.A., possible vertical consolidation processes of power and mining enterprises, including with the participation of Enea, as well as a possibility that Enea replaces the Company's coal with coal from other sources, can make it particularly difficult to fully rebuild the lost volume of sales to the level generated in the period preceding the deterioration of the market situation which brought about the oversupply and reduction of hard coal prices. A risk of further decrease of the volume of sales also cannot be ruled out.

To our understanding, the above-mentioned scenario provided a basis for drawing up by KPMG the Opinion attached hereto. With respect to the price suggested in the Tender Offer, the Management Board would like to point out that in accordance with Article 79 of the Act, the price for Shares suggested in the Tender Offer may not be lower than:

- the average market price in the period of 6 months preceding the Tender Offer announcement, during which the Shares were traded on the main market;
- the highest price for which the Shares subject to the Tender Offer were purchased within 12 months before the Tender Offer announcement by the entity obliged to announce the Tender Offer, its subsidiaries or parents, or entities being parties to an arrangement concluded with this entity referred to in Article 87.1.5 of the Act, or
- the highest value of the assets or rights issued by the entity obliged to announce the Tender Offer or the entities being parties to the arrangement concluded with this entity referred to in Article 87.1.5 of the Act, in exchange for the Shares subject to the Tender Offer within 12 months before the Tender Offer announcement.

In accordance with the Tender Offer, the price suggested in the Tender Offer in the amount of PLN 67.39 per one Share of the Company equals an arithmetic mean of average daily prices weighted by trade volume in the period of 6 months preceding the Tender Offer Date.

In accordance with the information contained in the Tender Offer, the Acquirer did not acquire any Shares of the Company in the period of 12 months directly preceding the date of announcing the Tender Offer. Moreover, the Acquirer is not, and was not in the period of 12 months preceding the date of announcing the Tender Offer, a party to the arrangement referred to in Article 87.1.5 of the Act.

Pursuant to the Opinion of KPMG, the price for Share suggested in the Tender Offer is in the range of the fair value of the Shares of the Company per one Share evaluated by KPMG.

Having read the Opinion drawn up by the Advisor, and based on the premises presented above, the Company's Management Board is of the opinion that the price suggested in the Tender Offer corresponds to the requirements of the minimum price specified in Article 79 of the Act on Public Offering, and corresponds to the fair value of the Company.

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Vice-President of the Management Board
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