



Current report 16/2023

Date of preparation: 13 July 2023

Topic: Answers to questions posed by shareholders under the procedure stipulated in Article 428 § 5 of the Commercial Company Code

General Legal Basis: Article 56 sec. 1 item 2 of the Act on Offerings – current and periodic information

Content:

The Management Board of Lubelski Węgiel “Bogdanka” S.A. with its registered office in Bogdanka (the “Company” or “Bogdanka”) hereby presents answers to questions asked by the Company’s shareholders who are natural persons, using the procedure stipulated in Article 428 § 5 of the Commercial Company Code.

Shareholder no. 1

Question 1:

What measures did the Management Board taken in the second part of last year in order to renegotiate coal prices with Enea? What re-negotiation efforts were undertaken in that period?

Answer:

The Company’s Management Board took measures to change the prices of coal sold in 2022 and conducted, from the first months of 2022, numerous rounds of re-negotiations of contractual delivery prices with practically all coal buyers, including with the ENEA Group. In the second half of 2022, the Company’s Management Board requested buyers from the ENEA Group to re-negotiate prices for coal deliveries in 2022; the negotiations of this issue in Q4 2022 were combined with the negotiations of the delivery priced for 2023 as well as the negotiations of the matter of utmost importance for the Company, i.e. the negotiation of deferred deliveries of coal volumes undelivered by our Company due to sudden changes occurring in the coal mining conditions, to prevent the Company from facing claims for failure to deliver significant volumes of coal. The Company reported on the problems with coal production in the current reports no. 18, 19 and 21/2022. The Company informed about the successful conclusion of these negotiations in the current reports no. 26 and 27/2022 of 30 December 2022. The prices negotiated for the 2023 contracts fully incorporate the impact of the price movements occurring in the coal market in 2022.

Question 2:

What is the situation on the longwall that was a source of problems to the Company - what is the stage of the situation and can the longwall be recovered in the future?

Answer:

At the beginning of April this year, there was increased inflow of underground water near the goaf of the old longwall 1/II/382 at the Nadrybie mining field. As its name suggests, the longwall was not mined at the time, so there is no question of its recovery or restarting mining. However, the inflow of water to the old longwall had led to a decision - in accordance with the safety procedures of the coal mine, to move the production operations of another, neighboring longwall, 2/II/382, by over 100 meters. Based on tests it was determined that mining of the second longwall in the conditions of immediate proximity of inflowing water may lead to hydrogeological disturbances, and - as a result - further outflow of waters constituting a hazard to the safety of people and equipment.

Question 3:

What is the insurance policy of the mine? In Q1, the Company wrote off a part of machinery, so it is unknown if these machines are insured or not. If not, what is the value of losses?

Answer:

The Company has been insuring its assets for many years, both in the over-the-ground as well as the underground part of the mine, seeking the broadest possible coverage. The current policy covering the underground assets has been in force since December 2022, and its parameters, in particular the scope of coverage, the sum insured and the levels of deductibles - are aligned with the specific nature of the mining operations and the best market practices, as well as the requirements imposed by the existing law. The entire assets park (machinery and equipment) on longwall 3/VII/385 is covered by the aforementioned insurance policy.

It is likely that some machinery and equipment have been lost, and as a result their value was impaired. Consequently, and independently of the insurance aspect, the Company posted an impairment charge in order to correctly reflect this event in the Company's accounting books, as required by the general accounting principles.

Question 4:

What is the current decision-making power of the Management Board as regards setting the contract prices? To what extent is the Management Board able to negotiate the price freely and to what extent is it imposed on the Company by superior authorities.

Answer:

Contract prices are set for periods of one year based on negotiations conducted by the management boards of the parties to these contracts with due account of the market conditions or as a result of the application of pricing formulas incorporated in the contracts, which set the pricing for future annual period in the year preceding the calendar year of deliveries. Accordingly, market conditions (their change) do affect the change in contract prices with a time lag of a few months. A number of market factors are taken into account when setting prices in negotiations or for pricing formulas, including, among others (such as the PSCMI1 index levels). Contracts concluded by LW Bogdanka are usually multi-year in duration (with long termination periods, and prices are set for yearly intervals); they safeguard the interests of both counterparties against volatile market changes, whose impact is buffered by, among others, time delay - which allows the parties to adapt to the changing market conditions, whereby for major market disruptions each contracting party may request the other party for re-negotiation of the terms and conditions of deliveries - an action taken by the Management Board of the Company in 2022, in line with the answer given to question 1 above. Decisions of the Company's Management Board are taken based on, among others, market conditions, results of negotiations with the buyer, or technical and as well as economic capabilities of the Company.

Question 5:

What is the stage of work in the photovoltaic project and what next steps are planned after the launch of the 3MWp farm and the Łęczyński Energy Cluster? Is the Company engaged in any further photovoltaic projects? Or wind mills perhaps?

Answer:

In keeping with the assumptions adopted by the company, the photovoltaic farm should be commissioned by the end of August. The next step after this launch will be the operation of the farm in a test mode, used by Bogdanka primarily to analyze energy production, inspect the safeguards and functioning of the built-in devices and other PV parameters. The Company analyzes various options of expanding this first farm, up to the target power of 30 MWp. Bogdanka also carries out preliminary analyses with a new RSE project implementation in mind, as mentioned in the Company's Strategy.

At the same time, Łęczyńska Energetyka Sp. z o.o. - the Coordinator of the Łęczyński Energy Cluster, which is a part of the LWB Group, cooperates with individual townships of the Łęczyński Energy Cluster in data collection. The data will be used to select preliminary locations, plan adequate power points as well as type of the generation sources to be build. In the medium term, the Company is planning development of RES units of the capacity of up to 500 MW, based on wind power. The Company is planning to implement the entire venture with the support of an experienced technological Partner. At the same time, the Company engages in ongoing monitoring of the situation in the electricity market, including seeking out RSE technological innovations, in order to select optimum solutions from the viewpoint of planned investments.

Question 6:

Does the Management Board envisage payment of interim dividend?

Answer:

As of today, the Company does not plan to pay out interim dividend. According to the dividend policy announced by the Company and presented in the Growth Strategy of the LW Bogdanka Group for 2023-2030 with an Outlook until 2040, adopted on 17 May 2023, Lubelski Węgiel "Bogdanka" S.A. wishes to remain a dividend-paying company. Every recommendation of the Management Board as regards dividend payment is presented to the Supervisory Board of the Company for its opinion, and the final decision on the distribution of profit for a given financial year and the payment of dividends is made by the Ordinary Shareholder Meeting of Lubelski Węgiel Bogdanka S.A.

The amount of dividend payments recommended each year depends on many factors, and primarily on:

- the current market situation,
- the cash flows generated from operating activity,
- the investment projects underway and planned,
- access to and terms and conditions of available debt financing.

Question 7:

The Management Board is most likely aware of the Company's revenue generation, profit margin and ROI; these indicators have also been calculated by analysts and the Management Board published forecasts which are by PLN 1 billion higher than the most optimistic analyst predictions - what is the source of this extra PLN 1 billion of revenue this year?

Answer:

The Company does not comment of analyst forecasts. The Company's computations of its revenues result from our Strategy and are based on the planned production level in the nearest future and the Company's predictions as regards coal prices earned from Company buyers. Noteworthy, the prices realized by the Company react with a yearly delay against market prices, therefore in 2023 the Company is realizing the growth that the market experienced in 2022.

Shareholder no. 2

Question 1:

The article published in WNP on 20 June 2023 reads:

"Bogusław Hutek, Chairman of Solidarity Trade Union of Mining Workers, indicates that energy companies are again ceasing to collect coal contracted from Polish mines. It hits all coal companies controlled by the State Treasury - Polska Grupa Górnicza, Tauron Wydobycie, Węglokoks Kraj, and even Bogdanka."

Is it true? And if so, what coal volumes are we talking about thus the case of Bogdanka in this context?

Answer:

As the other coal companies, Bogdanka notes falling interest in coal purchases against last year. As of the date of writing, the Company has contracted the entire production volume planned for 2023. As always, the Company will inform about any changes in the terms and conditions of its material contracts in its future current reports.

Question 2:

In the interim report published on 18 April 2023 under the title "Information on the preliminary financial results for Q1 2023," we read:

"... in February 2023, the Company started to mine a new highly efficient coal-cutting longwall in the Stefanów Field. The mine is currently mining on three longwalls according to the previously planned schedule. As a result, the Company upholds the production plan adopted for 2023 at approx. 8.3 million tons."

Does the Management Board of LW Bogdanka uphold its earlier production forecasts for 2023, and could you perhaps give the shareholders your view on an approximate production plan for 2024?

Answer:

According to the existing regulations and the Company's practice so far, any modifications to the production plans are regularly published in the current reports. Production forecasts for the years to come are determined by the schedule of the longwall run; therefore the Company expects that the production forecasts for the future years will be published in Q4 2023 or Q1 2024.

Question 3:

In the current report published in 17 May 2023 under the title "Key elements of the Growth Strategy of the LW Bogdanka Group for 2023-2030 with an Outlook until 2040, including the dividend policy - disclosure of confidential information, in the part: Fundamental operating and economic parameters," we read:

"The average level of coal production will be approx. 9.1 million tons in 2023-2025, approx. 10.1 million tons in 2026-2030, and approx. 9.1 million tons in 2031-2040. Average sales revenues are projected at PLN 5,902 million in 2023-2025, PLN 5,565 million in 2026-2030, and PLN 4,967 million in 2031-2040."

Could the Management Board present to the shareholders a more precise financial plan for the coming 3 years, and in particular the planned net financial result of the Company and the recommended level of the dividend?

Answer:

The Company does not publish financial projections. According to the published dividend policy, which is an element of the Company's Strategy (current report 9/2023 of 17 May 2023), the LW Bogdanka S.A.'s Management Board intends to present a future motion to the Shareholder Meeting for a dividend payout of up to 50% of net profit.

Each time the amount of dividend recommendation will depend on a range of factors, and primarily on: the current market situation, cash flows generated from operations, ongoing and planned investments, and the availability and conditions of raising debt financing.

Question 4:

In the current report published on 17 May 2023 under the title "Key elements of the Growth Strategy of the LW Bogdanka Group for 2023-2030 with an Outlook until 2040, including the dividend policy - disclosure of confidential information", in the part: Pillar II - Multi-commodity Concern," we read:

"Multi-commodity mining based on the exploration and commercial mining of a range of minerals is critical to sustainable transition and attractive to the market. The Bogdanka Fund, which is an accelerator that enables investment in new technologies for the future of the Company and the region."

When elaborating on this information, the Management Board informed:

"We have selected 11 raw materials of the greatest interest to us. In the year to come, we will seek exploration licenses in 20 potential locations, where we will proceed with exploratory drillings."

Could the Management Board be more specific in presenting to the investors which of the selected 11 raw materials is in their view the most promising and on which resources does the Management Board plan to focus in the coming year, while expanding its licensing base to explore the deposits with the view to future mining?

Answer:

On 16 March 2023, the European Commission published the long awaited draft regulation on the critical and strategic raw materials for the European Union's economy. The document also includes a new, updated list of critical raw materials (CRM).

The Company's mining experience and the growing demand for critical raw materials have turned this area into one of the leading pillars of the Company's Strategy. When selecting the raw materials, the Company considered a number of criteria:

- criticality of the individual raw material as per the EU classification,
- the future of resources and the estimated difficulty of mining production,
- time needed to prepare a mining project and the scale of capital expenditure required.

Based on the above selection criteria, the Company selected the following materials for further more detailed analyses:
potassium-magnesium salts, coking coal, amber, phosphates, rare earth metals, gypsum, gold, ferrolites, (molybdenum and tungsten with copper Mo-W-Cu), zinc and lead, as well as uranium.

Question 5:

In the current report published on 17 May 2023 under the title "Key elements of the Growth Strategy of the LW Bogdanka Group for 2023-2030 with an Outlook until 2040, including the dividend policy - disclosure of confidential information", in the introduction we read:

"The key premises for developing and adopting the new Strategy were:

- Ownership change - the acquisition of a majority stake from ENEA by the State Treasury planned for mid-2023, and increased potential to diversify operations and support the energy transition."

Could the Management Board elaborate what is the current stage of the ownership changes and when - according to the Management Board -

shareholders may expect this transaction to close?

In 2015, Enea was buying Bogdanka's shares at the price of PLN 67.39 per share. According to Bogdanka's Management Board, is it possible for the State Treasury to buy back from ENEA SA the share package of Bogdanka that ENEA SA has held for 8 years, in the time of the commodity upturn, at a price lower than PLN 67.39, which would result in ENEA SA posting a loss on this transaction?

Answer:

LW Bogdanka S.A. is not a party to the planned transaction, therefore it does not have any information on its terms and conditions. According to Enea S.A.'s announcement published on 18 June 2022 regarding the execution of a letter of intent, Enea S.A. and the State Treasury undertake to conduct in good faith all the activities required for the preparation and completion of a transaction in which the State Treasury will purchase from Enea S.A. all of the 21,962,189 LWB shares currently held by Enea S.A. The letter of intent is valid until 31 December 2023.

Legal Basis: §19 sec. 1 item 12) of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Issuers of Securities and on the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent.