Directors’ Report on Operations of the Lubelski Węgiel Bogdanka Group for the first half of 2016

Bogdanka, 26 August 2016

THE LW BOGDANKA GROUP IN NUMBERS

12.5%

Share in the hard coal market in Poland

16.0%

Share in the thermal coal market in Poland

25.3%

Share in the supplies of coal to the commercial power sector in Poland

	Change H1 2016/H1 2015	Change Q2 2016/Q2 2015
REVENUE	+0.6%	+3.2%
EBIT	-4.7%	-66.7%
EBITDA	-4.9%	-29.4%
NET PROFIT	-0.7%	-52.1%
NET PRODUCTION	+10.1%	+2.6%
LENGHT OF EXCAVATIONS MADE	+18.6%	+14.3%
COAL SALES (AMOUNT)	+14.6%	+17.0%

1. Summary of operational activities

SUMMARY OF OPERATIONAL ACTIVITIES

A detailed index of issues contained in this Report can be found on page 53.

The LW Bogdanka Group achieved good financial and operating results, because it was able to implement the production plan and ensure high level of sales in H1 2016 despite the continued difficult situation on the market.

In H1 2016, the LW Bogdanka Group generated:

- net revenue of **PLN 848.9 million** – **increase by 0.6% y/y**
- EBITDA of **PLN 277.4 million** – **decrease by 4.9% y/y**
- net profit of **PLN 75.0 million** – **decrease by 0.7% y/y**

The graph below presents factors affecting financial results of the LW Bogdanka Group:

+	–
• reduction of personnel costs as a result of downsizing in 2015 • implementation of a cost optimisation policy • coal sales level slightly above the production level	• continued difficult situation on the coal market • low prices of thermal coal • oversupply on the thermal coal market

LW Bogdanka was consistently pursuing its cost optimisation policy, which in H1 2016 allowed it to **maintain total cost of production** on nearly the same level in comparison to H1 2015 with the production higher by **as much as 10.1% (y/y).**

The LW Bogdanka Group improved **the ratio of net debt/EBITDA** from the level of **0.7 to the level of 0.4**, which is related to the optimisation of capital expenditure commenced in 2015.

In the previous quarter in comparison to the same period of 2015, LW Bogdanka S.A. increased the extraction of thermal coal **to 2.0 million tonnes of coal**. The reason was to adjust the production to the sales opportunities of the Parent.

Q1 2016

Changes in the Supervisory Board of LW Bogdanka S.A.

At the Extraordinary General Shareholders Meeting held on 23 February 2016, Krzysztof Matan and Bartosz Krysta were dismissed from their positions as Supervisory Board Members.
New Members were appointed: Szymon Jankowski, Mirosław Kowalik, Przemysław Krasadomski, Wiesław Piosik. Therefore, as of 23 February 2016, the Supervisory Board has been composed of the following six Members:

- Szymon Jankowski
- Magdalena Kaczmarek
- Mirosław Kowalik
- Przemysław Krasadomski
- Wiesław Piosik
- Michał Stopyra.

Conclusion of an annual agreement between the Parent and Enea Wytwarzanie sp. z o.o.

On 3 March 2016, LW Bogdanka S.A. signed a memorandum of understanding with ENEA Wytwarzanie sp. z o.o. regarding the Long-Term Agreement in the form of an annual agreement for the supply of thermal coal in 2016.
The above-mentioned agreement specifies the terms and conditions of supplies in 2016 (quantitative volumes and prices) to the power plant of Enea Wytwarzanie sp. z o.o. in Kozienice.

The court judgment concerning the licence application for the K-6 and K-7 deposit and further steps to obtain a licence for the “Ostrów” and “Orzechów” deposits.

On 16 March 2016, the Provincial Administrative Court in Warsaw dismissed the complaint filed by LW Bogdanka S.A. against the decision of the Minister of Environment of 5 November 2014 to uphold the decision, appealed by the Company, of the Minister of Environment of 5 September 2014 on refusal to grant the Company a hard coal mining licence for the “Lublin Coal Basin – K-6 and K-7 area.”

The Company has requested a written justification from the Provincial Administrative Court and intends to file an appeal with the Supreme Administrative Court. Irrespective of its efforts to obtain the mining licence for the “K-6 and K-7” area, LW Bogdanka S.A. continues its efforts to ensure its further development in the northern direction. To this end, it is preparing the licensing documentation for mining operations in the “Ostrów” and “Orzechów” areas, for which it has exploration licences. The Company considers the northern direction as its priority, because of very good parameters of those deposits. At present, the exploitable resources ensure the mine’s life until about 2043, and the Company plans to double them before 2020.

Changes in the Management Board of LW Bogdanka S.A.

On 24 March 2016, the Company’s Supervisory Board adopted resolutions under which the following persons were dismissed from their positions as Management Board Members effective from 31 March 2016:

- Zbigniew Stopa, President of the Management Board
- Waldemar Bernaciak, Vice-President of the Management Board, Trade and Logistics
- Piotr Janicki, Vice-President of the Management Board, Economic and Financial Affairs
- Jakub Stęchły, Vice-President of the Management Board, Procurement and Investments

and the following persons were appointed to the Management Board effective from 1 April 2016:

- Krzysztof Szlaga as President of the Management Board
- Stanisław Misterek as Vice-President of the Management Board, Economic and Financial Affairs
- Adam Partyka as Vice-President of the Management Board, Employee and Social Affairs.

Amendments to the Articles of Association of LW Bogdanka S.A.

On 12 April 2016, the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. adopted a resolution on amendments to the Company’s Articles of Association. The amendments concerned the Company’s objectives and obligations of the Management Board, as well as the remuneration and term of office of the Parent’s Supervisory Board.

Q2 2016 and events until the publication date

Changes in the Management Board of LW Bogdanka S.A.

On 13 May 2016, the Company’s Supervisory Board adopted resolutions, effective as of 23 May 2016, on the appointment of the following persons to the Management Board:

- Sławomir Karlikowski to the position of the Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility;
- Marcin Kapkowski to the position of the Vice-President of the Management Board, Procurement and Investments.

Annual General Shareholders Meeting LW Bogdanka S.A. on 22 June 2016

A resolution was adopted, according to which the net loss of PLN 278,029,548.37 was covered in full from the reserve capital and the Company will not pay out dividend from capitals created from previous years’ profits.
All persons representing LW Bogdanka S.A. (Management Board and Supervisory Board Members) in 2015 were granted discharge in respect of their duties.

Extraordinary General Shareholders Meeting of LW Bogdanka S.A. on 17 August 2016

The Extraordinary General Shareholders Meeting of LW Bogdanka S.A. adopted a resolution on amendments to the Company’s Articles of Association. After the amendments to the Articles of Association have been registered by the registry court, LW Bogdanka S.A. will enter the Enea Group and adopt the Enea Group Code.
Moreover, the Extraordinary General Shareholders Meeting adopted a resolution on amendments to the Rules of Procedure of the General Shareholders Meeting (complete change of the Rules), and a resolution determining the rules and amounts of remuneration for the members of the Company’s Supervisory Board.

2. Organisation and activities of the LW Bogdanka Group

THE LUBELSKI WĘGIEL BOGDANKA GROUP

% of votes at the General Shareholders Meeting in Subsidiaries

Łęczyńska Energetyka sp. z o.o.	EkoTrans Bogdanka sp. z o.o.	RG Bogdanka sp. z o.o.	MR Bogdanka sp. z o.o.
88.7%	100%	100%	100%

Company name	Parent's share in the share capital		Share capital	Main activity
	16 May 2016	26 August 2016		
Łęczyńska Energetyka sp. z o.o.	88.70% (73,332 shares)	88.70% (73,332 shares)	PLN 82,677,000 divided into 82,677 shares of PLN 1,000 each	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water
EkoTRANS Bogdanka sp. z o.o.	100.00% (100 shares)	100.00% (100 shares)	PLN 100,000 divided into 100 shares of PLN 1,000 each	comprehensive transport organisation andrecovery of spoil arising during coal output washing and cleaning
RG BOGDANKA sp. z o.o.	100.00% (10,000 shares)	100.00% (10,000 shares)	PLN 500,000 divided into 10,000 shares of PLN 50 each	services, deliveries and mining works for LW Bogdanka S.A.
MR BOGDANKA sp. z o.o.	100.00% (20,000 shares)	100.00% (20,000 shares)	PLN 1,000,000 divided into 20,000 shares of PLN 50 each	repairs, regeneration and production of steel constructions, providing services to LW Bogdanka S.A.

As at the date of submitting the Report, LW Bogdanka S.A. also holds 22.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., the company in bankruptcy, with a share capital of PLN 750,000. The ownership title to the shares was transferred to the Company as security for financial settlements for the provision of transport services. That company has not been included in the consolidation.

Changes in the structure of the LW Bogdanka Group

In H1 2016 there were no changes in the structure of the LW Bogdanka Group or the Group's organisational and capital relations to other entities. In the period in question there were no changes to the structure of the LW Bogdanka Group that would result from merger of business entities, acquisition or sale of the Group's undertakings, long-term investments, division, restructuring or discontinuation of activities.

Basic information and development strategy of LW Bogdanka S.A.

Lubelski Węgiel Bogdanka Spółka Akcyjna

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Phone: +48 81 462 51 00, +48 81 462 51 01
Fax: +48 81 462 51 91
www: www.lw.com.pl; www.ri.lw.com.pl
Industry ID No. (REGON): 430309210
Tax Reg. No. (NIP): 713-000-57-84

Legal form and regulations which provide a basis for the Parent's activities

LW Bogdanka S.A. is a joint-stock company operating under the laws of Poland.

The Company operates on the basis of legal acts which include the following:

- Act of 15 September 2000 – Commercial Companies Code (Dz. U. [Journal of Laws] of 2000, No. 94, item 1037, as amended)
- Act of 9 June 2011 – Geological and Mining Law (Dz. U. [Journal of Laws] of 2011, No. 163, item 981, as amended)

The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

Development Strategy of the Parent

As a result of the difficult market situation affecting the Company, various activities have been carried out to enable it to adapt to the rapidly changing environment. As the sales opportunities are limited, it is the output level that must be accordingly adjusted.

The Management Board's assessment is that the sales capability, which influences the production level, is likely to fluctuate in the range of about 8.5 – 9 million tonnes over the next few years, i.e. significantly below the current capacity of the mining plant, which exceeds 10.5 million tonnes.

Because of the sales reduction and instable coal prices, the Company has assumed as its primary goal that it will continue the policy aimed at ensuring long-term financial liquidity – under which the Company is to:

- optimise the production plan
- reduce outsourced services and capital expenditures, the latter mainly by cutting back the plans of construction of new headings (in accordance with the new production assumptions for 2016-2017)
- keep the basis of the average monthly remuneration at the 2013 level at least until the end of 2016
- reduce the costs of third party services.

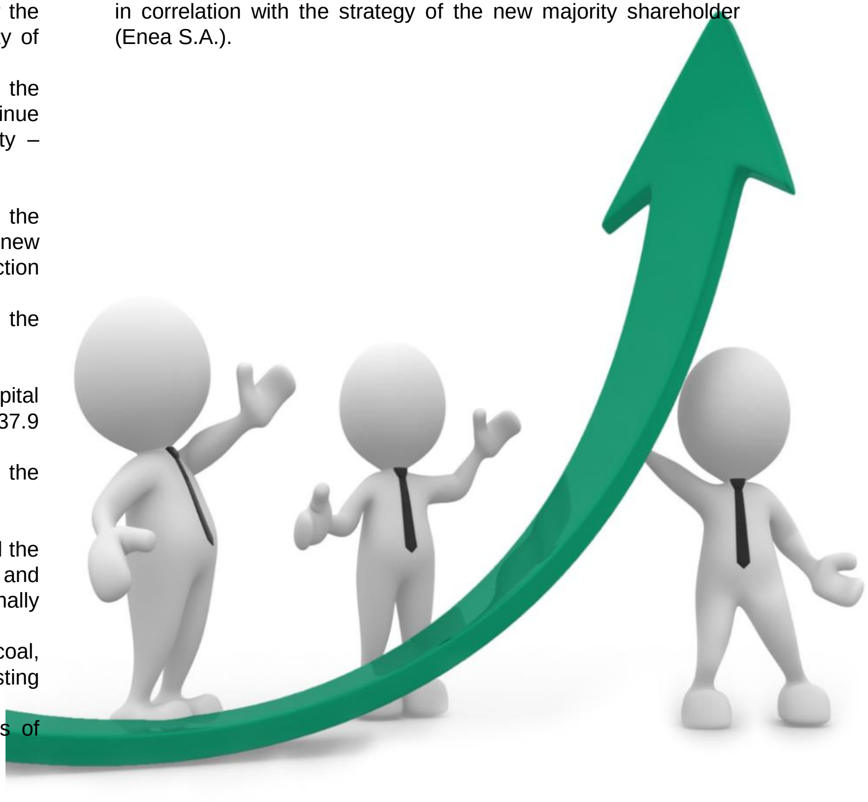
As per the business plan for 2016, the planned capital expenditures of the Company will not exceed PLN 437.9 million.

This level of investments will ensure the achievement of the adopted goals, which mainly include:

- maintain the production capacity at the assumed level
- implement the project to double the resources and extend the life of the mine beyond 2050, by obtaining licences and developing new prospective areas (to increase operationally usable resources)
- reinforce the Company as the main supplier of coal, especially for commercial power plants – to keep the existing share in sales of thermal coal in Poland in 2016
- keep the leader's position in the mining sector in terms of productivity.

In 2016, LW Bogdanka S.A. will continue to implement the optimisation actions and keep costs under strict control on the basis of a new production plan. At the same time, the Company is working on acquiring contracts with small and medium customers in Poland, and is also seeking to acquire larger contracts in Ukraine.

In connection with the changes to the Company's shareholding structure, the Strategy for the subsequent years will be developed in correlation with the strategy of the new majority shareholder (Enea S.A.).



Projects completed in H1 2016

The plan for H1 2016 covered the following groups of tasks: development investments, including the purchase of machines and equipment, and operational investments, including the use and upgrade of excavations in the Bogdanka, Nadrybie, and Stefanów Fields, as well as upgrades and repairs of machines and equipment, etc.

New licences
The Company has bought the right to use geological information concerning the “Ostrów” deposit, and has finished drilling of boreholes in that area. The mining licence for the ”Orzechów” area has been extended. The Company continues its attempts at obtaining licences for the K-6, K-7 areas of the ”Cyców” deposit.

Machine and equipment maintenance
Upgrades and repairs of machines and equipment – the amount of PLN 4,441,000 was assigned for the modernisation of: hopper-scales, roadheading machines, the Bevex suspended machines, and periodical repairs of carriages.

Purchases of machines and devices subject to assembly – the amount of PLN 1,361,000 was spent for such machines and devices as powered ventilation dams and a conveyor feeder set.
Purchases of finished goods – finished goods worth PLN 4,420,000 were purchased. The most important ones included: ready-made transportation devices, hydraulic pumps and aggregates, electric devices and other ready-made devices (e.g. fans, tools other than non-current assets, drying equipment, etc.).

Other development and replacement investments
Central air conditioning of the Bogdanka Field – the system and all facilities of the central air-conditioning of the Bogdanka field have been constructed. Other outlays will be designated for the construction of a heat exchanger for cooling fire-fighting water.

Enlargement of the mining waste neutralization facility in Bogdanka – an amendment to the design is being prepared to increase the space of Stage I by purchased plot no. 289/5 and to obtain the permits to start the enlargement of Stage II Part 2. The process to buy the plots of land within the boundaries of Stage II and Stage III is continued.

Other operating investments: Continued enlargement of the power grid, and the upgrade of the switching station and the 110/6 kV substation in Nadrybie.

Capital expenditure for excavations in H1 2016.

Excavations and works - total	Depreciation method	Length [m]	Value of coal from excavations [PLN ’000]	Total capital expenditure [PLN ’000]	Value of capital expenditure [PLN ’000]
Wall excavations	Natural	10,400			
Basic excavations	Straight-line	1,115	37,129	130,906	93,777
Reconstructions	Straight-line/natural	816			

Over the period of 6 months of 2016, 12,078 m of roadway excavations were made. Reconstruction of the excavations were continued in accordance with the schedules. Total expenditure on roadway excavation reconstruction in that period amounted to PLN 15,179,000. The expenditure to build new and to upgrade existing excavations total PLN 78,598,000.
Fractions are not included in the values indicated in the tables, because they are directly recognised in the costs. However, fractions are included in the total length. In this case, this is about 563 m.

Selected capital expenditure at the LW Bogdanka Group

[PLN ‘000]	PTE 2016	Actual H1 2016	Actual H1 2016 [%]
Obtaining new licences*	45,384	29,753	65.6%
Machines and equipment maintenance	62,655	10,222	16.3%
Other development and replacement investments	68,700	21,588	31.4%
Purchase and installation of panel complexes	-	-6,465	-
New excavations and upgrades of existing ones	254,978	93,778	36.8%
TOTAL CAPEX in LW Bogdanka S.A.	**431,717**	**148,876**	**34.5%**
Łęczyńska Energetyka sp. z o.o.	6,200	2,151	34.7%
Other Subsidiaries	-	73	-
TOTAL CAPEX in the LW Bogdanka Group**	**437,917**	**151,100**	**34.5%**

*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.
**sum of capital expenditure does not include capitalised costs of external financing

Trade agreements and transactions with related entities

Trade agreements

The Company has no information about significant agreements concluded in 2016 between the shareholders. All agreements significant for the business of the LW Bogdanka Group concluded in H1 2016 and after the balance-sheet date are described below.

Current Report	Business Partner	Agreement Date	Description
8/2016 3 March 2016	Enea Wytwarzanie sp. z o.o.	4 March 2010	Memorandum of Understanding to Long-Term Agreement No. UW/LW/01/2010 in the form of an Annual Agreement for Supply of Thermal Coal in 2016. The Annual Agreement sets out the terms of supplies (volumes and prices), it is binding on the Parties from 1 January 2016 until 31 December 2016, and refers to supplies of LW Bogdanka's coal to the power plant of ENEA Wytwarzanie Sp. z o.o in Kozienice.
30/2016 8 August 2016	EDF Paliwa sp. z o.o.	19 July 2011	By virtue of signing the Memorandum of Understanding, the Parties have agreed to extend the term of the Agreement until 31 December 2017, and have determined the volume of coal supplies for 2016-2017 and prices of coal supplies for 2017.

Apart from the Enea Group companies, including LW Bogdanka S.A., the Issuer is not formally related to other recipients.

Transactions with related entities

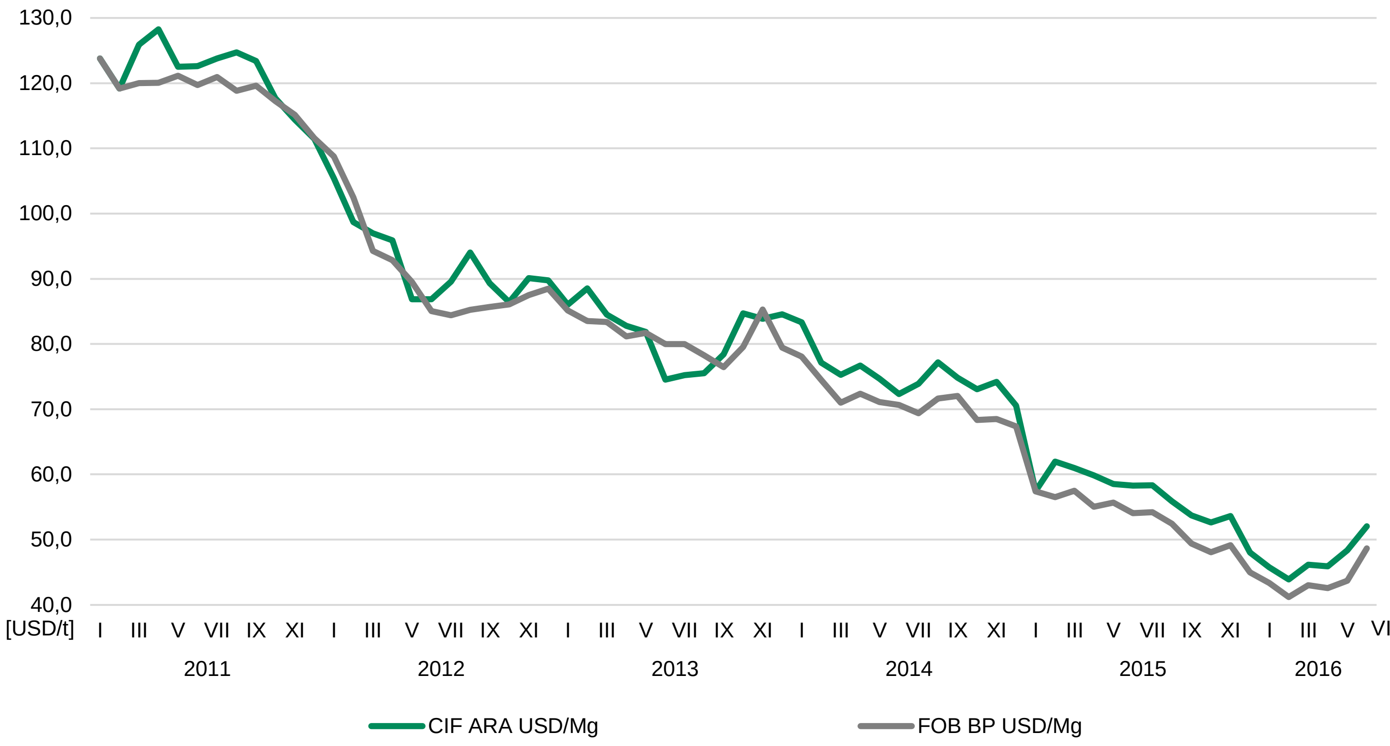
In H1 2016 the Parent and its subsidiaries did not conclude transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis. The following table presents main agreements in effect in 2016 entered into between LW Bogdanka S.A. and its Subsidiaries.

Agreements between LW Bogdanka S.A. and Łęczyńska Energetyka sp. z o.o.	Agreements between LW Bogdanka S.A. and RG Bogdanka sp. z o.o.	Agreements between LW Bogdanka S.A. and MR Bogdanka sp. z o.o.	Agreements between LW Bogdanka S.A. and EKOTRANS Bogdanka sp. z o.o.
• heat energy supplies • water supplies and disposal of sewage, maintenance services of central heating, usable warm water and technological heat system devices • sale of thermal coal and electrical power • lease, rental and lending for use • heating of inlet air on shaft 2.2 service and maintenance supervision • dendrological study • provision of investor supervision for the construction of the Water Treatment Station in Bogdanka • completion of central air-conditioning in the Bogdanka field • rental of premises from Łęczyńska Energetyka for PSG and POS departments • weighing service • cold water supplies and waste water disposal from buildings in Zawadów • service and maintenance of wastewater pump station, sewage disposal installation and network	• reconstruction of a section of the eastern bypass • reconstruction of a section of access heading 1 on level 960 in the Bogdanka field • reconstruction of a passenger station in the Bogdanka field • performance of mining works and provision of services in the LW Bogdanka S.A. mine on business days, Saturdays and holidays • providing explosion works • lease, rental and lending for use • auxiliary works, haulage services • provision of higher-rank mining supervision services in the mining facility • provision of telecommunication and Internet access services • reconstruction of the S section in the area of the R16 crossing	• delivery of elements of steel structures of adventitious equipment • delivery of rolling stock units • provision of services in the mechanical departments of machine operation underground • performance of works in the LW Bogdanka S.A. mine • supply of energy to the workshop-storage building • repairs of machines and equipment, and their subassemblies • delivery of casing pipes and connectors • delivery of shaft 1.2 lining • performance of fitting and welding works • delivery of elements of machines, equipment and steel structures • provision of repair and construction services • repairs of transport units • contracts for delivery of stull pieces, spare parts • lease, rental and lending for use • provision of telecommunication and Internet access services • weighing service • performance of works on Saturdays, Sundays and holidays • provision of higher-rank supervision services	• disposal of non-dangerous waste (waste rock) • lease, rental and lending for use • rental of office space in a multi-functional building • transport services in trucks - 26 t in the Bogdanka, Nadrybie and Stefanów fields • Use of subscription

In 2015, LW Bogdanka S.A. entered into a power purchase agreement with Enea S.A., which became the Parent as a consequence of acquiring the majority of shares in LW Bogdanka S.A. For more information about agreements with the Enea Group and companies controlled by the State Treasury see Note 25 of the Financial Statements of the LW Bogdanka Group for H1 2016.

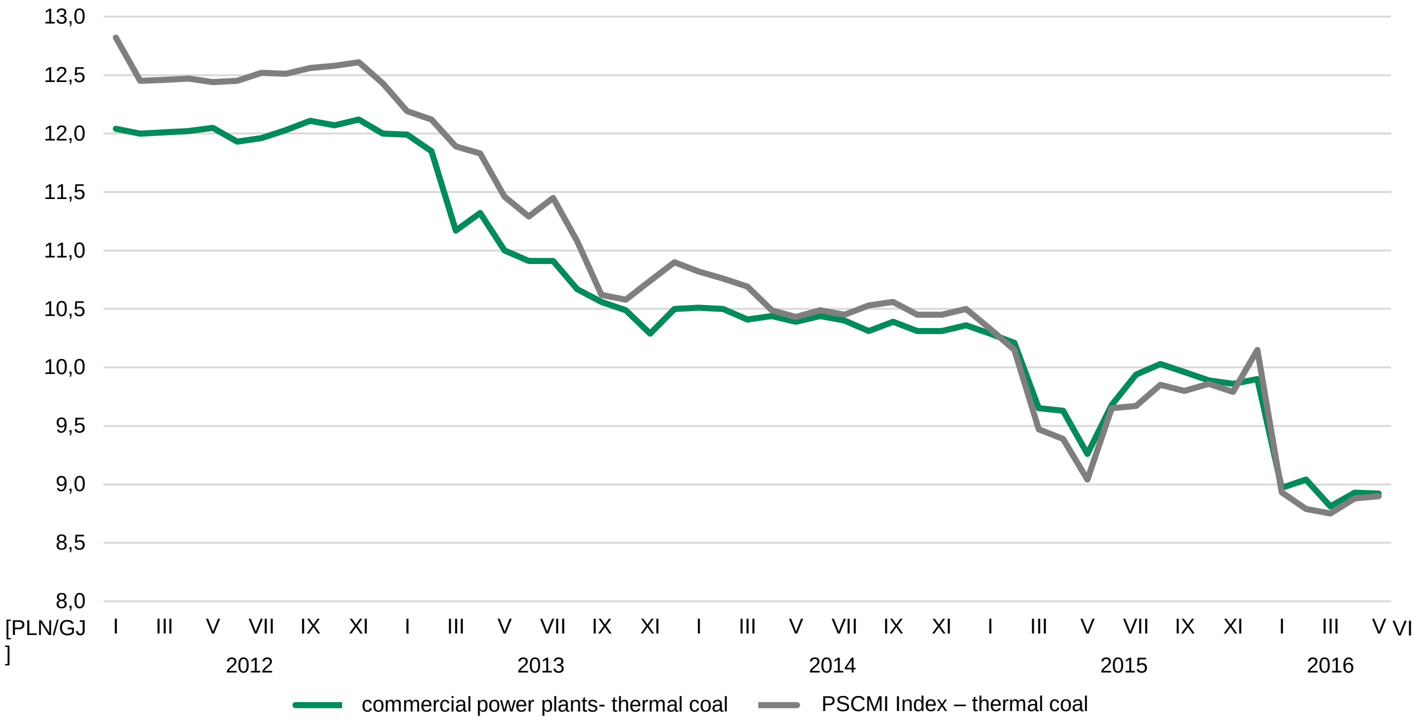
Thermal coal price decline in international market between January 2011 and end of H1 2016

- Average price for the first half of 2016 amounts to about USD 47;
- In the period between January and June 2016, the price of a tonne of coal in ARA ports went up by about 14% and in June 2016 reached about USD 52;
- As at the end of June, coal in ARA ports totalled about 2.9 million tonnes, i.e. decrease by 47% in comparison to the same period of 2015;
- The average annual coal price (CIF ARA) was about USD 57 in 2015;
- The coal price (CIF ARA) plummeted by 39% between January 2011 and December 2015;
- In the first half of 2016, Columbia delivered about 8.4 million tonnes of coal to ARA ports, which represents a decrease of nearly 9% in comparison to the same period of 2015;
- In June, the level of coal inventories in the main transshipment port in China (Qinhuangdao) totalled about 2.6 million tonnes, which is the lowest level since 2011;
- In the first half of 2016, coal production in China declined by about 9.6%, while coal imports went up by about 8.2% in comparison to the same period of 2015;
- Coal consumption in China in the first half of the year declined by about 8.8%;
- Coal production in the US in the first half of 2016 declined by nearly 27% in comparison to the same period of 2015;
- It is expected that in case the downward trend persists, 2016 will see the lowest production since 1949.



Decline in fine thermal coal prices and PSCMI index in Poland's market between January 2012 and end of H1 2016

- In the period between January and June 2016, the average price of fine thermal coal for commercial power plants was PLN 8.93 per GJ, which represents a decrease of about 9% in comparison to 2015;
- In 2015, the average annual price of fine thermal coal for commercial power plants was PLN 9.85 per GJ;
- Average heating value of fine coal for commercial power plants is about 21.4 GJ;
- The price of fine coal for commercial power plants declined by about 26% between January 2012 and June 2016;
- In the period between January and June 2016, the average price based on the PSCMI index was PLN 8.83 per GJ, which represents a decrease of about 10% in comparison to 2015;
- In 2015, the average price based on the PSCMI index was about PLN 9.76 per GJ.



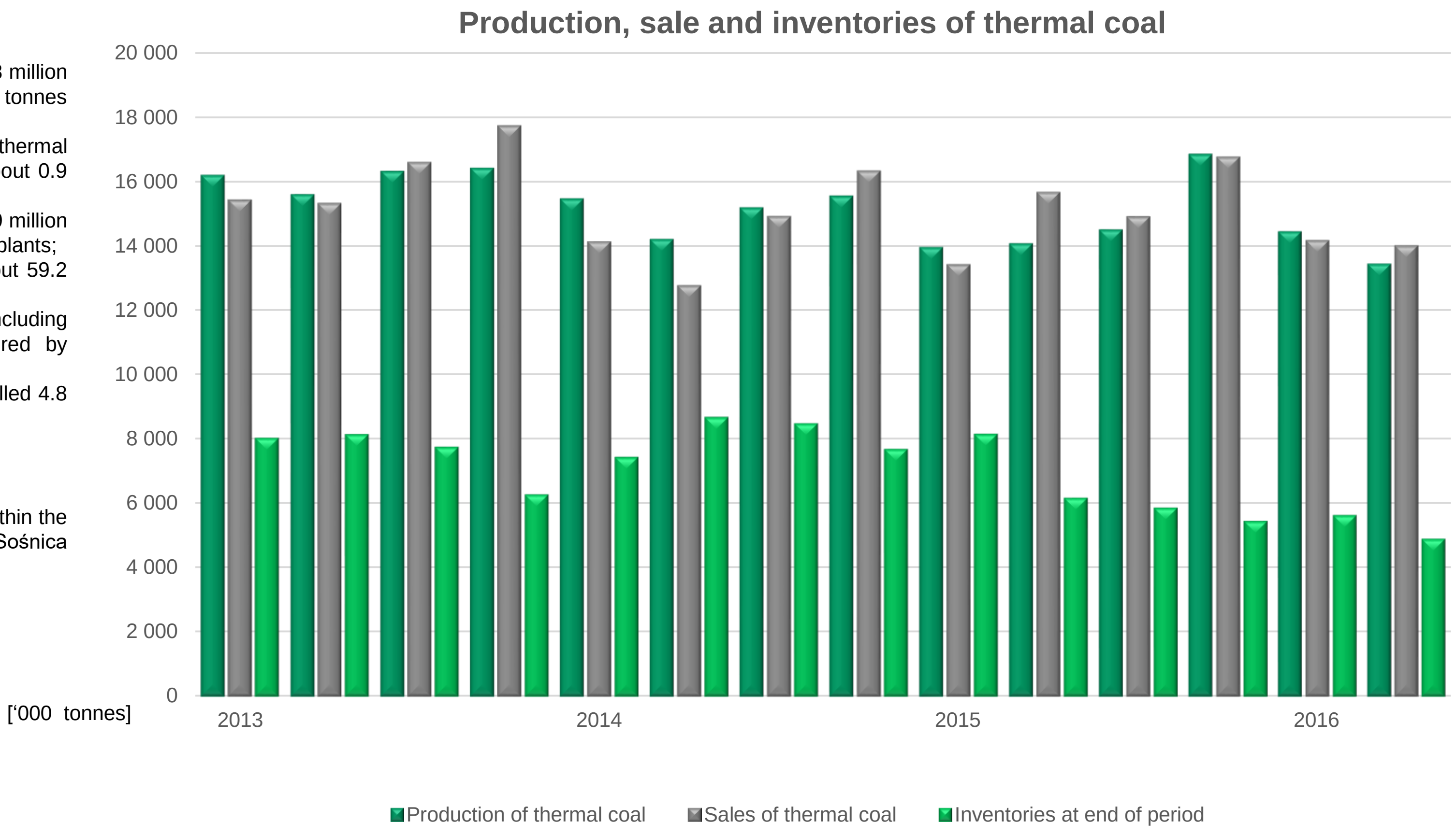
Production, sales and inventories of thermal coal at the end of H1 2016 in the domestic market

Situation in Poland:

- In the period between January and June 2016, about 27.8 million tonnes of thermal coal was produced, which is 0.2 million tonnes less than in the same period of 2015;
- In the period between January and June 2016, sales of thermal coal amounted to nearly 28.1 million tonnes, which is about 0.9 million tonnes less than in the same period of 2015;
- In the period between January and June 2016, nearly 15.9 million tonnes of fine thermal coal was sold to commercial power plants;
- In 2015, the production of thermal coal amounted to about 59.2 million tonnes;
- Sales in 2015 amounted to about 60.6 million tonnes, including about 34.2 million tonnes of thermal fine coal acquired by commercial power plants;
- At the end of June 2016, the level of coal inventories totalled 4.8 million tonnes;

PGG - Polska Grupa Górnicza (Polish Mining Group):
On 1 July 2016, integrated mines commenced their activities within the PGG. Five mines will operate within the PGG. Two individual: Sośnica and Bolesław Śmiały, as well as three integrated mines:

- ROW (Marcel, Jankowice, Chwałowice, Rydułtowy)
- Ruda (Pokój, Halemba-Wirek, Bielszowice)
- Piast-Ziemowit



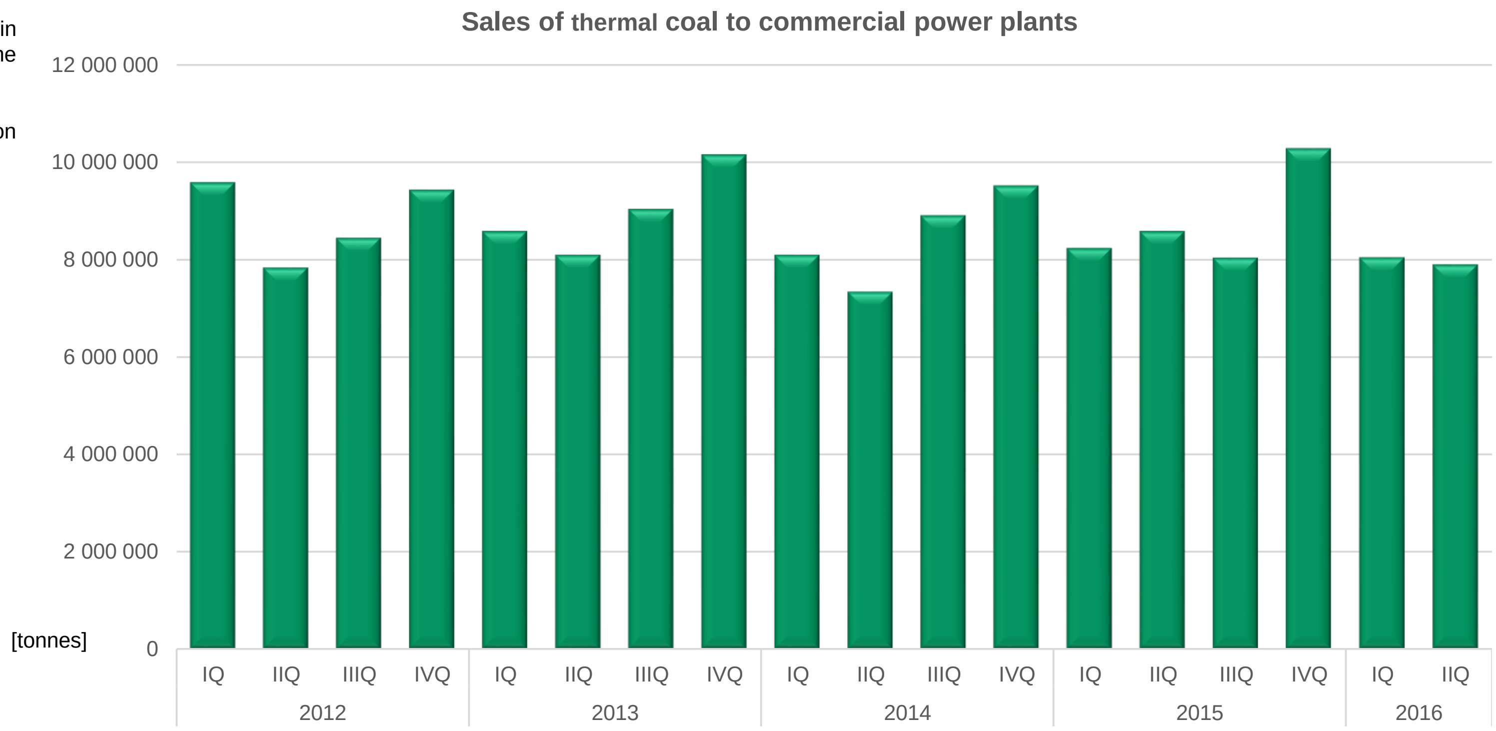
Production, sales and inventories of thermal coal at the end of H1 2016 in the domestic market

Commercial power plants are the main recipients of thermal coal in Poland. In 2015, they bought about 34.2 million tonnes of thermal fine coal.

In the period between January and June 2016, about 15.9 million tonnes of fine thermal coal was sold to commercial power plants;

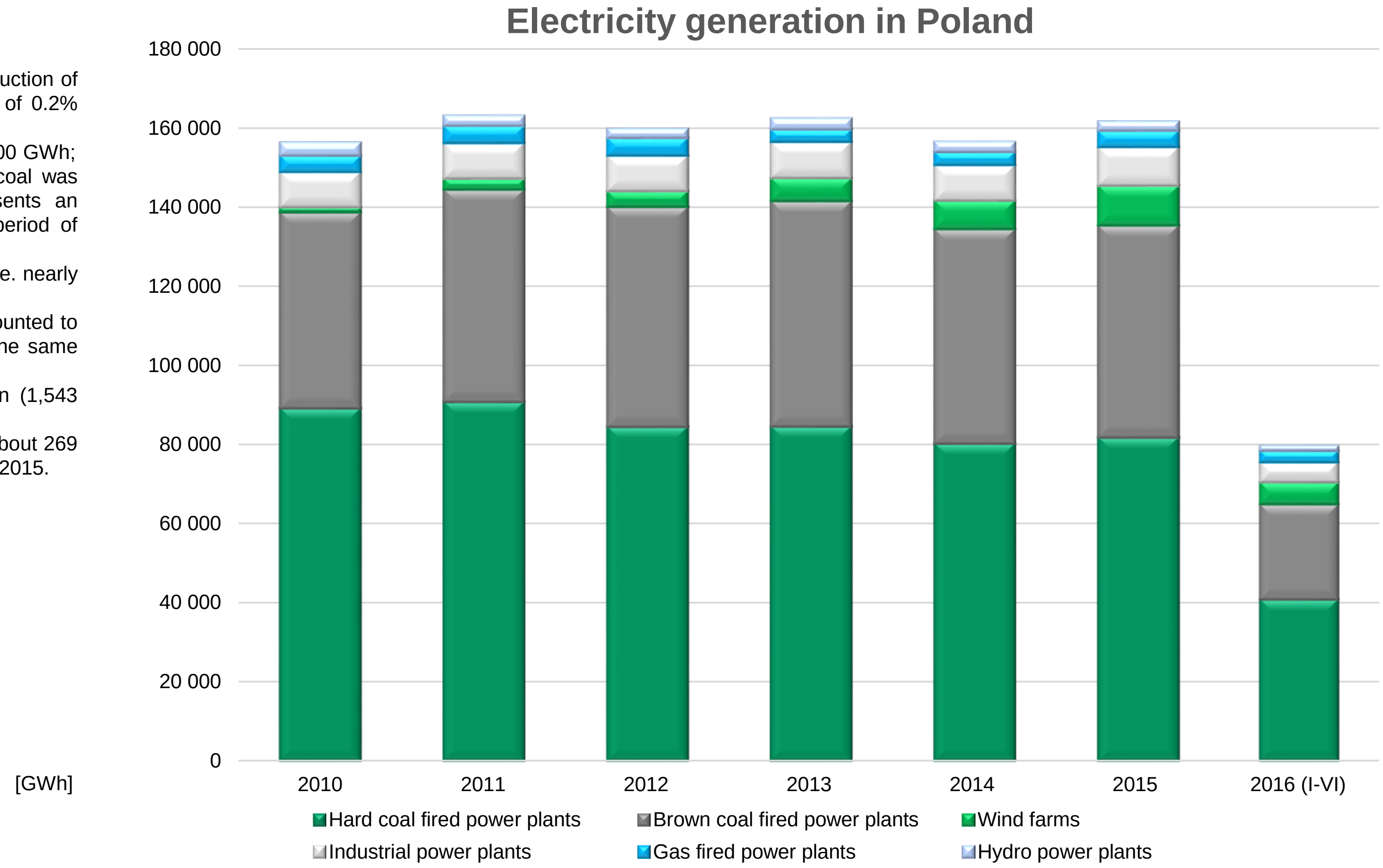
Key customers within commercial power plants are as follows:

- EDF
- Enea
- ENGIE
- PGE
- PGNiG
- Tauron



Electricity generation in Poland

- In the period between January and June 2016, the production of electricity totalled about 80,000 GWh, i.e. an increase of 0.2% versus the same period of 2015;
- In 2015, the production of electricity totalled about 162,000 GWh;
- In the period between January and June 2016, hard coal was used to generate nearly 41,000 GWh, which represents an increase of about 3.2% in comparison to the same period of 2015;
- In 2015, hard coal was used to generate 82,000 GWh, i.e. nearly 51% of total electricity output in Poland;
- In the first half of 2016, electricity imports to Poland amounted to nearly 2,922 GWh, which is about 59% more than in the same period of 2015;
- The main directions of electricity imports were Sweden (1,543 GWh), Lithuania (659 GWh) and Ukraine (657 GWh).
- In the first half of 2016, electricity exports amounted to about 269 GWH. This is about 71% less than in the same period of 2015.



Description of risks, threats and factors which, in the assessment of LW Bogdanka S.A., will affect the results achieved by the Group

Risk management

The key objectives of the management of LW Bogdanka S.A.'s risks are to:

- ensure security of the Company's operation,
- ensure effectiveness of decisions focused on the maximisation of profit at an acceptable level of risk.

Systems in place:

- Integrated System of Enterprise Risk Management (ERM),
- IT (Risk Manager) to support the enterprise risk management system.

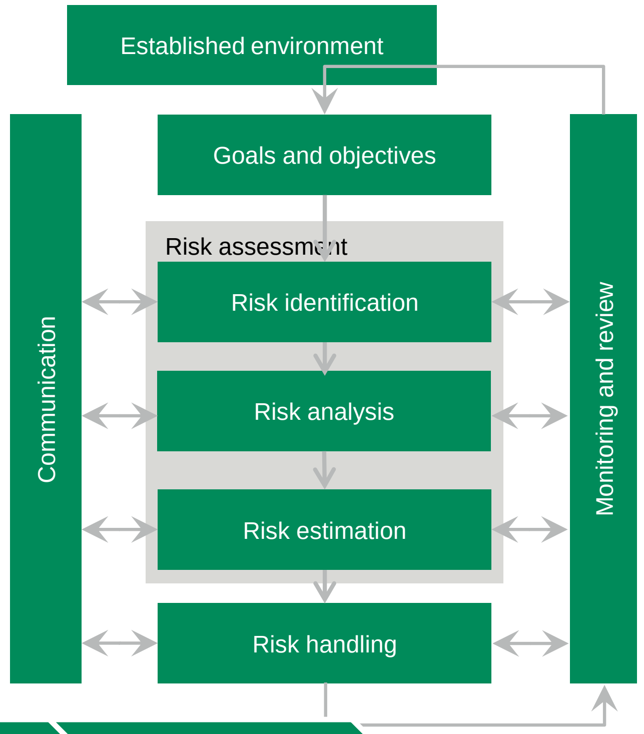
Principal rules, procedures and documents serving as a basis for the risk management system:

- LW Bogdanka S.A. Corporate Risk Management Policy,
- LW Bogdanka S.A. Corporate Risk Management Model – ERM procedures,
- LW Bogdanka S.A. Risk Register,
- LW Bogdanka S.A. Risk Map,
- List of strategic risks of LW Bogdanka S.A.,
- Programs of strategic risk mitigating measures at the Company.

An important role in the risk management system of the Company is played by the Enterprise Risk Management Committee appointed by the Management Board, which has its own specific competences at every stage of ERM. Its functions involve accepting and issuing opinions on identified risks and measures aimed at reducing those risks.
The Company provides information and reports on the outcomes of the ERM implementation and its development to the Supervisory Board and the Audit Committee.
In subsequent periods, the system will be further adapted to the needs of the Company with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

The risk management system involves the participation of:

- the Supervisory Board,
- the Management Board,
- the Enterprise Risk Management Committee,
- the Audit Committee,
- managers of organisational units – risk owners.



Risk management process

Established environment	Goals and objectives	Risk identification	Risk analysis	Risk estimation	Risk handling
The risk management system of the Company covers all areas of the business.	The system is aimed at identifying potential risks and opportunities for the enterprise.	Risks are identified by Risk Owners (persons holding managerial positions in the organization).	Risks are valuated in accordance with predetermined scales of probability and potential impact of risk materialisation in five areas.	Risks that received a total score in excess of a certain value are considered strategic risks – significant for the Company's business.	For the strategic risks, actions/plans aimed at minimising them and mitigating the possible effects of their occurrence are established and accepted by the Management Board.

Main risks to the Group by category

RISK FACTORS	
BUSINESS ENVIRONMENT AND MARKET	• Risk associated with the social and economic situation in Poland and the world • Risk associated with the economic policy of the State in relation to the hard coal mining sector • Risk associated with the levels of prices for raw materials for power production in Poland and the world • Risk associated with the imposition of coal excise tax • Interest rate risk • Risk associated with changes in exchange rates • Risk associated with the impact of current macroeconomic situation on debt financing availability • Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events • Risk of restrictive EU climate policy also with respect to the CO2 emissions • Risk of a decrease in demand for hard coal from the Polish power industry
OPERATIONAL	• Risk associated with the launch of extraction of new deposits at LW Bogdanka S.A. • Technical and technological risk • Risk associated with high costs of technologies applied by the Group • Risk of IT systems malfunctioning • Key customer risk • Risk associated with competition by other thermal coal producers and the relatively low quality of the coal produced by the Parent • Customer insolvency risk • Risk associated with the strong position of the trade unions in the Group • Risk associated with retaining and attracting human resources for the LW Bogdanka Group • Key supplier risk • Risk of unfavourable/ inappropriate contractual terms being concluded • Risk of price fixing by the suppliers
FINANCIAL	• Liquidity risk • Insurance risk
ENVIRONMENTAL PROTECTION	• Risk associated with reclamation and mining damage • Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment • Risk associated with management of waste generated after extension of the mining area • Investment risks associated with protected areas
LEGAL	• Risk of change to tax laws • Risk of real estate tax on mining excavations of LW Bogdanka S.A. • Risk associated with expenses for creating certain mining excavations and their classification for the purposes of corporate income tax • Risk of a change in the law and its interpretation and application • Risk of violating the stock exchange disclosure requirements

Risk associated with the Group's social, economic and market environment

Risk associated with the social and economic situation in Poland and the world

Factors that influence the financial results of the LW Bogdanka Group:

- the rate of increase in domestic and global GDP, including the rate of increase in industrial production
- the demand for electricity and heat energy
- prices of raw materials on global markets
- the level of inflation
- the rate of unemployment
- changes in exchange rates, and other.

Countermeasures: monitoring all factors, adapting the activities to the market situation and business environment, planning future actions, controlling costs, entering into long-term agreements.

Risk level | low | **medium** | high

Risk associated with the economic policy of the State in relation to the hard coal mining sector

Plans of the Ministry of Economy and the Ministry of State Treasury concerning enterprises operating in the hard coal mining and power engineering sector have a significant influence on the market position of LW Bogdanka S.A. On 26 April 2016, representatives of mining and power companies as well as banks and financial institutions signed an agreement on the establishment of Polska Grupa Górnicza (PGG – Polish Mining Group).

The establishment of the Polish Mining Group as a successor to Kompania Węglowa S.A. entails great uncertainty as to the volume of thermal coal production in Poland and, consequently, the possibilities of positioning that coal on the market. Depending on the choice of a restructuring scenario to be executed, this will affect LW Bogdanka's market standing.

Countermeasures: monitoring the process of implementing the restructuring plan for Kompania Węglowa S.A.

Risk level | low | medium | **high**

Risk associated with the levels of prices of raw materials for power production in Poland and the world

The levels of prices of raw materials for power production are mainly affected by:

- the prices of thermal coal, and
- raw materials alternative to thermal coal (crude oil, natural gas, renewable sources) on global markets, and consequently, on the domestic market. This is of key significance for the activities conducted by the Group, and especially by the Parent.

Moreover, increases in coal stocks faced by both global and domestic producers due to a decrease in demand for coal, and a decrease in coal and crude oil prices on the international market may exert great influence on the change in the demand for fuel, and consequently, the change in prices of coal and energy on the global and domestic market, which may affect the financial results of the Group.

Countermeasures: monitoring the domestic and foreign markets, controlling prices, entering into long-term trade agreements with main recipients of thermal coal.

Risk level | low | medium | **high**

Risk associated with the imposition of coal excise tax

The provisions of the Excise Tax Act came into force on 2 January 2012. Under said provisions coal products sold for heating purposes are effectively taxed with excise duty. The Act provides for an extensive range of excise tax exemptions which cover, among other things, electrical power generation. However, the act has also resulted in a greater number of formal requirements as regards documenting the sale of excise tax-exempt coal.

Nevertheless, the risk to the Group is limited, because LW Bogdanka S.A. sells most of its coal volumes for electrical power generation purposes.

Countermeasures: providing excise tax training to the employees, co-operating with reputable tax advisors, requesting tax authorities to issue individual tax rulings, actively participating in the legislation process, introducing provisions to trade contracts that enable the transfer of a potential excise tax burden onto the buyer in case excise tax is imposed on the transaction.

Risk level | **low** | medium | high

Interest rate risk

LW Bogdanka S.A. and Łęczyńska Energetyka sp. z o.o. are parties to financial agreements based on variable interest rates. The risk refers to loans contracted and bonds issued. The increase in interest rates may increase the finance costs of the Group, and consequently, have an adverse effect on the financial results (alternatively, a possible decrease in interest rates may cause the Group's finance costs to fall, and therefore, bring a positive effect on its financial results).

The risk may potentially increase if the share of debt financing continues to grow or if current debt is refinanced, since the market of fine coal becomes increasingly difficult (higher bank margins).

Risk level | **low** | medium | high

Risk associated with changes in exchange rates

The risk within the Group mainly concerns the Parent, and it relates to purchases of specialist equipment which is provided only by foreign manufacturers. It may also occur when coal is exported abroad.

Countermeasures: entering into forward transactions.

Risk level | **low** | medium | high

Risk associated with the impact of current macroeconomic situation on debt financing availability

In connection with loan agreements in effect and the Bond Issue Program, the Group is able to meet its debt financing needs without entering into new agreements. For more information refer to page 41 of the Report.

The Group's interest-bearing debt (loan and the issued bonds) of the total value of PLN 624,846,000 as at 30 June 2016 accounted for 28.6% of its equity and 17.1% of the balance-sheet total.

Countermeasures: loan agreements concluded and the Bond Issue Program.

Risk level | **low** | medium | high

Risk associated with the Group's social, economic and market environment

Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events

The operating activities of the LW Bogdanka Group are exposed to risks and dangers resulting from the specific nature of conducting activities in the mining industry.

These include:

- events associated with the environment (e.g. industrial and technological malfunctions)
- extraordinary events, e.g. geotechnical phenomena, mining disasters, fires or flooding of excavations with mine waters
- mining damage

The consequences may include:

- temporary suspension of operating activities, losses relating to property or financial assets
- loss of employees
- potential of the Group being held legally liable

Countermeasures:

- strict compliance with occupation health and safety rules
- ongoing monitoring of risk on particular work positions
- taking precautions

The following factors are also of importance:

- the use of advanced and reliable mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- no geological disruptions and the fact that the mining seams are relatively regularly laid out
- relatively low costs of repairing mining damage resulting from the low urbanisation of the area in which the mine extracts hard coal
- high qualifications of the personnel

Risk level | low | **medium** | high

Risk of restrictive EU climate policy also with respect to the CO2 emissions

The European Commission requires limiting the CO2 emissions on the level of EU member states by 20% until 2020 in accordance with the so called "Europe 2020 strategy", as well as reducing greenhouse gas emissions by 20%, raising the share of energy consumption produced from renewable sources to 20%, and improving the energy efficiency by 20% in accordance with the so called "20-20-20" targets.

In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. These limitations may cause significant difficulties with competitiveness and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the LW Bogdanka Group, and in consequence, may have a negative impact on its financial results. Countermeasures:

- active involvement in consultations conducted by the Polish mining sector in order to minimise the above risk for domestic coal producers,
- monitoring any amendments to the Energy Law or other acts, and assessing their potential impact on the Group's operations.

Risk level | low | medium | **high**

Risk of a decrease in demand for hard coal from the Polish power industry

The current market situation, where large quantities of coal are piled on heaps of coal producers and buyers, may translate into a drop in the buyers' demand for coal. The downward trend affecting the demand for thermal fine coal may continue until 2018, which is certain to impact the Parent's (LW Bogdanka's) coal pricing policy. Also the imported coal poses some risk to the demand on national coal.

Countermeasures: actions aimed at further long-term securing of supplies of the Company's coal for commercial power production relating to existing and prospective power units within the area of the Company's operations.

Risk level | low | **medium** | high

Risks directly associated with the Group's operations

Risk associated with the launch of extraction of new deposits at LW Bogdanka S.A.

A material aspect of the operations conducted by the Group is the necessity to secure future extraction possibilities by providing access to new coal resources.

Restriction of the mining capacity may bring the following consequences:

- shorten the life of the mining plant and/or
- reduce the assumed level of extraction of hard coal, and therefore
- decrease future financial results of the LW Bogdanka Group

At the moment, the Parent is undertaking activities with the aim of obtaining new licences in order to double its resources and secure a raw material base for extraction even until 2080. Mid 2016 saw the completion of drilling works under the prospecting license in the "Ostrów" area.

Countermeasures: continued activities to receive mining licences for the K-6 and K-7 areas (it has filed an appeal with the Supreme Administrative Court), as well as for the "Ostrów" and "Orzechów" areas.

Risk level | low | medium | **high**

Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions).

In this group of risks, there is also a risk of unexpected, usually local, deterioration of the quality of the deposit.

Countermeasures:

- extraction in the longwall system from four simultaneously active mining faces and two reequipped mining faces,
- availability of the infrastructure – the second mining shaft in Stefanów,
- system of underground coal storage reservoirs,
- raw coal reservoirs on the surface,
- use of advanced mining equipment and machines,
- research and development work aimed at increasing work productivity and safety.

Risk level | low | **medium** | high

Risk associated with high costs of technologies applied by the Group

The technology of thermal coal extraction involves the use of highly specialised machines and equipment. As a result of the Group's investments related to the Stefanów Field extension, it will be necessary to make further investments in new specialised mining machines.

Due to global concentration of producers of such machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment. This could have impact on the increase of capital expenditure.

There is also a risk of difficulties in accessing unique spare parts to ensure the operating continuity of the machines and equipment.

2015 saw the commencement of mining from seam 391 which is located about 100 m below seam 382.

As the depth increases, the difficulty of maintaining the workings (rock mass pressures increase), the natural temperature of rock, and some risks increase, which may result in an increase in coal mining costs.

Countermeasures: controlling costs and capital expenditure, use of highly-specialised machines and equipment, high work culture (attention to equipment).

Risk level | low | medium | **high**

Risk of IT systems malfunctioning

Potential partial or complete loss of data due to malfunction of computer systems may adversely affect ongoing operations, and in consequence influence the Group's future financial results.

Countermeasures:

- implementation of the "Policy for Safety of Information in the IT Systems of Lubelski Węgiel Bogdanka S.A.",
- works are being conducted to assess a possible consolidation and standardisation of IT solutions within the Enea Group.

Risk level | **low** | medium | high

Key customer risk

Vast majority of thermal coal produced by the LW Bogdanka Group is sold to a relatively small group of large contracting parties operating on the domestic market. Therefore, there is a risk that a possible reduction or termination of cooperation with a key customer, or a deterioration of an economic and financial situation of any of the key customers of the Group could have an adverse effect on financial results. Deterioration of the financial/economic situation of any of the main customers may also carry some risk. Countermeasures:

- analysing the situation and forecasts on the coal supplies and energy market,
- co-operating with renowned institutions dealing with energy sources market analysis,
- co-operating with first-rate law firms,
- managing the risk of long-term contracts,
- looking for new customers who would diversify alternative sale options.

The risk of losing key customers may be exacerbated depending on the restructuring scenario for Silesian mines adopted by the Polish government.

Risk level | low | **medium** | high

Risk associated with competition by other thermal coal producers and the relatively low quality of the coal produced by the Parent

The Group is exposed to price competition from other producers of thermal coal:

- from Poland (e.g. the mines of KHW S.A. and PGG S.A.)
- from eastern markets (including Russia, Ukraine and Kazakhstan)
- from other global producers who deliver by sea (from the ports of Amsterdam, Rotterdam and Antwerp).

Another risk factor is connected with less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content). The specific parameters of the coal produced by the Group provide it with a competitive advantage when supplying coal to commercial power producers.

Countermeasures: product tailored to the needs of a buyer, looking for new buyers, reducing a unit cost of production.

Risk level | low | medium | **high**

Risks directly associated with the Group's operations

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of the LW Bogdanka Group payable by its customers and the surplus of Group's receivables in comparison to liabilities.

Countermeasures:

- monitoring customers' arrears associated with making payments for the products sold,
- analysing the credit risk for the main customers individually, or by the respective classes of assets,
- transactions solely with customers with confirmed creditworthiness.

Risk level | **low** | medium | high

Risk associated with the strong position of the trade unions

In the hard coal mining sector, trade unions hold a significant position and play an important role in determining staff and payroll policy. They frequently force renegotiations of payroll policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group associating in total 64.6% of the Group's employees (there are four trade union organisations at LW Bogdanka associating 71.1% of the employees). Strong position of the trade unions creates a risk that the costs of remuneration may increase in the future in connection with negotiated remuneration agreements, and in consequence adversely affect financial results achieved by the LW Bogdanka Group. Furthermore, possible protests and/or strikes organised by the trade unions operating at the Group could affect the operating activities of the LW Bogdanka Group.

Countermeasures: monitoring the activities of trade unions and engaging in dialogue and negotiations regarding staff and payroll actions.

Risk level | low | **medium** | high

Risk associated with retaining and attracting human resources for the Group

Due to ongoing works on amendments to the Collective Bargaining Agreement which will consider the change of work organisation and remuneration, there is a risk that a larger number of experienced employees entitled to retirement benefits will leave the Group. These are especially valuable employees because of their knowledge and experience. Their sudden departure in a short period of time could disrupt the generational continuity which is being rebuilt, and in turn, disrupt the mild gradual staff turnover.

Countermeasure: building generational continuity.

Risk level | **low** | medium | high

Key supplier risk

The specific nature of operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore, there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under concluded agreements. This also applies to specialised providers of mining services, because due to a limited number of such providers on the Polish market, the Group may become dependent upon these entities.

Countermeasures: assessing the risk of threats connected with contract performance at the stage of signing agreements with suppliers, and looking for options of establishing cooperation with other suppliers. What is more, in order to secure the performance of higher risk contracts, it is required that a performance bond is made.

Risk level | **low** | medium | high

Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements (in particular those relating to the purchase of specialist equipment and technology), the Group is exposed to a risk of agreements being concluded on unfavourable terms.

Countermeasures:

- rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures according to the procedures of public tenders and others;
- training in the logistics of concluding contracts and market analysis, negotiations and trading, in particular at the international level.

Risk level | **low** | medium | high

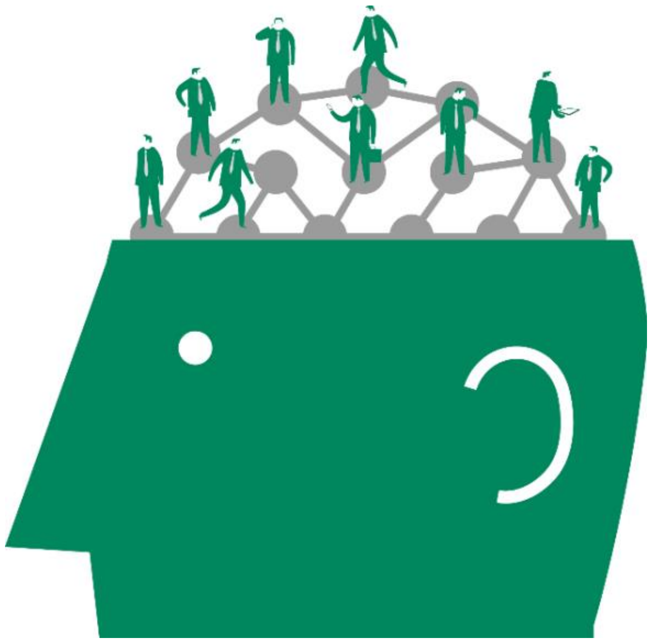
Risk of price fixing by the suppliers

The requirement to use highly specialised products and services, as well as legal aspects to be met in order for such products and services to be deemed proper, carry a risk of price fixing. Therefore, there is a potential risk of fixing commercial terms that can be offered to the LW Bogdanka Group by a group of suppliers.

Countermeasures:

- permanent market monitoring and acquiring new suppliers,
- periodic analysis of contract prices and researching new market trends,
- searching for replacement products.

Risk level | low | **medium** | high



Financial risks and risks associated with environmental protection

Liquidity ratios

Important factors in the assessment of insolvency risk are:

- the level of operating cash flows generated by the company
- the amount of cash
- liquidity ratios

In the case of the Group, cash at hand as at 30 June 2016 amounted to PLN 334,829,000. The current liquidity ratio for the Group is 2.0, and quick liquidity ratio is 1.8. In H1 2016, net flows from operating activities generated by the LW Bogdanka Group were lower by 10.9% in comparison to H1 2015. At the same time, as a result of completing a programme for the development of production capacity in the Stefanów Field, capital expenditure was significantly reduced. Consequently, cash flows from investing activities went down by about 50.9% in the periods under analysis.

Countermeasures: long- and short-term analyses and projections to help determine cash needs. This enables the Group to plan its inflows and outflows and to determine the optimum level of cash and the optimum method of financing for the future, taking into account the principles of economic calculation. For more information refer to page 41 of the Report.

Risk level | low | medium | high

The Group is exposed to insurance risk both within standard scope applicable to all entities conducting business activity, and within the scope typical for the mining sector. As is the case with other mining enterprises in the world, the threats most significant in terms of risk assessment are those related to the possibility of damage to the property used for mining operations.

In the second half of 2015, an insurance review was carried out at the Group, which lead to updating the existing insurance programme. The updated programme is still being implemented. Its key element will be to renew the insurance coverage related to underground property.

Countermeasures: the Group holds insurance policies covering the risk of loss and damage to underground property, third party liability insurance against damage caused in connection with business activity or property in the Group's possession, above-ground property insurance, and all-risks insurance of rail vehicles. Moreover, the Parent holds a partial insurance policy of a type similar to Business Interruption which, to a limited extent, concerns compensation for a portion of fixed costs incurred in case of damage.

Risk level | low | medium | high

Risk associated with reclamation and mining damage

The Bogdanka Group is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future – the requirements in this respect are expected to be stricter.

Countermeasures: repair works, protecting buildings against the results of mining damage, reimbursing the costs incurred by investors in connection with adjusting new buildings under construction on the mining land to the current conditions, gradually performing drainage hydrotechnical works.

Risk level | low | medium | high

Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment

The operations of the LW Bogdanka Group, and in particular the operations of the Parent, have a significant impact on the environment. Therefore, the Company must hold specific permits and observe standards of using the environment detailed in applicable laws (including BAT requirements - Best Available Techniques).

In particular with respect to the following:

- emissions of substances and noise to the air;
- water and waste management;
- management of the generated solid waste;
- the use of natural resources.

Countermeasures: the Group monitors legal regulations on an ongoing basis, and adjusts its operations accordingly within the prescribed time limits.

Risk level | low | medium | high

Risk associated with management of waste generated after extension of the mining area

Significant amount of extraction waste is generated in connection with the extension of the mining area and the performance of coal extraction works. It is estimated that the storage capacity of the waste yard is sufficient for up to 3 years of storing. On the basis of a building permit, the Parent has commenced works connected with increasing the height of the existing yard (to 250 MASL), and undertook measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment will involve the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste.

Countermeasures: the Group performs works connected with increasing the height of the existing mining waste utilisation facility. Such course of action will make it possible, without undue haste, to continue the work on acquiring new land to execute the next phases of extension of the yard and handle any formal and legal issues connected with this project. The Parent has also purchased a plot of land with the area of approx. 9.0 ha, adjacent to the mining waste treatment facility.

Risk level | low | medium | high

Investment risks associated with protected areas

LW Bogdanka S.A. is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land). All planned investment activities must be analysed from the perspective of their potential negative impact on protected areas. There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter. Those investment restrictions may require higher investment costs and therefore may affect financial result. Countermeasures: ongoing monitoring, adjusting business activities to requirements and obligations.

Risk level | low | medium | high

Risk associated with proceedings and legal environment

Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Company. Frequent amendments to tax regulations and rigorous and stringent provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

Countermeasures:

- monitoring any amendments to tax laws,
- training courses for employees so as to ensure that employees are as competent as possible in this area,
- comparing any new issues with the latest tax rulings and relevant case law,
- using the services of consulting companies,
- following the Transfer Pricing Policy, which lays down the fundamental conditions and principles for pricing the transactions concluded within the Group.

Risk level | low | **medium** | high

Risk of real estate tax on mining excavations of LW Bogdanka S.A.

In accordance with the Parent's strategy, the value of underground excavations and the infrastructure located in these excavations have not been included in real property tax returns for tax assessment purposes.

In 2016 fiscal proceedings were pending against the Parent in order to determine the amount of real property tax due for the period between 2004 and 2015, instigated by the Heads of Puchaczów, Cyców and Ludwin Communes.

Countermeasures:

- monitoring any amendments to tax laws,
- training courses for employees so as to ensure that employees are as competent as possible in this area,
- comparing any new issues with the latest tax rulings and relevant case law,
- using the services of consulting companies,

For more information refer to the Financial Statements of the LW Bogdanka Group, Note 14.

Risk level | low | **medium** | high

Risk associated with expenses for creating certain mining excavations and their classification for the purposes of corporate income tax

Classification of mining excavations in accounting books of hard coal mines is made based on the intended purpose of individual excavations. The excavations created are recorded in the accounting books as non-current assets or directly as operating costs and the point when such costs are incurred. The excavations comprising a fixed underground mine infrastructure are classified as non-current assets. While the exploitation and movement excavations are classified as operating costs at the time when such costs are incurred - cost excavations. Some of the cost excavations were performed earlier than 1 year ago. In the light of the current tax laws, one cannot exclude a possibility of other qualification of this type of costs for the purposes of corporate persons income tax than the one performed by the Company, which could potentially mean decreasing the cost base for tax purposes in past and current settlements of the income tax and a potential payment of additional amounts of the tax.

Countermeasures:

Mining companies have made an attempt to clarify this issue – they suggest changes and clarification of the classification rules concerning this aspect of Non-Current Assets Classification.

Risk level | low | **medium** | high

Risk of a change in the law and its interpretation and application

The provisions of law in Poland are frequently amended. Changes also affect the interpretation of law and the way it is applied. Changes in interpretation of tax regulations are particularly frequent. There is no consistency in the practice of tax authorities or in case law relating to taxation. If tax authorities adopt an interpretation of tax law which differs from that adopted by the Group or if the Mining Law introduces new requirements, it could lead to deterioration of its financial situation and as a result negatively affect the Group's bottom line and development prospects.

Countermeasures: using the services of legal advisors and consulting companies, and seeking opinions of various bodies specialising in a given subject matter. Where applicable, the Group also files for binding interpretations of law. Despite these measures, it is not possible to entirely eliminate the risk. However, the Management Board believe such risk to be substantially limited.

Risk level | low | **medium** | high

Risk of violating the stock exchange disclosure requirements

Since the Parent is listed on the Warsaw Stock Exchange, the Parent is subject to provisions which impose a number of requirements. Heavy fines may be imposed for failure to perform or undue performance of the requirements set forth above.

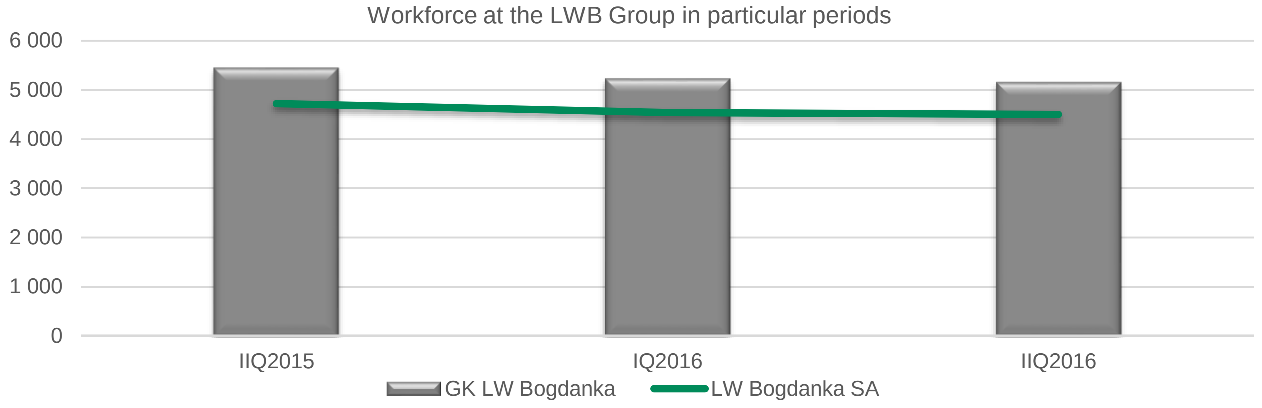
Countermeasures: strict compliance with the obligations preceded by the introduction of internal procedures for the circulation of stock-exchange information at LW Bogdanka S.A., and permanent monitoring of the Parent's operations with respect to disclosure requirements.

Risk level | **low** | medium | high

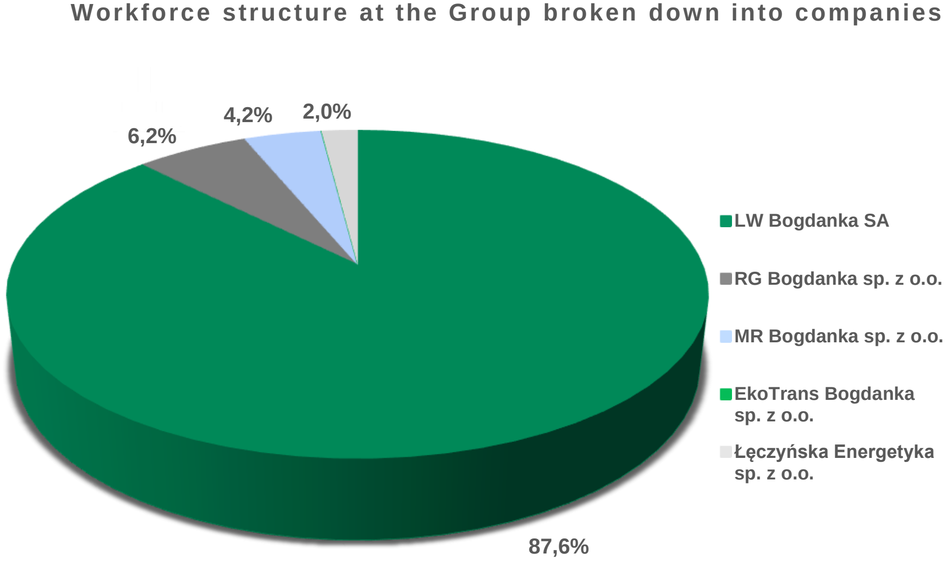
Workforce changes

Workforce of the Group
The Group's headcount in H1 2016 decreased by 287, i.e. by 5.3% versus the end of H1 2015. In Q2 2016, the headcount declined by 70, i.e. 1.3% versus the end of Q1 2016. This reduction resulted from the necessity to adjust the workforce to the current production needs of the Company.

Workforce of the Parent
In H1 2016, 38 employees were hired, while 93 employees left the Company.



Workforce	30 Jun. 2015	31 Mar. 2016	30 Jun. 2016	Workforce structure at the Group	Change Q2 2016/ Q2 2015	Change Q2 2016/ Q1 2016
Workforce at the Group calculated per full-time employees						
Workers in total	4,077.0	3,909.0	3,885.0	-	-4.7%	-0.6%
Underground workers	3,109.0	2,966.0	2,942.0	-	-5.4%	-0.8%
Surface workers	968.0	943.0	943.0	-	-2.6%	0.0%
Permanent employees underground	319.0	317.0	307.0	-	-3.8%	-3.2%
Permanent employees on the surface	323.6	313.6	307.6	-	-4.9%	-1.9%
Total underground	3,428.0	3,283.0	3,249.0	-	-5.2%	-1.0%
LW Bogdanka S.A.	**4,719.6**	**4,539.6**	**4,499.6**	**87.6%**	**-4.7%**	**-0.9%**
RG Bogdanka sp. z o.o.	382.0	339.0	318.0	6.2%	-16.8%	-6.2%
MR Bogdanka sp. z o.o.	216.5	225.2	218.0	4.2%	0.7%	-3.2%
EkoTrans Bogdanka sp. z o.o.	2.0	2.0	2.0	0.0%	0.0%	0.0%
Łęczyńska Energetyka sp. z o.o.	105.5	102.5	100.5	2.0%	-4.7%	-2.0%
The LW Bogdanka Group	**5,425.6**	**5,208.3**	**5,138.1**	**100.0%**	**-5.3%**	**-1.3%**



Company’s cooperation with representatives of the employees and local community

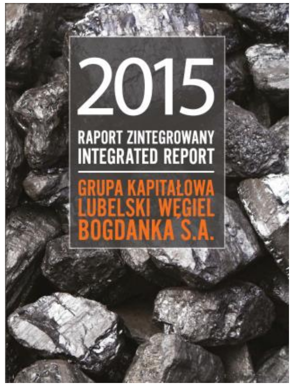
The dominant values cherished by LW Bogdanka S.A. are as follows: honesty, professionalism and responsibility. These values ensure the harmonious development of the Company pursuing its economic objectives in line with the expectations of the society and the requirements of the environment.
The Company is consistently and systematically implementing the “Corporate Social Responsibility Strategy for 2014-2017”. The updated approach to social responsibility management may be defined in a nutshell as: ”Safety of workforce, protection of local community and natural environment. Sustainable and foreseeable development and growth in value of the Company”. The strategy itself is based on the continued following of four priorities:

- to strive to increase the safety of workforce;
- to guarantee the safety of local natural environment;
- to ensure safety and support development of local community;
- transparent and responsible management practices;

The LW Bogdanka S.A.’s CSR activities are implemented in accordance with the recommendations of the standard PN-ISO 26000, developed by the International Organisation for Standardisation in 2010, which is a guide for organizations in terms of the application of the principles of social and environmental responsibility. ISO 26000 contains Guidance on Social Responsibility, defined as the responsibility of the organization for the impact that its decision and activities have on the society and the environment, through transparent and ethical behaviour in key areas, such as:

- corporate governance
- human rights
- work practices - dialogue sessions with trade unions
- environment
- fair operating practices
- consumer-related issues
- social involvement and development of the local community

Reporting



In June 2016, LW Bogdanka S.A. published the Group’s Integrated Report for 2015, once again developed in line with the GRI Guidelines, G4. The Report includes both financial and non-financial performance, and takes account of parameters specific to the mining industry. The Report for 2015 covered all subsidiaries (MR Bogdanka sp. z o.o., RG Bogdanka sp. z o.o., EkoTrans sp. z o.o., Łęczyńska Energetyka sp. z o.o.), and presented financial results and social impact. Reliability of the report and its compliance with the Guidelines was supervised by a third party expert who also supported its preparation.
The knowledge of the subject and experience in creating reports has earned the Company an invitation to participate in a team of experts on reporting. The Company was actively involved in the works on the **“Handbook for Report Makers”**, prepared by a working group operating at the Team for Social Responsibility of Enterprises (auxiliary body of the Minister of Economy) in 2015.

Management approach

- Integrated Enterprise Risk Management System (ERM) and IT Risk Manager – risk management system of LW Bogdanka S.A. is based on policies and procedures such as: LW Bogdanka Corporate Risk Management Policy, Corporate Risk Management Model at the Company – ERM Procedures, LW Bogdanka Risk Register, LW Bogdanka Risk Map, List of Strategic Risks of LW Bogdanka S.A., and Programs of Strategic Risk Mitigating Measures at the Company
- Integrated Management System – operational management at LW Bogdanka S.A. is based on an integrated system compliant with the following standards: PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004. In addition, the occupational health and safety management system is compliant with British standard BS OHSAS 18001:2007.

Ethics as component of the organisational culture

“LW Bogdanka S.A. is a company with an extensive organisational culture, an effective ethical programme, a consistent system of values, and, above all, a mission with the common good as its main purpose. The Company’s competitive position in the marketplace and the continued growth of trust in the relations with various groups of stakeholders confirm that LW Bogdanka was right to choose and promote management through values,” says dr Monika Baczewska-Ciupak, Department of
which was for the first time published in 2011, is modified and improved on an ongoing basis in response to the constant monitoring of the Company’s situation and its activities. The currently applicable documents are as follows: “Supplier Code of Conduct of LW Bogdanka S.A.”; “Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company’s Code of Ethics”; information regarding “Compliance with the Rules of Ethics at Interviews with Injured Parties and Witnesses for the Purposes of Developing Accident Reports”.
Educational and awareness campaign is conducted on an ongoing basis with the use of such tools as plasma screens, the “Bogdanka” corporate newspaper and the Intranet, with a view to exposing and promoting ethical values recognized in LWB.

Company’s cooperation with representatives of the employees and local community

Close to nature

Effective environmental management is based on the Integrated Health and Safety, Quality and Environment Management System. It complies with PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004 and, additionally, as regards health and safety, with the British standard BS OHSAS 18001:2007. Lubelski Węgiel Bogdanka S.A., in cooperation with the Polish Society for the Protection of Birds (OTOP), created a new educational path, Nadrybie. It runs around the NadrybieLake – and artificial reservoir created as a result of mining works. The Nadrybie path is located within the Łęczna Lake District Landscape Park, in an area with particular natural value and protected by the Natura 2000 network.

“At the Nadrybie Lake we may encounter many species of birds, including rare ones, listed in the Polish Red Book. In spring, we may see the white-winged tern, the whiskered tern, the black tern, and the black-headed gull, which all come here to feed. We will hear birds such as the great reed warbler, the sedge warbler, the blackcap, the lesser whitethroat and the thrush nightingale, as well as the great bittern, whose call sounds like whistling into a bottle, the little bittern, who sounds like a barking dog, and the water rail, whose call is a pig-like squeal,” says Jarosław Krogulec, Environmental Protection Manager of the Polish Society for the Protection of Birds.

The trail was set out on the path with educational boards, a survey of the fauna and flora was conducted and a guide for self-sightseeing was published. The path is visited by numerous groups of students from neighbouring schools – environment and extra-curriculum classes are held there.

Relations with the local community

From the very beginning of its existence, LW Bogdanka S.A. has been supporting the local community, including a wide range of local social initiatives, aimed at the development of the cultural, scientific, educational and health realm, construction of communal infrastructure, and answering other needs of the local community. The Company also sponsors sporting and cultural activities. In H1 2016, LW Bogdanka S.A. made 13 donations in cash and in kind in a total amount of PLN 272,739.

The Inter-Sectoral Agreement for Life and Health – Lubelski Węgiel Bogdanka S.A., the Solidary Miners Foundation and the Regional Blood Centre in Lublin (RCKiK) signed a tripartite agreement in June 2015 dedicated to the promotion of voluntary blood donation, blood transfusion and registration with the bone marrow donors bank.

With the managers of LW Bogdanka S.A. in mind, a meeting was held in April concerning blood donation and transfusion, as well as the bank of unrelated donors of bone marrow.

The organisers aimed to increase the mining facility mangers’ awareness of the above mentioned issues, increase their involvement, and popularise the blood and bone marrow donation movement.

The goal of the Inter-Sectoral Agreement is to implement an educational and volunteer programme under which the Company’s staff and the local community becomes involved in blood and bone marrow donation campaigns. This is the first initiative of this kind in the region, combining the efforts of the public, business and non-governmental sectors to support the noble idea of blood and bone marrow donation and transfusion. Blood and marrow donation campaigns are organised regularly within the mine’s premises and in the surrounding communes, along with an open day for blood donations. In addition, information and educational materials are distributed.

The Solidary Miners Foundation

The Solidary Miners Foundation, which has been active since the end of 2013, was created to help former and current employees of the mine as well as those working at the mine, their families, accident victims, or persons in a difficult situation.

To date, the Foundation has financed surgeries, medical procedures, treatment, and rehabilitation, financed or co-financed the purchase of medical equipment and devices (a wheelchair, equipment for testing vibrations, a defibrillator, a lift for a disabled person, barrier-free environment, etc.) and access-friendly infrastructure (such as bathrooms and barrier-free architecture) for the disabled.

In H1 2016, the costs of statutory activities amounted to PLN 75,349, which included:

scholarships for good marks at school, special and social scholarships – PLN 7,980

subsidies for medical treatment and medical equipment – PLN 39,169

rehabilitation – PLN 4,800

help provided to educational, care and nurture institutions – PLN 23,400.

Company’s cooperation with representatives of the employees and local community

Employee volunteering

C-Zone Education – there is a dedicated educational zone at the mine, where we organise lessons and tours of the exhibitions, during which we talk about the mining traditions, customs and the characteristics of work at the mine. We share our traditions, knowledge and history with everyone interested.

Positive Twist – a continuing campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In 6 months we collected several hundred kilograms of plastic caps.

The Great Power of Helping Others - an action of collecting the basic necessities for the youth of the Shelter for Minors in Dominowo. The Company’s employees provided more than 300 kg of gifts, including food and school materials. What is more, children under the care of the Shelter visited the mine under the “People of Interesting Professions” programme.

Gold Rush – the project involves getting rid of small coins (1, 2, and 5 grosz) sitting in the wallet. Participation in the project is the initiative of the mine’s Z. Gola Honorary Blood Donors Club of the Polish Red Cross.

The funds will be used to finance holiday trips, after school clubs or purchase school materials for those in care of the Lublin Branch of the Polish Red Cross.

In the period between January and June 2016, bags with coins of 295 kg in weight were collected and provided to the Lublin Branch of the Polish Red Cross. The funds raised will be given to poor families from the Lublin region. The campaign will run until June 2017.

Mine Close to Nature – a contest, the aim of which was to promote eco-friendly attitudes, respect for the environment, and to show that the Mine is part of the day-to-day activities of the local community.

Awards and accolades

5 Best Practices made it into the “**Responsible Business in Poland. Best Practices 2015**”.

A distinction for the project of the Nadrybie Nature Trail in the Contest **“I Report to Poland - A Ranking of Socially-Responsible Companies”**.

A distinction in the 19th edition of the **“Benefactor of the Year”** in the category “Social Project - Large Company” as a result of a nomination by the Polish Society for the Protection of Birds.

LW Bogdanka S.A. is among those of the WSE companies that create the **RESPECT Index**.

3. Financial standing

Production, sale and inventories of coal

Information on current and forecast economic and financial position of the LW Bogdanka Group with the assessment of financial resources management

The current market situation (oversupply of coal, constant pricing pressure from customers, sales of coal piled in the heaps at understated prices) forces the Parent to take various measures in order to keep liquidity and performance results at a level adequate to the market situation. The amendments introduced to the Articles of Association oblige the Parent to conduct activities aimed at implementation of the mission and strategy of the ENEA Group, which define the interest of the ENEA Group.

The LW Bogdanka Group monitors on an ongoing basis the level of costs, ratios and the value of accumulated cash. Current debt (bonds issued by the Parent and a loan from the Regional Environmental Protection Fund and Water Management for Łęczyńska Energetyka), plus cash held, guarantee the financing on an on-going basis.

Works are consistently conducted to optimise the mining process (in terms of the technologies employed) and, simultaneously, a cost reduction program is being implemented (decrease of the coal extraction unit cost). All works (new excavation planning, extraction and sale of commercial coal) take into account existing and future market risks (decline in demand for thermal coal and in its price). Works to prepare new excavations for operational exploitation are carried out in order to ensure the continuity of extraction. Global coal prices are monitored on an ongoing basis.

The LW Bogdanka Group pays its liabilities when due. The Group effectively manages its financial resources and, at the same time, deposits free funds with banks (for durations and in amounts determined on the basis of in-house short-term financial forecasts). As at the date of drawing this information, the Group sees no threats that could deteriorate its ability to pay its liabilities in the future.

Production, sale and inventories of coal

In the second quarter of 2016, the production of commercial coal in the Parent increased by 2.6% compared to the same period of 2015 and amounted to 1,950,000 tonnes. In the period from January to June 2016, the production of commercial coal was 4,285,000 tonnes, i.e. it was more by 10.1% than in the same period of 2015.

Production of commercial coal by the Parent.

['000 tonnes]	H1 2015	H1 2016	Change	Change %
Production of commercial coal	3,891	4,285	394	10.1%
['000 tonnes]	**Q2 2015**	**Q2 2016**	**Change**	**Change %**
Production of commercial coal	1,901	1,950	49	2.6%

Structure of commercial coal production by the Parent

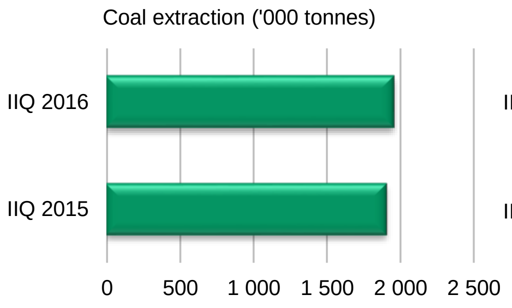
[%]	Q2 2015	Q2 2016	H1 2015	H1 2016
Fine coal	98.4%	98.8%	98.6%	99.1%
Nut coal	0.4%	0.7%	0.3%	0.4%
Pea coal	1.2%	0.5%	1.1%	0.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

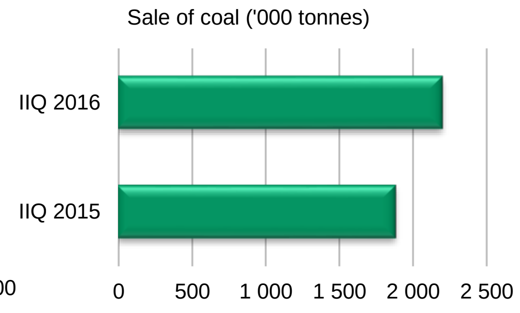
In analysed periods the structure of production did not change significantly – thermal fine coal remained the dominant assortment (its share in the production was in the range of approx. 99%).

In the second quarter of 2016, the sales of coal grew by 17.0% compared to the second quarter of 2015. In the period from January to June 2016, the sales of commercial coal amounted to 4,379,000 tonnes, i.e. they were higher by 14.6% than in the same period of 2015.

Commercial coal sales at the Parent.

['000 tonnes]	H1 2015	H1 2016	Change	Change %
Sale of commercial coal	3,821	4,379	558	14.6%
['000 tonnes]	**Q2 2015**	**Q2 2016**	**Change**	**Change %**
Sale of commercial coal	1,876	2,195	319	17.0%





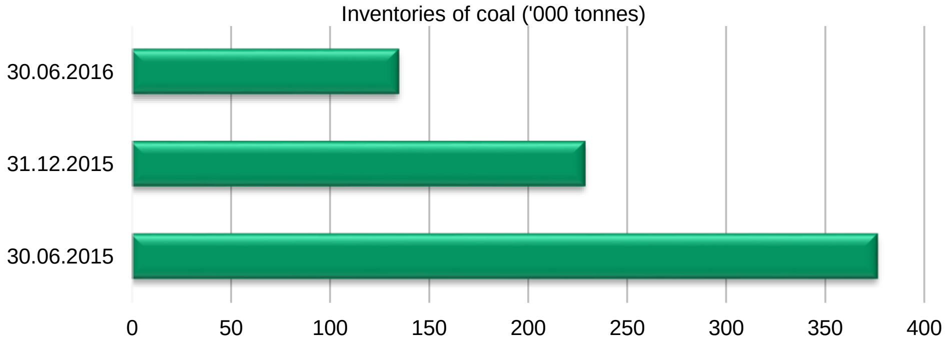
Revenue and key customers

As at the end of Q2 2016, the inventories of coal at the Parent amounted to 134,000 tonnes which means a drop by 94,000, i.e. by 41.2%, compared to 31 December 2015. The level of coal inventories as presented for the end of Q2 2016 corresponds to approx. five days of commercial coal production (on the basis of an average 6-month daily production).

Inventories of coal

['000 tonnes]	30 Jun. 2015*	31 Dec. 2015	30 Jun. 2016	Change [%] 30 Jun. 2016/ 30 Jun. 2015	Change [%] 30 Jun. 2016/ 31 Dec. 2015
Inventories of coal	376	228	134	-64.4%	-41.2%

*The presented level of inventories as at 30 June 2015, took into account a coal deposit (93,000 tonnes) for one of the customers. This deposit was accounted for in total by the Parent (supplied to customers) to Q4 2015.



The information on coal market in Poland is presented in the Directors' Report on Operations of the LW Bogdanka Group for the first half of 2016 on pages 11-15.

Revenue and key customers

In Q2 2016, the LW Bogdanka Group generated revenue in the amount of PLN 428,376,000, which represents an increase by 3.2% compared to Q2 2015. In the first half of the year the Group's revenue was PLN 848,945,000 compared to PLN 843,560,000 in the same period of 2015.

The main source of revenue on sales of the LW Bogdanka Group both in Q2 and in H1 was the production and sale of thermal coal performed by the Parent. In each of the compared reporting periods, this activity generates about 97% of the Group's revenue.

In the condensed semi-annual consolidated financial statements published by the LW Bogdanka Group, for presentation purposes, data concerning revenue on coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained by the Parent during drilling of excavations. Bearing in mind the above, the values indicated in the consolidated income statement for the period from 1 January to 30 June 2016 was adjusted by PLN 37,129,000, while in the same period of the previous year – by PLN 32,897,000.

More than 96% of coal sales (in terms of value) in the period from 1 January 2016 to 30 June 2016 was effected between the Parent and Enea Wytwarzanie sp. z o.o., ENGIE Energia Polska S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty - Zakłady Azotowe Puławy S.A. and EDF Paliwa sp. z o.o. For the first six months of 2015 the share of the above customers in coal sales stood at a level of approx. 95%.

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q2 2015	Q2 2016	Change	Change %	H1 2015	H1 2016	Change	Change %
Sale of coal	398,830	414,632	15,802	4.0%	805,443	819,652	14,209	1.8%
Other operations	12,712	10,581	-2,131	-16.8%	31,685	22,939	-8,746	-27.6%
Sale of goods and materials	3,213	3,142	-71	-2.2%	5,588	6,235	647	11.6%
Sale of ceramics	526	21	-505	-96.0%	844	119	-725	-85.9%
Total revenue	**415,281**	**428,376**	**13,095**	**3.2%**	**843,560**	**848,945**	**5,385**	**0.6%**

In the period from 1 January 2016 to 30 June 2016, income on other operations (which includes the revenue of subsidiaries) amounted to PLN 22,939,000 compared to PLN 31,685,000 in the same period of the previous year. In Q2 2016 revenue on other operations were PLN 10,581,000 (2.5% of total revenue), compared to PLN 12,712,000 (3.1% of revenue) in the analogous period of 2015 (-16.8% y/y). A significant share in that group of revenue was held by:

- revenue of Łęczyńska Energetyka on sales of heat energy to external companies,
- revenue from services of coal transport provided by the Parent for the benefit of some customers (this item had the largest impact on the decrease in revenue in that group),
- revenue on industrial services provided to companies performing works contracted by the Parent,
- revenue on the lease of non-current assets (a second of factors determining the decrease in this group of revenue).

Sales and costs by type

The share of revenue from the sale of goods and materials in Q2 2016 slightly changed compared to Q2 2015 and was 0.7% (change by -2.2% y/y). During the first half of 2016, the sale of goods and materials was recorded at a higher level than that in the first half of 2015. In the analysed periods of 2016 and 2015, the dominant position in this group of revenue was revenue from the sales of scrap by the Parent, which was the main factor of change in revenue in this group.

Revenue - structure by product types

[%]	Q2 2015	Q2 2016	H1 2015	H1 2016
Sale of coal	96.0%	96.8%	95.5%	96.6%
Other operations	3.1%	2.5%	3.7%	2.7%
Sale of goods and materials	0.8%	0.7%	0.7%	0.7%
Sale of ceramics	0.1%	0.0%	0.1%	0.0%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The Group operates primarily in Poland. The share of exports was insignificant both in Q2 2016 and Q2 2015.

In the first half of 2016 the share of exports in the total revenue was 0.1% (PLN 989,000), while a year before the figure was 0.3% (PLN 2,683,000). In the analysed periods exports referred to mainly the export of coal.

Geographical structure of revenue

[PLN '000]	Q2 2015	Structure	Q2 2016	Structure	H1 2015	Structure	H1 2016	Structure
Domestic sales	415,158	100.0%	428,369	100.0%	840,877	99.7%	847,956	99.9%
Export sales	123	0.0%	7	0.0%	2,683	0.3%	989	0.1%
Total revenue	**415,281**	**100.0%**	**428,376**	**100.0%**	**848,945**	**100.00%**	**848,945**	**100.00%**

Suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. At the LW Bogdanka Group all procurement orders above the thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Parent.

The principal suppliers for the LW Bogdanka Group include companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January 2016 and 30 June 2016, the value of the turnover with any supplier did not exceed 10% of the Group's total revenue.

Costs

Costs of LW Bogdanka are presented in as costs by type and costs by function. The records of costs by function cover all outlays related to factors and production means used in the Company's operations. The costs incurred, in accordance with the formula presented, reflect the use of a given means or factor of production (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (commercial coal) or whether they have been used by the Company to finance the construction of an investment facility with its own funds (incl. longwall galleries) and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as non-current assets, constituting depreciation costs of the period in question.

Costs by type

Q2

In Q2 2016, LW Bogdanka S.A. incurred costs by type in the amount of PLN 412,437,000 (PLN +26,403,000 y/y), i.e. by 6.8% higher than in Q2 2015. The increase in costs noted in Q2 2016 was largely influenced by higher consumption of materials and energy as well as outsourced services with a concurrent decrease in the amortisation and employee benefits.

The value of depreciation/amortisation went down by 9.3% (to PLN 84,308,000) – depreciation/amortisation of non-current assets decreased (as a result of impairment charges of property, plant and equipment and intangible assets made in Q4 2015 and a longer period of using certain assets, which translated into smaller base for depreciation/amortisation) with a simultaneous increase in activity depreciation (higher extraction y/y).

Total cost of materials and energy consumption went up by 21.4% (PLN +18,532,000) compared to the second quarter of 2015, and totalled PLN 105,186,000. In the period under analysis the value of materials used increased – a detailed analysis of materials groups indicates an increased use of components needed for the construction of the new underground infrastructure (in Q2 2016 5.6 km of galleries were constructed compared to 4.9 km in the previous year which means an increase by 14.3%), with a simultaneous drop of operation parts to machinery and equipment. The value of the purchased energy (understood as a sum of electric energy and heat energy, potable water, industrial water and gas) increased due to a higher use of electric energy (higher extraction) with a lower unit purchase price.

Compared to Q2 2015, the value of outsourced services in Q2 2016 went up from PLN 79,405,000 to PLN 95,745,000 (+20.6%). In the period under analysis, the value of services for works on Saturdays and Sundays increased (in 2016 extraction was performed most often on Saturdays) as well as auxiliary works, with the concurrent drop in drilling and mining works. In the period under analysis the value of transport services dropped due to a lower sales of coal to those customers, where LWB was responsible for providing transport.

In 2016, compared to 2015, the value of employee benefits dropped by PLN 3,136,000. In Q2 2016 an average employment dropped compared to the same period of 2015, and at the same time in 2016 a write-off to the Company Social Benefit Fund was made in the amount of PLN 6,500,000 (in 2015 such a write-off was made in the third quarter).

Costs by type

The value of taxes, fees and charges went slightly down in Q2 2016 to PLN 7,324,000 from PLN 7,466,000 in Q2 2015 – the exploitation fee increased (in relation to an increased mining) and payments to the National Disabled Persons Rehabilitation Fund were lower.
The value of other costs in Q2 2016 increased from PLN 853,000 (in the same period of the previous year) to PLN 5,391,000 – primarily due to property insurance, as in Q2 2016 cost of property insurance policies was recognised for 6 months, i.e. from June to November 2016, while in 2015 the cost of property insurance policies for full 12 month was recognised in Q1 2015.
Having adjusted costs by type of the change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, own selling cost was obtained amounting to PLN 424,680,000 for Q2 2016. As compared to the previous year, it is higher by 17.6% (with a simultaneous year-to-year increase by 17.0% in the amount of coal sold).

H1 2016

In H1 2016, LW Bogdanka S.A. incurred costs by type in the amount of PLN 849,624,000 (PLN +25,624,000 y/y), i.e. by 3.0% higher than in H1 2015. The increase in costs recorded in H1 2016 was influenced by higher consumption of materials and energy, outsourced services as well as employee benefits.
The value of depreciation/amortisation went down by 6.2% (to PLN 176,218,000) – depreciation/amortisation of non-current assets decreased (as a result of impairment charges of property, plant and equipment and intangible assets made in Q4 2015 and a longer period of using certain assets, which translated into smaller base for depreciation/amortisation) with a simultaneous increase in activity depreciation (higher extraction y/y).
Total cost of materials and energy consumption went up by 9.2% (PLN +17,729,000) compared to the second half of 2015, and totalled PLN 211,021,000. In the period under analysis the value of materials used increased – a detailed analysis of materials groups indicates an increased use of components needed for the construction of the new underground infrastructure (in H1 2016 12.1 km of galleries were constructed compared to 10.2 km in the previous year which means an increase by 18.6%), with a simultaneous drop of operation parts to machinery and equipment. The value of the purchased energy (understood as a sum of electric energy and heat energy, potable water, industrial water and gas) increased due to a higher use of electric energy (higher extraction) with a lower unit purchase price.
Compared to H1 2015, the value of outsourced services in H1 2016 went up from PLN 169,140,000 to PLN 189,898,000 (+12.3%). In the period under analysis, the value of services for works on Saturdays and Sundays increased (in 2016 extraction was performed most often on Saturdays) as well as auxiliary works, with the concurrent drop in drilling and mining works. In the period under analysis the value of transport services dropped due to a lower sales of coal to those customers, where LWB was responsible for providing transport.
In 2016, compared to 2015, the value of employee benefits increased by PLN 4,573,000. In H1 2016 an average employment dropped compared to the same period of 2015, and at the same time in 2016 an annual bonus was paid to the employees (in Q4 2015 a provision was created for this purpose; the provision now has been released), and a write-off to the Company Social Benefit Fund was made in the amount of PLN 6,500,000 (in 2015 such a write-off was made in the third quarter).
The value of taxes, fees and charges went slightly up in H1 2016 to PLN 17,967,000 from PLN 17,149,000 in H1 2015 – the exploitation fee (in relation to an increased mining) and real property tax were higher.

The value of other costs fell from PLN 15,987,000 (in H1 2015) to PLN 9,404,000 (in H1 2016) – primarily due to property insurance (partly because of the recognition, in H1 2016, of the cost of property insurance policies only for 11 months, compared to 12 months in the analogous period of the previous year, as well as of a drop, by approx. 30%, of insurance rates for underground assets).

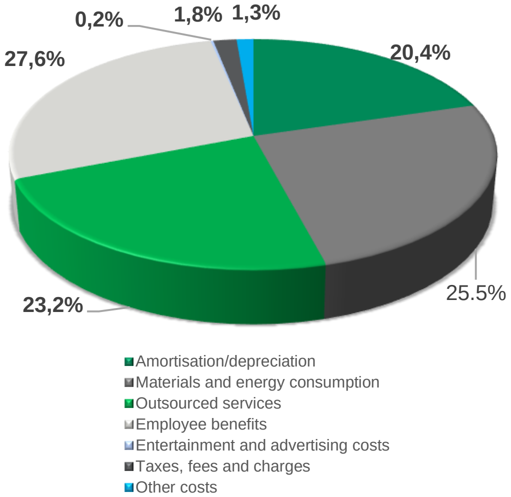
[PLN ‘000]	Q2 2015	Q2 2016	Change	H1 2015	H1 2016	Change
Net production [‘000 tonnes]	1,901	1,950	2.6%	3,891	4,285	10.1%
Sales [‘000 tonnes]	1,876	2,195	17.0%	3,821	4,379	14.6%
Amortisation/depreciation	92,939	84,308	-9.3%	187,902	176,218	-6.2%
Materials and energy used	86,654	105,186	21.4%	193,292	211,021	9.2%
Outsourced services	79,405	95,745	20.6%	169,140	189,898	12.3%
Employee benefits	116,759	113,623	-2.7%	236,953	241,526	1.9%
Entertainment and advertising costs	1,958	860	-56.1%	4,119	3,590	-12.8%
Taxes and charges	7,466	7,324	-1.9%	17,149	17,967	4.8%
Other costs	853	5,391	532.0%	15,987	9,404	-41.2%
Total costs by type	**386,034**	**412,437**	**6.8%**	**824,542**	**849,624**	**3.0%**
Cost of own work	-42,188	-49,160	16.5%	-94,900	-96,028	1.2%
Accruals and deferrals	19,124	12,699	-33.6%	22,589	30,803	36.4%
Value of coal from workings	-15,442	-16,167	4.7%	-32,897	-37,129	12.9%
Provisions and other presentation adjustments between costs by type and by function	8,360	24,087	188.1%	26,879	2,159	-92.0%
Total production cost	**355,888**	**383,896**	**7.9%**	**746,213**	**749,429**	**0.4%**
Change in products	2,118	37,829	1,686.1%	-7,494	12,923	-272.4%
Value of goods and materials sold	3,138	2,955	-5.8%	5,469	6,041	10.5%
Own cost of production sold, including:	**361,144**	**424,680**	**17.6%**	**744,188**	**768,393**	**3.3%**
Costs of products, goods and materials sold	329,254	399,023	21.2%	679,765	712,562	4.8%
Selling cost	9,395	8,508	-9.4%	18,800	18,359	-2.3%
Administrative costs	22,495	17,149	-23.8%	45,623	37,472	-17.9%

Costs in LW Bogdanka S.A.

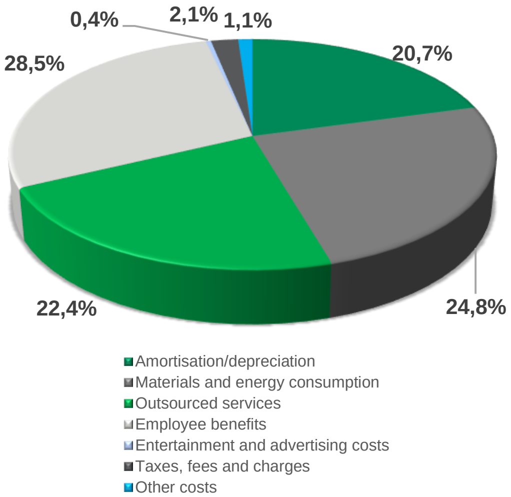
Having adjusted costs by type of the change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, we obtain own selling cost which for H1 2016 amounted to PLN 768,393,000. As compared to the previous year, it is higher by 3.3% (with a simultaneous year-to-year increase by 14.6% in the amount of coal sold).

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In Q2 2016 (compared to the same period of the previous year) the share of materials and energy consumption went up (to 25.5%) and so did the share of outsourced services (to 23.2%), while the share of employee benefits and amortisation/depreciation dropped (to 27.6% and 20.4%, respectively). Costs of employee benefits, outsourced services and materials and energy used accounted for almost 76% of costs between 1 January 2016 and 30 June 2016, while in the comparable period of 2015 it was almost 73% of total costs of the Company.

Structure of costs by type Q2 2016



Structure of costs by type H1 2016



In H2 2016 (compared to the same period of the previous year), similarly as in Q2 alone, the share of materials and energy consumption and outsourced services went up, while the share of employee benefits and amortisation/depreciation dropped.

Costs by function

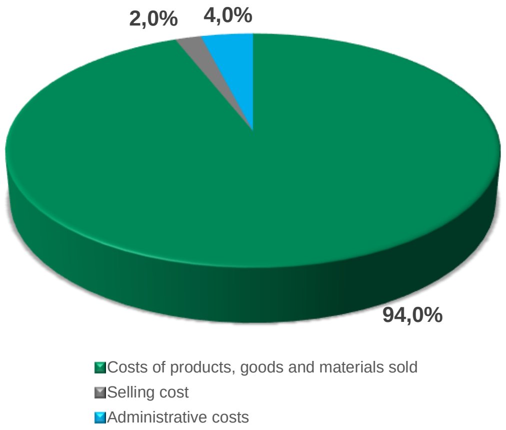
Own cost of production sold (by function) in Q2 2016 was PLN 424,680,000 and was higher by 17.6% (PLN 63,536,000) than the cost incurred in Q2 2015 - the increase y/y is mainly a result of higher cost by type of LWB, the balance of provisions and other presentation adjustments, and the fact that in 2016 production of PLN 37,829,000 was allocated from inventories to the sale (for comparison, in 2015 coal worth PLN 2,118,000 was put to the sale).

Own cost of production sold (by function) in Q1 2016 was PLN 768,393,000 and was higher by 3.3% (PLN 24,205,000) than the cost incurred in Q1 2015 - the increase y/y is mainly a result of higher cost by type of LWB, positive balance of accruals and deferrals, negative balance of provisions and other presentation adjustments, and the fact that in 2016 production of PLN 12,923,000 was allocated from inventories to the sale (for comparison, in 2015 coal worth PLN 7,494,000 was put to the inventories).

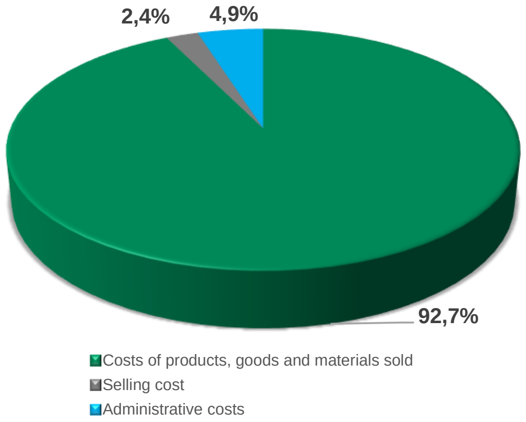
Costs by function

[PLN '000]	Q2 2015	Q2 2016	Change	H1 2015	H1 2016	Change
Net production ['000 tonnes]	1,901	1,950	2.6%	3,891	4,285	10.1%
Sales ['000 tonnes]	1,876	2,195	17.0%	3,821	4,379	14.6%
Costs of products, goods and materials sold	329,254	399,023	21.2%	679,765	712,562	4.8%
Selling cost	9,395	8,508	-9.4%	18,800	18,359	-2.3%
Administrative costs	22,495	17,149	-23.8%	45,623	37,472	-17.9%
Own cost of production sold	**361,144**	**424,680**	**17.6%**	**744,188**	**768,393**	**3.3%**

Structure of costs by function Q2 2016



Structure of costs by function H1 2016



Provisions

Provisions at the LW Bogdanka Group

Balance-sheet provisions

[PLN '000]	30 Jun. 2015	31 Dec. 2015	30 Jun. 2016	Change Q2 2016/Q2 2015	Change Q2 2016/Q4 2015
Employee provisions	245,260	251,537	260,767	6.3%	3.7%
Provision for real property tax	25,390	23,881	28,100	10.7%	17.7%
Provision for the mine closure costs and reclamation	112,784	130,179	123,385	9.4%	-5.2%
Mining damage	7,907	8,497	8,145	3.0%	-4.1%
Provision for ZUS claims for accident insurance contribution	18,066	18,727	19,383	7.3%	3.5%
Other	25,635	29,907	12,230	-52.3%	-59.1%
TOTAL	**435,042**	**462,728**	**452,010**	**3.9%**	**-2.3%**

The total provisions as at 30 June 2015 amounted to PLN 452,010,000, which means a drop by 2.3% compared to the value as at the end of 2015 and an increase by 3.9% in relation to the value as at 30 June 2015.

Compared to 31 December 2015, the employee provisions increased by 3.7% and as at 30 June 2016 amounted to PLN 260,767,000 - in relation to revaluation of provisions the value of provisions for coal allowance, long-service awards and provisions for pensions and retirements. At the same time the provision for an increase in the payroll fund was reduced.

Change in provisions

[PLN '000]	Change in Q2 2015	Change in Q2 2016	Change	Change in H1 2015	Change in H1 2016	Change
Employee provisions	-6,848	15,494	-	18,536	9,230	-50.2%
Provision for real property tax	2,703	2,125	-21.4%	2,132	4,219	97.9%
Provision for the mine closure costs and reclamation	-7,143	-7,627	6.8%	-10,801	-6,794	-37.1%
Mining damage	-586	-252	-57.0%	-1,248	-352	-71.8%
Provision for ZUS claims for accident insurance contribution	326	328	0.6%	2,165	656	-69.7%
Other	-1,899	-19,074	904.4%	340	-17,677	-
TOTAL	**-13,447**	**-9,006**	**-33.0%**	**11,124**	**-10,718**	**-**

Place where impact of the change in provisions is recognised in the consolidated financial statements

[PLN '000]	Change of provisions in Q2 2016	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Amount disclosed in Other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	15,494	27,383	1,456	-	-6,971	-6,374
Provision for real property tax	2,125	2,125	-	-	-	-
Provision for the mine closure costs and reclamation	-7,627	460	871	-8,958	-	-
Mining damage	-252	-	-	-	-	-252
Provision for ZUS claims for accident insurance contribution	328	-	328	-	-	-
Other	-19,074	-9,769	-6,379	-	-	-2,926
TOTAL	**-9,006**	**20,199**	**-3,724**	**-8,958**	**-6,971**	**-9,552**

[PLN '000]	Change of provisions in H1 2016	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Amount disclosed in Other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	9,230	27,601	2,911	-	9,637	-30,919
Provision for real property tax	4,219	4,219	-	-	-	-
Provision for the mine closure costs and reclamation	-6,794	1,064	1,742	-9,600	-	-
Mining damage	-352	-	-	-	-	-352
Provision for ZUS claims for accident insurance contribution	656	-	656	-	-	-
Other	-17,677	-8,587	-6,092	-	-	-2,998
TOTAL	**-10,718**	**24,297**	**-783**	**-9,600**	**9,637**	**-34,269**

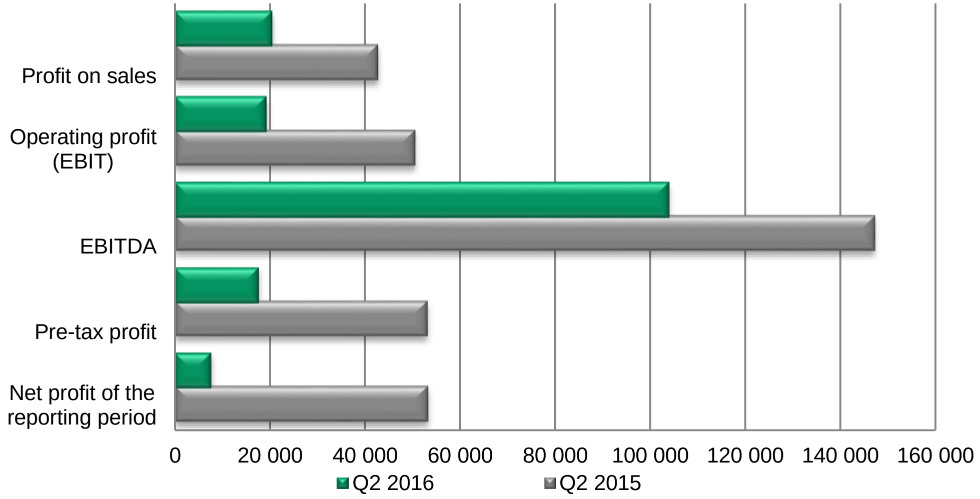
Financial highlights

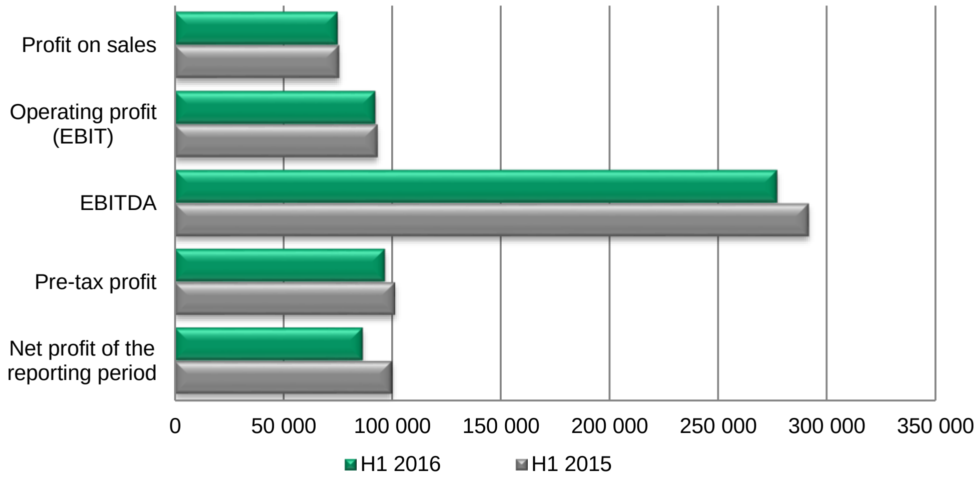
Selected financial data of the LW Bogdanka Group

Analysis of the consolidated income statement

[PLN '000]	Q2 2015	Q2 2016	Change	H1 2015	H1 2016	Change
Revenue	415,281	428,376	3.2%	843,560	848,945	0.6%
Costs of products, goods and materials sold as well as selling and administrative costs	361,988	420,654	16.2%	743,813	762,607	2.5%
Profit on sales	**53,293**	**7,722**	**-85.5%**	**99,747**	**86,338**	**-13.4%**
Gross sales margin	*12.8%*	*1.8%*	*-11.0 p.p.*	*11.8%*	*10.2%*	*-1.6 p.p.*
Other income	198	11,679	5,798.5%	2,016	12,738	531.8%
Other costs	115	825	617.4%	383	1,408	267.6%
Net operating profit	**53,376**	**18,576**	**-65.2%**	**101,380**	**97,668**	**-3.7%**
Other net profits/(losses)	-208	-896	330.8%	-60	-1,103	1,738.3%
Operating profit (EBIT)	**53,168**	**17,680**	**-66.7%**	**101,320**	**96,565**	**-4.7%**
EBIT margin	*12.8%*	*4.1%*	*-8.7 p.p.*	*12.0%*	*11.4%*	*-0.6 p.p.*
EBITDA	**147,392**	**104,034**	**-29.4%**	**291,787**	**277,379**	**-4.9%**
EBITDA margin	*35.5%*	*24.3%*	*-11.2 p.p.*	*34.6%*	*32.7%*	*-1.9 p.p.*
Finance income	1,756	8,655	392.9%	3,262	10,270	214.8%
Finance cost	4,322	7,039	62.9%	11,370	14,710	29.4%
Profit before taxation	**50,602**	**19,296**	**-61.9%**	**93,212**	**92,125**	**-1.2%**
Pre-tax profit margin	*12.2%*	*4.5%*	*-7.7 p.p.*	*11.0%*	*10.9%*	*-0.1 p.p.*
Income tax	7,794	-1,212	-115.6%	17,714	17,171	-3.1%
Net profit of the reporting period	**42,808**	**20,508**	**-52.1%**	**75,498**	**74,954**	**-0.7%**
Net sales margin	*10.3%*	*4.8%*	*-5.5 p.p.*	*8.9%*	*8.8%*	*-0.1 p.p.*

Analysis of the consolidated income statement on individual levels of the Group's operations





Financial highlights

Revenue
The value of revenue for Q2 2016 increased by 3.2% compared to the same period of the previous year, and amounted to PLN 428,376,000.
In the period between 1 January and 30 June 2016 the Group generated revenue in the amount of PLN 848,945,000 compared to PLN 843,560,000 in the same period of 2015.

Costs of products, goods and materials sold, selling costs, administrative costs
In the second quarter of 2016 the costs of products, goods and material sold plus selling and administrative costs went up by 16.2% compared by the same period of the previous year and amounted to PLN 420,654,000. In the first half of 2016 the discussed costs increased by 2.5% y/y.

Profit on sales
In Q2 2016, the LW Bogdanka Group's profit on sales decreased by 85.5% compared to Q2 2015. The Group generated profit in the amount of PLN 7,722,000. Profit on sales for H1 2016 of PLN 86,338,000 is lower than the result for H1 2015 by 13.4%.

Other income
In Q2 2016 other income amounted to PLN 11,679,000 compared to PLN 198,000 a year before. The increase is a result of a release of the provision for damages for Budimex following a ruling issued by the Court of Appeals, which was advantageous for the Parent.

Other costs and other net profits/losses
In Q2 2016 other operating cost amounted to PLN 825,000 compared to PLN 115,000 of the same period of 2015. In 2016 the Group paid higher damages and provided higher donations. Between January and June 2016 net losses amounted to PLN 1,103,000 compared to other net loss of PLN 60,000 incurred for the same period of the previous year.

EBIT
The operating profit in Q2 2016 amounted to PLN 17,680,000 and was lower by 66.7% compared to Q2 2015, whereas EBIT for Q2 2016 was be 4.1%, i.e. lower by 8.7 p.p. than in Q2 of the previous year. EBIT margin for the first half of 2016 was 11.4%, i.e. it was lower by 0.6 p.p. versus the same period of 2015.

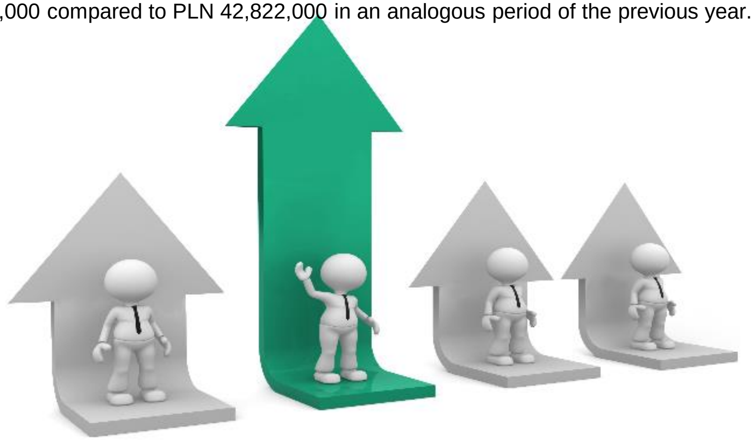
EBITDA
EBITDA in Q2 2016 dropped by 29.4% compared to Q2 2015 and amounted to PLN 104,034,000. EBITDA margin in Q2 2016 was 24.3% and was lower than in the same period of 2015.
In the first half of 2016, EBITDA amounted to PLN 277,379,000, and the Group achieved an EBITDA margin of 32.7%, i.e. 1.9 p.p. less year on year (while the EBITDA amount decreased in the analysed period by 4.9%).

Finance income
Finance income in Q2 2016 amounted to PLN 8,655,000. With respect to Q2 2015 an increase of 392.9% was recorded. The change is attributable to a release of a provision for claims of Budimex and higher interest income on bank deposits in relation to a higher average level of cash available in the LW Bogdanka Group.

Finance cost
In Q2 2016 finance cost was higher by 62.9% than the cost in the same period of 2015, and amounted to PLN 7,039,000. In the analysed period an average value of interest-bearing debt dropped, however the proportion of interest allocation changed significantly (to finance cost of the period and the costs related to outlays for construction in progress). The finance cost for 6 months of 2016 amounted to PLN 14,710,000 compared to PLN 11,370,000 in 2015 (increase by 29.4%).
The total debt of the Group amounted to PLN 624,846,000, including that of the Parent of PLN 600,040,000, as at 30 June 2016.

Profit before taxation
In Q2 2016 the LW Bogdanka Group generated pre-tax profit of PLN 19,296,000 compared to the generated profit of PLN 50,602 in Q2 2015 (-61.9%). Profit before taxation for the first half of 2016 amounted to PLN 92,125,000 against PLN 93,212,000 in the same period of 2015.

Net profit for the reporting period
In the second quarter of 2016 the Group generated net profit lower by 52.1% than in the second quarter of 2015 – it amounted to PLN 20,508,000 in 2016 compared to PLN 42,808,000 in 2015. The net profit for the first half of 2016 was PLN 75,954,000 compared to PLN 75,498,000 (a decrease by 0.7%).
In the analysed period the net profit for the reporting period attributable to owners of the Parent was PLN 20,357,000 compared to PLN 42,822,000 in an analogous period of the previous year.



Balance sheet

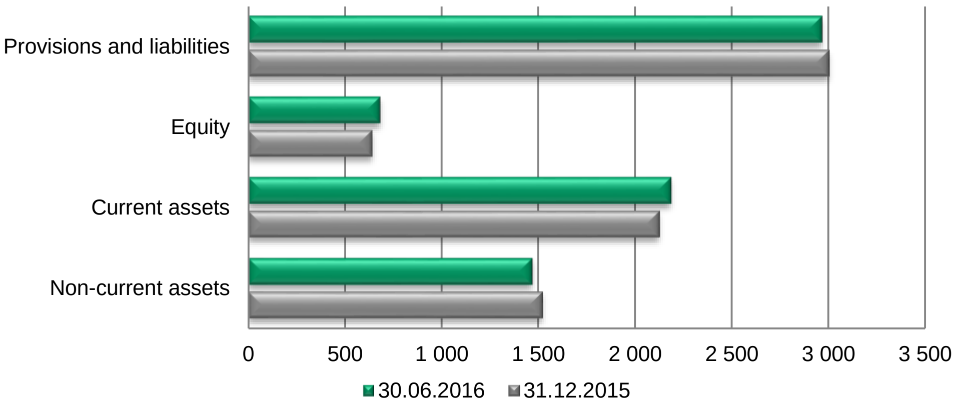
Balance sheet

Selected financial data

[PLN '000]	31 Dec. 2015	30 Jun. 2016	Change
Total assets	3,644,024	3,651,410	0.2%
ROA	-7.0%	-7.7%	-0.7 p.p.
Non-current assets	3,003,073	2,968,288	-1.2%
Current assets	640,951	683,122	6.6%
Equity	2,122,622	2,183,857	2.9%
ROE*	-12.0%	-13.0%	-1.0 p.p.
Provisions and liabilities	1,521,402	1,467,553	-3.5%

* the calculations include net result for the last 4 quarters and an average level of assets and equity (as at 30 June 2016 + as at 31 December 2015)/2 In Q4 2015 impairment loss for property, plant and equipment and intangible assets was made, which translated into a negative result of the Parent and the LW Bogdanka Group.

Analysis of the interim consolidated statement of financial position (PLN million)



Assets

The balance-sheet total as at 30 June 2016 went up to PLN 3,651,410,000 (i.e. by PLN 7,386,000) compared to the value as at 31 December 2015, with non-current assets going down by PLN 34,785,000 and current assets going up by PLN 42,171,000. Within current assets the value of inventories went down by 17.9%, trade and other receivables fell by 4.7%, while cash and cash equivalents went up by 27.8%.

As at 30 June 2016 ROA fell by 0.7 p.p. compared to 31 December 2015 and, as at the balance-sheet date, it was -7.7% (net result of the Group for last 4 quarters, i.e. the period from 1 July 2015 to 30 June 2016, was included in the calculations as at 30 June 2016).

Equity and liabilities

The equity went up by 2.9%. This is mainly a result of adding comprehensive net income for the last 6 months 2016 to equity.

Provisions and liabilities went down by 3.5% compared to the value as at 31 December 2015, with current liabilities going up by 1.4% (trade liabilities increased), while non-current liabilities dropped by 5.3% (including provisions for other for other liabilities and charges and liabilities on account of bond issue).

As at 30 June 2015, a decrease of 1 p.p. in return on equity compared to the end of 2015 was recorded. The ratio as at 30 June 2016 was -13.0% compared to -12.0% as at 31 December 2015.

Cash flow

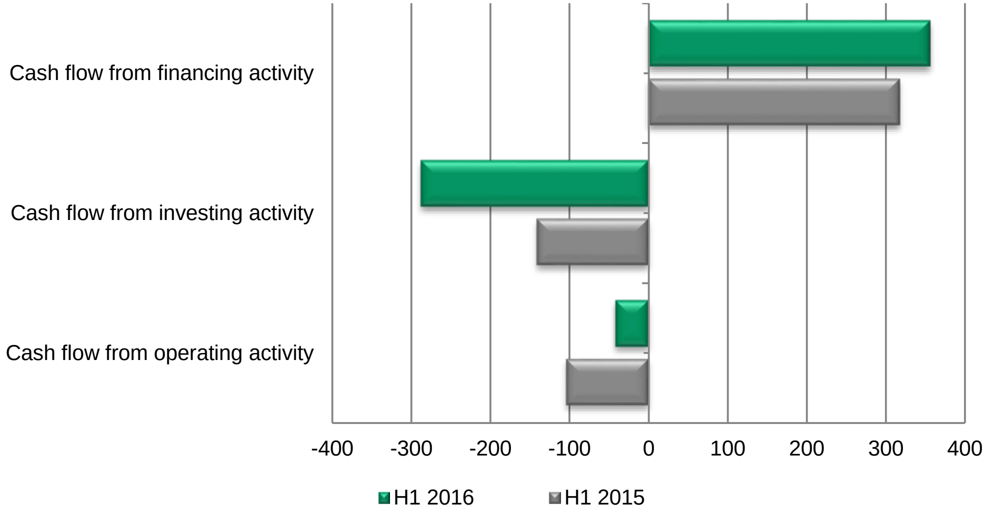
Cash flow

Annual consolidated cash flow

[PLN '000]	Q2 2015	Q2 2016	Change	H1 2015	H1 2016	Change
Cash flow from operating activity	184,754	159,100	-13.9%	356,835	317,885	-10.9%
Cash flow from investing activity	-158,966	-71,981	-54.7%	-288,171	-141,355	-50.9%
CFFO*	**25,788**	**87,119**	**237.8%**	**68,664**	**176,530**	**157.1%**
Cash flow from financing activity	-78,966	-104,407	32.2%	-41,609	-103,738	149.3%

*total cash flow from operating and investing activity

Analysis of the interim consolidated statement of cash flows (PLN million)



In Q2 2016 the Group generated net cash flow from operating activities lower by 13.9% than in Q2 2015 - in the period April-March 2016 it amounted to PLN 159,100,000 compared to PLN 184,754,000 a year before. During the first half the Group generated cash flow from operating activities of PLN 317,885,000 (-10.9% y/y).
Cash flow from investing activities decreased its value (in absolute values) in Q2 2016 by 54.7% (to PLN 71,981,000) relative to the analogous period of 2015. Cumulative for 6 months of 2016 cash flow from investing activity was lower by 50.9% from cash flow from the analogous period last year, and amounted to PLN 141,355,000.
In the period April-June 2016, the Group recorded negative cash flow from financing activities of PLN -104,407,000 (loans and borrowings worth PLN 759,000 were repaid, interest of PLN 3,648,000 was paid, and bonds worth PLN 100,000,000 were redeemed). In the period 1 April 2015 - 30 June 2015, the Group recorded negative cash flow from financing activities of PLN -78,966,000 (loans and borrowings worth PLN 76,912,000 were repaid and interest of PLN 2,054,000 was paid).

Debt and financing structure

Debt ratios

[PLN '000]	31 Dec. 2015	30 Jun. 2016	Change
Overall debt ratio	41.8%	40.2%	-1.6 p.p.
Ratio (debt plus employee liabilities)/EBITDA	1.42	1.32	-7.0%
Ratio net debt/EBITDA*	0.67	0.43	-35.8%
Debt to equity ratio	71.7%	67.2%	-4.5 p.p.
Fixed capital to non-current assets ratio	103.6%	105.1%	1.5 p.p.
Current debt ratio	11.1%	11.2%	0.1 p.p.
Non-current debt ratio	30.7%	29.0%	-1.7 p.p.

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

Overall debt ratio

The overall debt ratio as at 30 June 2016 went down by 1.6 p.p. compared to 31 December 2015 and reached 40.2% - the share of borrowed capital in the overall financing sources of the Group decreased. The level of the Group's debts as at 30 June 2016 did not pose any risk to the Group's operation and its ability to settle liabilities in a timely manner. The Group's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and a proper cash level.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q2 2016 dropped by 7.0% to 1.32. Comparing data as at 30 June 2016 and 31 December 2015, the level of debt dropped concurrently with the EBITDA value.

Ratio net debt/EBITDA

The ratio describing net debt (i.e. the total current and non-current liabilities less cash and equivalents) to EBITDA fell from 0.67 as at 31 December 2015 to 0.43 as at 30 June 2016. The value of debt dropped by ca. PLN 169 million with EBITDA increasing by ca. PLN 14 million (EBITDA cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 30 June 2016 decreased in relation to 31 December 2015 by 4.5 p.p. and was 67.2% - liabilities dropped by ca. PLN 54 million along with an increase in equity by ca. PLN 61 million.

Fixed capital to non-current assets ratio

The fixed capital to non–current assets ratio was 105.1% (as at 30 June 2016) compared to 103.6% (as at 31 December 2015) – in the analysed period the value of non-current assets dropped by PLN 35 million, while fixed capitals (equity plus non-current liabilities less provisions) increased by PLN 8.5 million.

Liquidity ratios

[days]	31 Dec. 2015	30 Jun. 2016	Change
Current liquidity ratio	2.0	2.0	0.0%
Quick liquidity ratio	1.7	1.8	5.9%

In the period covered by the consolidated financial statements, the liquidity ratios of the Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities.

Turnover ratios

Turnover ratios

[PLN '000]		31 Dec. 2015	30 Jun. 2016	Change
1. Inventory turnover	average inventories / costs of products, goods and materials sold	21	24	14.3%
2. Debtors collection rate*	average receivables / revenue	52	50	-3.8%
3. Creditors payment rate**	average liabilities / costs of products, goods and materials sold	64	73	14.1%
4. Operating cycle	1+2	73	74	1.4%
5. Cash conversion cycle	4-3	9	1	-88.9%

* Trade and other receivables
** Trade and other liabilities

Operating cycle
The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 74 days, compared to 73 days as at 31 December 2015. The time necessary for realising the Group's current assets got longer by 1 day on the average.

Cash conversion cycle
The consequence of the above trends, the cash conversion cycle as at 30 June 2016 was 1 day (as at 31 December 2015 – 9 days).

Inventory turnover
Compared to the rate as at 31 December 2015, the inventories turnover rate as at 30 June 2016 increased to 24 days, which is mainly a result of the cost of products, goods and materials sold going down.

Debtors collection rate
The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 50 days (as at 30 June 2016), compared to 52 days (as at 31 December 2015). The drop in the ratio's value is attributable to a lower average level of receivables.

Creditors payment rate
The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got longer by 9 days to ca. 73 days, as compared to the end of 2015. In the analysed period the Group had a lower average level of current trade liabilities.

Overview of significant off-balance sheet items of the LW Bogdanka Group in subjective, objective and value terms
In H1 2016 no material off-balance sheet items occurred.

Information on LW Bogdanka Group companies subject to consolidation
Subsidiaries: Łęczyńska Energetyka sp. z o.o., EkoTRANS Bogdanka sp. z o.o., RG Bogdanka sp. z o.o. and MR Bogdanka sp. z o.o. were included in the Consolidated Quarterly Report of LW Bogdanka Group for the first half of 2016 with the full consolidation method.

Investments and capital investments of LW Bogdanka Group
The value of cash held by the Group as at the end of June 2016 amounted to PLN 436,189,000, out of which the funds of PLN 410,162,000 belonged to the Parent. The amount PLN 436,189,000 includes:

- PLN 101,360,000 disclosed in non-current assets,
- PLN 334,829,000 disclosed in current assets.

The amount of PLN 101,360,000 covers assets accumulated by the Parent in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in a bank deposit).
The amount of PLN 334,829,000 includes financial resources (available cash) kept in short- and medium-term bank deposits (including overnight deposits) – the amount of deposited cash varies depending on internal income and expenditure forecasts. In accordance with the adopted Strategy, the Parent maintains the amount of available cash at the levels equal to the value of average monthly sales revenue (1/12 of forecast annual sales revenue). Financial resources gathered at the Parent amount to PLN 308,802,000, and in the Subsidiaries – PLN 26,027,000 (mainly attributable to Łęczyńska Energetyka).

Information on financial instruments, bonds

Information on derivative financial instruments

As at 30 June 2016, the Parent did not hold any open derivative financial instruments.

Bonds

LW Bogdanka S.A. has two bond issue schemes.
Under the first Scheme Agreement concluded by the Parent on 23 September 2013 with Bank Pekao S.A., bonds of the aggregate value of PLN 300,000,000 were issued by LW Bogdanka S.A. Interest on the bonds is based on WIBOR 3M plus a fixed margin.
Maturity dates of the bonds are as follows:

- PLN 75,000,000 - 30 March 2018
- PLN 75,000,000 - 30 June 2018
- PLN 75,000,000 - 30 September 2018
- PLN 75,000,000 - 30 December 2018

The second Scheme Agreement was concluded on 30 June 2014 with Bank Pekao S.A. and Bank Gospodarstwa Krajowego to a maximum amount of PLN 600,000,000 (two Tranches - 1 and 2, both worth PLN 300,000,000), and on 27 June 2016 amended with an annex under which, and in accordance with the Agreement, Series LWB02B300616 bonds with a total value of PLN 100,000,000 were redeemed. The redemption of Series LWB01B300616 bonds with a total value of PLN 300,000,000 was made through a roll-up, i.e. an issue of a new Series LWB01C300617 with a total value of PLN 300,000,000. The Period of Availability for Tranche 2 ended on 30 May 2016. The maturity date for Series LWB01C300617 bonds with a total value of PLN 300,000,000 falls on 30 June 2017.

Agreement date	Value of bonds acquired [PLN million]	Remaining value of bonds to be acquired [PLN million]	Remaining value to be repaid [PLN million]
23 September 2013	300	0	300
30 June 2014	300	0	300

PLN 75,000,000 - 30 June 2017 In accordance with the Agreement, the Company may issue further series of bonds within a given tranche in order to roll over the previous issue of this tranche. The Scheme is in effect until 31 December 2019. Interest on the bonds is based on WIBOR 3M plus a fixed margin.
As at 30 June 2016, under the two abovementioned agreements, bonds were issued with the total value amounting to PLN 600,000,000.

Use of proceeds from bond issue

In accordance with the Bond Issue Programme Agreements, the purpose of issue means refinancing of the Issuer's existing debt, financing the Issuer's day-to-day operations and investment needs (with the proviso that it does not constitute an issue purpose within the meaning of the Bonds Act).
The proceeds from the bond issue were used in compliance with the purpose of the issue. Investment projects carried out with the use of these proceeds are described on page 9 of the Report.

Assessment of the possibilities of executing investment plans

The structure of financing its property investment expenses will remain compliant with the adopted Strategy, i.e. they will be financed from own funds and the debt held (a loan and bonds). As at the date of this Report, the LW Bogdanka Group sees no threat as to the possibility of acquiring additional debt financing, but points out to the risk that the costs of its acquisition and servicing may be higher than those currently incurred.

Position of the Management Board of LW Bogdanka S.A. regarding the possibility of achieving previously published forecasts for the year in question, in light of the results presented in the consolidated quarterly report as compared to the forecast results.

The LW Bogdanka Group did not publish projections of financial results for 2016.

Proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority

As of the date of preparing the Directors' Report on Operations of the Group for H1 2016 LW Bogdanka and its subsidiaries were not parties to proceedings pending before a court, a relevant authority for arbitration proceedings or a public administration authority, concerning:

- liabilities or claims of LW Bogdanka S.A. or its Subsidiary worth at least 10% of LW Bogdanka S.A.'s equity,
- two or more proceedings concerning liabilities or claims worth a total of at least 10% of LW Bogdanka S.A.'s equity.

Rules governing the preparation of condensed interim financial statements

Condensed interim financial statements of LW Bogdanka S.A. and condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2016 were prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting"
The financial statements were prepared using the same accounting principles for the current and comparative periods.
The issue is discussed in more detail in Note 2, page 10, of the Financial Statements of the LW Bogdanka Group.

Agreements concerning the subsidiaries' loans and borrowings

In 2016 the Parent had one active loan agreement.

The Company started a procedure for the granting of a new current account overdraft.

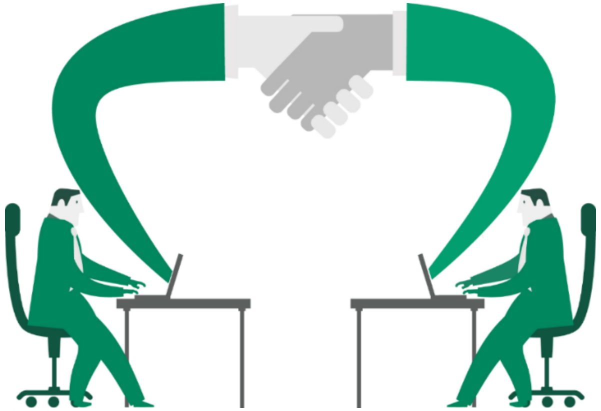
Start date	End date	Lender	Amount of loan granted [PLN '000]	Interest rate	Debt (loans) as at 31 December 2015 [PLN '000]	Repayment period
22 May 2014	22 May 2016	mBank S.A.	150,000	WIBOR 1M + margin	0	Overdraft

Information on loans granted
In H1 2016 the Group did not contract or grant any loans or terminate any agreements concerning loans.

Information on sureties and guarantees provided and received
In H1 2016 the Group did not grant (or receive) any sureties.

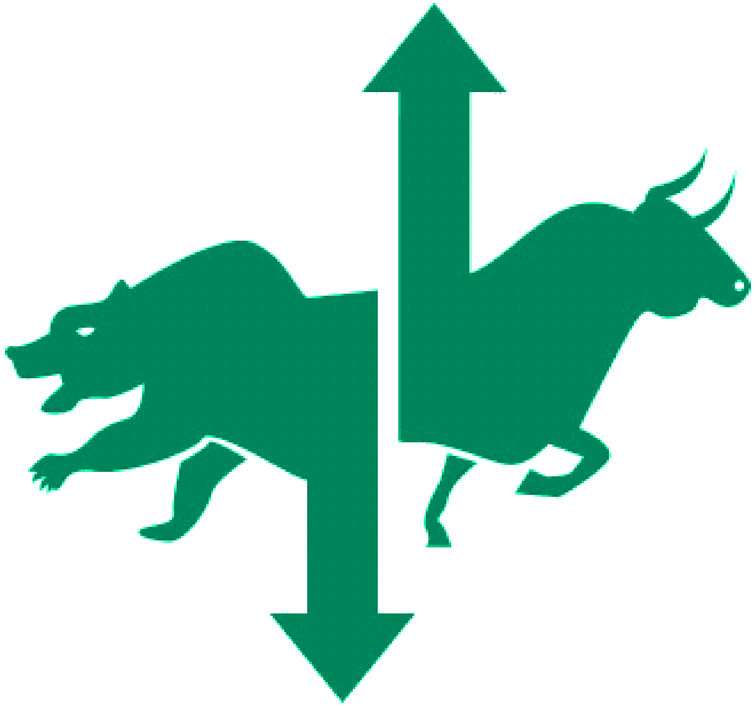
Guarantees granted by the LW Bogdanka Group
In H1 2016 the LW Bogdanka Group did not provide any guarantees.

Agreements concerning the Subsidiaries' loans and borrowings
In accordance with an agreement of 9 June 2014, Łęczyńska Energetyka sp. z o.o. was granted a loan (of PLN 26.580,000) by the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) in Lublin, which was allocated to financing the construction of the Water Treatment Station in Bogdanka for the purposes of the existing infrastructure. The loan bears interest of 0.7 of the rediscount rate set by the Monetary Policy Council, not less than 4% annually. 100% of the granted loan amount was used, and its repayment will be gradually performed until 31 July 2024.
In 2016 the Subsidiaries: EkoTrans Bogdanka sp. z o.o., RG Bogdanka sp. z o.o., MR Bogdanka sp. z o.o., did not grant, incur or terminate agreements regarding credit facilities and loans.



Guarantees received by the LW Bogdanka Group

Security receipt date	Security expiry date	Security provider	Agreement objective	Form of security	Amount of security
20 September 2012	30 September 2021	Bank PKO BP S.A.	to secure liabilities in connection with the payment of a fee for the use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits	bank guarantee	up to PLN 19,000,000
6 June 2013	30 September 2021	Bank PKO BP S.A.	to secure liabilities in connection with the payment of a fee for the use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits	bank guarantee	up to PLN 1,500,000
27 October 2015	31 January 2018	Bank PEKAO S.A.	to secure performance of an agreement with UTA Polska sp. z o.o.	bank guarantee	up to PLN 50,000



4. Shares and shareholding

Share capital structure and shareholding

Share capital structure

The Parent's share capital amounts to PLN 170,067,950 and is divided into 34,013,590 shares with a par value of PLN 5 per share.
On 4 January 2012, a total of 3,208,111 employee shares were introduced to the Warsaw Stock Exchange, and 34,754 employee shares were introduced on 4 February 2013. LW Bogdanka S.A.'s public float totals 34,013,455 shares. As at the date of publishing this Report, the remaining 135 shares are registered shares.
The total number of votes resulting from all of the issued shares of the Issuer corresponds to the number of shares and equals 34,013,590 votes.
At present, LW Bogdanka S.A. is a private company. The Company has a strategic majority shareholder. The majority shareholder is the Enea Group which holds a majority block of shares which accounts for 66% of the shares in LW Bogdanka S.A. (the majority shareholder's block of shares totals 22,448,834 shares, which corresponds to a nominal value of PLN 112,244,170). Other shareholders of the Company are mainly institutional investors in the form of pension funds.

Treasury shares

In H1 2016 LW Bogdanka S.A. and Subsidiaries of the LW Bogdanka Group did not acquire any treasury shares of the Parent.

Changes in the shareholding structure by the date of the Report

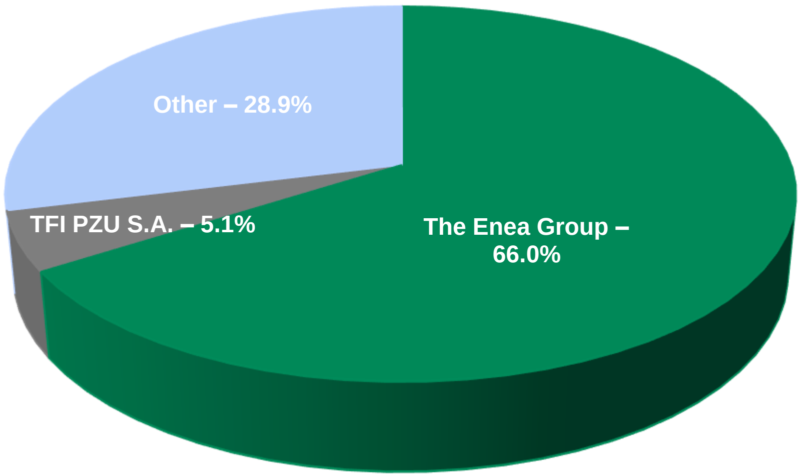
On 9 August 2016, the Parent was informed that the TFI PZU S.A. investment funds increased their share in the total vote at the Company's General Shareholders Meeting to exceed 5%. Apart from that, the Company is not aware of any changes in the structure of major shareholders of theParent since the date of publishing the Consolidated Quarterly Report for Q1 2016.

Shareholding structure

The table below shows a shareholding structure of LW Bogdanka S.A. as at 30 June 2016 and as the date of publishing this Report, i.e. 26 August 2016.

Shareholder	Number of shares/ number of votes at the Shareholders Meeting	Share capital interest/ interest in the total number of votes
The Enea Group	22,448,834	66.0%
TFI PZU S.A.	1,750,033	5.1%
Other	9,814,723	28.9%
TOTAL	**34,013,590**	**100.0%**

Shareholding of LW Bogdanka S.A.
as at 30 June 2016 and as at 26 August 2016



Participation of the LW Bogdanka's shares in indices

The Parent was first listed on the Warsaw Stock exchange on 25 June 2009. In H1 2016, LW Bogdanka S.A. formed part of the following indices:

- WIG – includes all companies listed on the WSE Main Market that meet the baseline criteria of the participation in indices;
- WIG30 – includes the 30 largest companies listed on the WSE Main Market;
- mWIG40 – includes 40 medium-sized companies listed on the WSE Main Market. The Company has been present in this index since 18 December 2015;
- WIG Surowce – includes companies classified into the "Raw Materials" sector;
- WIG-Poland – includes only the shares of domestic companies listed on the WSE Main Market that meet the baseline criteria of participation in indices;
- WIGdiv – includes 30 companies that are in the top 150 in the index ranking (prepared on the basis of Resolution No. 871/2013 of the WSE Management Board, as amended) and show the highest dividend yield at the end of November each year and have paid dividends at least three times in the last 5 financial years;
- Respect Index – index of socially responsible companies.

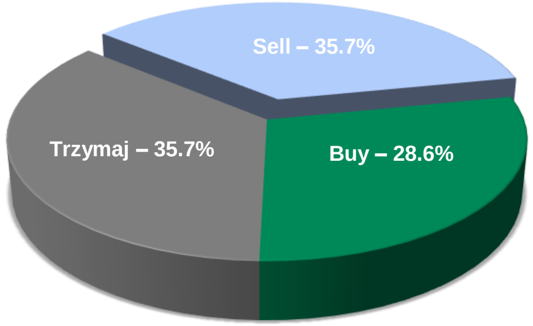
Analysts' recommendations and price performance of the shares

Analysts' recommendations issued for LW Bogdanka S.A. in 2016

Date of Issue	Institution	Recommendation	Target price	Price on the date of issue
5 January	BDM DM	Buy	PLN 39.80	PLN 32.55
26 January	BZ WBK	Sell	PLN 16.30	PLN 33.03
2 February	Societe Generale	Hold	PLN 34.40	PLN 31.90
31 March	PEKAO Investment Banking	Hold	PLN 41.70	PLN 38.35
11 April	PKO BP	Hold	PLN 39.00	PLN 37.00
13 April	BZ WBK	Sell	PLN 17.80	PLN 37.60
20 April	DM Trigon	Buy	PLN 49.00	PLN 37.10
20 April	Haitong Research	Sell	PLN 35.90	PLN 44.50
5 May	BOŚ DM	Buy	PLN 41.70	PLN 38.35
16 May	PEKAO Investment Banking	Hold	PLN 61.00	PLN 43.80
23 May	Societe Generale	Hold	PLN 44.70	PLN 39.70
19 July	BOŚ DM	Buy	PLN 65.90	PLN 46.00
26 July	Haitong Research	Sell	PLN 38.18	PLN 52.03
3 August	mBank DM	Sell	PLN 33.00	PLN 52.00

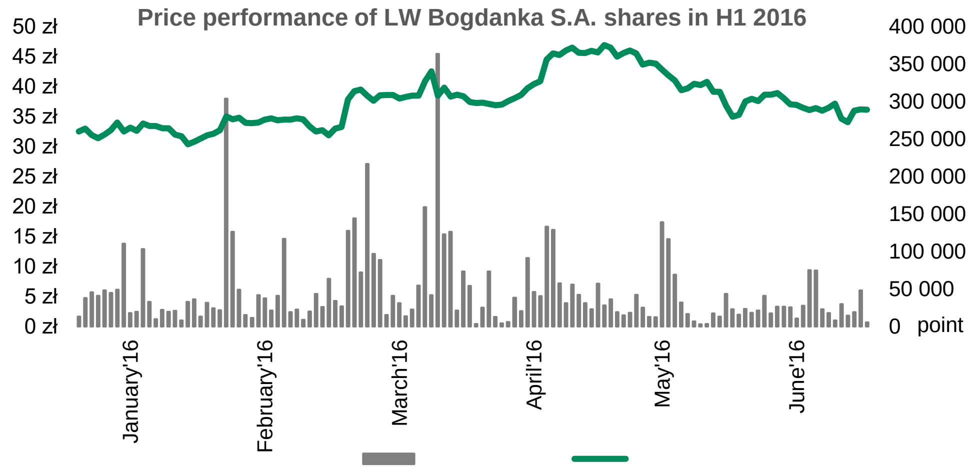
In 2016 almost 65% of analysts recommended ”BUY” or ”HOLD” shares of LW Bogdanka S.A.

Recommendations issued for LW Bogdanka S.A.
from 1 January 2016 until 26 August 2016



Participation of the Parent's shares in indices as at 26 August 2016

WIG30	mWIG40	WIG surowce	WIG Poland	InvestorMS	RESPECT Index
0.37%	1.10%	4.93%	0.25%	0.77%	0.82%



Key share indicators:	H1 2016
Maximum price [PLN]	46.90
Minimum price [PLN]	30.39
Last price [PLN]	36.14
Average price [PLN]	37.53
Capitalisation at end of period [PLN million]	1,233.80
Book value [PLN million]	2,183.86
Price/earnings ratio	16.46
Price/book value	0.57
Average volume per session	47,742
Number of shares in trading [no. of shares]	34,013,590

Holdings of shares in LW Bogdanka S.A. by members of the Company's bodies

Holdings of shares in LW Bogdanka S.A. as well as shares in related entities of the Company by the management and supervision personnel of LW Bogdanka S.A.

The table below presents the total number and nominal value of shares in LW Bogdanka S.A. as well as shares in related entities of LW Bogdanka S.A. held by the management and supervision personnel of LW Bogdanka S.A., as of the date of submitting the Report and as of the date of publishing the previous interim report:

MANAGEMENT BOARD					
Name and surname	Number of the Company's shares as at 26 August 2016	Nominal value of the shares (PLN)	Number of the Company's shares as at 16 May 2016	Nominal value of the shares (PLN)	Number of shares in Subsidiaries
Krzysztof Szlaga	0	0	0	0	0
Stanisław Misterek	247	1,235	247	1,235	0
Adam Partyka	253	1,265	253	1,265	0
Sławomir Karlikowski	0	0	-	-	0
Marcin Kapkowski	0	0	-	-	0
SUPERVISORY BOARD					
Name and surname	Number of the Company's shares as at 26 August 2016	Nominal value of the shares (PLN)	Number of the Company's shares as at 16 May 2016	Nominal value of the shares (PLN)	Number of shares in Subsidiaries
Szymon Jankowski	0	0	0	0	0
Magdalena Kaczmarek	0	0	0	0	0
Mirosław Kowalik	0	0	0	0	0
Przemysław Krasadomski	0	0	0	0	0
Wiesław Piosik	0	0	0	0	0
Michał Stopyra	0	0	0	0	0
TOTAL	Number of the Company's shares as at 26 August 2016	Nominal value of the shares (PLN)	Number of the Company's shares as at 16 May 2016	Nominal value of the shares (PLN)	Number of shares in Subsidiaries
	500	2,500	500	2,500	0

*According to declarations of Management Board and the Supervisory Board Members of the Parent

Shares in related entities of the Company

Management Board and Supervisory Board Members do not hold shares in the Subsidiaries:

- Łęczyńska Energetyka sp. z o.o.
- EkoTRANS Bogdanka sp. z o.o.
- RG Bogdanka sp. z o.o.
- MR Bogdanka sp. z o.o.

Potential changes in the shareholding structure

On 4 July 2013, as part of the introduction of the Management Options Scheme at the Company, the Annual General Shareholders Meeting of LW Bogdanka S.A. adopted Resolution No. 26 on the issue of up to 1,360,540 registered series A subscription warrants.

Apart from the above mentioned scheme, the Parent is not aware of any agreements or events that would result in future changes in the proportion of shares held by the existing Shareholders.

5. Governing Bodies

Management Board of the Parent

Krzysztof Szlaga

President of the Management Board

Mr Krzysztof Szlaga has a university degree in economics. In 2001, he graduated from the University of Economics in Kraków, Faculty of Finance and Banking with an MA degree, as well as a Diplom-Betriebswirt degree given by the University of Applied Sciences in Kiel (Germany), the Faculty of Economics. He has gained his professional experience while working for international enterprises. Since the beginning of his career, he has concentrated on capital intensive industries. Since 2001 Mr Krzysztof Szlaga was with KPMG Deutsche Treuhand-Gesellschaft, as Audit Senior at the Assurance Commercial Clients Department. In 2004 he joined Ernst & Young Audit Spółka z o.o. as Audit Senior at the Assurance and Business Services Department. In 2005÷2008 he worked as Project Manager at the Restructuring/Operational Excellence and Corporate Finance at Roland Berger Strategy Consultants Spółka z o.o. In 2008÷2010 he held the position of the Member of the Management Board, Supply Chain Management Director at CTL Logistics S.A. In 2010÷2012 he was a Supply Chain Management Director at Ruch S.A. He has been related to LW Bogdanka since 2013. He held the position of the Vice-President of the Management Board, Procurement and Investments. On 1 April 2016, he became the President of the Management Board of LW Bogdanka S.A. Mr Krzysztof Szlaga has many years of experience in conducting complex restructuring processes in the heavy industry. He is fluent in German and English.

Stanisław Misterek

Vice-President of the Management Board, Economic and Financial Affairs

Graduate of MA studies at the Faculty of Economics of the University of Maria Curie-Skłodowska in Lublin, post-graduate studies in the field of European Accounting and Financial Standards at the Warsaw School of Economics (SGH), post-graduate studies in the field of Public Procurement at the European University of Law and Administration in Warsaw as well as post-graduate studies in the field of International Accounting Standards / International Financial Reporting Standards at the University College of Enterprise and Administration in Lublin. He has completed numerous training courses on finance management and accounting. He is a professional accountant and certified as a Chartered Accountant. Mr Stanisław Misterek has been related to the mining and power industry for thirty-seven years. He has maintained his ties with the Lublin Coal Basin since 1979. Since 1990 he has held key positons in the LW Bogdanka Group. During that time, he gained experience in managing a company from the mining and power industry, with particular focus on managing its financial affairs. From May 2008 to January 2016, he was responsible for the finances of Łęczyńska Energetyka Sp. z o.o. On 1 April, he took up the post as the Vice-President of the Management Board, Economic and Financial Affairs at LW Bogdanka S.A.

Adam Partyka

Vice-President of the Management Board, Employee and Social Affairs.

He obtained an M.Sc. degree from the Lublin University of Technology where he studied computer science application in engineering. He also completed post-graduate studies at the University College of Enterprise and Administration in Lublin with major in finance and accounting. He has completed a number of training courses in the following fields: audit, responsibility and competence of management personnel, finance for managers, as well as courses for members of management boards and supervisory boards of companies. He has been related to LW Bogdanka since 1985. Since June 2014 he has held the position of the Deputy Chairman of the “Solidarity” Trade Union. In 2007÷2014 he worked as shift foreman of electrical devices underground. In 2006÷2012 he was a member of the Supervisory Board of LW Bogdanka S.A. On 1 April he became Vice-President of the Management Board, Employee and Social Affairs.

Sławomir Karlikowski

Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility

Sławomir Karlikowski graduated in 1991 from the Faculty of Mining and Geology at AGH University of Science and Technology with a M.Sc. Eng. degree, specialising in Mining Constructions and Designing. He also completed post-graduate studies in Management in Mining Industry, and Management and Marketing. Sławomir Karlikowski has been with Lubelski Węgiel Bogdanka since 1991. Since 1992, he performed underground executive functions. As of 2007, he held senior managerial posts just to take the position of the Chief Engineer (later: Production Director) - Head of Mining Supervision in Mining Facility in 2013, which he has held until now.

Marcin Kapkowski

Vice-President of the Management Board, Procurement and Investments

Marcin Kapkowski is an automation engineer by trade. In 2001, he graduated from the Faculty of Electrical Engineering at the Technical University of Częstochowa. In the last 15 years, he has attended and completed numerous courses and business trainings. Marcin Kapkowski worked with SANDVIK international engineering group for 15 years. As an employee of the group, he has explored various industry branches, from steel to engineering, and for the last 3 years also the mining one. In the Polish office, he acted as the Managing Director and a member of the Management Board. He has gained previous experience in multiple business areas and, having operated on almost all continents, has developed business contacts on the global market. From 2007 to 2013, he was responsible for creating and implementing business strategies at the Wire and Heating Technology division. He has performed and participated in many optimisation and restructuring processes in the field of sales, purchases, production, and product range management. Marcin Kapkowski has a good command of English.

GOVERNING BODIES OF THE LW BOGDANKA GROUP

Changes in the Management Board and Supervisory Board of the Parent in 2016

Date	Changes in the Management Board of LW Bogdanka S.A.
24 March 2016	The Supervisory Board of LW Bogdanka S.A. removed from the Management Board of LW Bogdanka S.A.: • Zbigniew Stopa – President of the Management Board • Waldemar Bernaciak - Vice-President of the Management Board, Trade and Logistics • Piotr Janicki - Vice-President of the Management Board, Economic and Financial Affairs • Jakub Stęchły - Vice-President of the Management Board, Procurement and Investments. The Supervisory Board of LW Bogdanka S.A. appointed to the Management Board of LW Bogdanka S.A.: • Krzysztof Szlaga – President of the Management Board • Stanisław Misterek – Vice-President of the Management Board, Economic and Financial Affairs • Adam Partyka – Vice-President of the Management Board, Employee and Social Affairs.
13 May 2016	The Supervisory Board of LW Bogdanka S.A. appointed to the Management Board of LW Bogdanka S.A.: • Sławomir Karlikowski - Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility • Marcin Kapkowski - Vice-President of the Management Board, Procurement and Investments.

Date	Changes in the Supervisory Board of LW Bogdanka S.A.
14 January 2016	Dalida Gepfert resigned from her function at the Supervisory Board of LW Bogdanka.
23 February 2016	The Extraordinary General Shareholders Meeting removed the following persons: • Bartosz Krysta • Krzysztof Matan The Extraordinary General Shareholders Meeting appointed to the Supervisory Board the following four persons, each for an individual term of office of three years: • Szymon Jankowski • Mirosław Kowalik • Przemysław Krasadomski • Wiesław Piosik

Supervisory Board of the Parent as at 26 August 2016

Szymon Jankowski

Secretary of the Supervisory Board

Appointed on: 23 February 2016

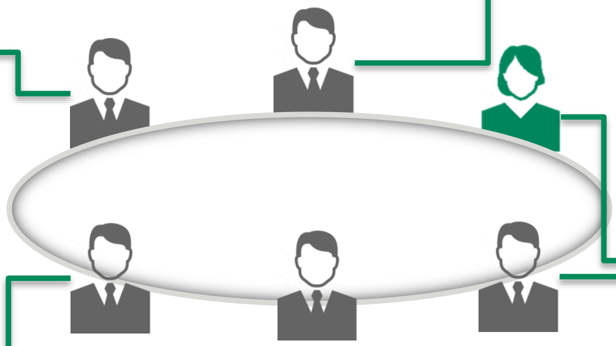
Szymon Jankowski graduated from the Academy of Economics in Poznań (currently Poznań University of Economics), where he completed studies in management and marketing at the Faculty of Management. He is also a graduate of post-graduate studies at the Poznań University of Economics in commercial law, as well as post-graduate studies at the WSB University in Poznań in renewable energy sources. He further developed his qualifications through training courses in corporate governance and corporate financial analysis. He also successfully completed a course for candidates for members of Supervisory Boards in State Treasury companies, and obtained the relevant diploma.

Szymon Jankowski has been present in the professional power sector for more than 21 years. He started his career in 1994 in Rejon Dystrybucji Leszno (Leszno Distribution Region) owned by Energetyka Poznańska S.A., and worked there until 1999 as the head of finance and accounting team. Since 1999 until now, he has worked in various corporate governance positions within the ENEA Group, recently as the Corporate Governance Coordinator.

He has seated in Supervisory Boards in such companies as ENEA Operator Sp. z o.o., ENEA Centrum Sp. z o.o., BHU S.A., Energetyka Poznańska Zakład Transportu Sp. z o.o., and ITSERWIS Sp. z o.o.

17% - independent members in the Supervisory Board of LWB

17% - women in the Supervisory Board of LWB



Wiesław Piosik

Deputy Chairman of the Supervisory Board

Appointed on: 23 February 2016

Wiesław Piosik has been present in the professional power sector for more than 30 years. Recently he has managed private enterprises operating in Energy distribution, grid design and grid performing as well as renewable energy sectors. In 1998-2005 he was a member, and subsequently the President of the Management Board of Energetyka Poznańska S.A. (currently: Enea S.A.), and in 2007-2009 he was the President of the Management Board of Polenergia Dystrybucja sp. z o.o. Wiesław Piosik has extensive experience in supervising companies in the fuel and energy sector, as well as in the banking and IT sectors. He seated in the Supervisory Boards of such companies as Kompania Węglowa S.A., CIECH S.A., Exatel S.A. and LG Petro Bank. On 7 January 2016 he was appointed to the position of the Vice-President of the Management Board of Enea S.A., Corporate Affairs.

Wiesław Piosik is a graduate of the Poznań University of Technology where he completed studies at the Faculty of Electrical Engineering with major in electrotechnology and specialism in electrical power engineering. He has also completed post-graduate studies at the Poznań University of Technology with major in electrical power engineering systems and networks in the process of transition to a market-based economy, as well as post graduate studies in marketing at the Academy of Economics in Poznań (currently Poznań University of Economics). He further developed his qualifications by attending a number of training courses in management.

Magdalena Kaczmarek

Member of the Supervisory Board

Appointed on: 16 November 2015

Magdalena Kaczmarek – Director of Controlling Department at Enea S.A. She has extensive experience on management positions in controlling and accounting departments in power and services sectors. She graduated from the Faculty of Law at the Adam Mickiewicz University in Poznań.

Przemysław Krasadomski

Member of the Supervisory Board

Appointed on: 23 February 2016

Przemysław Krasadomski graduated from the Adam Mickiewicz University in Poznań, where he completed studies in law at the Faculty of Law and Administration. He also completed training for legal advisors at the District Chamber of Legal Advisors in Poznań, and was entered in the register of legal advisors kept by the Council of the District Chamber of Legal Advisors in Poznań. In 2002, he successfully completed a course for candidates for members of Supervisory Boards in State Treasury companies, and obtained the relevant diploma.

He has worked for ENEA since 2008; starting as a legal advisor in the Corporate Department. At present, he is employed in the position of legal advisor at ENEA S.A. and Manager of Ongoing Legal Services Office of ENEA Centrum. Since 19 February 2016, he has worked as acting Director of Legal Department at ENEA Centrum. Earlier, he worked for gas companies in a legal advisory capacity.

He is experienced in supervising companies. He has seated in the Supervisory Boards of such companies as PFK S.A. in liquidation, EP BUT S.A. and ENEA Centrum Sp. z o.o.

Mirosław Kowalik

Chairman of the Supervisory Board

Appointed on: 23 February 2016

Mirosław Kowalik has been present in the energy sector for more than 20 years. He has held management positions on operational and strategic levels. In 2015, he managed SNC Lavalin Sp. z o.o. Polska as a Vice-President of the Management Board and Director for Business Development. Between 1999 and 2015, he held various managerial positions within the ALSTOM Power Group, including his most recent role as the Sales and Marketing Director. Between 1995 and 1998, he worked for ABB. On 7 January he was appointed to the position of the President of the Management Board of Enea S.A.

Mirosław Kowalik is a graduate of the Faculty of Electrical Engineering at the Gdynia Maritime University. He completed MBA studies in management (programme of the Rotterdam School of Management in cooperation with the University of Gdańsk and the Gdańsk Foundation for Management Development), and was given the title of Executive Master of Business Administration. He has also completed post-graduate studies in corporate finance management at the Warsaw School of Economics. He is currently pursuing the Executive Doctor of Business Administration programme at the Institute of Economics of the Polish Academy of Sciences.

Michał Stopyra

Member of the Supervisory Board

Appointed on: 18 June 2015

Michał Stopyra graduated from the AGH University of Science and Technology, where he completed studies at the Mining Faculty with specialism in Underground Mining and obtained the degree of Doctor of Engineering. He started his professional career in mines in Poland and Norway, which was then followed by scientific work at the Mining Faculty of the AGH University of Science and Technology. Michał Stopyra since 1993 has been involved in consulting activity focused on industrial cooperation. His career included such positions as an expert at the Provincial Mining Authority, consultant to mining equipment manufacturers as well as mining works manager in domestic and international projects (Germany, Czech Republic, Spain, Columbia, Russia).

In 2000-2012 Michał Stopyra was a member of the Supervisory Board in TEGONA S.A. in Katowice. From 2013, he has been acting as a member of the Supervisory Board of LW Bogdanka S.A.

Glossary

GLOSSARY

- **fairness opinion** – a report from the valuation of a business, a statement certifying that the price of a given transaction is fair
- **EBIT** – earnings before interest and taxes
- **EBITDA** – earnings before interest, taxes, depreciation and amortization
- **Respect Index** – an index of socially responsible companies
- **CSR** – corporate social responsibility
- **IFRS** – International Financial Reporting Standards
- **Audit Committee** – a team within the Supervisory Board responsible for overseeing the company’s financial reporting
- **PGG** - Polska Grupa Górnicza (Polish Mining Group)
- **gross margin on sales** – the rate of return on sales calculated by dividing the profit by the volume of sales
- **EBITDA margin** – operating profit plus depreciation and amortization to total revenue
- **EBIT margin** – ratio of EBIT calculated for a period and the revenue from the sales of the period
- **gross margin** – ratio of gross profit (before taxes) and net sales
- **net margin** – ratio of net profit and net sales
- **return on assets (ROA)** – ratio of a company’s net profit to the value of its assets
- **return on equity (ROE)** – ratio of net profit to equity
- **debt ratio** – ratio of total liabilities to total assets
- **debt to equity ratio** – ratio of total liabilities to equity
- **non-current assets to equity ratio** – ratio of the sum of equity, non-current liabilities, non-current accruals and non-current assets
- **current debt ratio** - ratio of current debt to total assets
- **non-current debt ratio** – ratio of non-current liabilities to equity
- **current liquidity ratio** – ratio of current assets and current liabilities
- **quick liquidity ratio** – define a company’s ability to meet its short-term obligations with its most liquid assets

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SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Krzysztof Szlaga	President of the Management Board
Stanisław Misterek	Vice-President of the Management Board, Economic and Financial Affairs
Adam Partyka	Vice-President of the Management Board, Employee and Social Affairs
Sławomir Karlikowski	Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility
Marcin Kapkowski	Vice-President of the Management Board, Procurement and Investments

Bogdanka, 25 August 2016

Thank you!