



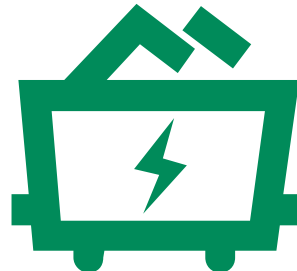
Directors' Report on Operations Lubelski Węgiel Bogdanka in 2016

Bogdanka, 30 March 2017



13.2%

Share in the hard coal market in Poland



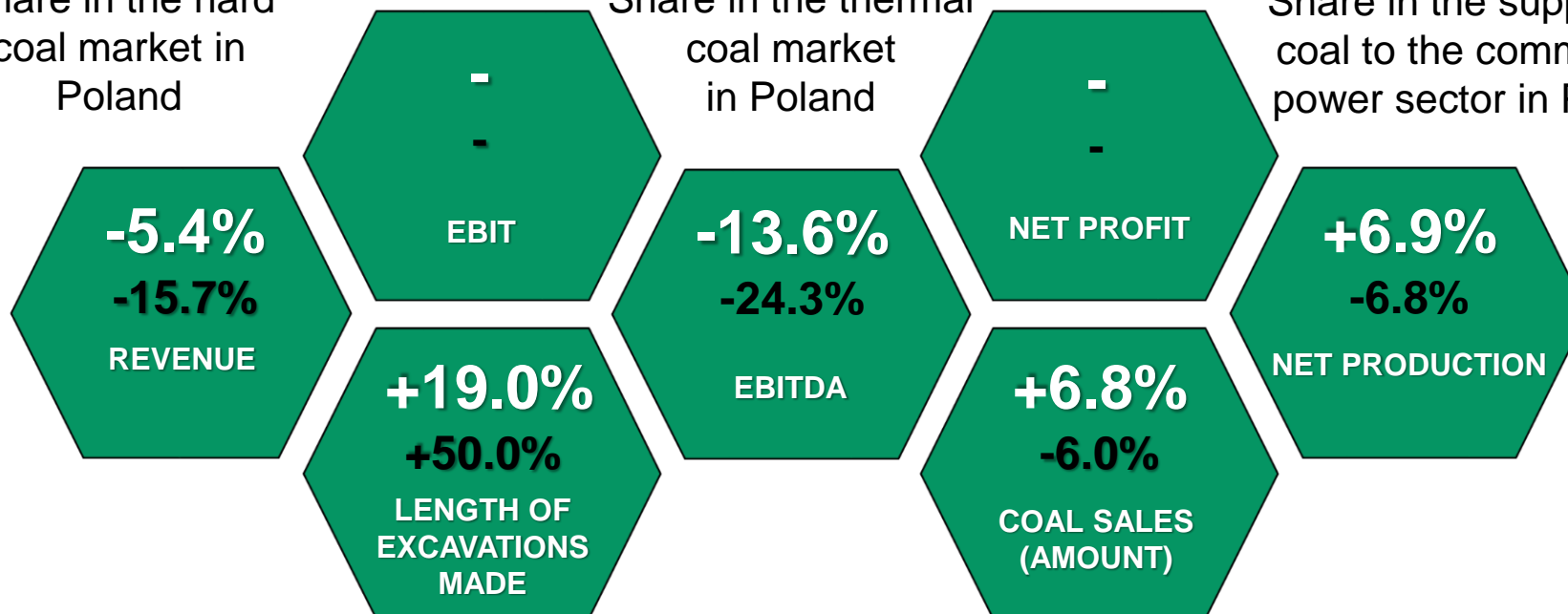
15.9%

Share in the thermal coal market in Poland



25.4%

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



□ Change 2016 / 2015

■ Change Q4 2016 / Q4 2015

[PLN '000]	Q4 2015	Q4 2016	2015	2016
EBIT	-501,470	81,424	-328,502	225,809
Net profit/(loss)	-412,297	61,392	-278,029	175,896



Dear Sirs and Madams,

It is my pleasure to present to you the annual report of LW Bogdanka S.A. for 2016.

It was the first full year in which we operated as a member of the Enea Group. During that period we developed a number of synergies related to such areas as the logistics involved with deliveries to our main customer. This has allowed us to further improve our cost efficiency, which has for many years now remained the highest in the industry.

Yet another important achievement of the last year is a significant improvement in the long-term safety of extraction in Bogdanka. We made it possible by signing important annexes to agreements with our key customers in the second half of the year. The first annex was signed with the Enea Group. It extended our mutual agreement to 20 years. Within the first 10 years of the contract, Bogdanka will supply five million tonnes of coal per annum to Enea. The second one is a five-year contract concluded with the Polaniec Power Plant. The third one is a contract with Grupa Azoty Zakłady Azotowe Puławy, which has been extended until 2021. We also concluded an annex with ENERGA Elektrownie Ostrołęka to extend the term of the agreement by the end of 2019. As a result, we began the new year with a sound basis for long-term planning of production, employment, and preparatory works. This, in turn, will make it easier for us to control the costs, which has always been a matter of particular importance for our Company.

The operations carried out in 2016 are reflected in higher extraction and higher sales volumes that reached 9.0 million tonnes and 9.1 million tonnes, respectively. Therefore our market position has been strengthened – at the end of 2016 the Company's share in the market of thermal coal sales reached 15.9%, and in the market of thermal coal sales to commercial power plants accounted for 25.4%. That means that the Company has come back to levels similar to those achieved in 2014, in the aftermath of the turbulence on the Polish coal market in 2015.

The performed extraction and sales translated into robust financial results, which is the best proof that Bogdanka once again outperformed Poland's mining sector. Our revenue amounted to PLN 1.8 billion, EBIT reached PLN 225.8 million, EBITDA - PLN 586.1 million, and net profit was PLN 175.9 million. EBITDA in 2016 remained at an above-average level of 32.9% in relation to other operators in the world's mining industry.

We are proud of our last year's performance, all the more so, as we achieved it in a challenging market environment. The last year, just as the year before, was a difficult time for the mining industry. It was a year characterised by oversupply of coal and declines in coal prices on the Polish market. The coal prices rebounded on global markets in the second half of the year, but that increase has not yet significantly affected the situation on the Polish market. Nevertheless, it was a positive signal for our industry.

Good operating and financial results are achieved with high business social responsibility standards being kept at the same time, which for years has been an integral part of Bogdanka's development strategy.

This has been appreciated, and our Company was included, for the 7th time, to the prestigious RESPECT Index comprising companies listed on the WSE's main floor, which to a highest degree satisfy the requirements regarding the respect for the natural environment, actions for the benefit of development and safety of employees and local communities, as well as corporate governance, information governance, and investor relations.

Furthermore, our Integrated Report for 2015 was received with appreciation and was granted the Main Award and the Award of the Minister of Economic Development in the 10th edition of the Contest for Social Reports organised by the Responsible Business Forum and Deloitte. Our Company was awarded the first prize in the "Industry" category of the Wprost Innovators 2016, the 6th edition of the contest for the most innovative entrepreneurs in Poland. We also received the title of the "Leader of Safety in Industry" during the 4th International Risk Engineering Days Conference, organised by the PZU Group. This distinction is granted every year to companies, enterprises and institutions in Poland in recognition of their achievements and innovative solutions in the area of ensuring safety in industry.

Both social responsibility and innovativeness have been a vital component of Bogdanka's strategy for many years now. This is also reflected in the development strategy of LW Bogdanka S.A. - Mining Area of the Enea Group until 2025, under the 2030 framework, which we published this year in February.

The key pillars of our strategy include an active utilisation of synergies in the Koziernice-Bogdanka-Polaniec mining and power generation area, undertaking and completing an array of strategic initiatives, and efforts to double our exploitable resources, primarily based on the acquisition of mining licence for the Ludwin (Ostrów) deposit. According to our estimates, the exploitable resources in that deposit amount to about PLN 186 million. This means the mine will be able to continue its operations for about 50 years (compared to the presently expected life span of 25 years).

As far as the extraction level is concerned, bearing in mind the changing market conditions in our industry, in our strategy we have prepared both a baseline scenario, which assumes production at the average annual level of about 8.5 million tonnes over 2017-2025, and a flexible development scenario, with the average annual production of about 9.2 million tonnes in the same period. Taking into account the current and expected market situation, the Company wants to implement the flexible development scenario.

We continue to support innovativeness and we intend to retain our position of the efficiency and innovation leader in the mining sector, also by continuing our "Smart Mine" programme or by implementing initiatives to ensure a more effective management of waste rock or the utilisation of our high-performance face complex. We also plan to prepare, jointly with the Enea Group, a feasibility study of construction of an integrated gasification combined cycle (IGCC) system which is to provide fuel for power generation.

LW Bogdanka is the most efficient and the most modern mine in Poland. This year, we will continue to deal with the new challenges and implement our recently announced development strategy. Our priorities invariably are the strengthening of our market position in a long-time perspective and further building of the Company's goodwill for its Shareholders.

Sincerely,

President of the Management Board of LW Bogdanka S.A.



1. Summary of operational activities



1. Summary of operational activities	4-7
Selected financial data and key operating data	5
Key events in 2016	6-7
2. Organisation and business activities of LW Bogdanka S.A.	8-47
Structure of the Group	9
Description of operations	10-13
Development strategy	14
Investment projects	15-17
Licences	18
Agreements	19-22
Business environment	23-27
Risk management	28-35
Occupational health and safety	36-37
Natural environment	38-39
Workforce	40-41
Remuneration	42
Other information	43-47
3. Financial standing	48-61
4. Shares and shareholding	62-68
5. Governing bodies	69-77
6. Corporate governance	78-94
Glossary	95-99
A detailed index of issues contained in this Report can be found on page 97.	

Good financial and operation results arise from the fact that LW Bogdanka S.A. optimised its production capacity on a difficult market in 2016.

In 2016, LW Bogdanka S.A. generated:

- net revenue of **PLN 1,781.8 million** – decrease by 5.4% y/y
- EBITDA of **PLN 586.1 million** – decrease by 13.6% y/y
- net profit of **PLN 175.9 million**

In Q4 **revenue** amounted to **PLN 470.6 million** (a decrease of 15.7% y/y), **EBITDA** equalled **PLN 170.7 million** (a decrease of 24.3% in comparison with the previous year), while **net profit** totalled **PLN 61.4 million**.

The graph below presents factors affecting financial results of LW Bogdanka S.A.:

<ul style="list-style-type: none"> • stabilised average sale price y/y, • maintained high efficiency, • pursued cost optimisation programme, • signed contracts for the almost entire sales of coal, 	<ul style="list-style-type: none"> • continued difficult situation on the coal market.

In 2016, LW Bogdanka was consistently pursuing its cost optimisation programme, which allowed it to reduce its costs by type by **PLN 31.5 million**.

LW Bogdanka's capital expenditure in 2016 amounted to **approx. PLN 301.4 million**, which is **6.9%** more than last year. Despite intense development, due to simultaneous reduction of the CAPEX programme (by more than PLN 130 million in comparison with the plan), LW Bogdanka S.A. lowered the ratio of net debt/EBITDA to the level of 0.15.

In 2016, in comparison to 2015, the Company increased the extraction of thermal coal from **8.5 million tonnes** to **9.0 million tonnes**. The reason was to adjust the production to the sales capacities of the Company.



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 and Michał Stopyra.

Conclusion of annual agreement with 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 specified the terms and conditions of supplies in 2016 (quantitative volumes and prices) to the power plant of Enea Wytwarzanie sp. z o.o. in Koźienice.

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 challenged by the Company which was issued by 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 filed a cassation 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. With the current operating resources, the mine will continue operations until about 2043.

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, Waldemar Bernaciak, Piotr Janicki and Jakub Stęchły, 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.



Q2 2016

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.

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 of LW Bogdanka S.A. of 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 did 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.

Retaining the Investor-Friendly Company certificate

In 2016 LW Bogdanka S.A. remained in the group of Companies awarded by the Association of Individual Investors with the "10 out of 10 – Investor-Friendly Company" certificate. 10 out of 10 – Communicate Effectively is a programme prepared by the Association of Individual Investors under the honorary patronage of the educational campaign "Civic Shareholding. Invest Consciously." The programme awards companies that apply best communication practices in accordance with the expectations of investors, both in terms of form and frequency of action. To obtain the certificate, the Company had to undergo an audit, which showed that it met all the requirements laid down in the Programme's Terms and Conditions, and thus the highest standards of communication with investors.



Q3 2016

Conclusion of a memorandum of understanding to agreement with EDF Paliwa sp. z o.o.

On 8 August 2016, LW Bogdanka S.A. signed a memorandum of understanding with EDF Paliwa sp. z o.o. regarding the Long-Term Agreement for the sale of thermal coal. The above-mentioned agreement extends the term of the Agreement until 31 December 2017 and specifies the terms and conditions of supplies in 2017 (quantitative volumes and prices).

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 the new Articles of Association. After the Articles of Association had been registered by the registry court, LW Bogdanka S.A. entered the Enea Group and adopted 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 Supervisory Board.

Conclusion of annexes to annual agreements with ENEA Wytwarzanie Sp. z o.o.

On 29 September 2016, LW Bogdanka S.A. signed annexes with ENEA Wytwarzanie sp. z o.o. regarding two Long-Term Agreements. The annex to Long-Term Agreement no. 1 specified the price of supplies and volumes of supplies in 2016-2017, while the annex to Long-Term Agreement no. 2 extended the scope of cooperation within the Agreement by changing the volumes of supplies. Moreover, the annex to Long-Term Agreement no. 2 specified the prices of coal supplies in 2017 (Agreement no. 2 remains in force and effect in 2017 - 2036).

Continued cooperation with ENGIE Energia Polska S.A.

On 30 September 2016, LW Bogdanka S.A. signed an annex to the Agreement for the sale of thermal coal with ENGIE Energia Polska S.A. The above-mentioned annex set out the terms and conditions of thermal coal supplies in the period 2017-2021, the volumes of supplies, the coal price applicable to supplies in 2017, the price formula applicable between 2018 and 2020, and the manner in which the price would be calculated in 2021.

Q4 2016 and events until the publication date

Concluding an annex to the long-term agreement with Zakłady Azotowe Puławy S.A.

On 6 December 2016, LW Bogdanka S.A. signed an annex to the Long-Term Agreement for the sale of thermal coal with the Zakłady Azotowe Puławy Group. The annex extended the term of the Agreement until 31 December 2021 and specified the terms and conditions of supplies during the term thereof (quantitative volumes and prices).

Bogdanka in the 10th edition of the RESPECT Index

On 14 December 2016, the Warsaw Stock Exchange announced the composition of the Respect Index (10th edition) for socially responsible companies. It is composed of 25 companies, including, once again, LW Bogdanka S.A. Respect Index's portfolio includes Polish and foreign companies from the Main Market of the WSE which operate in accordance with the best management practices in terms of corporate governance, information governance and investor relations, while also taking into account environmental, social and employee-related factors. The companies that make it to the Index undergo a three-stage verification carried out by the WSE and the Polish Association of Listed Companies in the above-mentioned areas, as well as an audit conducted by the project partner – Deloitte. The new Respect Index is valid from 19 December 2016.

Conclusion of an annex to the long-term agreement with ENERGA Elektrownie Ostrołęka S.A.

On 28 December 2016, LW Bogdanka S.A. signed an annex to the Long-Term Agreement for the sale of thermal coal with ENERGA Elektrownie Ostrołęka S.A. The above-mentioned agreement extends the term of the Agreement until 31 December 2019 and specifies the terms and conditions of supplies in 2017.

Increase in share by investment funds TFI PZU S.A. above 10%

On 30 January 2017, LW Bogdanka S.A. was informed by Towarzystwo Funduszy Inwestycyjnych PZU S.A. that the TFI PZU S.A. investment funds increased their share in the total vote at the Company's General Shareholders Meeting to exceed 10%.

Announcement of the development strategy of LW Bogdanka S.A.

On 9 February 2017, the Company's Supervisory Board approved the development strategy of LW Bogdanka S.A. Mining Area of the Enea Group until 2025 (under the 2030 framework), including the assumptions for the dividend policy.

Extraordinary General Shareholders Meeting of LW Bogdanka S.A. on 7 March 2017

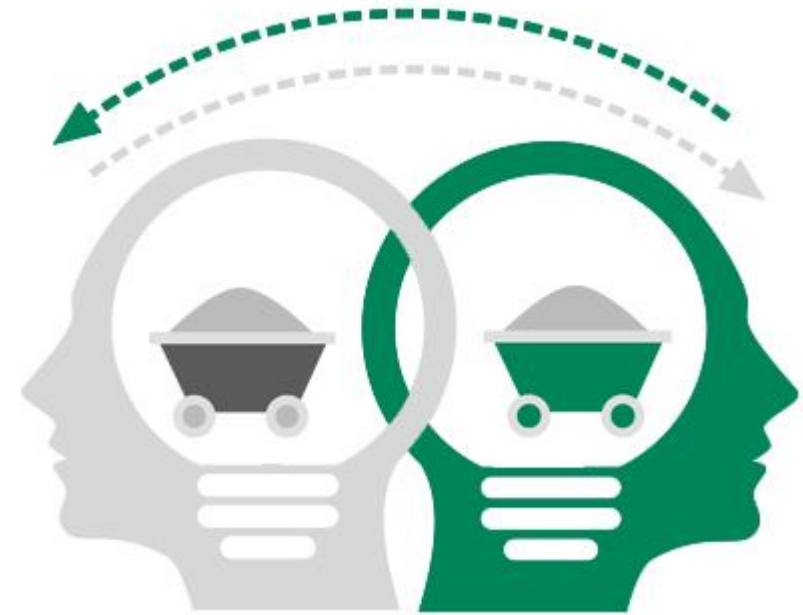
Extraordinary General Shareholders Meeting of LW Bogdanka S.A. adopted the following resolutions:

- amending the By-Laws of the General Shareholders Meeting
- determining rules for the remuneration of Management Board members
- determining the rules for remuneration of Supervisory Board members
- appointment and removal from office of the Supervisory Board members (two Supervisory Board members were selected by the employees).

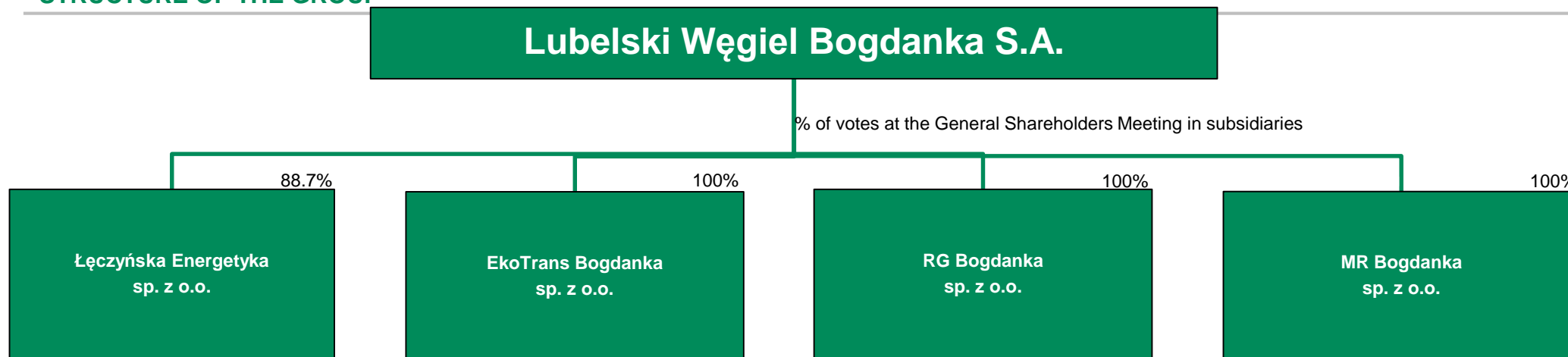
Redemption of bonds

On 10 March 2017 the Management Board of LW Bogdanka S.A. signed an annex to an agreement on the Bond Issue Program of 30 June 2014, concluded with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego. Therefore, the redemption date of 300 bonds with a nominal value of PLN 1,000,000 (one million) each, and total nominal value of PLN 300,000,000 (three hundred million zlotys) was changed to 30 March 2017.





2. Organisation and business activities of LW Bogdanka S.A.



Company name	Share of LW Bogdanka S.A. in share capital		Share capital	Main activity
	31 Dec. 2015	31 Dec. 2016 and 30 Mar. 2017		
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 and recovery of spoil arising during coal shale 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 basic management rules of LW Bogdanka S.A. and the LW Bogdanka Group

In order to make the rules of management of LW Bogdanka S.A. more precise, the following were introduced in 2016:

- new Social Benefits Fund Regulations
- Instruction on Approval of Warehouse Documentation
- Electronic Payroll Document Management System for Employee Attendance and Absences Timesheet
- new Sales Terms and Conditions of Coal
- New procedure: Rules for Concluding Property Lease

- Agreements with Third Parties
- Rules for the granting of contracts which are not subject to the Public Procurement Law
- Policy for Safety of Information in the IT Systems of LW Bogdanka S.A. was introduced
- LW Bogdanka S.A. Personal Data Processing Safety Policy was introduced
- Instruction specifying the method of managing the computer

- system used for personal data processing at LW Bogdanka S.A. was introduced
- and Information Safety Administrator and IT Systems Administrator were appointed.

The Company has updated its existing documentation and introduced the new ones in order to increase transparency and streamline a delivery service process.



Name and registered office of the Company

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
E-mail: bogdanka@lw.com.pl



Legal form and regulations which provide a basis for the Company'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)

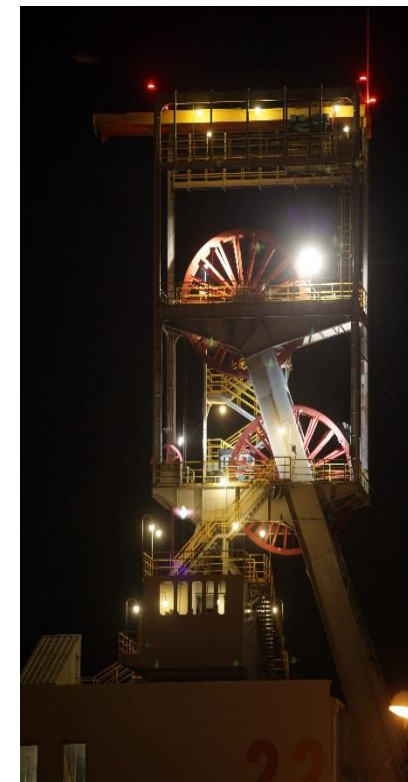
The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

History in Brief

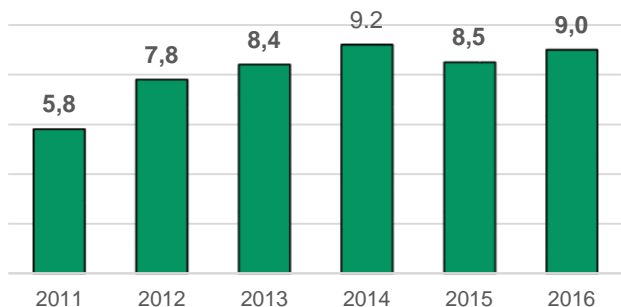
- 17 January 1975 - decision on construction of a pilot and excavation mine in Bogdanka. Bogdanka was one of the seven mines which were to be built in the Lublin Coal Basin, but ultimately it turned out to be the only one to materialise after the project was suspended.
- 1 March 1993 – transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A.
- 29 December 1994 – in performance of a bank settlement, as a result of debt conversion, KWK Bogdanka S.A. ceased to be a company wholly owned by the State Treasury, as the new shareholders (creditors) took up 4.0% of shares in the Company.
- 25 June 2009 - debut on the Warsaw Stock Exchange.
- 9 March 2010 – the State Treasury sold 46.69% of shares in the Company on the Stock Exchange. Therefore, it ceased to hold a majority in the Company's share capital.
- 4 January 2012 - 3,208,111 employee shares were introduced to trading on the Warsaw Stock Exchange.
- 4 February 2013 - another lot of 34,754 shares were introduced. 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.
- 14 September 2015 - Enea S.A. announced a tender offer for the shares of LW Bogdanka S.A., in which it stated that it intended to acquire up to 64.57% of the total number of votes at the Company's General Shareholders Meeting.
- 29 October 2015 - LW Bogdanka S.A. became part of the Enea Group.





Business activities of LW Bogdanka S.A.

In 2016 the LW Bogdanka Group extracted 9.0 million tonnes of hard coal, which accounted for 13.2% of total hard coal extraction in Poland.



LW Bogdanka S.A. has three excavation fields:

- Bogdanka
- Nadrybie
- Stefanów

The core business of the Company is the production and sales of hard coal, and especially thermal fine coal. In 2016, the coal production structure was as follows:



Key customers

As a supplier, LW Bogdanka S.A. mainly cooperates with industrial customers from eastern and north-eastern Poland. The market is stable and sales transactions are based on long-term agreements. The main sectors where LW Bogdanka S.A. supplies its commercial coal include commercial and industrial power sectors.

Key customers of LW Bogdanka S.A. include:

- the Enea Group – Elektrownia Kozienice S.A. – about 46% of revenue
- ENGIE Polska Energia S.A. – approx. 22% of revenue
- PGNiG Termika S.A. – about 9% of revenue
- Energa - Elektrownie Ostrołęka – about 6% of revenue

The LW Bogdanka S.A. strives to ensure that its commercial proposal meets the needs of its customers. The Company is aware that products offered by the mine must meet the relevant requirements and the customers' needs, but also need to be affordable.





Business activities of LW Bogdanka S.A.

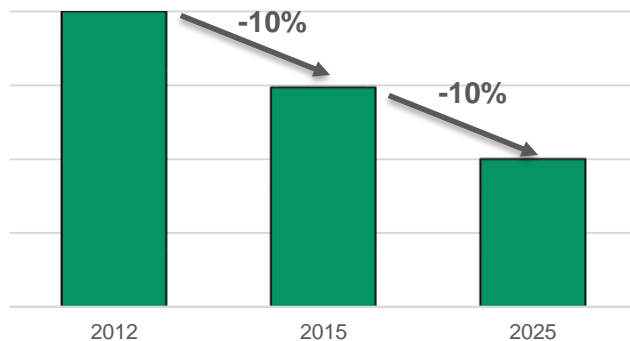
Cutting-edge technologies

LW Bogdanka S.A. cares for its employees' safety and for the environment. It utilises the most advanced technologies and world-class machines and equipment in its extraction processes. As a result, it is the leading mine with the highest efficiency and effectiveness ratios in Poland. LW Bogdanka S.A.'s underground efficiency rate is twice as high as the average for Poland's coal mining sector.

Cost control

LW Bogdanka S.A. continues to be the efficiency leader in Poland's mining sector due to its Cost Optimisation Programme which is consistently pursued by the Company. In 2015, it achieved a 10% real decline in the Unit Mining Cash Cost, compared to 2012. Its strategy assumes further 10% reduction of the Unit Mining Cash Cost by 2025, compared to the 2015 level, in real terms.

Unit Mining Cash Cost (PLN/tonne)



New deposits

In 2016 we continued our efforts to transform the exploration licence into a mining licence for the Ostrów deposit and extend the resources in the Puchaczów V area. LW Bogdanka S.A. also continues to work towards obtaining a mining licence in the K6-K7 area – the Company is a party to a number of administrative

proceedings as well as court and administrative proceedings in connection with the process of obtaining the licences. Moreover, the Company has an exploration licence for the Orzechów deposit.

Towards a Smart Mine

We have built our success on smart solutions. We would not have achieved this without:

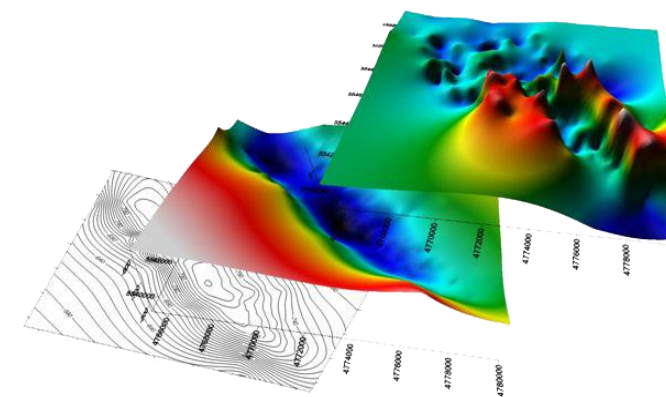
- our staff – highly skilled, sharing our advanced technology-oriented culture, and focused on efficient cooperation and common goals
- our machines and equipment – highly efficient, reliable, energy saving, well chosen to existing geological and mining conditions, and enabling the mechanisation of both core mining and various auxiliary operations
- our efforts to eliminate hard physical work and dangerous work as far as possible by way of mechanisation and automation of underground work wherever feasible, including various auxiliary operations
- our leading-edge computer systems implemented in a variety of areas of mining operations to streamline technology processes, to monitor machines and equipment and to plan production, identify risks, etc. – with an overriding aim to increase the effectiveness of operations of our mine.

We have a deposit management system as the only underground mine in Poland:

- Digital deposit model (so far the only one in Poland's hard coal mining industry)
- Digital maps of mine excavations
- Digital timetable of opening, preparatory and extraction works.

As part of the program, efforts are currently underway to develop:

- Decision-support system in the process of preparing deposits for extraction
- Map of underground infrastructure facilities
- Central database.





Production potential of LW Bogdanka S.A.

The mining area exploited by LW Bogdanka S.A. is divided into three mining fields:

- Bogdanka Field
- Nadrybie Field
- Stefanów Field

Shafts of the mine are located in:

- Bogdanka
- Nadrybie
- Stefanów

While the lifting shafts are located in:

- Bogdanka
- Stefanów

On 6 April 2009, LW Bogdanka S.A. obtained a hard coal mining licence for Bogdanka covered by the “Puchaczów V” mining area (seams 382, 385/2, 389 and 391) with the area of 73.3 sq. m, located in the Communes of Cyców, Ludwin and Puchaczów in the Lublin Province.

In addition, on 17 June 2014 the Company obtained a hard coal mining licence in the “Lublin Coal Basin — area K-3” deposit, covered by the “Stręczyn” mining area (seams: 379/2, 385/2, 391) with the area of 9.38 sq. m, located in the Communes of Cyców and Puchaczów in the Lublin Province.



Deposit reserves of hard coal in Bogdanka updated as as at 31 December 2016.

Reserves [million tonnes]	year			Difference 2016-2015
	2014	2015	2016	
Total balance	781.6	771.2	763.9	-7.3
Balance*	421.7	411.3	401.9	-9.4
Industrial	297.3	288.4	280.0	-8.4
Operating reserves	224.3	217.3	210.6	-6.7

*Balance reserves (covered by a licence)

Deposit reserves of hard coal (Stręczyn – K-3) updated as as at 31 December 2016.

Reserves [million tonnes]	2016
Total balance	145.7
Balance*	128.9
Industrial	21.4
Operating reserves	16.5

*Balance reserves (covered by a licence)





Development Strategy of the LW Bogdanka SA

Development strategy of the LW Bogdanka SA

On 9 February 2017 the Parent announced its Development Strategy of LW Bogdanka S.A. from the Mining Area of the Enea Group until 2025 (under the 2030 framework), including the dividend policy.

The adopted strategy reflects the 2030 Development Strategy of the Enea Group as it covers, among other things, activities to meet the rising demand for thermal coal on the side of power and cogen plants from the Generation Area of the Enea Group and to implement 10 strategic initiatives planned by the Enea Group for the Mining area.

Vision

Bogdanka is a strong link in the value chain of the Enea Group and the efficiency leader in the mining sector with the highest work safety standards.

Mission

By contributing to energy security of Poland, Bogdanka proves that it is a reliable supplier of coal for commercial power plants able to maintain its competitive advantage and to continuously increase the value of the Company, while improving its work safety and environment protection standards and implementing innovative solutions.

In the course of the activities to formulate the Strategy, two development scenarios were prepared:

- **baseline scenario**, which assumes average production at a level of about 8.5 million tonnes over 2017-2025 and capital expenditure amounting to PLN 3.7 billion (nominally) in 2016-2025;
- **flexible development scenario**, which assumes average annual projected production at a level of about 9.2 million tonnes over 2017-2025 and capital expenditure amounting to PLN 4.0 billion (nominally) in 2016-2025.

Taking into account the current and expected market situation, the Parent wants to implement the flexible development scenario as part of its Strategy.

Based on the above assumptions the Parent will strive to achieve the following objectives by 2025:

- return on equity (ROE) of 10.9%
- return on assets (ROA) of 8.5%
- increase in nominal EBITDA by 44.0% (compared to 2015, after adjustment by revaluation).

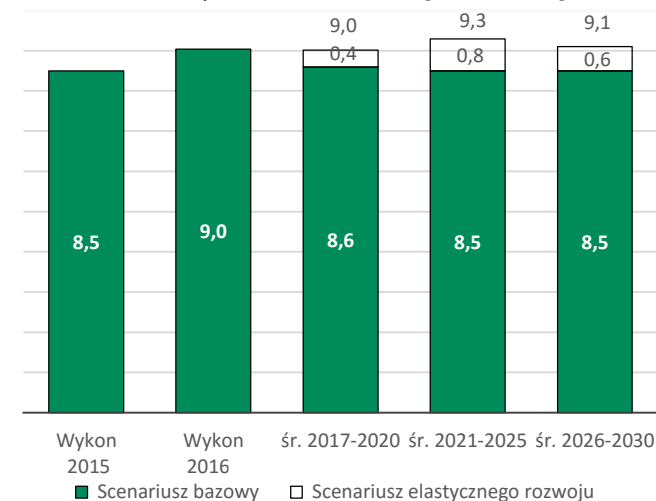
The Parent assumes that it will strengthen its market position by achieving at least a 25% share in the market of fine thermal coal for commercial power plants and, also, its financial position by a further reduction in the UMCC by 10% in real terms by 2025, compared to 2015.

During the implementation of the Strategy, the Management Board will focus on the key areas of operations of the Parent, which include:

1. Close cooperation and utilisation of synergies in the Kozienice-Bogdanka-Połaniec mining and power generation area
2. Efforts to double the exploitable resources on the basis of the Ostrów deposit and to extend the mine's life to about 50 years
3. Implementation of strategic initiatives which include:
 - feasibility study of construction of an integrated gasification cycle (IGCC) system for production of fuel for power generation within the ENEA Group;
 - programme to continue improving work safety
 - utilisation of the advanced high-performance face complex
 - continuation of the "Smart Mine" programme
 - effective waste rock management
 - operator's services provided by LW Bogdanka S.A., offered on the basis of high technological and management standards of the Parent.

Until 2030, a key direction for the Parent will be the development of infrastructure in the Ludwin Mining Area (Ostrów deposit) - according to preliminary estimates the Parent will spend there about PLN 1.2 – 1.3 billion (in real terms) after the year 2025. This project is to ensure that the shaft complex in the Bogdanka Field can continue coal extracting after 2030.

Planned coal production in 2015-2030 [million tonnes]



CORPORATE SOCIAL RESPONSIBILITY (CSR)

Because of its crucial importance to the region, one of the Group's goals, as always, is to run its business operations in compliance with the rules of corporate social responsibility (CSR) strategy, which includes ensuring the highest work safety standards, environmental effectiveness, the protection of local biodiversity, the stimulation of development and a guarantee of security for local communities, as well as the effective management of relationships with all groups of stakeholders - all these in line with the principles of sustainable growth.

Dividend policy

In the medium and long run, the Parent wants to remain a dividend-paying company, and the Management Board intends to ask the General Shareholders Meeting for approval of dividends up to 50% of the net profits shown in the LW Bogdanka S.A.'s separate financial statements, prepared in accordance with the International Financial Reporting Standards.



Projects completed in 2016

In the period of Q1-Q4 2016 LW Bogdanka S.A. assumed the performance of specified investment tasks. In this respect, in 2016, capital expenditure for non-current assets totalled PLN 301,433,000.

The plan for Q1-Q4 2016 included groups of tasks: development investments, including the purchase of machines and equipment, and operational investments, including construction and upgrade of workings in the Bogdanka, Nadrybie, and Stefanów Fields, as well as upgrades and repairs of machines and equipment, etc.



INVESTMENTS AT LW BOGDANKA S.A.

New licences

The Company has bought the right to use geological information concerning the "Ostrów" deposit, and has completed the drilling of test under-shaft holes in that deposit. The mining licence for the "Orzechów" area has also been extended.

Maintenance of machinery

Purchase and assembly of new machines and equipment – by the end of the fourth quarter LW Bogdanka S.A. purchased and assembled machines and equipment for PLN a total amount of 2,353,000, including costs of assembling. The main items include: overhead diesel locomotive, shunter unit, air barrages, conveyor feeder set, belt conveyors, cooling devices, and electromagnetic separator.

Purchases of finished goods – the finished goods of the value of PLN 8,912,000 were purchased. The most important ones included: ready-made transportation devices (including hoists, personnel and excavated material transportation units, mobile explosives storehouse), hydraulic pumps and aggregates, electric devices (including transformer stations, motors, transformers), and other ready-made devices (including fans, roof bolting machines, tools being non-current assets).



DEVELOPMENT INVESTMENTS

New workings and upgrade of existing ones

New workings were built in accordance with the applicable Mining Works Schedule. The total length of the gallery workings that were built in the period of the 12 months of 2016 was equal to 22,847.9 m with the value of PLN 157,769,000.

Modernisation of workings with respect to reconstruction of galleries and vertical workings was performed in accordance with the adopted schedules. Their total value amounted to PLN 37,636,000.



OPERATIONAL INVESTMENTS

Other development and replacement projects

Central air conditioning for the Bogdanka Field - investment completed.

Enlargement of the mining waste neutralisation facility in Bogdanka – a building permit for Stage I part 2 has been obtained, and trees are being cut down in this area. Acquisition of plots located in the area of the surface of Stage II and Stage III was continued.

Other operating investments: Expansion of the power engineering networks was completed, so were the modernization works of the switching station and 110/6 kV station. The 110/6 kV GSTR main transformer and distribution station in Bogdanka, Stefanów and Nadrybie.

Capital expenditure for excavations in 2016

Total workings and works	Depreciation method	Length [m]	Value of coal from excavations [PLN '000]	Total value of capital expenditure [PLN '000]	Value of capital expenditure [PLN '000]
Longwall workings:	natural	20,559.0			
Basic workings	linear	2,288.9	70,519	265,924	195,405
Reconstructions	linear / natural	1,707.6			

Selected investments

[PLN '000]	1 Plan 2016	2 Performed 2016	3 Performed [2/1]	4 Plan 2017
Acquire new licences	45,384	31,827	70.1%	18,660
Maintenance of machinery	62,655	33,239	53.1%	40,243
Other development and replacement projects	68,700	47,397	69.0%	28,669
Purchase and assembly of longwall systems	-	-6,435	-	-
New excavations and upgrades of existing ones	254,978	195,405	76.6%	289,659
TOTAL CAPEX in LW Bogdanka S.A.*	431,717	301,433	69.8%	377,231

* A slight discrepancy between the sum of consolidated capital expenditure of LW Bogdanka S.A., as disclosed in the table above, and the sum of increases of intangible assets and construction in progress disclosed in the consolidated financial statements, is primarily a result of a different disclosure of settlement of plot exchange transaction that has taken place in 2016 (higher value disclosed in the table above).





Investments planned for 2017

Maintenance of machinery

Purchase and installation of new machines and devices - the planned purchases will include air barrages, a 1,600 mm conveyor belt, a cableway and other devices connected with the operating activities of the Company. There are plans to carry out repairs to machines and devices, i.e. panel coal-cutting machines, panel and under-panel conveyors. Moreover, the following machines and devices will be upgraded: diesel locomotives, overhead machines, roadheading machines, GAS type compressors and sprinkler systems for coal-cutting machines.

New licences

The Company attempts to obtain mining rights to extract coal in the "Ostrów" mining area, which involves expenditure on documentation and purchase of land. Exploration has been planned in the "Orzechów" area.



DEVELOPMENT INVESTMENTS

New workings and upgrade of existing ones

Plans assume the construction of new excavations, mainly hate roads, wall cross-headings and the remaining technological and access excavations to enable mining operations in seams 385/2, 389, and 391. Reconstructions of mining excavations will also be conducted.



OPERATIONAL INVESTMENTS

Other development investments

Enlargement of the mining waste neutralisation facility in Bogdanka – there are plans to commence works on the enlargement of the facility as part of Stage I Part 2, and to start designing Stage II.

MCCP replacement projects – the project includes modernisation of MCCP facilities and adjustment of the bridge between Stefanów and Bogdanka.

ICT – as part of the ICT projects we plan to continue the development of the Integrated Production Management System and the Smart Solutions Mine Project.

Administration – the costs of modernising office buildings.

Transport – purchase of additional means of transport.

Other

Construction of facilities – our plans include the construction of a tower crane and the construction of washing sludge pelletising system.

Environment protection – there are plans to build a pumping station at the RE Żelazny Ditch and at the C Ditch in Nadrybie.



OTHER INVESTMENTS



Licences

Mining activities in the area of economic scale hard coal mineral excavation must be compliant with Geological and Mining Law.

- in the time horizon of the Strategy until 2030, the key areas for the Company include Puchaczów V, Stręczyn (K-3) and Ludwin (Ostrów deposit)
- the Company is planning to obtain a mining licence for the Ludwin area in 2017. This will double exploitable resources of the Company
- the Company will continue to analyse the K-6 and K-7 deposits and the Orzechów area as prospective locations of future mining operations
- assuming annual coal production at the level of about 9.0 million tonnes, the resources of the areas considered to be of key importance to the 2030 Strategy alone will ensure about 50 years of continuous exploitation.

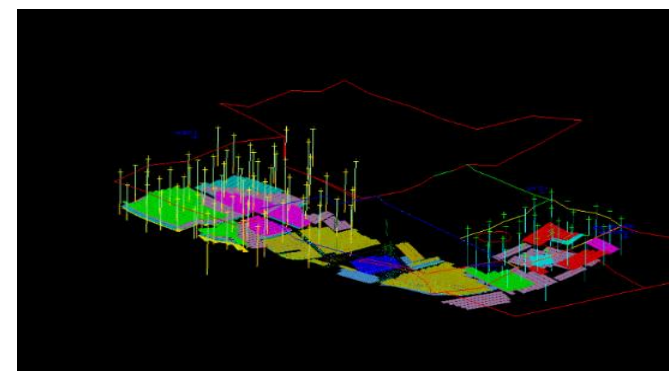
LW Bogdanka S.A. holds the following mining licences:

Deposit	Licence No.	Granted on	Expiry date
Bogdanka	5/2009	6 April 2009	31 December 2031
K-3	3/2014	17 June 2014	17 July 2046

LW Bogdanka S.A. holds the following prospecting licences:

Deposit	Licence No.	Granted on	Expiry date
Orzechów	29/2014/p	14 October 2014	14 November 2018
Ostrów	25/2014/3	30 June 2014	30 July 2020

Permit	Number	Issuing authority	Granted on	Expires on
Water permit for special usage of water resources, which covers:				
a) drainage of the LW Bogdanka S.A. mine in Bogdanka in quantities which shall not exceed	ŚiR.III.6811/91/07	Lublin Province Governor	31 December 2007	31 December 2017
b) disposal of unused mining water from the pit water settling tank using the outflow ditch into the RE "Żelazny" stream, which is a tributary of the Świnka river				
Integrated permit for the Construction Ceramics Plant installations and waste dump. The permit does not apply to the waste dump (it was replaced with other permits)	PZ 17/2006	Lublin Province Governor	29 December 2006	28 December 2016
Permit to conduct mining / building works connected with mining waste dump extension	L.dz.5/512/1/93/AG	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	30 March 1993	-
Permit approving construction design for enlargement of the mining waste neutralization facility in Bogdanka	L.dz.LUB/02/35/56/11/12/MS	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	7 February 2012	-





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 S.A. concluded in 2016 and after the balance-sheet date are described below.



Current Report	Business Partner	Agreement Date	Description
8/2016 3 March 2016		4 March 2010	Memorandum of understanding to long-term agreement in the form of an annual agreement. The annual agreement specifies prices and coal supply volumes applicable in 2016.
36/2016 29 September 2016	Enea Wytwarzanie sp. z o.o.	4 March 2010 and 23 January 2012	Annexes to the long-term agreements for the supply of thermal coal. The Annex to Long-Term Agreement I (agreement for coal supplies for the purposes of power plant units under current operation), specifies the price of supplies and supply volumes in 2016-2017. As a result of concluding the Annex to Long-Term Agreement II effective from 2017 to 2036, the Parties decided to extend the scope of cooperation by changing supply volumes set out therein. Further, the Annex to Long-Term Agreement II specifies coal supply prices in 2017.
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.
37/2016 30 September 2016	ENGIE Energia Polska SA (formerly: Elektrownia Połaniec S.A. - Grupa GDF SUEZ ENERGIA POLSKA)	12 July 2012	As a result of concluding the Annex, the term of the agreement is extended until 31 December 2021 (previously 31 December 2019), and in consequence, the Agreement covers the thermal coal supplies in the period 2013-2021. The Annex set out the terms and conditions of thermal coal supplies for the purposes of the Buyer in the period 2017-2021, the volumes of supplies for each year during the term, the coal price applicable to supplies in 2017, the price formula applicable between 2018 and 2020, and the manner in which price will be calculated in 2021.
40/2016 6 December 2016	Zakłady Azotowe Puławy S.A.	8 January 2009	The Annex extends the term of the agreement until the end of 2021 (previously the agreement was in effect until the end of 2019) and sets out new terms and conditions of thermal coal supplies during the term (prices and volumes).
41/2016 28 December 2016	Energa Elektrownie Ostrołęka S.A.	14 December 2010	The Annex extends the term of the agreement until the end of 2019 (initially, the agreement was to end on 31 December 2016) and set forth the terms and conditions of supplies in 2017.

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



Information on financial instruments, bonds

Information on derivative financial instruments

As at 31 December 2016, the Company did not hold any open financial instruments.

Bonds

As at 31 December 2016, the Company had two Scheme Agreements. The first Agreement of 23 September 2013 regarding the Bond Issue Program up to the amount of PLN 300,000,000 was concluded with Bank Polska Kasa Opieki S.A.

The total value of all bonds issued under the Agreement stands at: PLN 300,000,000.

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. An annex to the Scheme Agreement of 30 June 2014 was signed on 10 March 2017, whereby the term of the Scheme for Tranche 1 was changed from 31 December 2019 to 30 March 2017. As a consequence, all the bonds issued under Tranche 1 in the total amount of PLN 300,000,000 will be redeemed on 30 March 2017.

Therefore, on 30 March 2017, the Company's liabilities under the Scheme Agreement of 30 June 2014 will have been fully repaid.

Use of proceeds from bond issue

In accordance with the Bond Issue Scheme 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 pages 15 and 17 of the Report.

Assessment of the possibilities of investment plans execution

A financing structure of property investment expenses will remain compliant with the adopted Strategy, i.e. the financing will be obtained from equity and debt (bonds). As at the date of this Report, LW Bogdanka S.A. 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.

The loan (revolving overdraft credit facility) together with issued bonds (totalling PLN 600,080,000), disclosed in the Company's statement of financial position as at 31 December 2016, accounted for 26.4% of its equity and 16.0% of the balance-sheet total.

Lease and rental agreements in 2016.

In 2016 total revenue of LW Bogdanka S.A. under lease and rental agreements for land, premises, machines and devices amounted to PLN 7,756,000 net.

Agreement date	Agreement value [PLN million]	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	300	-	300
30 June 2014	600	300	-	300





AGREEMENTS CONCLUDED

Agreements concerning the subsidiaries' loans and borrowings

In 2016 the Company had two active loan agreements.

Start date	End date	Lender	Amount of loan granted [PLN '000]	Interest rate	Debt (loans) as at 31 December 2016 [PLN '000]	Repayment period
21 May 2014	22 May 2016	mBank S.A.	150,000	WIBOR 1M + margin	-	-
16 December 2016	30 November 2018	mBank S.A.	100,000	WIBOR 1M + margin	-	indefinite

Information on loans granted

In 2016 the Company did not contract or grant any loans or terminate any agreements concerning loans.

Information on sureties and guarantees provided and received

In 2016, the Company did not grant (or receive) any sureties.

Guarantees granted by LW Bogdanka S.A.

In 2016, LW Bogdanka S.A. did not provide any guarantees.



Guarantees received by LW Bogdanka S.A.

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



Transactions with related entities

In 2016 the Company and its subsidiaries concluded no 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	Agreements between LW Bogdanka S.A. and EKOTRANS Bogdanka sp. z o.o.
<ul style="list-style-type: none">• heat energy supplies• for water supplies and disposal of sewage, maintenance services and others• sale of thermal coal and electrical power• lease, rent, and lending for use• heating of inlet air on shaft 2.2• service and operation supervision• provision of investor supervision for the construction of the Water Treatment Station in Bogdanka• completion of central air-conditioning in the Bogdanka Field	<ul style="list-style-type: none">• reconstruction of a section of access heading 1 on level 960 in the Bogdanka Field• reconstruction of a section of southern diversion on level 960 in the Bogdanka Field• performance of works and provision of services in LW Bogdanka S.A. mine• providing explosion works• higher mining supervision services• lease, rental and lending for use• auxiliary works, haulage services	<ul style="list-style-type: none">• 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• higher mining supervision services• repairs of transport units• contracts for delivery of dwangs and spare parts• lease, rental and lending for use	<ul style="list-style-type: none">• disposal of non-dangerous waste (waste rock)• lease, rental and lending for use

For more information about transactions with the Company's subsidiaries, other Enea Group companies, and companies controlled by the State Treasury which is the majority shareholder of Enea S.A., see Note 31 of the Financial Statements of LW Bogdanka S.A. for 2016.





Thermal coal price in international market between January 2011 and end of February 2017

CIF ARA coal prices

- USD 60/tonne - the average annual coal price (CIF ARA) in 2016, i.e. +5.3% (compared to USD 57/tonne in 2015)
- USD 86/tonne - average coal price CIF ARA in Q4 2016, i.e. +66% vs. Q4 2015, an increase by 42% compared to Q3 2016
- Between 2011 and 2016 the coal price CIF ARA dropped by almost 51%, but between April and December 2016 the price rebounded and went up from USD 46/tonne to USD 90/tonne (+95.7%)

Stocks in ARA ports

- 4.5 million tonnes of coal stocks at the end of December 2016 in the ARA ports – decrease by 1.4 million tonnes compared to December 2015 (-24%), in comparison with the level as at the end of Q3 2016 it represents an increase by 1.1 million tonnes (+32%)

Prices in the world's main ports

- The average coal price FOB Baltic Ports in 2016 amounted to USD 55/tonne, which is +3.8% y/y (USD 53/tonne)
- The average coal price FOB Baltic Ports in Q4 2016 amounted to USD 77/tonne, i.e. an increase by 63% compared to Q4 2015, and an increase by 35% compared to Q3 2016
- In the period between 2011 and 2016 the coal price FOB BP fell by about 53%, but from April to December 2016 the price rebounded and went up from USD 43/tonne to USD 77/tonne (+ 79.1%)
- Coal prices at the end of 2016 in the other main coal ports in the world:
 - FOB Richard Bay – USD 85/tonne, i.e. up by 70% since the beginning of the year
 - FOB Newcastle – USD 94/tonne, i.e. up by 84% since the beginning of the year
 - FOB Puerto Bolivar – USD 94/tonne, i.e. up by 100% since the beginning of the year

China

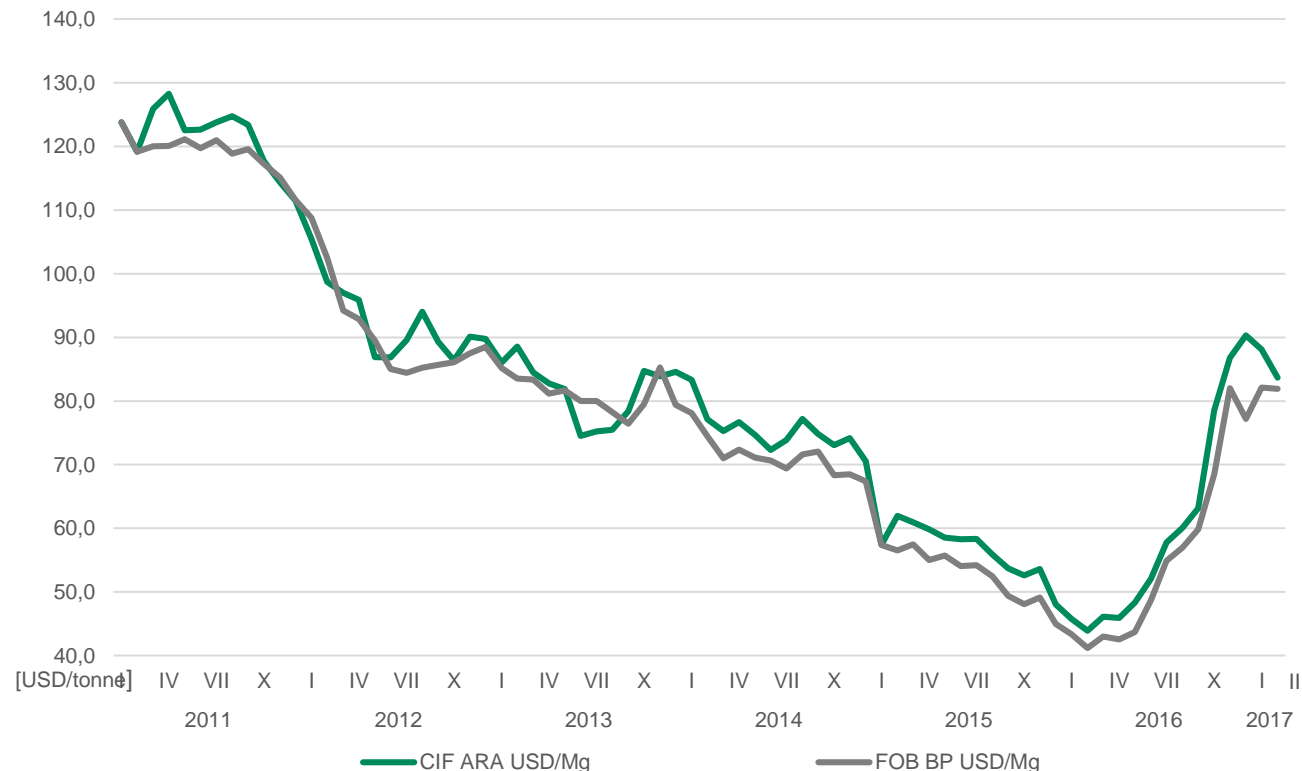
- Almost 3.4 billion tonnes of coal were produced in 2016, -9% y/y
- Import amounted to 256 million tonnes in 2016, up by about 25% y/y

USA

- 819 million tonnes of coal were produced in 2016, i.e. down by 17% y/y
- About 49 million tonnes of coal were exported in 2016, i.e. down by 27% y/y

Russia

- 384 million tonnes of coal were produced in 2016, i.e. up by 3% y/y
- Coal exports in 2016 amounted to 164 million tonnes, i.e. up by 8% y/y





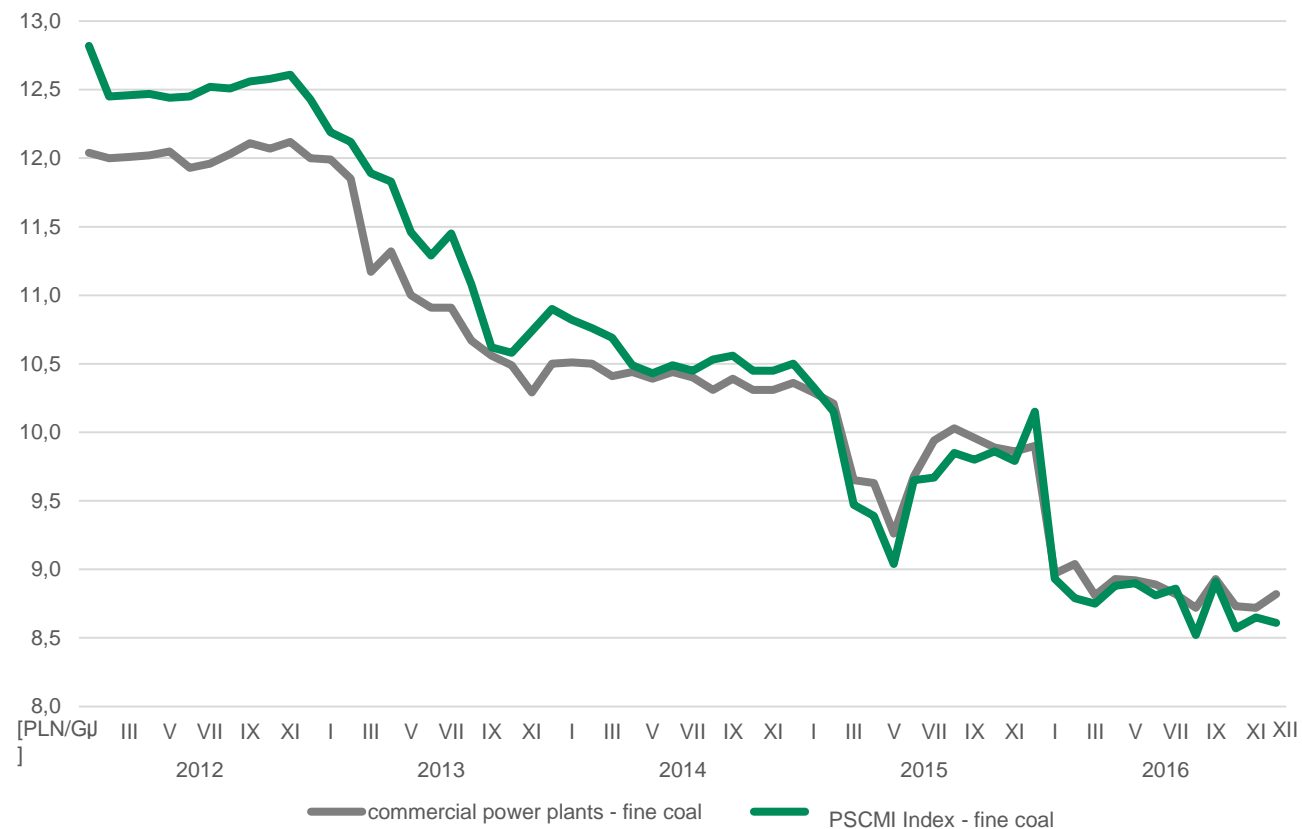
Fine thermal coal prices and PSCMI index in Poland’s market between January 2012 and December 2016

Fine thermal coal prices

- in 2016, the average annual price of fine thermal coal for commercial power plants was PLN 8.86 per GJ
- the price trend shows a 10.3% decline y/y
- average heating value of fine coal for commercial power plants is about 21.4 GJ
- price of fine coal for commercial power plants declined by 27% between January 2012 and December 2016

Prices based on the PSCMI index

- In 2016, the average price based on the PSCMI index was about PLN 8.77 per GJ.
- decline was about 10.1% versus the 2015 average price





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

Production of thermal coal in Poland

- In 2016, the production of thermal coal amounted to about 57.2 million tonnes, which represents a decline of 3.5% y/y

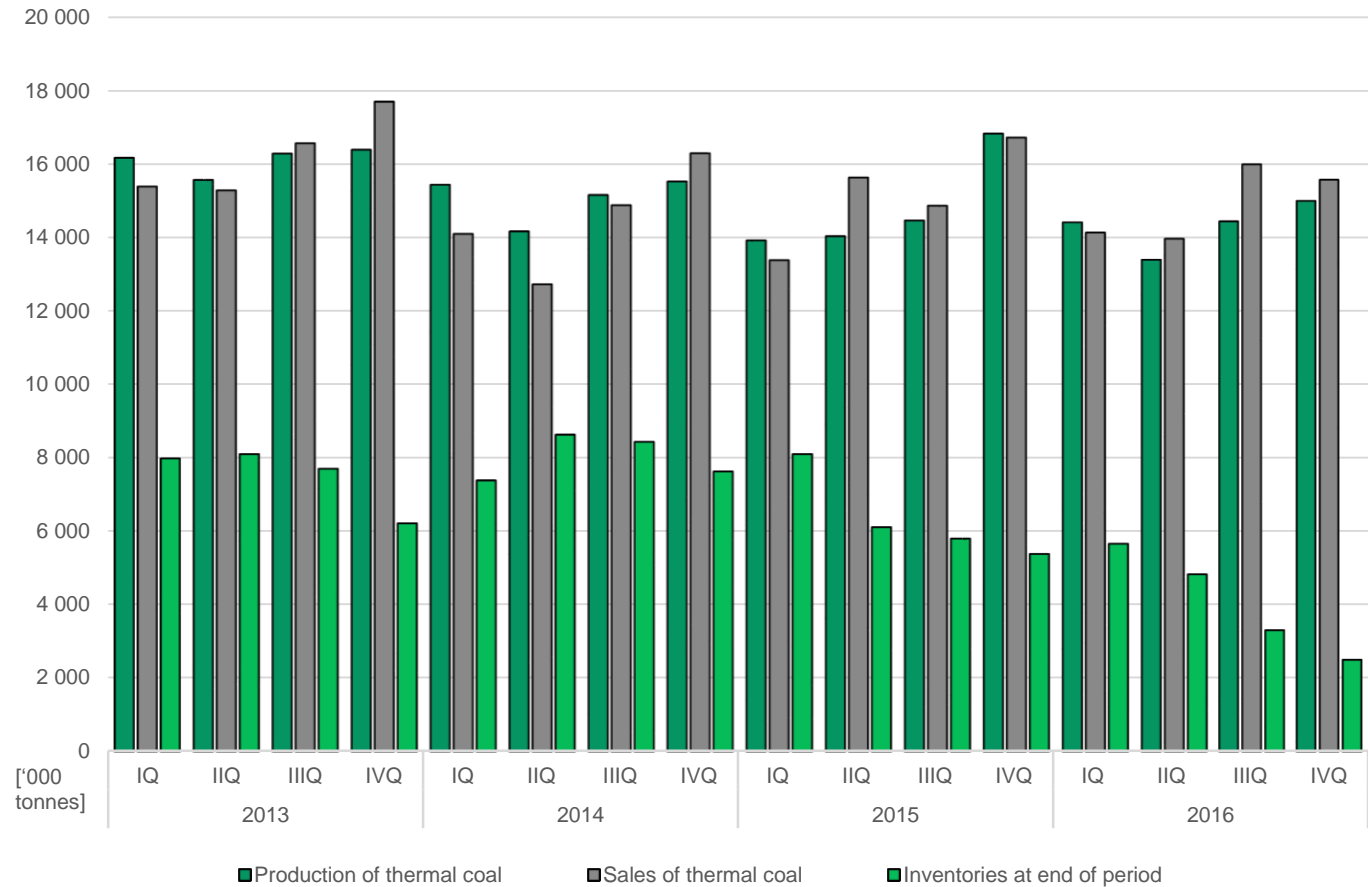
Sales of thermal coal market in Poland

- Sales in 2016 amounted to about 59.7 million tonnes, including about 32.4 million tonnes of thermal fine coal acquired by commercial power plants
- sales of thermal coal decreased by about 5.3% in comparison to 2015

Stock of coal in Poland

- the level of coal stocks at the end of 2016 totalled 2.5 million tonnes
- stocks fell by about 53.7% in comparison to the level as at December 2015

Production, sales and inventories of thermal coal





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

Key customers of thermal coal in Poland

Commercial power plants are the main recipients of thermal coal in Poland. They bought about 32.4 million tonnes of thermal fine coal. The most important customers from the commercial power industry are as follows:

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

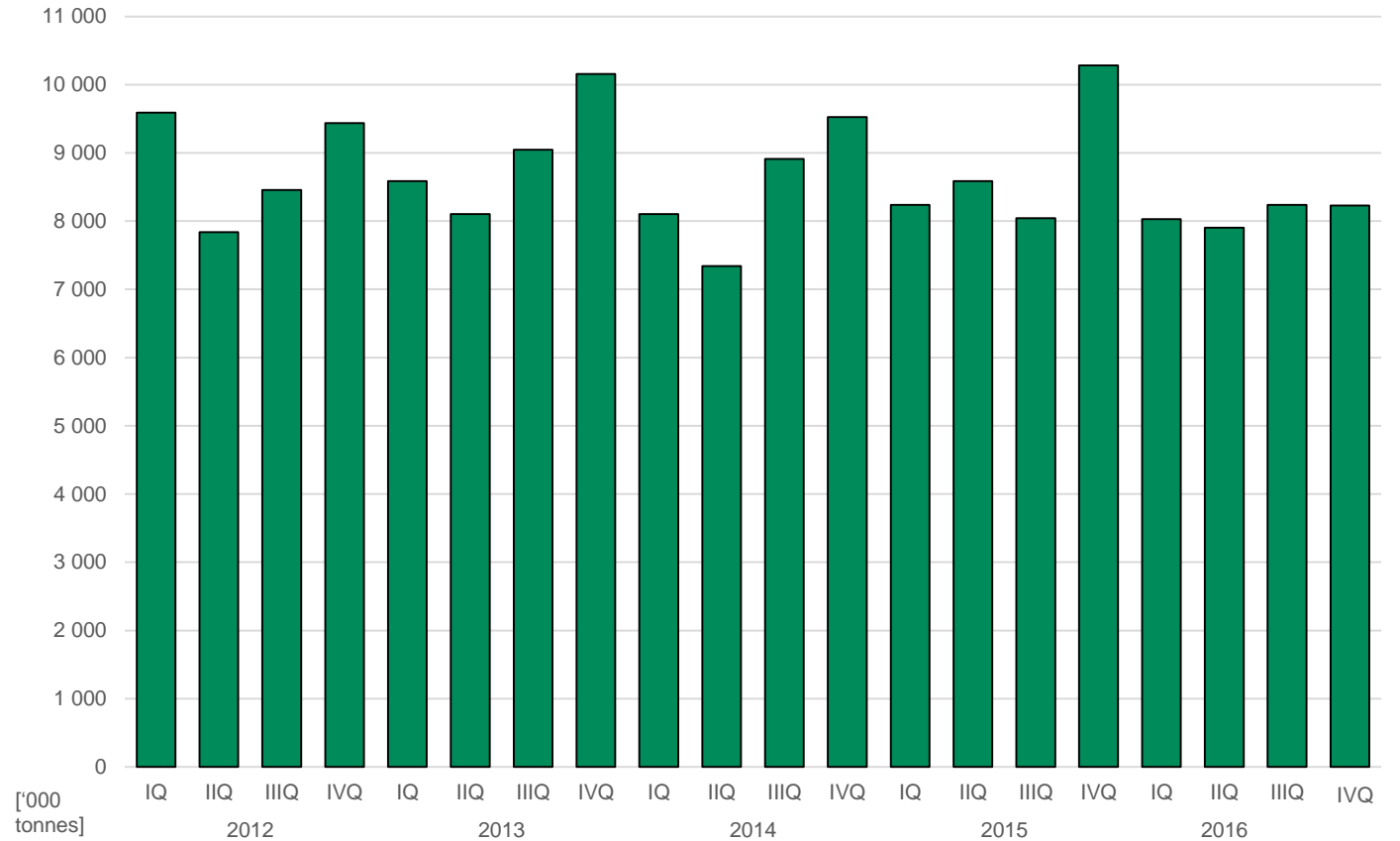
Sales of thermal coal market in Poland

In January-December 2016, about 59.7 million tonnes of thermal coal were sold in Poland. 53.5 million tonnes of coal were delivered to Poland's market, including 46.7 million tonnes of thermal fine coal.

Export of coal

About 6.2 million tonnes of coal were exported, mainly thermal fine coal.

Sales of thermal coal to commercial power plants





Electricity generation in Poland

Electricity generation - total

- In 2016, the production of electricity totalled about 162,626 GWh, which represents an increase of 854 GWh (+1%) versus the same period of 2015

Power generation from coal

- Coal is the main fuel used to produce electricity. In 2016 it was used to produce 132,552 GWh, which is a decrease by 2,895 GWh (-2%) compared to 2015.
- In 2016 coal accounted for 81% of total electricity production in Poland, but its share in the fuel mix went down by 3% in comparison with 2015.

Power generation from hard coal

- Hard coal was used to produce 81,348 GWh of electricity (almost 1% less than in 2015)

Power generation from lignite

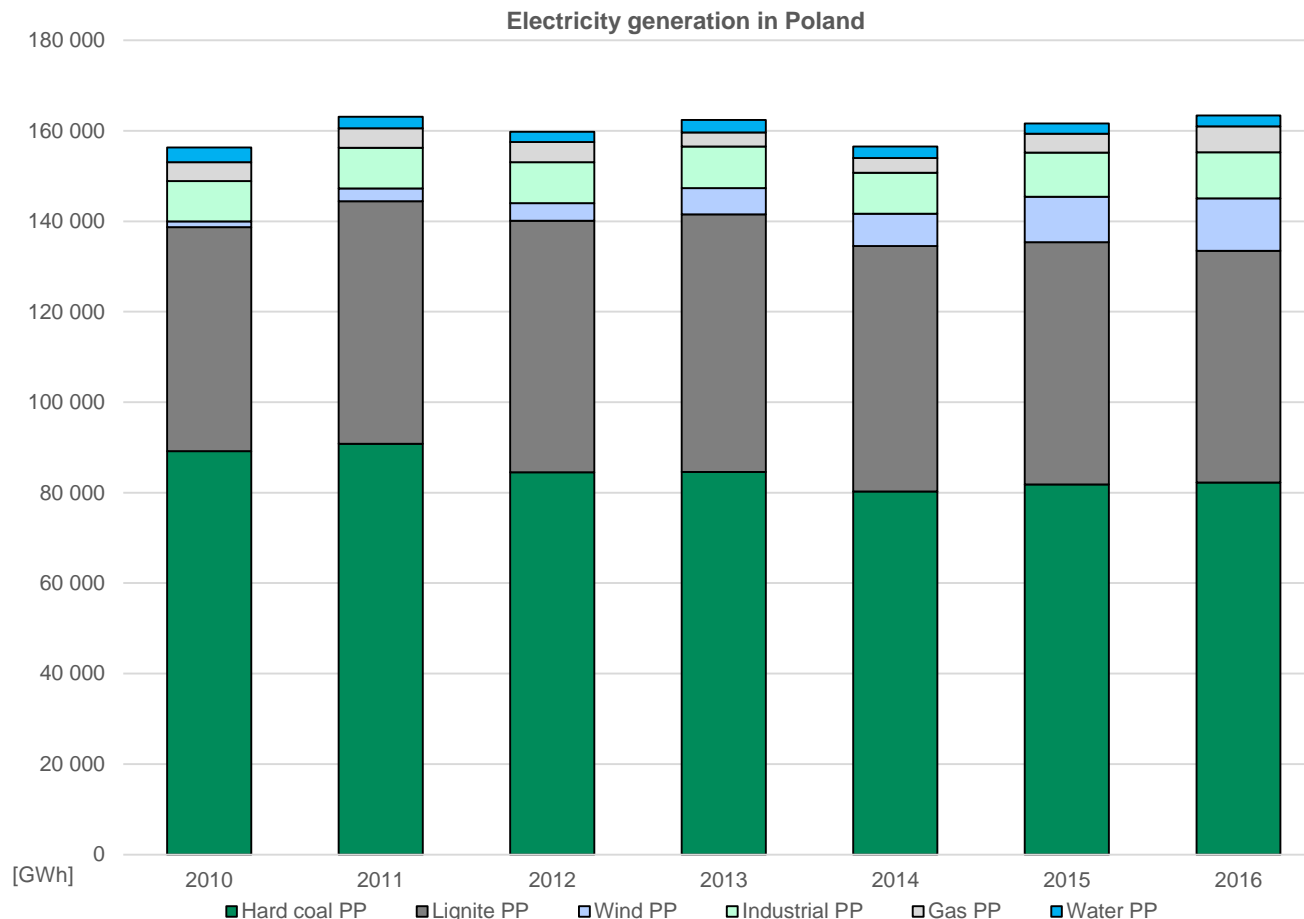
- Lignite was used to produce 51,204 GWh of electricity (over 4% less than in 2015)
- In 2016 lignite experienced the largest drop among the fuel mix components. Its share fell by more than 4% compared to 2015.

Power generation by wind farms

- Wind farms produced 11,623 GWh of electricity, which is a growth of almost 16% in comparison with 2015. Wind makes up about 7% of electricity production.

Power generation by gas-fired power stations

- In 2016 gas achieved the largest growth rate. Gas power plants produced 5,776 GWh of electricity, which is an increase of almost 38% compared to 2015.



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

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.

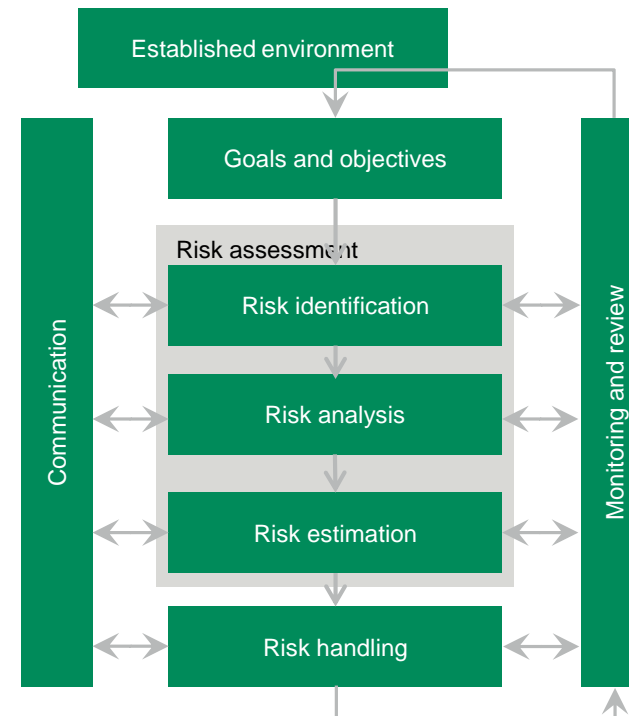
An important role in the risk management system of the Company is played by the Enterprise Risk Management Committee appointed by the Management Board, which Committee has its own specific powers at every stage of ERM operation, and which performs functions that involve accepting and issuing opinions on any identified risks and mitigation measures.

The Company provides information and reports on the outcomes of the ERM implementation and its development to the Supervisory Board and the Audit Committee.

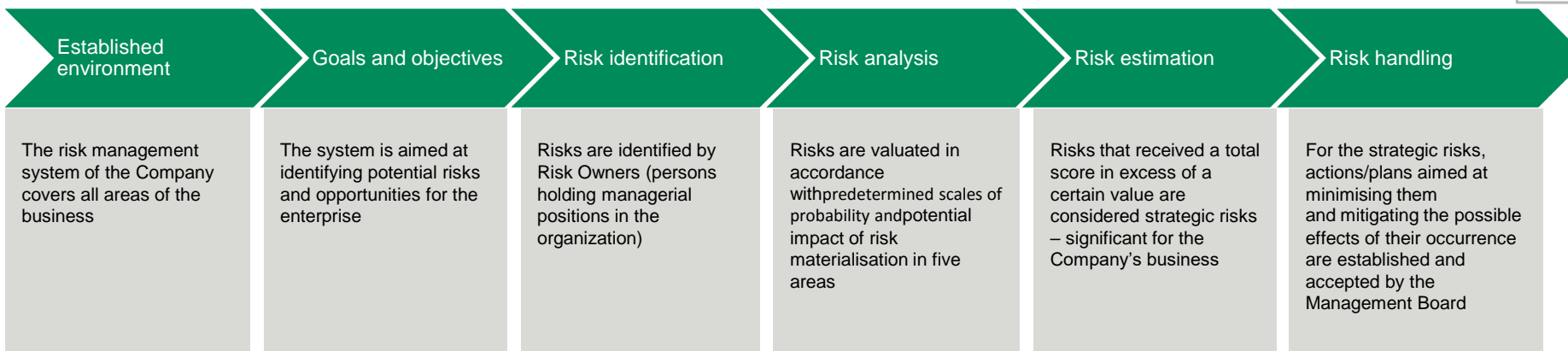
In subsequent periods, the system will be further adapted to the needs of the Company with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

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





Main risks to the Company by category

RISK FACTORS	
BUSINESS ENVIRONMENT AND MARKET	<ul style="list-style-type: none"> • 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 connected with 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	<ul style="list-style-type: none"> • 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 Company • Risk of IT systems malfunctioning • Key customer risk • Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company • Customer insolvency risk • Risk associated with the strong position of the trade unions in the Company • Risk associated with retaining and attracting human resources for LW Bogdanka S.A. • Key supplier risk • Risk of unfavourable/inappropriate contractual terms being concluded • Risk of price fixing by the suppliers
FINANCIAL	<ul style="list-style-type: none"> • Liquidity risk • Insurance risk
ENVIRONMENTAL PROTECTION	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Risk of change to tax laws • Risk of real property 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



Risks associated with the Company's social and economic environment and market environment

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

Factors that influence the financial results of LW Bogdanka S.A.:

- 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
• exchange rate fluctuations

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 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. A merger between PGG and KHW is going to be finalised by the end of the first quarter of 2017. At present, a detailed plan of the merger is being formulated. The representatives of PGG have audited the situation of the holding by conducting due diligence. It has been announced that after the merger has been completed, PGG will be decapitalised by investors to the amount of about PLN 1 billion to be used to finance KHW investments and other purposes.

Establishing one bog entity combining former mines - KW and KHW - entails great uncertainty as to the volume of thermal coal production in Poland and, consequently, the possibilities of its market position. 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 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 Company.

Despite the fact that coal prices on global markets have to a certain extent been stabilised, and regardless of the sharp price rises we witnessed in mid 2016, it needs to be remembered that the current price levels are still far from those recorded before the falls that occurred in 2013. The stabilisation of prices and the decrease in inventories in European ports have somehow lowered the risk, but it remains to be seen if and how the situation will continue.

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



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 Company 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.



Interest rate risk

LW Bogdanka S.A. is a party to financial agreements based on variable interest rates. The risk refers to loans already contracted, new loans to be contracted and existing loans to be refinanced.

An increase in interest rates may result in an increase in finance costs of the Company and hence have an adverse effect on the financial results (alternatively, a possible decrease in interest rates may cause a decrease in finance costs of the Company bringing a positive effect on its financial results).

The risk may potentially increase if the share of debt financing continues to grow, in particular given an adverse EU sentiment to coal market (higher bank margins).

Countermeasures: monitoring and control of debts.



Risk associated with changes in exchange rates

The risk mainly concerns the 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 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 Company is able to meet its debt financing needs without entering into new agreements. For more information refer to page 20 of the Report.

The current interest-bearing debt (loan and the issued bonds of the total value of PLN 600,080,000) as at 31 December 2016 accounted for 26.4% of Company's equity and 16.0% of the balance-sheet total.

Countermeasures: loan agreements concluded and the Bond Issue Program.





Risks associated with the Company's social and economic environment and market environment

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

The operating activities of LW Bogdanka S.A. 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
- work accidents, including fatal accidents
- potential of the Company 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:

- use of advanced and reliable mining machines and equipment, which reduces the risk of industrial malfunctions
- 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 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 LW Bogdanka S.A., 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 Company's operations.



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 fine thermal coal may continue until 2018, which is certain to impact coal pricing policy applied at LW Bogdanka S.A. The risk for the Company has been significantly reduced by contracting most of the production at least 5 years ahead.

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.





Risks directly associated with the Company'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 Company 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 LW Bogdanka S.A.

At the moment the Company is undertaking activities with the aim of obtaining new licences in order to double its resources and secure a raw material base for further 50 years of activity.

More information on page 18 of the Report.

Countermeasures: further steps to obtain mining licences for the K-6 and K-7 areas, as well as exploration licences for the Ostrów area.



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 associated with high costs of technologies applied by the Company

The technology of thermal coal extraction involves the use of highly specialised machines and equipment. As a result of the Company's implemented 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. In 2015, the exploitation of mining of seam 391 began; the seam is located about 100 m below seam 382. Along with the depth increases the difficulty of maintaining the excavations (rock mass pressures increase), the natural temperature of rock, as well as certain other dangers. This may altogether increase coal mining costs.

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



Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of computer systems may adversely affect the Company's ongoing operations and therefore affect its 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.



Key customer risk

Vast majority of the thermal coal produced by LW Bogdanka S.A. is sold to a relatively small group of large contracting parties operating on the domestic market. Therefore, there is a risk that the reduction or termination of cooperation with a key customer of the Company 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:

- this year's conclusion of agreements securing the sale of most of the production at least 5 years ahead.
• 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 adopted restructuring scenario for Silesian mines.



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

The Company 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 Company 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.





Risks directly associated with the Company's operations

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW Bogdanka S.A. payable by its customers and the surplus of Company's receivables in comparison to liabilities. As of the end of 2016, trade debtors and other current accounts receivable of the Company accounted for 6.5% of the carrying value and 13.6% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 80.9%.

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 associated with the strong position of the trade unions

Trade unions hold a significant position and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, four trade union organisations operate at the Company, associating the total of 72.1% of the Company's employees.

The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities.

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



Risk associated with retaining and attracting human resources for LW Bogdanka S.A.

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 Company. 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.



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 their limited number 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 of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of agreements (particularly those relating to the purchase of specialist equipment and technology), it is exposed to a risk of an agreement 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 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 LW Bogdanka S.A. by a group of suppliers.

Countermeasures:

- permanent market monitoring and acquiring new suppliers
• periodic analysis of contract prices and researching new market trends





Financial risks and risks associated with environmental protection

Liquidity risk

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

The Company's cash at hand as at 31 December 2016 amounted to PLN 513,432,000. The current liquidity ratio for the Company amounted to 1.25, and quick liquidity ratio: 1.15.

In 2016, net flows from operating activities generated by LW Bogdanka S.A. stood at a level of PLN 658,209,000 with capital expenditure of PLN -272,408,000 (drop by approx. 35.1% in comparison to 2015.)

Countermeasures: long- and short-term analyses and projections to help determine cash needs.

Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses.

Furthermore, in order to optimise cash management, the Company obtained debt financing in the form of an overdraft credit facility.



Insurance risk

The Company 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.

In 2015, an insurance review was carried out at the Company, which in turn lead to updating the existing insurance programme. The implementation of the programme was completed in December 2016 when the Company renewed its insurance coverage with respect to underground property, surface property, and third party liability for damage caused in connection with business activity.

Countermeasures: The Company holds insurance policies covering the risk of loss and damage to underground property with an insurance limit which is one of the highest on the Polish market, third party liability insurance against damage caused in connection with business activity or property in its possession, above-ground property insurance, and all-risks insurance of rail vehicles. Moreover, the Company has a partial insurance of a Business Interruption type.



Risk associated with reclamation and mining damage

LW Bogdanka S.A. 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, gradual hydrographic works and prophylactic protection on the facilities within the boundaries of inflows.



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 LW Bogdanka S.A. 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 Company monitors legal regulations on an ongoing basis, and adjusts its operations accordingly within the prescribed time limits.



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

In connection with the extension of the mining area and increased extraction of coal, the amount of generated extraction waste significantly increased. It is estimated that the storage capacity of the waste yard is sufficient for up to 4 years of storing.

On the basis of a building permit, the Company 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 mean 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 Company 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. The Company has also purchased a plot of land adjacent to the mining waste treatment facility and started preparatory works related to placing waste. Moreover, the Company is taking intense actions related to the recovery and management of mining waste.



Investment risks associated with protected areas

The mine 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 and three others in close vicinity 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. These investment restrictions may require higher capital expenditure and therefore may affect the financial result.

Countermeasures: ongoing monitoring, adjusting business activities to requirements and obligations.





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. 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 of real property tax on mining excavations of LW Bogdanka S.A.

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

In 2016 fiscal proceedings were pending against the Company 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, Note 19.



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

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. They are recorded in accounting books as non-current assets or directly as operating costs and the point when such costs are incurred. The pits comprising a fixed underground mine infrastructure are classified by the Company as non-current assets. The exploitation and movement pits are classified as operating costs at the time when such costs are incurred – cost pits. 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 of a change in the law and its interpretation and application

The provisions of law in Poland are frequently changed. 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 Company or if the Mining Law introduces new requirements, it could lead to deterioration of its financial situation and as a result negatively affect the Company'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 Company 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 of violating the stock exchange disclosure requirements

Since LW Bogdanka S.A. is listed on the Warsaw Stock Exchange, the Company is subject to provisions which impose a number of requirements. For failure to perform or undue performance of the requirements set forth above a very high fine may be imposed.

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 Company's operations with respect to disclosure requirements.





Work conditions and technical risks

Working conditions

The nature of the Company's operations entails that the staff employed at the mine, especially underground, are exposed to a number of natural and technical risks. Work in underground conditions also exposes the staff to harmful and nuisance work environment factors at work stations.

Natural risks

The following natural threats occur in the mine:

- Methane hazard



- Water hazard



- Coal dust explosion hazard



- Fire hazard



Strict compliance with occupational health and safety regulations, monitoring, and preventive measures ensure that those threats are entirely under control.

None of the above natural threats occurred in 2016.

Technical risks

In 2016, on average 514 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present. It is a figure similar to that of the previous year.

Particularly dangerous machinery includes but is not limited to the machinery listed in Annex IV to Directive 98/37/EC implemented by virtue of the Regulation of the Minister of Economy, Labour and Social Policy of 10 April 2003 on the essential requirements relating to machinery and safety components (Dz. U. [Official Journal] No. 91, item 858).

Particularly dangerous machinery includes but is not limited to:

- locomotives
- hydraulic-powered roof supports
- presses
- etc.

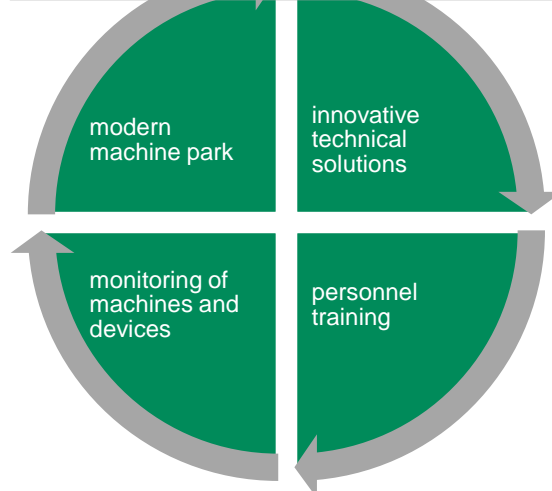
Reduction of technical risks and their impact on employees is effected by:

- replacement of machinery with more advanced machines that ensure greater safety for the operators and staff working in their vicinity
- introduction of innovative technical solutions, machinery and small mechanisation equipment with improved safety standards, not listed in the above regulation
- constant monitoring of the market in terms of new safe machines and equipment
- internal and external training both in operating small mechanisation and machines, facilities and installations requiring appropriate qualifications



on average 514 employees are exposed to mechanical risk each day

we mitigate technical risks by:





Harmful and nuisance factors

Harmful and nuisance factors

Measurements of harmful factors at the Company's work stations are conducted:

- in compliance with the regulation of the Minister of Health of 2 February 2011 on testing and measuring harmful factors at work environment (Dz. U. [Official Journal] 2011.33.166)
- in compliance with a relevant internal procedure.

The internal procedure covers the following measurements:

- hard coal dust and the free crystalline silica content
- audible noise
- general and local vibrations
- ionizing radiation
- harmfulness of welding gases
- UV radiation
- microclimate

All employees working in harmful conditions are equipped with appropriate personal protection equipment, depending on the category of dust risk. Each employee is informed of the existing danger and trained in how to use such personal protection equipment appropriately.

Work accidents

In 2016, there were 81 accidents at work: 1 major accident and 79 minor accidents at work, and 1 accident deemed equivalent to an accident at work. The number of accidents and basic accident rates are presented in the table.

Number of employees working at work stations where maximum permissible levels and maximum permissible concentrations are exceeded

Year	Underground					
	Dustiness	Noise	Vibrations	Microclimate	Chemical agents	Other
2011	1,097	1,205	34	913	-	-
2012	961	1,222	90	789	-	-
2013	1,389	1,455	64	738	-	-
2014	1,796	1,553	142	809	-	-
2015	1,821	1,139	38	435	-	-
2016	1,616	1,027	17	431	-	-

Number of accidents and accident rates at the Company in 2011-2016

Year	2011	2012	2013	2014	2015	2016
Number of accidents – total	93	103	87	82	81	81
including: fatal	-	-	-	-	-	-
including: causing serious injury	-	1	-	-	3	1
frequency rate (per 1000 employees)	22.81	23.05	18.85	16.73	17.18	18.01
frequency rate (per 100,000 workdays)	11.03	11.19	9.19	8.11	8.19	8.70

Work accident costs at the Company in 2011-2016

Year	Number of accidents	including:		Benefits paid (PLN '000)
		fatal	major	
2011	93	-	-	332.3
2012	103	-	1	412.2
2013	87	-	-	268.7
2014	82	-	-	275.0 (60 injured)
2015	81	-	3	370.1 (73 injured)
2016	81	-	1	283.0 (57 accidents and 1 occupational disease)





Location of the Company

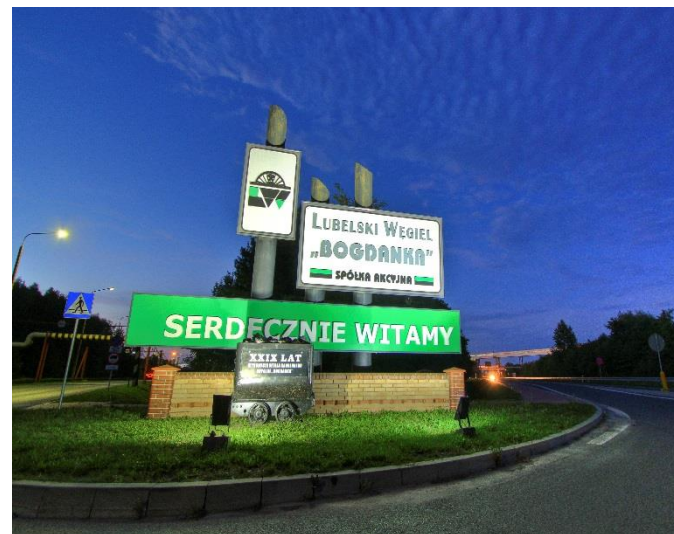
The entire infrastructure of the mine and the "Puchaczów V" and "Stręczyn" mining areas are surrounded with protected land.

The immediate vicinity features:

- the Polesie National Park,
- the Łęczna Lake District Landscape Park.

In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 60009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west. The Polesie Protected Landscape Area is located in the north-east, while in the south-east there is the Chełm Protected Landscape Area.

The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-ecological actions, implementation of an Integrated Quality, Environmental and Health and Safety Management System, and obtaining a relevant certificate in accordance with PN EN ISO 14001, 9001 and 18001 as well as on-going operational activity with a view to minimising the mine's impact to the environment.





Natural environment issues

Air protection

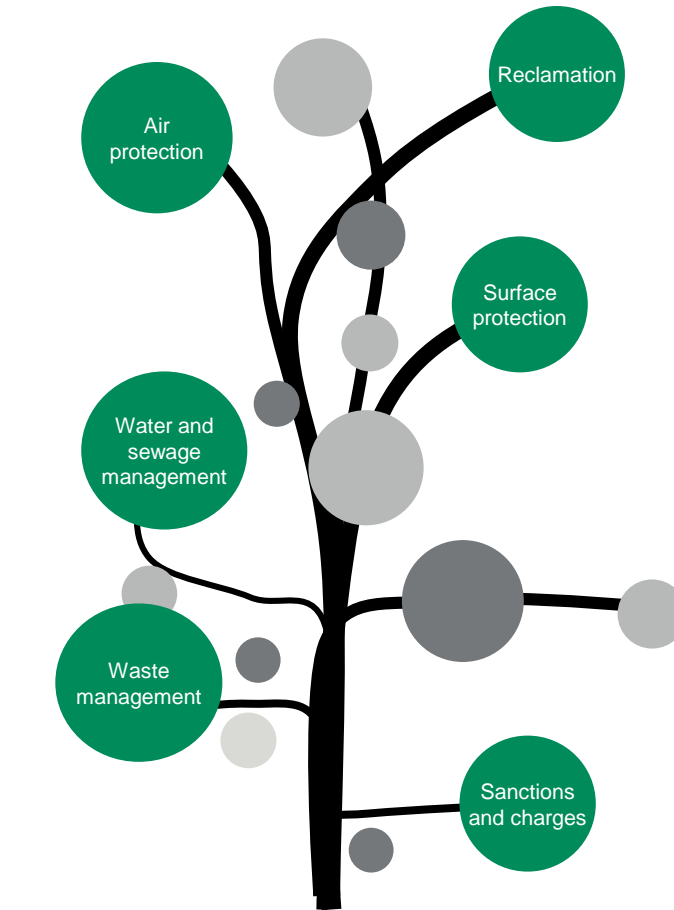
- LW Bogdanka S.A. does not have an organised emitter that would emit dust and gases to the atmosphere
- a non-organised emitter at LW Bogdanka is the mining waste disposal facility which may be a source of dust on dry and windy days
- non-organised emission to the air is caused by welding processes and fuel combustion in diesel engines used in the Company.

Water and sewage management mainly concerns mine water, and includes:

- rock mass draining at working sites
- controlled drainage of Jurassic layers
- use of water for fire and process purposes
- pumping water to the surface
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o. - as part of water treatment station operations)
- retention of mine water in a surface sediment tank in order to reduce suspension
- discharge of water from tank through a drench system and the Rów Żelazny ditch into the Świnka River in the amount of about 14,623 m³/day.
- the content of chlorides and sulphates in mine water is 1,035mg/dm³.

Waste management:

- in 2016, total mining waste amounted to 6,372,500 tonnes
- approximately 45% of waste was recovered and reused. Waste recovery, i.e. using waste to rehabilitate land, strengthen roads and yards, produce cement in the "Ożarów" Cement Plant and for other purposes, amounted to 2,893,500 tonnes
- 98% of waste is used for the purpose of rehabilitation of degraded land. It involves restoration of the original lay of the land by filling abandoned sand pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation.
- other post-mining waste (3,479,100 tonnes) is stored at the mining waste neutralization facility in Bogdanka.



- LW Bogdanka S.A. manages other post-industrial waste by contracting to authorised entities the treatment of reusable waste (waste wood, used oil, scrap, conveyor belt off-cuts etc.) and waste which cannot be reused (used light sources, adhesive and paint containers, etc.).

Reclamation

- in 2016, LW Bogdanka S.A. did not perform land reclamation works in post-industrial areas.
- maintenance works are performed on an ongoing basis with respect to the greenery, a facility used as a mining waste dump, previously-remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

Surface protection

- the influence of mining works performed in 2016 on the surface – as to date – manifested itself mainly as an increase in the surface scope of the existing impact
- in the area of the village of Bogdanka and Nadrybie Wieś maximum soil settlement remains at a level of 5.0 m in the central part of the settlement basin
- damage to buildings in 2016 – as to date – were primarily related to rural buildings. The reported damage to those buildings did not pose any threat to their users and were removed on an ongoing basis
- the costs of removing damage caused by mining in 2016 amounted to a total of approx. PLN 3.3 million.

Environmental protection sanctions and charges to which the Company is exposed

- mining activity is associated with operating and environmental charges, and a number of costs connected with:
 - post-mining waste management
 - post-industrial land rehabilitation
 - environmental monitoring
 - preparation of certified reports and documentation necessary for proper operation of the plant.

The exploitation charge is paid every half a year to the accounts of communes where exploitation is conducted (60%) and towards the National Environmental Protection Fund (40%). The licence fee is in 40% the income of the National Environmental Protection Fund, and in 60% the income of the mining communes.

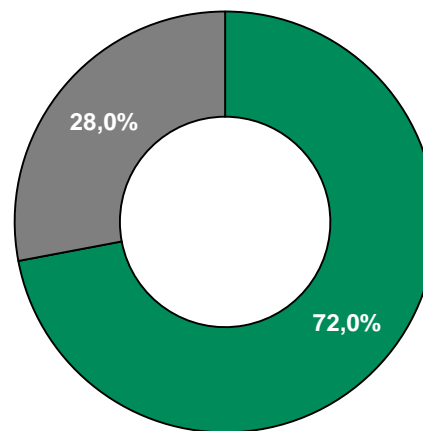
LW Bogdanka S.A. complies with environmental standards, and did not incur any penalties in 2016 for violation of environmental rules laid down in the applicable laws.



Workforce changes

- As at the end of 2016, the Company employed 4 people, which represents a 2% decrease compared to 4,555 people at the end of 2015,
- underground and surface employees make up 72% and 28% of the head count, respectively. Due to the nature of its business, the Company mainly employs men - they account for 94.6% of the head count (women - 5.4%),
- in terms of age, the dominant group of employees is composed of people between 30 and 50 years of age (60.8%),
- the largest group is made of persons with secondary education. Their share in total employment at the end of December 2016 was 53.2 %.,
- 1,771 employees (39.7%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications.

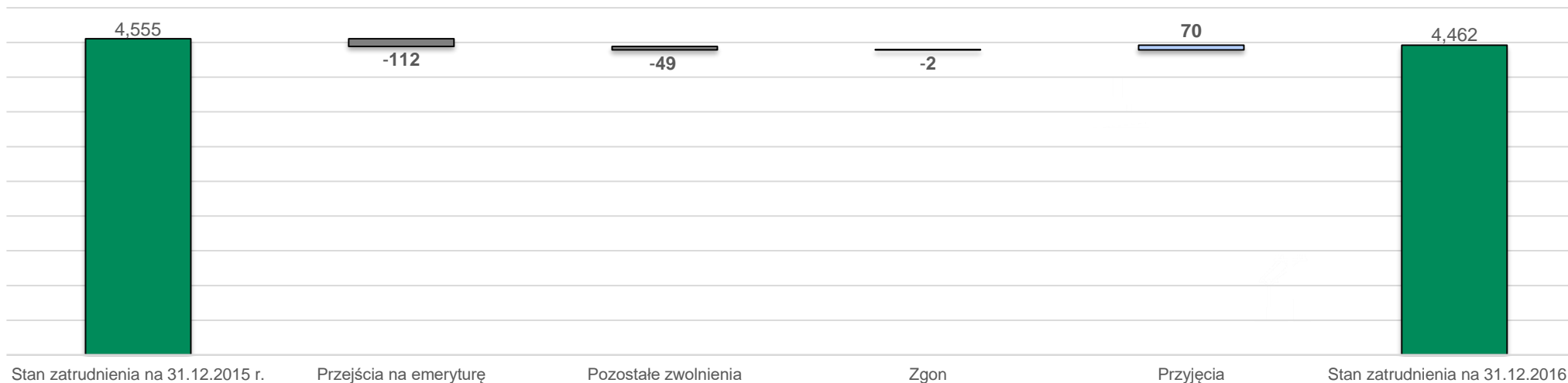
Detailed information on employment is presented in the charts below.



Employees underground and on the surface - as at 31 December 2016

■ Underground workforce
■ Surface workforce

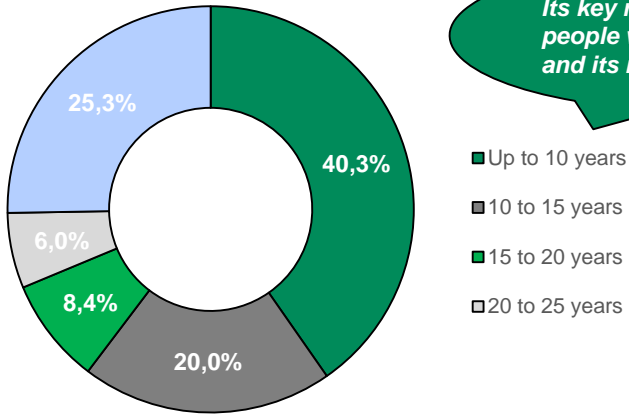
Workforce changes - person





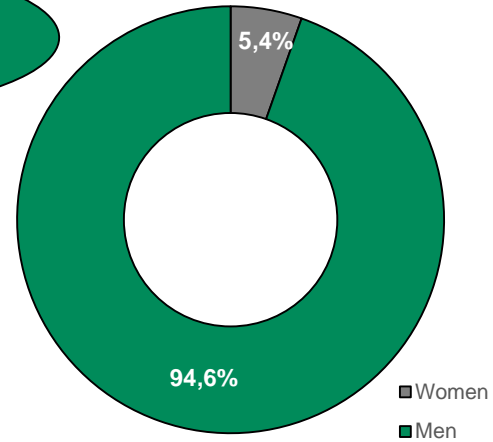
Workforce structure at the Company

Employees by length of service - as at 31 December 2016



Its key resource are the people who identify with it and its mission.

Employees by sex - as at 31 December 2016



HR policy implemented in 2016

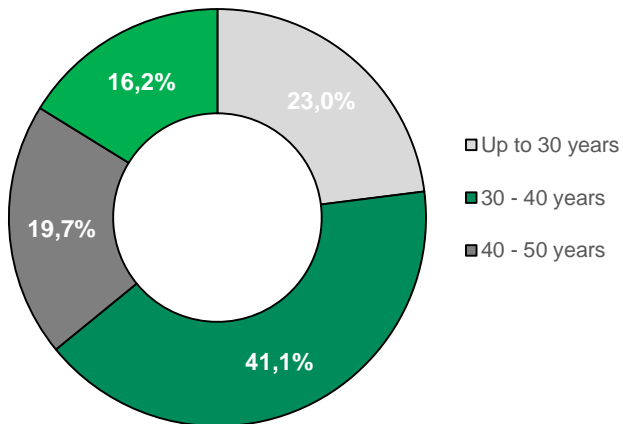
The Company's personnel policy is implemented with the aim of effective HR management by hiring and developing the employees, and by retaining an optimal level of workforce to enable proper fulfilment of the Company's objectives, as set forth in its Articles of Association.

In particular, it aims at selecting and shaping the employee's competencies in such a way as to prepare them as best as possible for effective implementation of the Company's goals and objectives, while having a sense of self-fulfilment and satisfaction from their work.

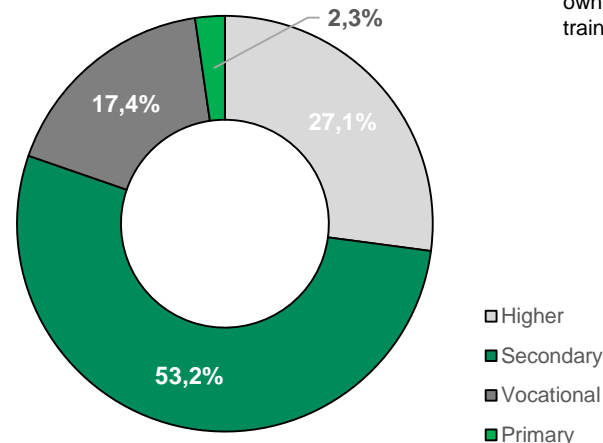
The occurrence of a generation gap is prevented by:

- collaboration with educational institutions, organisation of apprenticeships and internships
- building the image of a desirable employer and acquiring the best candidates.

Employees by age as at 31 December 2016



Employees by education - as at 31 December 2016



Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2016, the Company organised internal and external training. Employees took part, out of their own initiative and upon consent of their superior, in external training and conferences to expand their knowledge.



Average monthly remuneration

Principles of remuneration in the Company are regulated by the Collective Bargaining Agreement of 31 October 2001, concluded between the Management Board of the Company and trade organisations operating within the Company: Independent and Self-Governing Trade Union "Solidarność", Trade Union of Miners in Poland, Trade Union "Kadra" and Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka".

The Collective Bargaining Agreement specifies a package of benefits due within the employment relationships and principles for granting individual components of remuneration, including tables of applicable rates, bonuses for effective work hours, e.g. for working overtime, bonuses for rescuers and others. The Collective Bargaining Agreement also applies to key managers referred to in rule VI.4 of the Code of Best Practice.

Level of effected average monthly remuneration for work was as follows:

[PLN]	2015*	2016	Change
Total staff	7,391	7,344	-0.6%

*Inclusive of an annual award which was given to the employees on 15 February 2016 on the basis of an agreement regarding the 2015 remuneration in the Company dated 1 February 2016 concluded between the Management Board of the Company and all trade union organisations, after the relevant special-purpose provision had been released.

An analysis of the average monthly remuneration was carried out on the basis of the average employment at the Company (the methodology used by the Central Statistical Office of Poland to lower the employment level by excluding employees who were on a sick or parental leave, or were provided with care allowance or rehabilitation benefit for a (continued) period of more than 14 days was not applied).

In 2016 the payroll fund was used in accordance with Additional Protocol No. 55 to the Collective Bargaining Agreement which provides for the following:

- rise in basic salary by 2.5% from 1 July 2016 with a simultaneous reduction in a base rate of monthly bonus by

4.0 p.p.; as a consequence of excluding key managers from the payroll fund without changing the type of their work (mainly work performed in mining walls and in headings), the amount of average basic salary fell by 1.5%

- monthly bonus settled on the basis of:
 - the degree of compliance with monthly production targets
 - sale of commercial coal
 - the average sale price achieved
 - the degree of compliance with the Company's cost budget for individual periods.

In 2016:

- the level of bonuses went up by 5.9%
- allowances for work at night increased by more than 1.5% (about 2% in the structure of average monthly remuneration)
- allowances for the work performed increased by more than 8% (allowance for rescuers, allowance for internal training or foreman training, on-call duty allowance etc. account for 0.4% of the average monthly remuneration).

Moreover, the analysis of the average monthly remuneration in 2016 indicates that:

- cash equivalent for coal allowance went down by more than 7%
- 4.7% increase in payments for a period of paid holiday absence, and a significant increase of more than 28% in remuneration for a period of sickness absence paid from the company's funds (this is a consequence of arrangements made with the trade unions to secure the jobs of current employees).
- payments of jubilee awards increased by about 10%, while retiring severance pays and disability severance pays fell to the level of 47.5% of the amount paid out in 2015 – this is a consequence of a smaller number of employees who retired [in 2016] (221 employees in 2014, 242 employees in 2015 vs. 105 employees in 2016)
- annual awards provided for in the Collective Bargaining Agreement were paid according to the usual principles at a level which was about 3% higher than in 2015.

In 2016 the Company adjusted the output to the possibilities of placing commercial coal on the destabilised market of hard coal for the power sector, but at the same time protected the jobs of its

employees.

Average monthly remuneration was 0.6% lower, i.e. it accounted for 99.4% of the average remuneration in 2015*, which was previously agreed upon with the trade unions in the agreement of 21 June 2016.

The efforts to prepare a new wording of the Collective Bargaining Agreement for the Company's employees were continued.

Generation Change Programme

In connection with an increased risk of a substantial outflow of employee competences, the Management Board of the Company, in order to secure personnel requirements, implemented the Generation Change Programme. The first stage is the Voluntary Redundancy Programme which makes it possible to bridge the generation gap in a reasonable and coordinated manner, spread this process over time, and maintain the continuity of operating activities.

The aim of the Programme is to take early steps to prevent the adverse consequences of natural economic and demographic changes, and implement systemwide solutions to this end. Current actions will take two or three years to show their potential effects. The Company created a provision of PLN 21,688,000 for the Voluntary Redundancy Programme.





Marketing activities conducted by the Company in 2016

Types of promotional activities:

- advertising sponsorship, sports is understood as support of all sports activities conducted by the main beneficiary of the budget, i.e. Górnik Łęczna S.A., which manages tournaments of the first football team that competes in Ekstraklasa (Polish premiere football league), and MGKS Gwarek Łęczna, which is a boxing club representing boxers who have a good success rate in boxing tournaments on both national and international level. Both clubs accomplish their mission, which is to promote sports rivalry among young people. Górnik Łęczna runs a Sports Academy, and MGKS Gwarek Łęczna trains boxers by organising youth group training. In exchange for the sponsorship both entities provided LW Bogdanka S.A. with promotional and advertising services specified in an agreement.
- advertising sponsorship, other is understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. This promotion channel applies in particular to CSR activities. The most recognisable event which the Bogdanka mine has sponsored for several years is Carnaval SztukMistrzów.
- promotion – promotional mix for the Bogdanka corporate brand is understood as public relations, Corporate Social Responsibility and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image and products. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense (sales promotion). These tasks are executed in-house by the Company's marketing, PR and in cooperation with CSR units.

The rationale behind the marketing activities undertaken:

- 1 Achieving social aims:
- minimising the risk of conflicts (if any) between the Company as an employer and trade unions and maintaining good social relations within the Company. Easing any social tensions and building an atmosphere of good will around the Company's projects within the local environment as well as in wide stakeholder circles

- maintaining good relations with employees, which translates into continued high performance of work provided by them
- satisfying expectations of the local community in the region, which is one of the poorer regions of Poland
- involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company — in particular at the Górnik Łęczna Sports Academy
- activating the community of the Lublin region into sport, social and cultural events
- building the Company's image as a socially responsible organisation which takes care of its employees and their families

2 Achieving marketing objectives:

- continued creation of company image as a leader of the mining industry on the Polish and European market. Increasing the value of the Company's brand by sponsored entities carrying out various advertising activities. Obtaining high media coverage whose value in terms of advertising is higher than the funds engaged in sponsorship
- confirming credibility in the eyes of current and future business partners and investors
- enhancing the Company's image by associating it with the energy and modern image of sport; Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines
- promoting the image of the Company and its shareholders through sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring
- boosting the Company's image on the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase in the value of the Company on the capital market
- conducting appropriate public relations for the Company on both the national and regional level. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness

No.	Advertising budget (in PLN '000)	Execution
1	Promotion, CSR	366
2	Sports sponsorship	5,486
3	Social/cultural sponsorship	287
TOTAL		6,139





Marketing activities conducted by the Company in 2016

The common denominator for the above scopes, especially with respect to shaping the brand's corporate image, is the existing CSR Strategy.

Promotional activities for the Bogdanka corporate brand focused mainly on the brand image — these activities were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's promotion was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business, which a part of the ENEA Group (building the success dimension of the brand), as well as a reliable employer within the Lublin area, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates (building the social dimension of the brand). The fundamental PR operations conducted in 2016 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies.

Advertising at cultural and scientific events (for example sponsorship of a regularly-held Carnival of Magicians in Lublin) greatly contributed to the creation of a positive brand image and emphasised the importance of LW Bogdanka S.A. for the Lublin region as one of the few large and expansive companies in that area.

The promotional activities mainly consisted in displaying the logo of the Bogdanka brand at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

The advertising activities listed above had a significant impact on the promotion of the BOGDANKA brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and an active lifestyle. All these activities were aimed at promoting the Company's image – domestic and international success, earning the trust of public circles that have an influence on the Company's operations.

The Company's promotional budget for 2016 was also used to finance projects that correspond to the CSR concept. Such

activities are among other things aimed at showing the Company's concern about its environment, thereby increasing the level of employees' identification with the Company's corporate brand and creating their need to be the ambassadors of their employer's brand.

In conclusion, the sponsorship of Górnik Łęczna S.A. (together with the Górnik Łęczna Sports Academy), as well as the purchase of advertising in nationwide media, promoted the Bogdanka brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of the Lublin mine among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Brand promotion at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers.



Donations

LW Bogdanka S.A. is a valued employer in the region. Its key resource are the people who identify with it and its mission. Counting both employees and their families, more than 12,000 people are directly and indirectly financially associated with and dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. The Company also sponsors sports and cultural activities. This philosophy benefits the Company and also helps create a positive image for it as a company which invests time and energy in non-commercial activities and, in particular, stimulates local initiative. The donations made by the Company in 2016 amounted to PLN 447,600.





Court and out of court proceedings

As of the date of submitting this Report, the Company has no information on any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority in which LW Bogdanka S.A. or its subsidiary is a party, 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

Arrangement proceedings

In 2016, the Company was not a party to arrangement proceedings.

Court proceedings with a litigation value of more than PLN 1,000,000

Commercial lawsuits

Lawsuits against the Company

- A lawsuit filed by the Consortium of: BUDIMEX S.A. with its registered office in Warsaw, Ferrovial Agroman S.A. with its registered office in Madrid, and Mostostal Kraków S.A. with its registered office in Krakow, for payment of damages in the total amount of PLN 10.1 million plus statutory interest from 2 November 2010 to the date of payment. The case is pending before the Regional Court in Lublin, IX Commercial Division, case no. IX GC 245/11. By virtue of a judgement of 26 May 2015 the Court dismissed the action in full. The Claimant appealed against the aforesaid judgement. On 12 August 2015 the Company filed a response to the Claimant's appeal with the Court of Appeals in Lublin, I Civil Division. On 12 April 2016 the Court of Appeals dismissed the claim. On 29 June 2016 the time for filing cassation complaint by the Consortium lapsed, therefore the case was finally closed.
- A lawsuit regarding complaint filed by Dębienko Sp. z o.o. with registered office in Czerwionka – Leszczyny requesting resumption of the proceedings ended with a final and legally binding judgment in default of the Regional Court in Gliwice, X Commercial Division, of 16 July 2008. The value of litigation is PLN 14.4 million. By virtue of its judgement of 22 January 2015, the Regional Court in Gliwice dismissed the complaint requesting resumption of the proceedings ended with a final and legally binding judgment in default of the Regional Court in Gliwice of 16 July 2008. The Defendant filed an appeal against the above judgement. The Company submitted a response to the appeal. By virtue of its judgement of 26 November 2015, the Court of Appeals in Katowice partly

amended the judgement of the court of first instance by quashing the said judgement with respect to the amount of PLN 531,000, and dismissed the appeal in the remaining scope. On 30 March 2016 the Company received the cassation appeal from this judgement. On 11 April 2016 the Company filed a reply to the above cassation appeal. 26 April 2016. The Court set the date of the cassation hearing for 10 January 2017.

- A case brought by PMKSiUG PEMUG S.A. in Katowice in which the Company is requested to reach settlement regarding the payment of PLN 1.1 million. The case is pending before the District Court in Lublin Wschód in Lublin with registered office in Świdnik, VIII Commercial Division, case No. VIII GCo 1374/14. The requested payment of PLN 1.1 million is the fee for the performance of works provided for in agreement No. 554/IB/2010 of 29 April 2010. The Company set off the above amount with reciprocal, due and payable claims that the Company had against PMKSiUG PEMUG S.A. in Katowice on account of liquidated damages. On the session held on 11 February 2015 no settlement was signed.
- A lawsuit filed by Wit Kotnarowski, Stanisław Stachowicz and Janusz Chmielewski for payment of PLN 32 million, pending before Regional Court I Civil Division, case no. I C 942/13. The indicated amount is an aggregate amount of remuneration to be calculated separately for each Defendant. By the date of this Report, court pleadings presenting the final positions of the parties to the dispute were drawn up and submitted. The Company requested that the patent be invalidated in proceedings before the Patent Office, and therefore, in the case at hand, the Company requested that the action be dismissed in its entirety. By virtue of its decision of 22 May 2015 the Patent Office refused to invalidate the patent. Moreover, the Company deduces that the mine does not use a solution equivalent to the one which is protected under the Patent, which would provide grounds for dismissing the action in its entirety. The first hearing was held on 8 May 2014, and was of a purely organisational nature. Witnesses of both parties testified at the hearings held on 18 and 20 November 2014, and on 22 September 2015. On 22 September 2015 the Court also decided on allowing evidence in the form of an opinion issued by a court-appointed patent expert. On 24 March 2016 the opinion was prepared. Both parties submitted pleadings with their reservations regarding the above opinion. As a result of the pleadings, the Court cancelled the hearings scheduled for 5 April 2016, 23 August 2016 and 11 October 2016. The hearing was eventually held on 6 December 2016.

The Court set another date of the hearing for 23 May 2017.

Lawsuits filed by the Company

A lawsuit filed by the Company against Aleksander Kabut and Marek Sitarz for payment of PLN 29.6 million, pending before the Regional Court, Commercial Court, in Gliwice. By virtue of a judgment of 18 April 2013, the Court awarded the Company jointly and severally from the Defendants the amount of PLN 23 million plus statutory interest from 14 April 2011 by the payment date, and in the remaining part it dismissed the claim. The judgment is not final and legally binding.

The Defendants appealed against the aforesaid judgment and lodged the motions for exemption from costs. On 21 April 2013 the Company filed replies to the above appeals. The Court of Appeals in Katowice, by virtue of a judgement of 29 May 2014 dismissed the Defendants' appeal. With respect to appeal dismissal the judgment is final and legally binding. The Defendant, Marek Sitarz, filed cassation appeal from the above judgement to the Supreme Court. The Company submitted a response to the above cassation appeal on 18 October 2014. By virtue of its judgement of 30 June 2015, the Supreme Court refused to accept the cassation complaint filed by Mr Marek Sitarz for examination, and requested Mr Sitarz to return the costs of the cassation proceedings.

The Company sent a request for payment to the Defendants with respect to the amounts awarded in the judgement (PLN 23.1 million together with statutory interest calculated from 14 April 2011).

On 18 August 2014, the Company submitted requests for disclosure of assets in respect of both Defendants. On 3 November 2014 the Defendant Aleksander Kabut submitted a declaration of assets before the District Court in Gliwice. On 19 March 2015, declaration of assets was filed by the Defendant Marek Sitarz. The proceedings for disclosure of the Defendant's assets have been ended.

Aleksander Kabut filed a complaint requesting resumption of the proceedings ended with a final and binding judgement of the Court of Appeals in Katowice of 29 May 2014. By virtue of the decision of the Court of Appeals in Katowice of 5 April 2016, the complaint was rejected. Aleksander Kabut filed an appeal with the Supreme Court against the decision to reject the complaint requesting resumption of the proceedings. By virtue of a decision of 9 September 2016 the supreme Court dismissed the complaint.



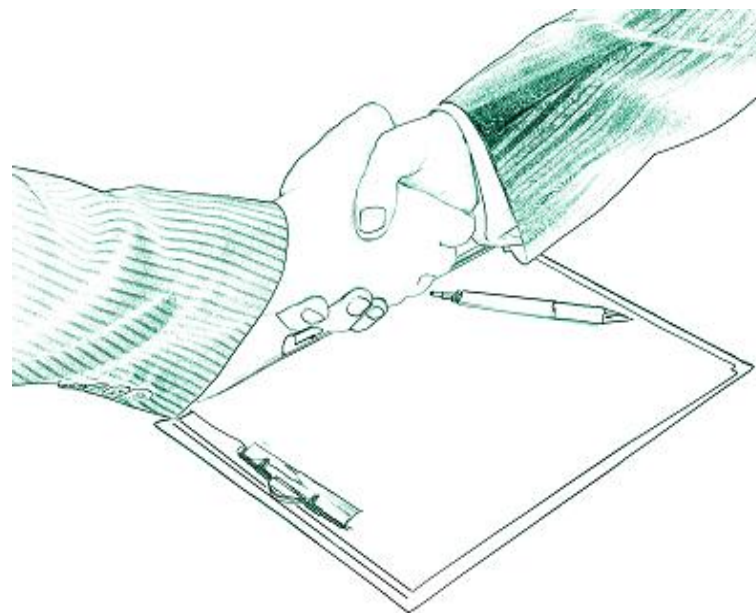
Court and out of court proceedings

Administrative cases

- The Company is a party to administrative proceedings concerning real property tax on underground excavations located in the territory of the neighbouring municipalities and communes. While preparing statements for real property tax, the Company, like other mining companies in Poland, does not take into account the value of mining excavations for the purpose of calculating this tax. For more information refer to the Financial Statements, Note 18. It is a source of information on recovery of the relevant overpayments in 2010-2012.
- In connection with the Company's request dated 19 December 2013 submitted to the Minister of Environment, a procedure was initiated to grant the Company a licence for hard coal mining in the Lublin K-6, K-7 deposit. The administrative proceedings ended with a decision of the Minister of Environment of 5 September 2014, which was upheld by a decision of 5 November 2014 following reconsideration of the matter. The licencing authority refused to grant the Company the mining licence by reason of conflict with public interest. In accordance with the decision of the Minister of Environment, the conflict with public interest occurs because another entity, namely a company under the business name PDCo, has a licence for exploration of the Lublin K-6, K-7 hard coal deposit (licence No. 23/2012/p of 31 July 2012). The Company filed with the Provincial Administrative Court in Warsaw the appeal against the aforesaid decision refusing to grant the licence. The decision refusing to grant the Company a mining licence was issued with a breach of provisions regarding the administrative procedure and substantial provisions of 9 June 2011 – Geological and Mining Law. The Minister of the Environment failed to satisfy the requirement under the Geological and Mining Law to consult the decision of whether or not to grant the licence with the Minister of Economy, and therefore, deprived the cooperating authority of the right to give its opinion on the question of whether it is contrary to the public interest to grant the licence to the Company. The above non-compliance made it impossible for the licencing authority to comprehensively assess whether such interest existed. Having heard the case initiated with the Company's complaint, the Provincial Administrative Court in Warsaw, by virtue of its judgement of 16 March 2016, dismissed the complaint in full.

On 2 June 2016, the Company filed a cassation appeal with the Supreme Administrative Court from the above judgement. The date of the hearing before the Supreme Administrative Court has not been set yet.

The Company is a party to a dispute with the Social Insurance Institution on whether it was justified for the Company to reclassify accidents at work. For more information refer to the Financial Statements, Note 18.



Key proceedings regarding non property rights

In 2016, the Company was not a party in proceedings regarding non-property rights.

Arbitration proceedings

On 7 April 2015, the Company was requested to participate in arbitration proceedings before the Arbitration Court at the Polish Chamber of Commerce in Warsaw by Mostostal Warszawa S.A. with registered office in Warsaw and Acciona Infraestructuras S.A. with registered office in Madrid ("Consortium"). The dispute concerns the Consortium's claims arising from the agreement of 29 June 2010 on the extension of the Mechanical Coal Processing Plant in Bogdanka ("Agreement").

The claims brought by the Consortium in the dispute concerned the reimbursement for the costs of extending the period of time in which the Agreement was implemented, the liquidated damages for withdrawal from the Agreement by the Consortium due to the alleged fault of the Company, and the payment for works performed and additional works. The total value of the claims is PLN 574,000, which accounts for 1% of the value of hypothetical claims the Consortium could have in connection with the implementation of the Agreement and settlements related to the Agreement. Moving to the Arbitration Court was a response to charging liquidated damages by the Company to the Consortium for delay in works, contractual damages for the failure to complete the works on time by the Consortium, and damages for lost profits. The Arbitration Court found itself competent to examine only one of the Consortium's claims - the claim related to the Company using a performance bond issued by RBS Bank (Poland) S.A. for the benefit of the Company. The value of the claim is PLN 15 million (but in the arbitration proceedings the Consortium pursues 1% of this claim). The Arbitral Tribunal ordered the Consortium to reimburse the Company for a part (60% net) of the costs of legal representation in proceedings regarding the competence of the court. On 10 June 2016, to Arbitration Court at the National Chamber of Commerce in Warsaw received an action filed by the Consortium regarding the bank guarantee described above; the Company files a response to the action, and requested a dismissal of the Consortium's claims and presented an opinion drafted by experts appointed by the Company. In the meantime, on 20 September 2016 the Company filed a statement of claim against the Consortium with the Regional Court in Lublin. The Company requested the court to determine that the alleged claims of the Consortium on account of the agreement did not exist. The claim aims to prove that the Consortium failed to duly perform the agreement, and therefore, the Company was right to charge the Consortium the liquidated damages and withdraw from the agreement.



Information on the auditor responsible for auditing the report and rules for preparing the annual separate financial statements

Information on the auditor responsible for auditing the report

On 13 August 2015, an agreement was concluded with Deloitte Polska sp. z o.o. sp. k. as an entity authorised to:

- review the financial statements and the consolidated financial statements of the Group for the first six months of 2015, 2016 and 2017,
- audit the financial statements of the Company and the consolidated financial statements of the Group for 2015, 2016 and 2017.

More information on the selection of the auditor is available in Current Report No. 20/2015 of 26 June 2015.

The table contains information on fees payable to the entity auditing the statements in 2015-2016.

The term of the agreement entered into by and between LW Bogdanka S.A. and the auditor is effective until 2017.

Basis of preparation of the Annual Separate Financial Statements

The financial statements of LW Bogdanka S.A. were drawn up on the basis of the International Financial Reporting Standards and related interpretations announced in Regulations of the European Commission.

The financial statements were prepared according to the historical cost principle except for derivative instruments measured at fair value and share-based payments, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost, which was carried out as at 1 January 2005. The financial statements were prepared using the same accounting principles for the current and comparative periods. Detailed basis of preparation of the Annual Separate Financial Statements are described in the Annual Separate Financial Statements for 2016.

Differences between financial results and projected results for 2016 published earlier

In 2016, LW Bogdanka S.A. did not publish forecasts of the separate or consolidated financial results of the Company for 2016.

Deloitte Polska sp. z o.o. sp.k. (PLN '000)	2015	2016
• audit of the annual financial statements	66	66
• review of financial statements	44	44
• other attestation services	-	20
• other certifying services (verification of ratios)	39	36
Total	149	166





3. Financial standing



Production, sale and inventories of coal

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

LW Bogdanka S.A. monitors on an ongoing basis the level of costs, ratios and the value of accumulated cash. The agreements that are signed at the moment (on the issue of bonds and overdraft facility) together with the level of cash held guarantee current financing.

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

LW Bogdanka S.A. pays its liabilities when due. The Company 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 financial forecasts). As at the date of drawing this information, the Company sees no threats that could deteriorate its ability to pay its liabilities in the future.

Production, sale and inventories of coal

In the fourth quarter of 2016, the production of commercial coal in the Company decreased by 6.8% compared to the same period of 2015 and amounted to 2,356,000 tonnes.

In the period from January to December 2016, the production of commercial coal was 9,038,000 tonnes, i.e. it was more by 6.9% than in the same period of 2015. The higher amount of the produced coal is a result of both the demand for coal and warehousing capacities of LW Bogdanka S.A.

Commercial coal production

['000 tonnes]	2015	2016	Change	Change %
Production of commercial coal	8,457	9,038	581	6.9%
['000 tonnes]	Q4 2015	Q4 2016	Change	Change %
Production of commercial coal	2,527	2,356	-171	-6.8%

Structure of commercial coal production

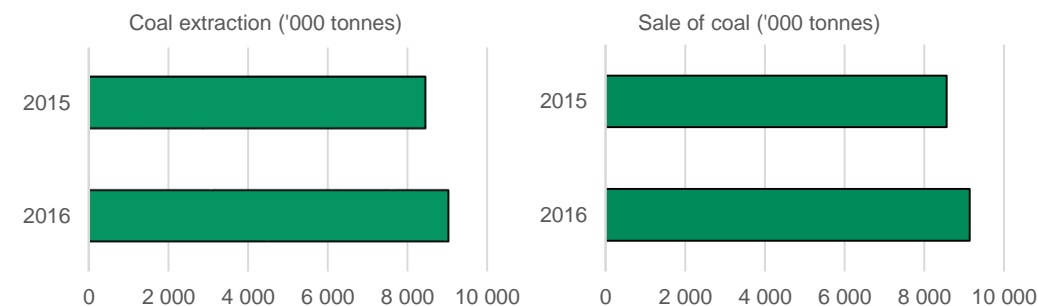
[%]	Q4 2015	Q4 2016	2015	2016
Fine coal	98.7%	97.9%	98.5%	98.5%
Nut coal	0.7%	1.3%	0.6%	0.8%
Pea coal	0.6%	0.8%	0.9%	0.7%
Total	100.0%	100.0%	100.0%	100.0%

In all 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 98%-99%).

In the fourth quarter of 2016, the sales of coal grew by 6.0% compared to the fourth quarter of 2015. In the period from January to December 2016, the sales of commercial coal amounted to 9,141,000 tonnes, i.e. they were smaller by 6.8% than in the same period of 2015.

Sale of commercial coal

['000 tonnes]	2015	2016	Change	Change %
Sale of commercial coal	8,562	9,141	579	6.8%
['000 tonnes]	Q4 2015	Q4 2016	Change	Change %
Sale of commercial coal	2,554	2,402	-152	-6.0%

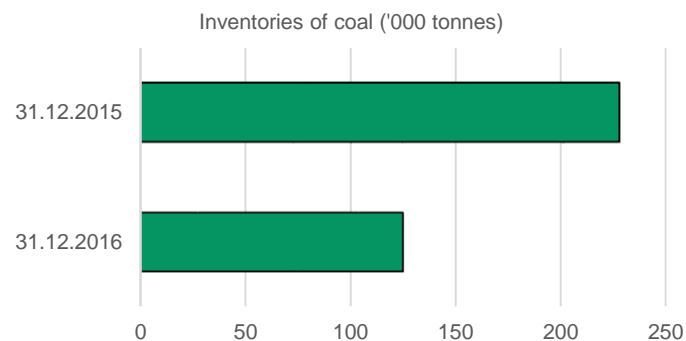


Revenue and key customers

As at the end of Q4 2016, the inventories of coal amounted to 125,000 tonnes which means a drop by 103,000, i.e. by 45.2%, compared to 31 December 2015. The level of coal inventories as presented for the end of Q4 2016 corresponds to approx. four days of commercial coal production (on the basis of an average 12-month daily production).

Inventories of coal

['000 tonnes]	31 Dec. 2015	31 Dec. 2016	Change	Change %
Inventories of coal	228	125	-103	-45.2%



The information on coal market in Poland is presented in the Directors' Report on Operations of LW Bogdanka S.A. for 2016 on pages 23-27.

Revenue and key customers

In Q4 2016, LW Bogdanka S.A. generated revenue in the amount of PLN 470,615,000, which represents a decrease by 15.7% compared to Q4 2015. The revenue for January-December 2016 amounted to PLN 1,781,776,000 compared to PLN 1,883,118,000 in the analogous period of 2015, which means a drop in revenue by 5.4% y/y.

The main source of revenue on sales of LW Bogdanka S.A. is the production and sale of thermal coal. In each of the compared reporting periods this activity generates nearly 96% of the LW Bogdanka S.A.'s revenue.

In the separate annual financial statements for 2016 published by LW Bogdanka S.A., 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 during drilling of excavations. Bearing in mind the above, the values indicated in the income statement for the period from 1 January to

31 December 2016 was adjusted by PLN 70,519,000, while in the same period of the previous year – by PLN 58,802,000.

More than 93% of coal sales (in terms of value) in the period from 1 January 2016 to 31 December 2016 was effected between LW Bogdanka S.A. 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 period from 1 January 2015 to 31 December 2015 the share of the above customers in revenue of the sales of coal was similar (above 94%).

The following companies were customers whose share in the Company's sales in 2016 exceeded 10% of the total revenue:

- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 46% of share in the revenue
- ENGIE Energia Polska S.A. (Połaniec) – approx. 22% of share in the revenue

Dynamics of changes in product range with respect to revenue

['000]	Q4 2015	Q4 2016	Change	Change %	2015	2016	Change	Change %
Sale of coal	539,283	453,976	-85,307	-15.8%	1,815,441	1,730,611	-84,830	-4.7%
Other activities	15,258	14,042	-1,216	-8.0%	54,950	39,537	-15,413	-28.0%
Sale of goods and materials	3,844	2,597	-1,247	-32.4%	12,727	11,628	-1,099	-8.6%
Total revenue	558,385	470,615	-87,770	-15.7%	1,883,118	1,781,776	-101,342	-5.4%

In Q4 2016 revenue on other operations were PLN 14,042,000 (3.0% of total revenue), compared to PLN 15,258,000 (2.7% of revenue) in the analogous period of 2015 (-8.0%). A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by LW Bogdanka S.A. 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 Company
- revenue on lease of non-current assets.



Sales and costs by type

In the period from 1 January 2016 to 31 December 2016, income on other operations were PLN 39,537,000 compared to PLN 54,950,000 in the same period of 2015. As in Q4, the decrease in revenue in that group is attributable to lower revenue on coal transport services provided by LW Bogdanka S.A. for the benefit of some customers.

The share of revenue from the sale of goods and materials in Q4 2016 was comparable to that recorded for Q4 2015. In 2015 and 2016 (both Q4 and four quarters), the dominant position in this group of revenue was revenue from the sales of scrap.

Revenue - structure by product types

[%]	Q4 2015	Q4 2016	2015	2016
Sale of coal	96.6%	96.5%	96.4%	97.1%
Other activities	2.7%	3.0%	2.9%	2.2%
Sale of goods and materials	0.7%	0.5%	0.7%	0.7%
Total revenue	100.0%	100.0%	100.0%	100.0%

The Company operates primarily in Poland. In Q4 2016 and in the whole 2016 the exports of goods and products included primarily sale of coal to the Ukrainian market. For four quarters of 2016 the share of exports in the total revenue was 1.8% (PLN 31,225,000), while a year before the figure was 0.1% (PLN 2,743,000).

Geographical structure of revenue

[PLN '000]	Q4 2015	Structure	Q4 2016	Structure	2015	Structure	2016	Structure
Domestic sales	558,385	100.0%	442,300	94.0%	1,880,375	99.9%	1,750,551	98.2%
Foreign sales	0	0.0%	28,315	6.0%	2,743	0.1%	31,225	1.8%
Total revenue	558,385	100.0%	470,615	100.0%	1,883,118	100.0%	1,781,776	100.0%

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 LW Bogdanka S.A. 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 Company.

The principal suppliers for LW Bogdanka S.A. include mainly 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 31 December 2016, the value of the turnover with any supplier did not exceed 10% of the Company's total revenue.

Costs

Costs of LW Bogdanka are presented in as costs by type and costs by function. 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 (incl. longwall galleries) and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated.

Costs by type

Q4

In Q4 2016, LW Bogdanka S.A. incurred costs by type in the amount of PLN 512,689,000 (PLN - 823,000 y/y), i.e. by 0.2% lower than in Q4 2015. The decrease of costs noted in Q4 2016 was largely influenced by a lower depreciation/amortisation value and the reduction in the costs of employee benefits with higher costs of materials used and external services.

The value of depreciation and amortisation went down by 12.6% (to PLN 89,320,000) – the value of depreciation of non-current assets fell down, whereas the natural depreciation went up. A drop in the value of depreciation of non-current assets is a consequence of impairment loss of non-current assets made as at 31 December 2015 as well as of lengthening the use period of certain assets performed in Q1 2016.

Total cost of materials and energy consumption went up by 8.8% compared to Q4 2015, and totalled PLN 111,939,000. In the period under analysis, the cost of materials used rose (the scope of preparatory works was higher - 6.6 km of galleries were completed in Q4 2016, compared to 4.4 km in the previous year, which represents an increase of 50%).

The value of external services in Q4 2016 went up from PLN 112,680,000 in Q4 2015 to PLN 115,984,000 (2.9%). In the period under analysis an increase in costs of excavation drillings was observed, with a concurrent drop of repair and maintenance costs and transport services (primarily rail transport of coal).

In 2016, compared to 2015, the value of employee benefits dropped by PLN 13,529,000. In the analysed period the salaries and wages along with overheads went down (average employment in Q4 2016 dropped compared to analogous period of 2015).



Costs by type

The value of taxes, fees and charges went up in Q4 2016 to PLN 8,577,000 from PLN 7,905,000 in Q4 2015 – the real property tax and payments to the National Fund for the Disabled increased, while the exploitation fee was lower.

The value of other costs went up from PLN 1,316,000 (Q4 2015) to PLN 14,269,000 (Q4 2016) – primarily due to taking out a long-term property insurance.

2016

In the period between 1 January 2016 and 31 December 2016, LW Bogdanka S.A. incurred costs by type in the amount of PLN 1,787,925,000, i.e. by 1.8% (PLN 31,468,000) higher than in the same period of 2015. The increase in costs recorded in the analysed period was largely influenced by the increase in the costs of external services and consumption of materials and energy (due to higher scope of preparatory works - by approx. 20%).

Total cost of materials and energy consumption slightly went up by 7.8% compared to four quarters 2015, and totalled PLN 423,911,000. In the period under analysis, both the cost of energy (understood as the sum of the costs of electricity, hot water and other utilities) and the cost of materials used went up, which is related to the fact that the scope of preparatory works was higher (23.8 km of galleries were completed during 12 months of 2016, compared to 20.0 km in the previous year, which represents an increase of 19.4%).

Compared to four quarters of 2015, the value of external services in the same period of 2016 went up from PLN 376,400,000 to PLN 403,590,000 (+7.2%). In the period under analysis, increases were recorded in drilling and mining works (for greater number of Saturdays when mining was performed and a higher scope of preparatory works), as well as in overhauls and maintenance; transport services dropped (lower coal sales where ensuring transport to the customer was LW Bogdanka S.A. responsibility).

In 2016, compared to 2015, the value of employee benefits dropped by PLN 6,998,000. In the period under analysis, there was a decrease in the value of employee benefits (cost of management options). As at 31 December 2016, the number of staff employed at the Company amounted to 4,462 persons and was lower by 93 compared to 31 December 2015.

The value of depreciation and amortisation went down by 7.6% (to PLN 352,958,000) – the value of depreciation of non-current assets fell down, whereas the natural depreciation went up. A drop in the value of depreciation of non-current assets is a consequence of impairment loss of non-current assets made as at 31 December 2015 as well as of lengthening the use period of certain assets performed in Q1 2016.

The value of taxes and charges increased during the twelve months of 2016 to PLN 37,205,000 from PLN 34,560,000 during twelve months of 2015 – exploitation fee went up (as a result of higher mining), along with a concurrent increase in the real property tax.

The value of other costs went up from PLN 21,492,000 (four quarters of 2015) to PLN 28,170,000 (four quarters 2016) – primarily due to taking out a long-term property insurance.

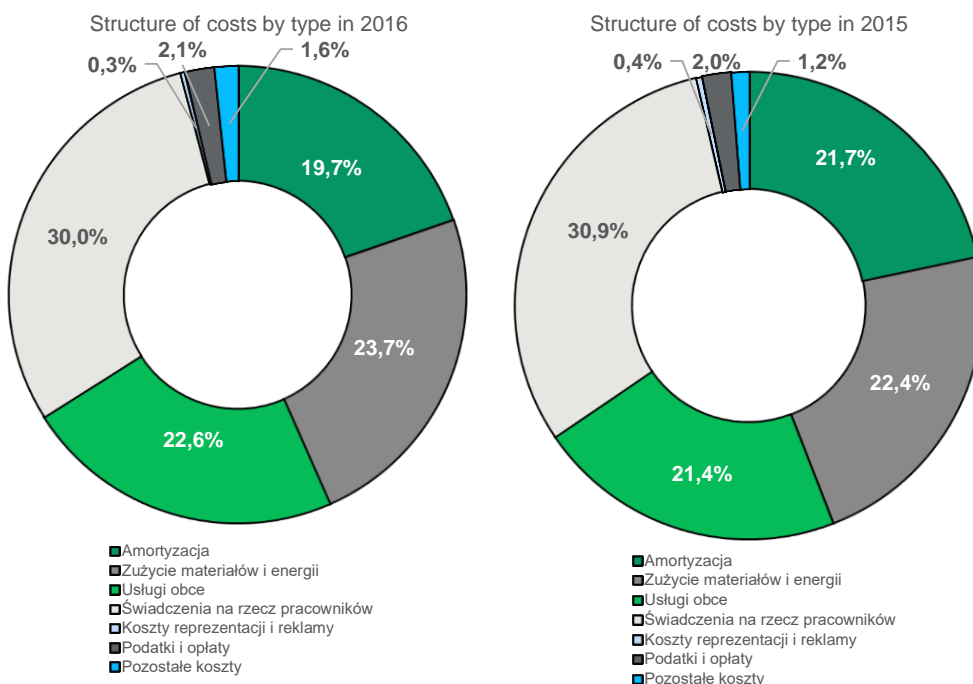
The result of an adjustment of costs by type by change in inventory of products and accruals and deferrals, the value of activities for the Company's own needs and the costs of goods and materials sold, will give own cost of sales for the four quarters of 2016 amounting to PLN 1,561,155,000. As compared to the previous year, it is lower by 29.3% (with a simultaneous y/y increase by 6.8% in the amount of coal sold).

Costs by type

[PLN '000]	Q4 2015	Q4 2016	Change	2015	2016	Change
Net production [in '000 tonnes]	2,527	2,356	-6.8%	8,457	9,038	6.9%
Sales [in '000 tonnes]	2,554	2,402	-6.0%	8,562	9,141	6.8%
Amortisation/depreciation	102,193	89,320	-12.6%	381,900	352,958	-7.6%
Materials and energy consumption	102,913	111,939	8.8%	393,104	423,911	7.8%
External services	112,680	115,984	2.9%	376,400	403,590	7.2%
Employee benefits	185,764	172,235	-7.3%	542,646	535,648	-1.3%
Entertainment and advertising costs	741	365	-50.7%	6,355	6,443	1.4%
Taxes, fees and charges	7,905	8,577	8.5%	34,560	37,205	7.7%
Other costs	1,316	14,269	984.3%	21,492	28,170	31.1%
Total costs by type	513,512	512,689	-0.2%	1,756,457	1,787,925	1.8%
Activities for the Company's own needs	-46,144	-54,415	17.9%	-184,275	-195,056	5.9%
Accruals and deferrals	-49,833	-71,689	43.9%	-8,824	-11,699	32.6%
Value of coal obtained from excavations	-10,174	-21,445	110.8%	-58,802	-70,519	19.9%
Provisions and other presentation adjustments between costs by type and by function	18,270	17,346	-5.1%	46,406	23,595	-49.2%
Impairment loss on the property, plant and equipment and intangible assets	624,772	-	-	624,772	-	-
Total production cost	1,050,403	382,486	-63.6%	2,175,734	1,534,246	-29.5%
Change in inventory of products	1,403	7,923	464.7%	18,835	15,477	-17.8%
Costs of goods and materials sold	3,844	2,586	-32.7%	12,651	11,432	-9.6%
Own cost of sales, including:	1,055,650	392,995	-62.8%	2,207,220	1,561,155	-29.3%
Costs of products, goods and materials sold	1,002,471	355,913	-64.5%	2,054,607	1,431,941	-30.3%
Selling costs	9,957	14,327	43.9%	38,002	43,637	14.8%
Administrative expenses	43,222	22,755	-47.4%	114,611	85,577	-25.3%

Costs by type and by function

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In four quarters of 2016 (compared to the same period of the previous year) the share of depreciation and amortisation costs went down to 19.7%. An increase was noted with respect to the share of external services costs (to 22.6%). Costs of employee benefits, external services and materials and energy used accounted for almost 76% of costs by type between 1 January 2016 and 31 December 2016, while in the comparable period of 2015 it was almost 75% of total costs of the Company.



Costs by function

Own cost of production sold (by function) in Q4 2016 was PLN 392,995,000 and was lower by 62.8% from the cost incurred in Q4 2015 – the year-on-year decrease is mainly a result of the impairment loss made in 2015 for property, plant and equipment and intangible assets (PLN 624,772,000), the provisions and other IAS presentation adjustments (in 2015 they increased costs by PLN 46,406,000, and in 2016 they increase costs only by PLN 23,595,000).

Costs by function in the period between January and December 2016 were lower by PLN 646,065,000 than in the analogous period of 2015. and amounted to PLN 1.561.155.000.

Costs by function

[PLN '000]	Q4 2015	Q4 2016	Change	2015	2016	Change
Net production [in '000 tonnes]	2,527	2,356	-6.8%	8,457	9,038	6.9%
Sales [in '000 tonnes]	2,554	2,402	-6.0%	8,562	9,141	6.8%
Costs of products, goods and materials sold	1,002,471	355,913	-64.5%	2,054,607	1,431,941	-30.3%
Selling costs	9,957	14,327	43.9%	38,002	43,637	14.8%
Administrative expenses	43,222	22,755	-47.4%	114,611	85,577	-25.3%
Own cost of sales	1,055,650	392,995	-62.8%	2,207,220	1,561,155	-29.3%

Structure of costs by function

[%]	Q4 2015	Q4 2016	2015	2016
Costs of products, goods and materials sold	95.0%	90.6%	93.1%	91.7%
Selling costs	0.9%	3.6%	1.7%	2.8%
Administrative expenses	4.1%	5.8%	5.2%	5.5%
Own cost of sales	100.0%	100.0%	100.0%	100.0%



Provisions

Provisions

Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2015	As at 31 Dec. 2016	Change 2016/2015 [%]
Employee benefits	247,997	263,476	6.2%
Provision for real property tax	23,881	32,456	35.9%
Provision for the mine closure costs and land reclamation	130,179	117,423	-9.8%
Mining damage	8,497	4,440	-47.7%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	18,727	20,042	7.0%
Other	29,907	13,663	-54.3%
TOTAL	459,188	451,500	-1.7%

The total provisions as at 31 December 2016 amounted to PLN 451,500,000, which means a decrease by 1.7% compared to the value as at the end of 2015. Employee provisions grew by 6.2% and amounted to PLN 263,476,000 as at 31 December 2016. In 2016, in the employee provisions a provision was made for the Voluntary Redundancy Programme of PLN 21,688,000; additionally provisions for pension and disability severance pays and employee holidays went up.

Change in provisions

The change in provisions in Q4 2016 was PLN +2,262,000 compared to PLN +27,510,000 in Q4 2015. The change in provisions in the period from 1 January to 31 December 2016 was PLN -7,688,000, while in the same period of the previous year it was PLN +38,119,000.

[PLN '000]	Change in Q4 2015	Change in Q4 2016	Change 2016/2015 [%]	Change in 2015	Change in 2016	Change 2016/2015 [%]
Employee benefits	10,259	8,431	-17.8%	24,122	15,479	-35.8%
Provision for real property tax	-507	2,192	-	623	8,575	1,276.4%
Provision for the mine closure costs and land reclamation	14,435	-6,798	-	6,594	-12,756	-
Mining damage	970	-3,363	-	-658	-4,057	516.6%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	331	330	-0.3%	2,826	1,315	-53.5%
Other	2,022	1,470	-27.3%	4,612	-16,244	-
TOTAL	27,510	2,262	-91.8%	38,119	-7,688	-

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

Item	Change of provisions in Q4 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 non-current assets	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet – use of the provision
Employee benefits	8,431	19,209	1,692	-	-1,974	-10,496
Provision for real property tax	2,192	2,192	-	-	-	-
Provision for the mine closure costs and land reclamation	-6,798	1,553	1,032	-9,383	-	-
Mining damage	-3,363	915	-	-	-	-4,278
Provision for Social Insurance Institution (ZUS) claim for accident contributions	330	-	330	-	-	-
Other	1,470	1,416	87	-	-	-33
TOTAL	2,262	25,285	3,141	-9,383	-1,974	-14,807

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

Item	Change of provisions in 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 non-current assets	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet – use of the provision
Employee benefits	15,479	50,789	6,294	-	7,663	-49,267
Provision for real property tax	8,575	8,575	-	-	-	-
Provision for the mine closure costs and land reclamation	-12,756	3,163	3,645	-19,564	-	-
Mining damage	-4,057	915	-	-	-	-4,972
Provision for Social Insurance Institution (ZUS) claim for accident contributions	1,315	-	1,315	-	-	-
Other	-16,244	-7,294	-5,919	-	-	-3,031
TOTAL	-7,688	56,148	5,335	-19,564	7,663	-57,270

Financial highlights

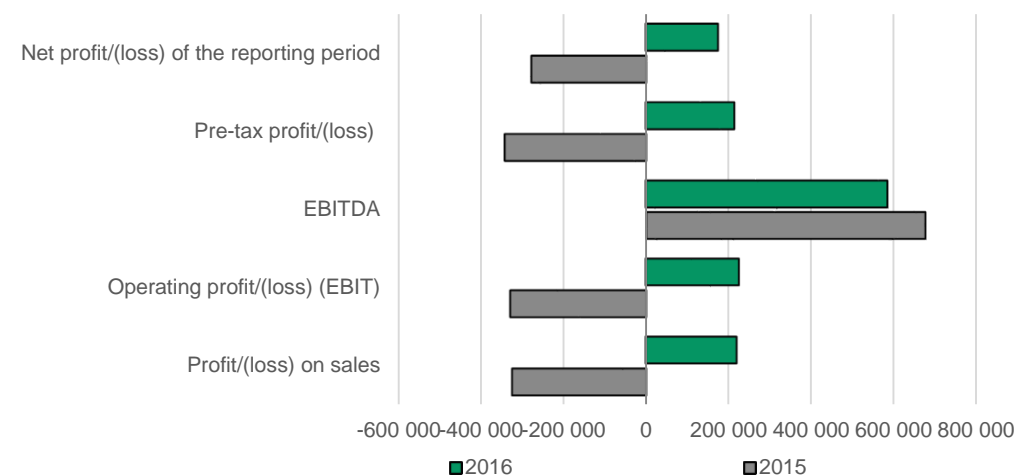
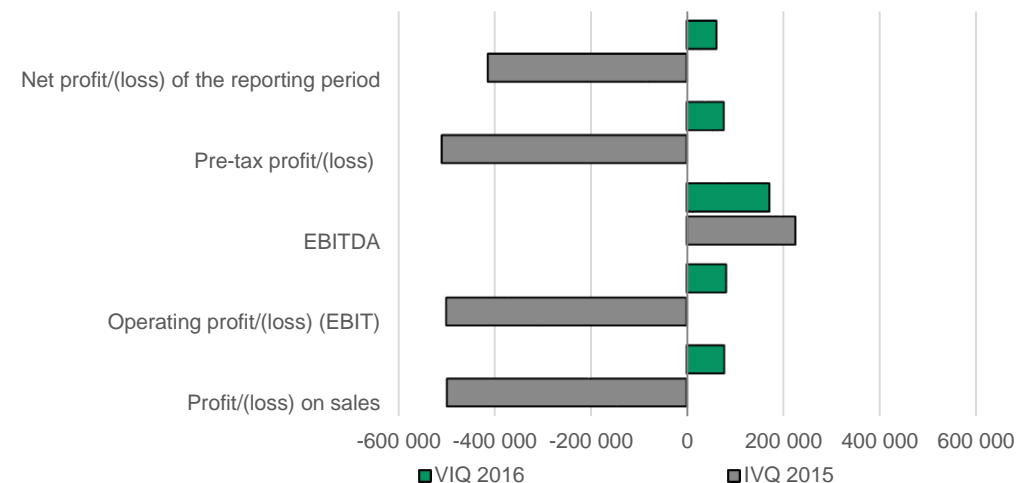
Financial highlights of LW Bogdanka S.A.

Analysis of the separate income statement

[PLN '000]	Q4 2015	Q4 2016	Change	2015	2016	Change
Revenue	558,385	470,615	-15.7%	1,883,118	1,781,776	-5.4%
Costs of products, goods and materials sold, selling and administrative expenses	1,055,650	392,995	-62.8%	2,207,220	1,561,155	-29.3%
Profit/(loss) on sales	-497,265	77,620	-	-324,102	220,621	-
Gross sales margin	-89.1%	16.5%	105.6 p.p.	-17.2%	12.4%	29.6 p.p.
Other income	245	4,686	1,812.7%	2,597	16,710	543.4%
Other costs	1,382	259	-81.3%	1,958	2,037	4.0%
Net operating profit/(loss)	-498,402	82,047	-	-323,463	235,294	-
Other net losses	-3,068	-623	-79.7%	-5,039	-9,485	88.2%
Operating profit/(loss) (EBIT)	-501,470	81,424	-	-328,502	225,809	-
EBIT margin	-89.8%	17.3%	107.1 p.p.	-17.4%	12.7%	30.1 p.p.
EBITDA*	225,495	170,744	-24.3%	678,170	586,119	-13.6%
EBITDA margin	40.4%	36.3%	-4.1 p.p.	36.0%	32.9%	-3.1 p.p.
Finance income	1,389	2,335	68.1%	9,079	16,307	79.6%
Finance costs	7,861	6,748	-14.2%	22,850	26,921	17.8%
Pre-tax profit/(loss)	-507,942	77,011	-	-342,273	215,195	-
Pre-tax profit margin	-91.0%	16.4%	107.4 p.p.	-18.2%	12.1%	30.3 p.p.
Income tax	-95,645	15,619	-	-64,244	39,299	-
Net profit/(loss) for the financial year	-412,297	61,392	-	-278,029	175,896	-
Net sales margin	-73.8%	13.0%	86.8 p.p.	-14.8%	9.9%	24.7 p.p.

* EBITDA for 2016 includes EBIT, depreciation/amortisation, and impairment loss of construction in progress PLN 7,352,000.

Analysis of the separate income statement on individual levels of the Company's operations





Financial highlights

Revenue

The value of revenue for the Q4 2016 went down by 15.7% compared to the same period of the previous year and amounted to PLN 470,615,000.

In the period between 1 January 2016 and 31 December 2016 the Company generated revenue at a level of PLN 1,781,776,000 compared to PLN 1,883,118,000 in the same period of 2015 (decrease by 5.4%).

Costs of products, goods and materials sold, selling costs, administrative expenses

In Q4 2016 the costs of products, goods and material sold plus selling and administrative expenses went down by 62.8% compared by the same period of the previous year and amounted to PLN 392,995,000 (an impairment loss made in 2015 of PLN 624,772,000 made by the the Company had the main influence on the drop of the costs - overestimated basis effect). During 12 months of 2016 the cost of products, goods and materials sold as well as selling cost and administrative expenses dropped from PLN 2,207,220,000 to PLN 1,561,155,000 (for a reason analogous to that observed in Q4).

Profit/(loss) on sales

In Q4 2016 profit on sales amounted to PLN 77,620,000, while in the same period of 2015 the Company incurred loss of PLN 497,265,000 (due to impairment loss of assets). The Company closed 2016 with a profit on sales in the amount of PLN 220,621,000, versus the profit on sales of PLN 324,102,000 in four quarters 2015.

Other income

In Q4 2016 other income amounted to PLN 4,686,000 compared to PLN 245,000 a year before (of which a dominant item were liquidated damages received). The dominant item in the value for four quarters of 2016 (PLN 16,710,000) is the release of unused provision for claims (PLN 10,125,000) and damages received (PLN 4,927,000).

Other costs and other net losses

During 2016 and in 2015, other costs amounted to approx. PLN 2,000,000 - the main component item of this group of costs were damages paid.

Other net losses in Q4 2016 amounted to PLN 623,000 compared to PLN 3,068,000 in Q4 2015 – which means their decrease by PLN 2,445,000.

Data for four quarters 2016 show an increase in other net losses (y/y) by PLN 4,446,000, to a total amount of PLN 9,485,000. Dominant item is the impairment loss of construction in progress of PLN 7,352,000.

EBIT

Operating result in Q4 2016 amounted to PLN 81,424,000. EBIT margin in the fourth quarter of 2016 was 17.3%, i.e. it was higher by 107.1 p.p. than in the fourth quarter of the previous year. EBIT margin for four quarters of 2016 was 12.7%, i.e. it was higher by 30.1 p.p. versus the same period of 2015.

EBITDA

EBITDA in Q4 2016 dropped by 24.3% compared to Q4 2015 and amounted to PLN 170,744,000. EBITDA margin in Q4 2016 was 36.3% and was lower than in the same analysed period of 2015.

For four quarters of 2016, the Company's EBITDA margin amounted to 32.9%, i.e. less by 3.1 p.p. compared to the same period of 2015 (while EBITDA dropped in the analysed period by 13.6%). For four quarters of 2016, EBITDA amounted to PLN 586,119,000, compared to PLN 678,170,000 in 2015.

Finance income

Finance income in Q4 2016 amounted to PLN 2,335,000 (+68.1%). For four quarters of 2016, finance income was PLN 16,307,000 (+79.6% y/y). The increase in income is primarily attributable to the finance income regarding a released provision for interest on claims, of PLN 6,465,000, and a higher average level of cash in the Company.

Finance costs

In Q4 2016 finance costs amounted to PLN 6,748,000 and were lower by 14.2% than the costs in the same period of 2015.

The finance costs for the twelve months of 2016 amounted to PLN 26,921,000 compared to PLN 22,850,000 in 2015 (increase by 17.8%). As at 31 December 2016 total debt of the Company amounted to PLN 600,080,000, compared to PLN 700,092,000 as at 31 December 2015. The amount of capitalised finance costs also changed.

Profit before taxation

In Q4 2016 the Company generated pre-tax profit of PLN 77,011,000 compared to the loss of PLN 507,942 in Q4 2015.

Profit before taxation for four quarters of 2016 amounted to PLN 215,195,000 against PLN - 342,273,000 in the same period of 2015 (taking into account impairment loss of PLN 624,772,000).

Net profit for the financial year

In Q4 2016 the Company generated net profit of PLN 61,392,000 compared to the loss of PLN 412,297,000 in Q4 2015.

The Company's net profit for four quarters amounted to PLN 175,896,000, compared to the loss of PLN 278,029,000 for the same period of the previous reporting year (taking into account the impact of the impairment loss of PLN 506,065,000 on the profit/(loss)).



Balance sheet

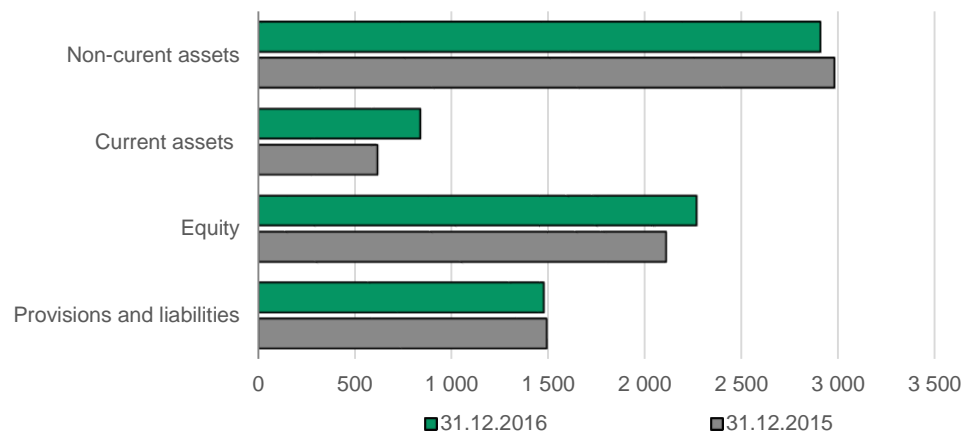
Balance sheet

Selected financial data

[PLN '000]	31 Dec. 2015	31 Dec. 2016	Change
Total assets	3,594,729	3,748,429	4.3%
ROA	-7.0%	4.8%	11.8 p.p.
Non-current assets	2,978,573	2,908,459	-2.4%
Current assets	616,156	839,970	36.3%
Equity	2,105,890	2,269,666	7.8%
Return on Equity (ROE)	-12.1%	7.9%	20.0 p.p.
Provisions and liabilities	1,488,839	1,478,763	-0.7%

* - the calculations consider the average level of assets and equity (as at 31 December 2016 + as at 31 December 2015)/2

Analysis of the annual consolidated statement on financial standing



Assets

The balance-sheet total as at 31 December 2016 went up to PLN 3,748,429,000 (i.e. by PLN 153,700,000) compared to the value as at 31 December 2015, with non-current assets going down by PLN 70,114,000 and current assets going up by PLN 223,814,000. Within current assets, the value of inventories went down by 31.0%, trade and other receivables going up by 1.6%, and cash and cash equivalents going up by 113.9%.

As at 31 December 2016 ROA increased by 4.8%. The reason for negative profitability in 2015 was an impairment loss, already described, of property, plant and equipment and intangible assets (impact on the pre-tax profit/(loss): PLN -624,772,000).



Equity and liabilities

The equity went up by 7.8%. It was mainly caused by recognising net total income in the amount of PLN -169,689,000 for the twelve months of 2016 and accounting for the Management Options Scheme.

Provisions and liabilities went down by 0.7% compared to the value as at 31 December 2015, with current liabilities going up by 88.9% (increase in liabilities on bond issue, trade liabilities, and liabilities on employee benefits), while non-current liabilities dropped by 32.7% (liabilities on bond issue went down, and trade liabilities went up).

The ratio as at 31 December 2016 was 20.0 p.p. compared to 31 December 2015. As at 31 December 2016, the ratio was 7.9% versus -12.1% as at 31 December 2015.



Cash flows

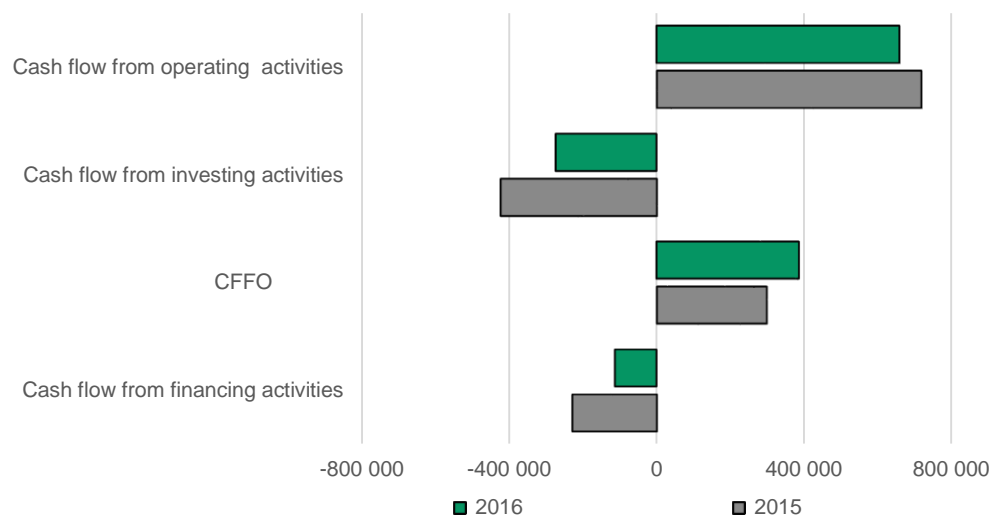
Cash flows

Annual unit cash flow

[PLN '000]	Q4 2015	Q4 2016	Change	2015	2016	Change
Cash flow from (used in) operating activities	222,116	162,187	-27.0%	716,433	658,209	-8.1%
Cash flow from (used in) investing activities	-76,391	-66,145	-13.4%	-419,783	-272,408	-35.1%
CFFO*	145,725	96,042	-34.1%	296,650	385,801	30.1%
Cash flow from (used in) financing activities	-123,439	-2,816	-97.7%	-228,902	-112,380	-50.9%

*total cash flow from operating and investing activity

Analysis of the annual separate statement of cash flows



In Q4 2016 the Company generated net cash flow from operating activities lower by 27.0% than in Q4 2015 - in the period from 1 October 2016 to 31 December 2016 it amounted to PLN 162,187,000 compared to PLN 222,116,000 a year before. During four quarters of 2016, the Company generated cash flow from operating activities in the amount of PLN 658,209,000 (-8.1% y/y). Cash flow from investing activities decreased its value (in absolute values) in Q4 2016 by 13.4% (to PLN 66,145,000) relative to the analogous period of 2015. Cumulative for 12 months of 2016 cash flow from investing activity was lower by 35.1% from cash flow from the analogous period last year.



Debt and liquidity ratios

Debt and financing structure

Debt ratios

[PLN '000]	31 Dec. 2015	31 Dec. 2016	Change
Overall debt ratio	41.4%	39.5%	-1.9 p.p.
Ratio (debt plus employee liabilities)/EBITDA	1.40	1.47	5.0%
Net debt ratio/EBITDA*	0.68	0.15	-77.9%
Debt to equity ratio	70.7%	65.2%	-5.5 p.p.
Fixed capital to non-current assets ratio	103.1%	99.4%	-3.7 p.p.
Current debt ratio	10.9%	19.8%	8.9 p.p.
Non-current debt ratio	30.5%	19.7%	-10.8 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 31 December 2016 went down by 1.9 p.p. compared to 31 December 2015 and reached 39.5% - the share of borrowed capital in the overall financing sources of the Company decreased.

The level of the Company's debts as at 31 December 2016 did not pose any risk to the Company's operation and its ability to settle liabilities in a timely manner. The Company'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 the relation of debt to EBITDA as at the end of Q4 2016 increased to 1.47, comparing to 2015. When comparing data as at 31 December 2016 to 31 December 2015, EBITDA (cumulatively for the last four quarters) fell by more - in nominal terms - than debt (including amounts payable to employees).

Ratio net debt/EBITDA

The ratio describing the relation of net debt (the total of current and non-current interest-bearing liabilities less cash and equivalents) to EBITDA dropped from 0.68 as at 31 December 2015 to 0.15 as at 31 December 2016. Net debt went down by about PLN 373 million with a decrease in EBITDA by about PLN 92 million (EBITDA calculated cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 31 December 2016 decreased in relation to 31 December 2015 by 5.5 p.p. and was 65.2% - liabilities dropped by ca. PLN 10 million along with an increase in equity by ca. PLN 164 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 99.4% (as at 31 December 2016) compared to 103.1% (as at 31 December 2015) - in the analysed period the value of non-current assets dropped by approx. PLN 70 million, while fixed capitals (equity plus non-current liabilities less provisions) decreased by approx. PLN 182 million.

Liquidity ratios

Liquidity ratios

[days]	31 Dec. 2015	31 Dec. 2016	Change
Current liquidity ratio	1.98	1.25	-36.9%
Quick liquidity ratio	1.65	1.15	-30.3%

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

Liquidity ratios are calculated based on current liabilities less provisions for the other liabilities and current charges.

The drop of the discussed liquidity ratios is a result of reclassification of PLN 300,000,000 from non-current liabilities to current liabilities in connection with a decision to redeem bonds worth PLN 300,000,000 on 30 March 2017.



Turnover ratios

Turnover ratios

Turnover ratios

[PLN '000]		31 Dec. 2015	31 Dec. 2016	Change
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}}$	21	19	-9.5%
2. Debtors collection rate*	$\frac{\text{average receivables}}{\text{revenue}}$	52	48	-7.7%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}}$	63	77	22.2%
4. Operating cycle	1+2	73	67	-8.2%
5. Cash conversion cycle	4-3	10	-10	-

* Trade debtors and other receivables

** Trade and other liabilities

Inventory turnover ratio

The inventory turnover ratio as at 31 December 2016 fell to 19 days, compared to the previous year. An average inventory level went down y/y.

Debtors collection ratio

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 48 days (as at 31 December 2016), compared to 52 days (as at 31 December 2015). In the period under analysis, average receivables dropped by PLN 32 million, with the revenue going down by PLN 101 million.

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 14 days to ca. 77 days, compared to the end of 2015. In the period under analysis, the Company had a lower level of current trade creditors (by approx. PLN 54 million) with lower costs of products, goods and materials sold (due to impairment loss made in 2015 - overestimated basis effect).

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 67 days, compared to 73 days as at 31 December 2015. The time necessary for realising the Company's current assets got shorter by 14 days on the average.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2016 was -10 days (as at 31 December 2015: 10 days). The negative value of the cash conversion cycle means that the Company trade credit (financing with the non-interest-bearing borrowed capital).





Capitals, funds and sources of capital

Capitals, funds and sources of capital

As at 31 December 2016, the Company's equity amounted to PLN 2,269,666,000.

Equity [PLN '000]	
Ordinary shares	301,158
Other capital	1,473,128
Including:	
Supplementary fund	702,549
Other capital reserves,	770,579
Including:	
Reserve capital	766,740
Equity on Management Options issuance	3,839
Retained profits	495,380
Including:	
Revaluation capital reserve,	66,023
Other capital – retained profits brought forward	259,668
Total net income	169,689

The share capital as at the end of 2016 amounted to PLN 301,158,000.

Supplementary fund

In the course of transformation of the state-stock company, the supplementary capital was calculated at the level representing a difference between the sum of: founding and corporate funds and the share capital. In 2015 supplementary capital increased by PLN 153,894,000 as a result of distributing net profit for 2014.

In 2016 the Company's supplementary capital did not change and as at 31 December 2016 amounted to PLN 702,549,000. As at 31 December 2016, the supplementary capital represented 31.0% of the share capital.

Other capital reserves

As at 31 December 2016, the Company's other capitals amounted to PLN 770,579,000. In 2016 they decreased by 26.9%.

Company Social Fund

Company Social Benefits Fund is made annually from the basic write-off charged to the Company's operating expenses. In 2016 the Social Benefits Fund was increased by PLN 6,500,000 due to

additional impairment loss. According to the Rules of the Company Social Benefit Fund, in the event of selling a summer holiday centre in Łazy, in the year in which the net amount on account of its sale is contributed to the social benefit fund, the basic write-off will decrease by the amount equal to the amount by which the fund increased as a result of the sale of the summer centre. However, the amount by which the basic write-off will decrease shall not be higher than the amount of the additional write-off and other income on account of partial payments from the employees for social activity and interests on funds on a bank account for loans granted from the Social Benefit Fund for housing purposes. This is a special purpose account, used in accordance with the Act on the Company Social Benefits Fund of 4 March 1994 (Dz.U. No. 70, item 335 of 1996, as amended) and the rules adopted by the Management Board. In relation to 2015, the fund increased by PLN 1,738,230 and as at 31 December 2016 it amounted to PLN 12,405,000.

Mine Closure Fund

In compliance with Article 26c of the Geological and Mining Law of 4 February 1994 (uniform text Dz. U. [Journal of Laws] No. 228, item 1947, as amended), and the Ordinance of the Minister of Economy of 24 June 2002 on detailed rules of creating and functioning the mine closure fund (Dz. U. [Journal of Laws] No. 108 item 951), LW Bogdanka S.A. gathers funds for covering the costs of a liquidation of a mining plant, in a separate bank account. As at 31 December 2016 the value of those funds amounted to PLN 111,218,190. Increase in funds at the bank account results from a payment made from mandatory annual write-offs for 2015 (which should be made by 31 January of the following year) and in 2016 totalling PLN 18,419,620 and bank interest on funds deposited in the account of PLN 1,926,840.

Future deposits related to the closure of the mining plant are covered with a provision disclosed in the income statement and in the statement on financial position as an increase in the item "Property, plant and equipment".

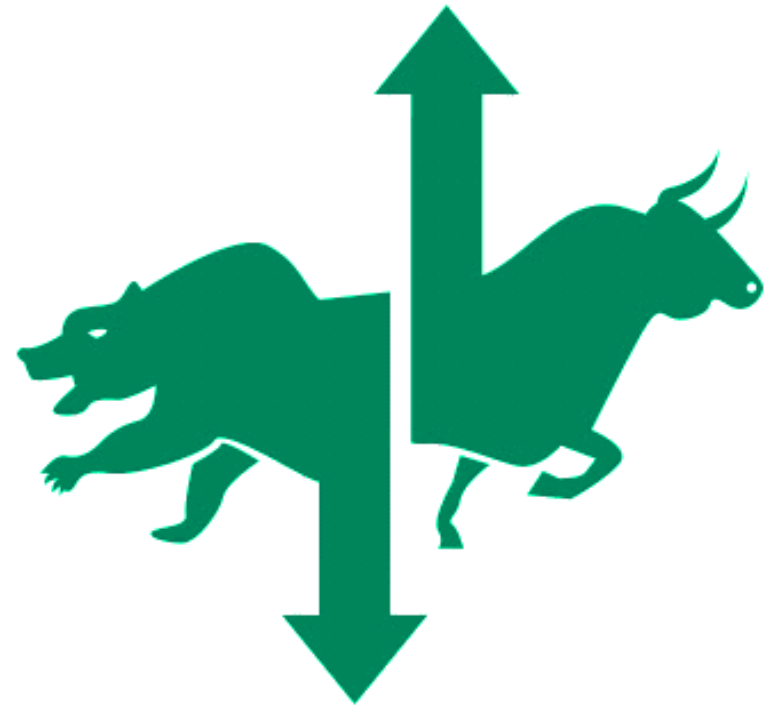
The amounts of provisions are recognised in the present value of expenditures (estimated by a specialised body), which are expected to be needed to discharge a given obligation.

Assessment of factors an untypical events affecting the operating profit

In 2016, the most important unusual event which affected the operating result was a release of the unused provision for the Consortium of BUDIMEX S.A., Ferrovia Agroman S.A. and Mostostal Kraków in the total amount of PLN 16,590,000. The operating result was also affected by creating impairment loss of construction in progress of PLN 7,352,000 and creating a provision for the Voluntary Redundancy Programme of PLN 21,688,000. Except for the above, in 2016 no untypical factors and events occurred that may have influenced the Company's operations.

Overview of significant off-balance sheet items of LW Bogdanka S.A. in subjective, objective and value terms

In 2016 no material off-balance sheet items occurred.



4. Shares and shareholding



Share capital structure and shareholding

Share capital structure

The Company'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 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 66.0% 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 financial investors in the form of pension and investment funds.

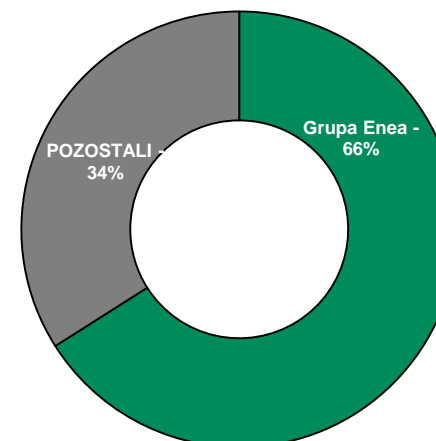
Shareholding structure

The table below shows a shareholding structure of LW Bogdanka S.A. as at 31 December 2016 and as the date of publishing this Report, i.e. 30 March 2017.

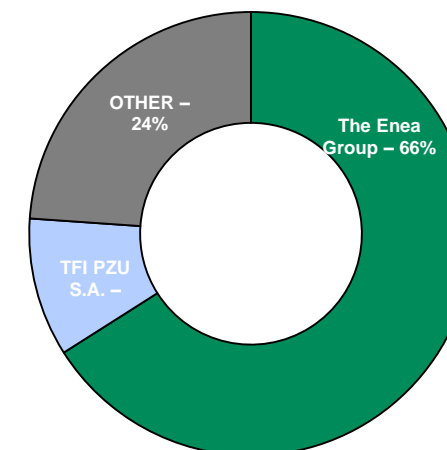
Shareholder	Number of shares/ number of votes at the Shareholders Meeting	Share capital interest/ interest in the total number of votes
Shareholding structure of LW Bogdanka S.A. as at 31 December 2016		
Enea Group	22,448,834	66.0%
TFI PZU S.A.	1,750,033	5.1%
Other	9,814,723	28.9%
TOTAL	34,013,590	100.0%
Shareholding structure of LW Bogdanka S.A. as at 30 March 2017		
Enea Group	22,448,834	66.0%
TFI PZU S.A.	3,435,103	10.1%
Other	8,129,653	23.9%
TOTAL	34,013,590	100.0%

The graphs below present the shareholding structure of LW Bogdanka S.A. as at 31 December 2015 and as at the date of publishing this Report, i.e. 30 March 2017.

Shareholding of LW Bogdanka S.A. as at 31 December 2015



Shareholding of LW Bogdanka S.A. as at 30 March 2017



Treasury shares

Neither LW Bogdanka S.A. nor the subsidiaries of the LW Bogdanka Group acquired any treasury shares of the Company in 2016.

Changes in the shareholding structure by the date of the Report

On 30 January 2017, the Company was informed by Towarzystwo Funduszy Inwestycyjnych PZU S.A. that the TFI PZU investment funds increased their share in the total vote at the Company's General Shareholders Meeting to exceed 10% (for more information see Current Report No. 2/2017).

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 this Report and as of the date of publishing the previous periodical report:

MANAGEMENT BOARD					
Name and surname	Number of the Company's shares as at 30 March 2017	Nominal value of the shares (PLN)	Number of the Company's shares as at 10 November 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	0	0
Marcin Kapkowski	0	0	0	0	0
SUPERVISORY BOARD					
Name and surname	Number of the Company's shares as at 30 March 2017	Nominal value of the shares (PLN)	Number of the Company's shares as at 10 November 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
Mariusz Romańczuk	0	0	-	-	0
Kamil Dobura	0	0	0	0	0
TOTAL	Number of the Company's shares as at 30 March 2017	Nominal value of the shares (PLN)	Number of the Company's shares as at 10 November 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 Supervisory Board Members of the Company

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 Company is not aware of any agreements or events that would result in future changes in the proportion of shares held by the existing Shareholders.

Dividend policy

Dividend policy

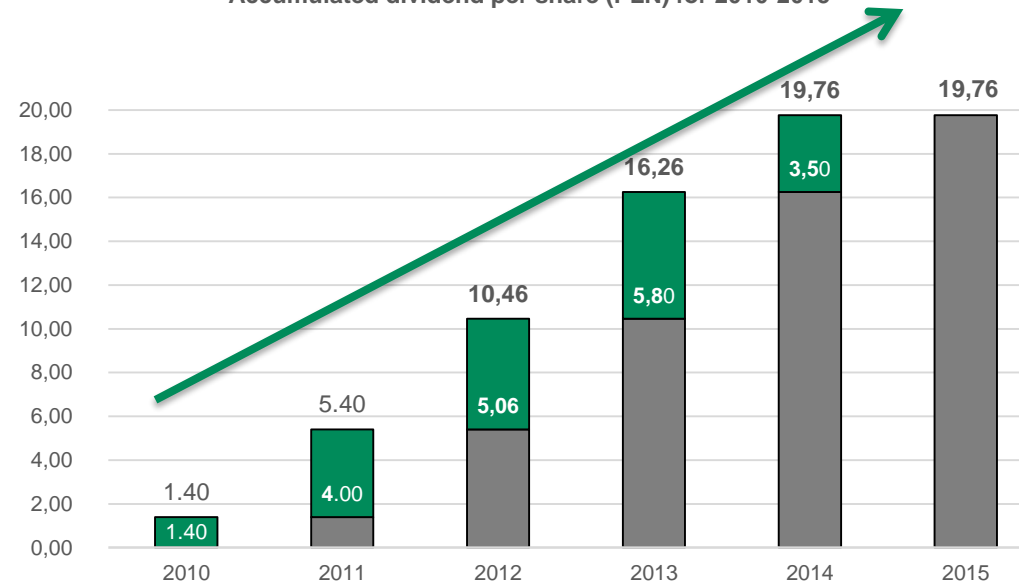
In the medium and long run, LW Bogdanka S.A. wants to remain a dividend-paying company and the Management Board intends to ask the General Shareholders Meeting for approval of dividends up to 50% of the net profits shown in the Company's separate financial statements, prepared in accordance with the International Financial Reporting Standards.

In the light of rapid changes in both Polish and global coal markets, it is a priority for the Management Board to ensure financial and liquidity security for the Company. Therefore, the dividends recommended each time by the Management Board will depend on:

- current market situation
- generated operating cash flows
- planned capital expenditure and investments
- projected debt of the Company.

The above dividend payment policy will be reviewed periodically, and future dividend payments will be made in accordance with the decisions of the General Shareholders Meeting.

Accumulated dividend per share (PLN) for 2010-2015



Dividend paid out of profit for 2009-2015 (data not restated)

Item	2009	2010	2011	2012	2013	2014	2015
Net profit (separate) [PLN million]	192.1	227.4	219.0	287.0	326.5	272.9	-278.0
Total dividend [PLN million]	-	47.6	136.1	172.1	197.3	119.0	-
Dividend per share [PLN]	-	1.40	4.00	5.06	5.80	3.50	-
Earnings/(loss) per share [PLN]	5.65	6.69	6.44	8.44	9.60	8.02	-8.17
Dividend payment rate	-	20.9%	62.1%	60.0%	60.0%	43.6%	-
Dividend rate	-	1.35%	2.94%	4.02%	6.01%	10.54%	-



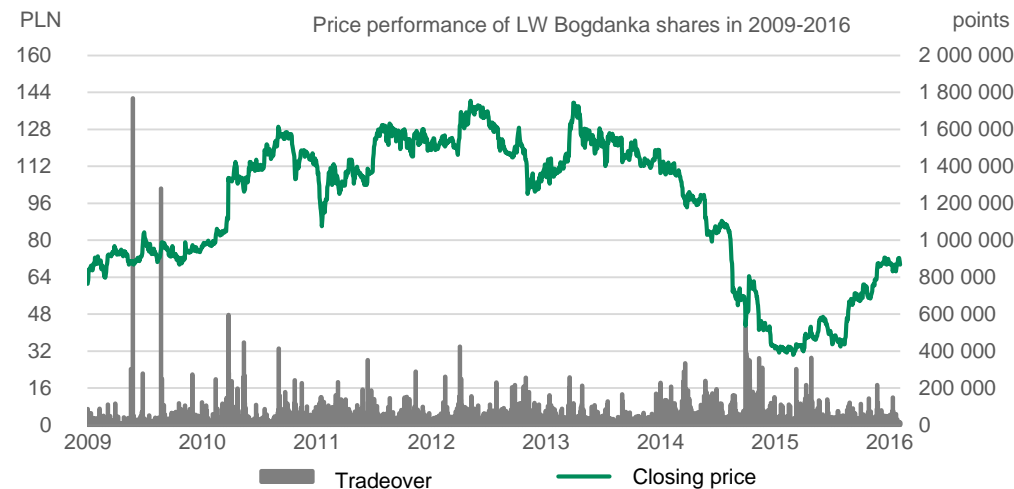
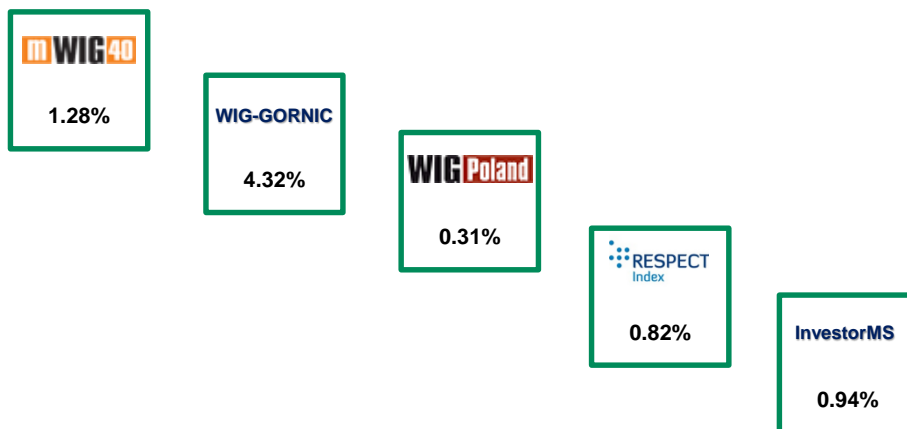
Price performance of the shares of LW Bogdanka S.A. on the Warsaw Stock Exchange

Participation of the LW Bogdanka's shares in indices

The Company was first listed on the Warsaw Stock exchange on 25 June 2009. In 2016, LW Bogdanka S.A. made 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 30 largest companies listed on the WSE Main Market, the Company was included in the index until 17 March 2017;
- 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 Górniczo – includes companies classified into the “Mining” sector (former name of the sector was “Raw Materials”);
- 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, the Company was included in the index until 17 March 2017;
- Respect Index – index of socially responsible companies.

Participation of the Company's shares in indices as at 30 March 2017



Key share indicators:	2015	2016
Maximum price [PLN]	100.85	72.49
Minimum price [PLN]	31.40	30.39
Last price [PLN]	33.21	69.50
Average price [PLN]	67.23	49.00
Capitalisation at end of period [PLN million]	1,129.59	2,363.94
Book value [PLN million]	2,105.89	2,269.67
Price/earnings ratio	-4.06	12.87
Price/book value	0.54	1.04
Rate of return at end of period [%]	-65.40	109.27
Dividend rate [%]	10.54	0.00
Average turnover per session [PLN million]	5,598.60	3,726.74
Average volume per session	88,082	43,201
Average spread [bp]	34,013,590	34,013,590



Investor relations – how we do it

Investor relations are a key component of consistent and integrated corporate communication for LW Bogdanka S.A. This communication, and the associated channels and tools, are adapted to the needs of particular audiences, while staying true to the principle of equal access to information.

**LW Bogdanka S.A.
complies with the best
market practices**

In 2016 we took the following steps as part of the investor relations activities:

- we participated in numerous conferences and meetings addressed to institutional and individual investors.
- we were at the disposal of investors from early morning to late in the evening – for phone calls, e-mails and face-to-face meetings
- every quarter, we met with the participants of the capital market at performance conferences
- every quarter, we met investor chats dedicated to individual investors
- every quarter, we organised conference calls for foreign investors
- we ensured that the LW Bogdanka’s Investor Relations website was providing the most updated information.
- for every important event we published on our website a dedicated investor presentation and key financial and operating data in a user-friendly format.

We have been awarded the "10 out of 10 – Investor-Friendly Company" certificate by the Association of Individual Investors.

We have participated in the preparation of professional courses for the Civic Shareholding campaign

For the 9th time we have been listed on the Respect Index.

We have been shortlisted for stage 2 of the Golden Website Contest.

We have been awarded the Economic Award of the President of Poland.



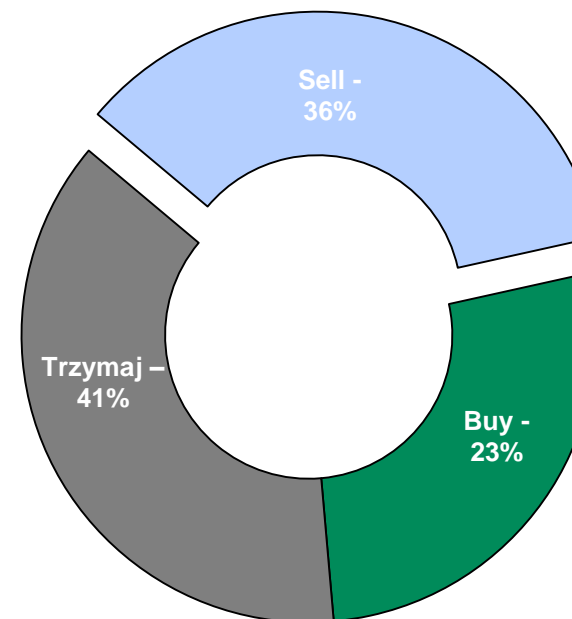
Analysts recommendations

Analysts' recommendations issued for LW Bogdanka in 2016:

Date	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 DM	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
26 August	Erste Securities DI	Hold	PLN 54.30	PLN 54.00
31 August	PKO BP DM	Hold	PLN 58.00	PLN 56.99
10 October	BOŚ DM	Buy	PLN 75.90	PLN 60.49
25 October	DM Trigon	Hold	PLN 67.50	PLN 67.30
27 October	BZ WBK	Sell	PLN 39.00	PLN 68.60
4 November	CITIGROUP	Sell	PLN 56.00	PLN 69.78
15 November	Societe Generale	Hold	PLN 71.00	PLN 72.50
23 November	PKO BP DM	Sell	PLN 68.00	PLN 71.00

In 2016 23% of analysts recommended "BUY", and 41% - "HOLD" shares of LW Bogdanka S.A.

Recommendations issued for LW Bogdanka S.A. from 1 January 2016 until 31 December 2016





5. Governing bodies



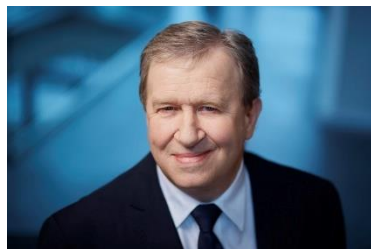
Composition of the Company's Management Board



Adam Partyka

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

Mr Adam Partyka 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. From June 2014 he held the position of the Deputy Chairman of the "Solidarity" Trade Union. Between 2007 and 2014 he was a shift foreman responsible for electrical equipment underground. Between 2006 and 2012 he was a member of the Supervisory Board of LW Bogdanka S.A. On 1 April 2016 he became Vice-President of the Management Board, Employee and Social Affairs at LW Bogdanka S.A.



Stanisław Misterek

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

Mr Stanisław Misterek graduated from the Maria Curie-Skłodowska University in Lublin, Faculty of Economics, with an MA degree, Post-Graduate Studies on European Standards in Finance and Accounting at the Warsaw School of Economics, Post-Graduate Studies on Public Procurement at the European University of Law and Administration in Warsaw, and on International Accounting Standards / International Financial Reporting Standards at the University College of Enterprise and Administration in Lublin. He has completed many training courses on finance management and accounting. He is a professional accountant 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 positions 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 2016, he took up the post as the Vice-President of the Management Board, Economic and Financial Affairs at LW Bogdanka S.A.



Krzysztof Szlaga

President of the Management Board

Mr Krzysztof Szlaga holds a university degree in economy. In 2001 he graduated from the University of Economics in Krakow, 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), 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. Recently, 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. Mr Krzysztof Szlaga has fluent command of German and English.



Sławomir Karlikowski

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

Mr Sławomir Karlikowski graduated in 1991 from the Faculty of Mining and Geology at AGH University of Science and Technology in Krakow 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. Mr Sławomir Karlikowski has been with LW Bogdanka S.A. since 1991. He started to perform underground executive functions in 1992. In 2007 he moved to senior managerial posts, and in 2013 he took the position of the Chief Engineer (later: Production Director) - Head of Mining Supervision in Mining Facility, which he has held until now. Since 23 May 2016 he has been the Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility at LW Bogdanka S.A.



Marcin Kapkowski

Vice-President of the Management Board, Procurement and Investments

Mr 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. Mr 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 branch, 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. Since 23 May 2016 he has been the Vice-President of the Management Board, Procurement and Investments at LW Bogdanka S.A. Mr Marcin Kapkowski is fluent in English.



Changes in the composition of the Management Board

Date	Event
24 March 2016	<p>The Supervisory Board of LW Bogdanka S.A. adopted resolutions under which the following persons were dismissed from their positions as Management Board Members effective from 31 March 2016:</p> <ul style="list-style-type: none">• 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.
	<p>The Supervisory Board of LW Bogdanka S.A. adopted resolutions on the appointment of the following persons effective from 1 April 2016:</p> <ul style="list-style-type: none">• 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	<p>The Supervisory Board of LW Bogdanka S.A. adopted resolutions on the appointment of the following persons effective from 23 May 2016:</p> <ul style="list-style-type: none">• 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.

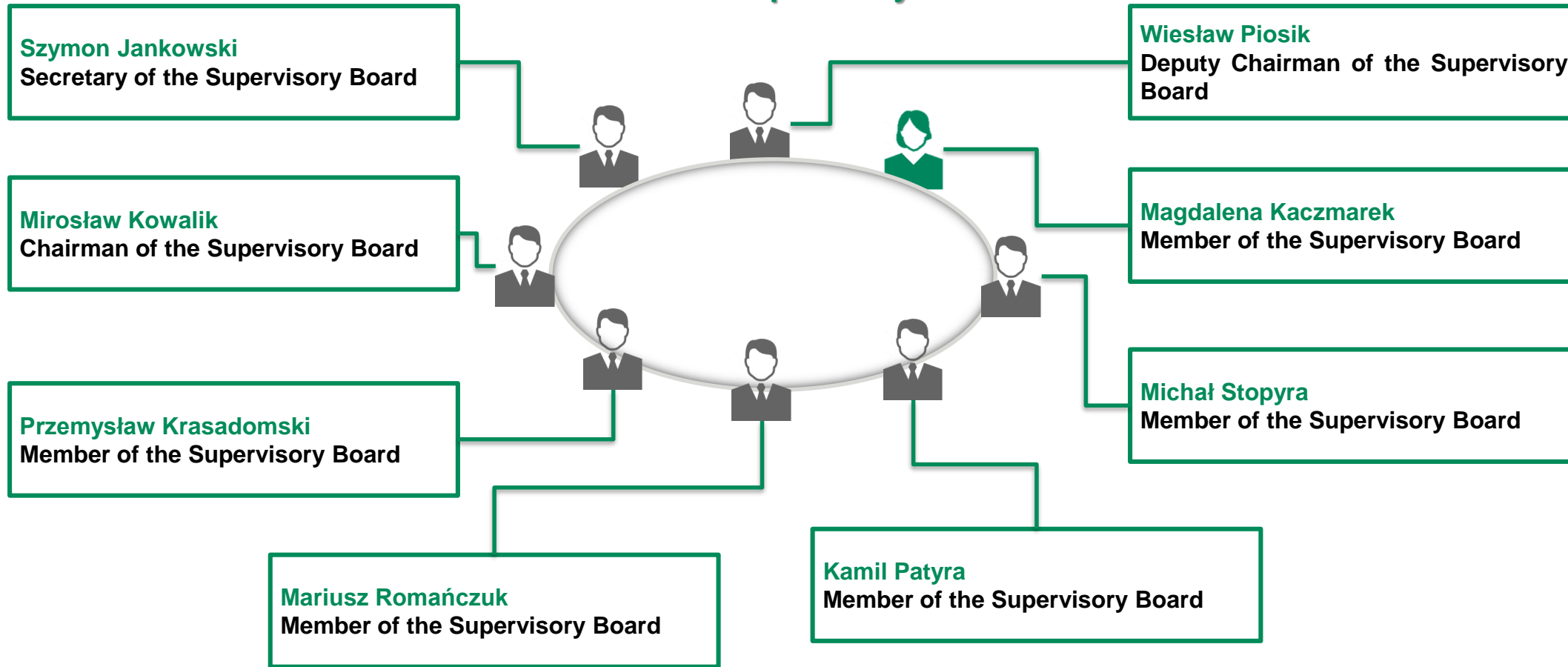




Composition of the Company's Supervisory Board as at 30 March 2017

12.5% - independent members in the Supervisory Board of LWB

12.5% - women in the Supervisory Board of LWB





Composition of the Company's Supervisory Board as at 30 March 2017

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 2016 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.

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.

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 experience in supervising companies in the energy, service and IT sectors. 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.

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 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 S.A. 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 PFK S.A. in liquidation, EP BUT S.A. and Enea Centrum sp. z o.o.

Mariusz Romańczuk graduated in Mining and Geology, with specialisation in Underground Mining of Mineral Resources and Underground Mining, from the AGH University of Science and Technology in Krakow.

He has worked for LW Bogdanka S.A. since 1989. Currently, he holds the position of Division Foreman, Deputy Head of Blasting Team.

Kamil Patyra graduated from Maria Curie-Skłodowska University in Lublin, where he completed studies in administration at the Faculty of Law and Administration. He joined LW Bogdanka S.A. in 2004 as underground machine and device repairer. In 2015 he was appointed as Company Social Labour Inspector.

Michał Stopyra graduated from the AGH University of Science and Technology in Krakow, 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. In 1993 he also started to carry out consulting activities focused on cooperation with industry. 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, Mr Michał Stopyra was a member of the Supervisory Board in Techniczno Górnicza Spółka Akcyjna TEGONA S.A. in Katowice. From 2013, he has been acting as a member of the Supervisory Board of LW Bogdanka S.A.



Changes in the composition of the Supervisory Board

Date	Event
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: <ul style="list-style-type: none">• Bartosz Krysta• Krzysztof Matan The Extraordinary General Shareholders Meeting appointed the following four persons as Supervisory Board members: <ul style="list-style-type: none">• Szymon Jankowski• Mirosław Kowalik• Przemysław Krasadomski• Wiesław Piosik
7 March 2017	The Extraordinary General Shareholders Meeting removed the following persons: <ul style="list-style-type: none">• Szymon Jankowski• Magdalena Kaczmarek• Mirosław Kowalik• Przemysław Krasadomski• Wiesław Piosik• Michał Stopyra. The Extraordinary General Shareholders Meeting appointed the following persons to the Supervisory Board for a joint term of office of three years: <ul style="list-style-type: none">• Szymon Jankowski• Magdalena Kaczmarek• Mirosław Kowalik• Przemysław Krasadomski• Kamil Patyra• Wiesław Piosik• Mariusz Romańczuk• Michał Stopyra.





Rules of appointment and remuneration; salary levels

Rules of appointment and description of powers of the governing bodies of the Company

Detailed information can be found in Chapter 6. Corporate Governance on pages 82-87.

Rules of remuneration of the Management Board Members

The rules of remuneration of the Members of the Management Board of LW Bogdanka S.A. which applied in 2016 were introduced under the Resolutions of the Supervisory Board of LW Bogdanka S.A. of 24 March 2016 and 13 May 2016. All Members of the Management Board entered into Service Agreements – Management Contracts with the Company referred to in Article 3.2 of the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Dz.U. [Journal of Laws] No. 26, item 306, as amended). The Service Agreements, and the Non-Compete Agreements attached thereto, signed by the Company stipulate that:

- during the term of the Service Agreement, Members of the Management Board are entitled to a fixed monthly salary and performance-based annual bonus in the amount of 50% of total annual remuneration, calculated in accordance with the specific rules laid down in the Service Agreement;
- in return for compliance with the non-compete obligations during the non-compete period, Members of the Management Board are entitled to compensation in the total amount equal to their fixed monthly salary multiplied by the number of months in the non-compete period;
- In the event of expiry of the Service Agreement as a result of expiry of the mandate of Member of the Management Board, the Company is entitled to demand, for one month from expiry of the Agreement, that Members of the Management Board provide services in connection with the handover of the affairs associated with running of the Company to a person appointed by the Chairman of the Supervisory Board. Members of the Management Board are entitled to remuneration for this, in the amount of the fixed salary.
- Members of the Management Board are entitled to severance pay in the amount equal to three times the monthly fixed salary, except where:

- the Service Agreement is terminated by the Company or it expires as a result of dismissal from the position of Member of the Management Board for a culpable material breach of the provisions of the Articles of Association or the Service Agreement, resulting in detriment to the Company;
- the Service Agreement is terminated by the Company or it expires as a result of losing the right to hold the position of Member of the Management Board in the cases specified in Article 18 of the Commercial Companies Code;
- the Service Agreement is terminated by the Member of the Management Board or it expires as a result of resignation from the position, unless the termination of the Agreement or the resignation took place by fault of the Company;
- the Agreement expires as a result of expiry of the mandate of Member of the Management Board at the end of the term of office for which the Member had been appointed, if the Member does not wish to be appointed to the Management Board for another term of office;
- the Agreement is terminated by the Member of the Management Board or it expires as a result of dismissal from the position or expiry of the mandate for other reasons, and the Member is then appointed to the management board of the Company or other Enea Group company.

In the event of violation of the non-compete obligation by Members of the Management Board, they lose the right to receive any further instalments of the compensation and are obliged to pay liquidated damages to the Company. The Company has the right to terminate the Non-Compete Agreement if the prerequisites for the prohibition of competition cease to exist.

All executive personnel have taken out, at their own expense, third-party liability insurance in case of non-performance or improper performance of the Management Contract.

Depending on the assumed levels of Key Performance Indicators (KPI), Members of the Management Board may be awarded an annual bonus.

Remuneration of individual members of the Management Board paid in 2016 on account of management contracts

The total gross remuneration paid to the Members of the Management Board in 2016 amounted to PLN 5,458,550.35. For fulfilling their duties, Members of the Management Board received remuneration under an Employment Contract and the Service Agreement:

In 2016, Members of the Management Board of LW Bogdanka S.A. did not receive remuneration for holding functions in the Subsidiaries of LW Bogdanka S.A.

Gross remuneration paid to the Company's proxies in 2016 amounted to PLN 1,611,810.34. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

Name and surname	The term of office in the Management Board in 2016	Remuneration
Krzysztof Szlaga	1 April – 31 December	591,818.04
Stanisław Misterek	1 April – 31 December	467,780.09
Adam Partyka	1 April – 31 December	463,460.66
Sławomir Karlikowski	23 May – 31 December	370,146.13
Marcin Kapkowski	23 May – 31 December	364,516.13
Zbigniew Stopa	1 January – 31 March	590,554.67
Piotr Janicki	1 January – 31 March	506,799.91
Jakub Stęchły	1 January – 31 March	506,793.91
Waldemar Bernaciak	1 January – 31 March	456,799.91



Rules of appointment and remuneration; salary levels

Remuneration of individual members of the Management Board paid in 2016 on account of employment contracts

Changes in the composition of the Management Board introduced on 23 November 2015 were accompanied with the changes in the rules on which the Management Board members are employed. Employment contracts were replaced with management contracts. Therefore, in 2015 two Management Board members who were appointed for the next term of office on 23 November 2015, i.e. Mr Yves Marie Gerard Roger de Bazelaire de Boucheporn and Mr Krzysztof Szlaga in 2016 received due payments resulting from the terminated employment contracts in the total amount of PLN 776,441.02 in the case of Mr Yves Marie Gerard Roger de Bazelaire de Boucheporn, and PLN 363,439.88 in the case of Mr Krzysztof Szlaga. The other two Management Board members, i.e. Mr Zbigniew Stopa and Mr Waldemar Bernaciak did not receive those payments, because they continued their employment with the Parent on the basis of management contracts.

Changes in the rules of remuneration after 31 December 2016

On 7 March 2017 the Extraordinary General Shareholders Meeting of Lubelski Węgiel Bogdanka adopted Resolution No. 4 on the rules for determining the remuneration of Management Board Members. The Resolution provides for the establishment of a Fixed Remuneration determined as a multiple of the average remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of the previous year as announced by the President of the Central Statistical Office of Poland using a multiplier between seven and fifteen, and a Variable Remuneration which shall depend on the degree of accomplishment of Management Goals and may not exceed 100% of the Fixed Remuneration.

Moreover, the resolution specifies as follows:

- A Member of the Management Board may be granted a severance pay not higher than three times his or her Fixed Remuneration, provided that the Member of the Management Board held his or her function for at least twelve months before the Agreement was dissolved or terminated.
- The Supervisory Board may sign a non-compete agreement with a Member of the Management Board, which will be in force after the Member ceases to hold his or her function, provided that such agreement may only be concluded if the Member of the Management Board held his or her function for a period of at least six months, and its amount may not exceed 50% of his or her Fixed Remuneration.

MANAGEMENT OPTIONS SCHEME

Resolution No. 26 of the Annual General Shareholders Meeting of 4 July 2013 introduced the Management Options Scheme for 2013-2017.

As at 31 December 2016, a total of 1,143,863 options were allocated within the Management Options Scheme. Additional 41,831 options were, in line with the Terms and Conditions of the Scheme, allocated from the reserve pool to the senior management members (employed in 2014) of key importance for the Company's development.

By virtue of its resolution of 13 May 2016, the Company's Supervisory Board, having assessed the financial statements for 2015, concluded that the criteria for exercising the Options by persons covered by the Management Options Scheme for 2015 were not fulfilled.

Upon assessment of the financial statements for 2016, the Company's Supervisory Board will determine whether the objectives were accomplished and criteria fulfilled with respect to exercising the Options by persons covered by the Management Options Scheme for 2016.

Details of the Management Options Scheme are contained in the Terms and Conditions of the Management Options Scheme of LW Bogdanka S.A. with registered office in Bogdanka for 2013-2017, attached as an appendix to Current Report No. 35/2013 of 30 September 2013.





Rules of appointment and remuneration; salary levels

Rules of remuneration of the Supervisory Board

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. The Company shall cover the costs incurred by the members of the Supervisory Board in connection with the performance of their duties, and in particular the costs of travel to take part in Supervisory Board's meetings, board and accommodation, as well as costs incurred in connection with exercising individual supervision.

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

Remuneration of the Supervisory Board Members is defined in Resolution No. 3 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 16 November 2015 as one time the average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of 2009. This provision was amended by Resolution No. 5 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 17 August 2016 - as at the date of its adoption. The amount of remuneration of the Supervisory Board Members is determined as one time the average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of the previous year announced by the Central Statistical Office of Poland (GUS). Moreover, in relation to the Enea Group regulations for the representatives of the Enea Group in the Supervisory Board of the Company, a fixed flat-rate monthly remuneration has been established in the amount of PLN 1 for each month. That provision was amended by virtue of resolution No. 5 of the Extraordinary General Shareholders Meeting of 17 August 2016 which specifies that the indicated representatives of the Enea Group in the Supervisory Board of the Company are not entitled to any remuneration. The above provisions regarding the remuneration of the Supervisory Board Members were confirmed by virtue of Resolution No. 5 of the Extraordinary General Shareholders Meeting of 7 March 2017 on the rules for determining the remuneration of Supervisory Board Members.

Amount of remuneration of individual members of the Supervisory Board paid out in 2016

A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2016 amounted to PLN 123,322.77, including:

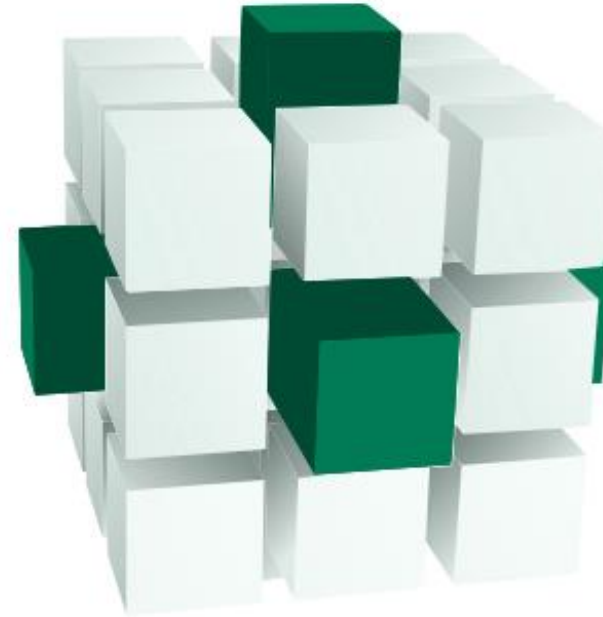
Name and surname	Remuneration
Jankowski Szymon	PLN 39,082.49
Krasadomski Przemysław	PLN 39,082.49
Kaczmarek Magdalena	PLN 0.00
Kowalik Mirosław	PLN 0.00
Piosik Wiesław	PLN 0.00
Stopyra Michał	PLN 45,157.79
Matan Krzysztof	PLN 0.00
Krysta Bartosz	PLN 0.00
Gepfert Dalida	PLN 0.00

Other benefits and sources of remuneration

In 2016 Members of the Management Board and the Supervisory Board of LW Bogdanka S.A. did not receive any remuneration for the performance of duties at the subsidiaries.

No pension schemes apply in the Company, and no payments of a similar nature are made to former members of management and supervisory bodies.





6. Corporate governance



Corporate governance rules and rules departed from

In 2016, LW Bogdanka S.A. complied with the new rules of the “Best Practice for WSE Listed Companies” (hereinafter the “Best Practice for WSE Listed Companies”), attached as an appendix to Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych S.A. in Warsaw of 13 October 2015. The Best Practice for WSE Listed Companies is available on the WSE website devoted to corporate governance - www.corp-gov.gpw.pl.

Corporate governance rules departed from

The intention of the Management Board of LW Bogdanka S.A. is to apply all corporate governance rules. It is the intention of the Management Board of LW Bogdanka S.A. to observe all corporate governance rules. However, due to the fact that some of the rules may cause excessive financial strain on the Company that would dominate the potential benefits arising from market needs, in 2016 the Company departed from the application of some of the corporate governance rules and recommendations as specified below.

The Company did not apply the following three detailed principles of “Best Practice for WSE Listed Companies”:

Part I. Information policy and communication with the investors - I.Z.1.15.

“information about the company’s diversity policy applicable to the company’s governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website”

Comment:

The above principle does not apply due to the specificity of the industry in which the Company operates.

Although diversity policy principles have not been implemented in the Company, in matters related to human resources the Company acts in accordance with the current needs of the enterprise, paying special attention to the expertise, education and professional experience of the candidates.

Part II. Management Board and Supervisory Board - II.Z.3.

“At least two members of the supervisory board should meet the criteria of being independent referred to in principle II.Z.4.”

Comment:

Decisions related to the composition of the Company’s Supervisory Board are made by the Company’s General Shareholders Meeting, therefore the Company may periodically fail to meet the criteria of this principle. In light of the above, it is not possible to determine whether the exception from the application of the Best Practice is permanent.

Part II. Management Board and Supervisory Board - II.Z.8.

“The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.”

Comment:

Currently, the only member of the Supervisory Board of LW Bogdanka S.A. who meets the independence requirements referred to in principle II.Z.4. of the Best Practice is Mr Michał Stopyra.

Given the fact that decisions related to the composition of the Company’s Supervisory Board are made by the Company’s General Shareholders Meeting, and the Chair of the Audit Committee is appointed by the Supervisory Board from among its members, therefore the Company may periodically fail to meet the criteria of this principle. In light of the above, it is not possible to determine whether the exception from the application of the Best Practice is permanent.



The Company did not apply the following recommendation of “Best Practice for WSE Listed Companies”:

Part IV. General Shareholders Meeting and relations with shareholders - IV.R.2

“If justified by the shareholding structure or expectations of Shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a General Shareholders Meeting to proceed efficiently using electronic communication means, the company should enable its Shareholders to participate in a General Shareholders Meeting using such means, in particular through:

- *transmitting the session of the General Shareholders Meeting in real time,*
- *two-way communication in real time, allowing Shareholders to make statements during the General Shareholders Meeting whilst being in a different place from the venue of the General Shareholders Meeting,*
- *exercise of the right to vote during the General Shareholders Meeting either in person or through a plenipotentiary.” IV.R.2*

Comment:

The Company has surrendered the above principle due to the technical and legal risk that the Company believes to exist. According to the Company, the option to participate in the General Shareholders Meetings with the use of electronic means of communication may involve a risk of incorrect identification of people authorised to attend the General Shareholders Meeting and cause disturbances during the course of the General Shareholders Meeting. As a result, the resolutions adopted could potentially be questioned. The Company does not exclude a possibility to provide the Shareholders with bilateral real-time communication during the sessions of the General Shareholders Meeting in the future.



The main characteristics of internal audit and risk management systems used by the issuer with regard to the process of drawing up separate financial statements

LW Bogdanka S.A. draws up separate and consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

Control mechanisms aimed at achieving the following control objectives have been implemented in LW Bogdanka S.A.:

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses
- Reliability and completeness – all operations and transactions are properly carried out and recorded from the beginning to the end
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction
- Compliance – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of LW Bogdanka S.A. are maintained using the FINANSE IT system, which forms part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and finance personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President of the Management Board for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to the experience and qualifications of the finance and accounting personnel, supervised by the Company's Chief Accountant.

LW Bogdanka and its subsidiaries, Łęczyńska Energetyka and RG Bogdanka, maintain accounting ledgers and draw up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as well as with the related interpretations announced in the form of regulations of the European Commission. Other subsidiaries, when preparing financial information for the consolidation purposes apply the same accounting policies as LW Bogdanka S.A.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements. The body supervising the financial reporting process at LW Bogdanka S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's

responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Audit and Internal Control Department within the Company's organisational structure, operating pursuant to the Rules of Audit and Internal Control, is also of significance. The internal audit system at LW Bogdanka S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues relevant opinions. The auditor is appointed by the Company's Supervisory Board from among reputable audit firms in accordance with recommendations made by the Audit Committee, which, among other things, pays due attention to ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.





Shareholders holding, directly or indirectly, substantial stakes in LW Bogdanka S.A.

Shareholder	10 November 2016	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
Grupa Enea S.A.*	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%

* in accordance with a notification received on 30 October 2015 (for more information see Current Report No. 39/2015).

** in accordance with a notification received on 9 August 2016 (for more information see Current Report No. 31/2016).

Shares and shareholding

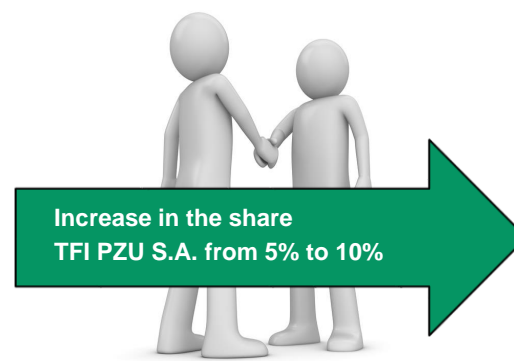
A detailed description of the share capital structure, shareholding structure, changes in its structure in 2016 as well as possible changes in the structure is described in Chapter 4. Shares and shareholding

Owners of all the securities which entitle to special control rights

LW Bogdanka S.A. has not issued any securities, which would entitle shareholders to special control rights.

Restrictions on exercising the voting right

The Articles of Association of LW Bogdanka S.A. do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.



Shareholder	30 March 2017	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
Grupa Enea S.A.*	22,448,834	66.0%
TFI PZU S.A.**	3,435,103	10.1%
Other	8,129,653	23.9%
Total	34,013,590	100.0%

* in accordance with a notification received on 30 October 2015 (for more information see Current Report No. 39/2015).

** in accordance with a notification received on 30 January 2017 (for more information see Current Report No. 2/2017).

Restrictions on transferring ownership of the Company's securities

The Articles of Association of LW Bogdanka S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

Description of the rules governing the amendments made to the Company's Articles of Association

Amendments to the Articles of Association of LW Bogdanka S.A. require a resolution of the General Shareholders Meeting and an entry into the register of entrepreneurs in compliance with the Company's Articles of Association and the provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, the applicable provisions in the event of amending the Articles of Association are the provisions of the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. [Journal of Laws] 09.33.259, as amended) on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.

Governing Bodies Management Board

Appointment of Management Board members

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of LW Bogdanka S.A. are governed by the Articles of Association of LW Bogdanka S.A.

Pursuant to the Articles of Association of LW Bogdanka S.A., the Management Board is composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board are appointed for a joint term of office which lasts three years.

Mandates of Management Board members shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

Dismissal of Management Board members

In compliance with the Company's Articles of Association currently in effect, each Management Board member may be dismissed or suspended from office by the Supervisory Board.

Management Board for the 9th term of office

Composition of the Management Board from 23 November 2015 to 31 March 2016

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



Current composition of the Management Board

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

Krzysztof Szlaga holds a university degree in economy. In 2001 he graduated from the University of Economics in Krakow, 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), 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. Recently, 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. Mr Krzysztof Szlaga has fluent command of German and English.

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

Mr Stanisław Misterek graduated from the Maria Curie-Skłodowska University in Lublin, Faculty of Economics, with an MA degree, Post-Graduate Studies on European Standards in Finance and Accounting at the Warsaw School of Economics, Post-Graduate Studies on Public Procurement at the European University of Law and Administration in Warsaw, and on International Accounting Standards / International Financial Reporting Standards at the University College of Enterprise and Administration in Lublin. He has completed many 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 positions 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 2016, 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

Mr Adam Partyka 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. From June 2014 he held the position of the Deputy Chairman of the "Solidarity" Trade Union. Between 2007 and 2014 he was a shift foreman responsible for electrical equipment underground. Between 2006 and 2012 he was a member of the Supervisory Board. On 1 April he became Vice-President of the Management Board, Employee and Social Affairs at LW Bogdanka S.A.



Governing Bodies

Management Board

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

Mr Slawomir Karlikowski graduated in 1991 from the Faculty of Mining and Geology at AGH University of Science and Technology in Krakow 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. Mr Slawomir Karlikowski has been with LW Bogdanka S.A. since 1991. He started to perform underground executive functions in 1992. In 2007 he moved to senior managerial posts, and in 2013 he took the position of the Chief Engineer (later: Production Director) - Head of Mining Supervision in Mining Facility, which he has held until now. Since 23 May 2016 he has been the Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility at LW Bogdanka S.A.

Marcin KAPKOWSKI – Vice-President of the Management Board, Procurement and Investments

Mr 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. Mr 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 branch, 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. Since 23 May 2016 he has been the Vice-President of the Management Board, Procurement and Investments at LW Bogdanka S.A. Mr Marcin Kapkowski is fluent in English.

Description of operations and authorisations

Pursuant to the Company's Articles of Association, the Management Board of LW Bogdanka S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the

approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

- adopting the Rules of Procedure for the Management Board,
- adopting the Company's Organisational Rules,
- creation and liquidation of the Company branches,
- appointment of a proxy,
- contracting loans,
- adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
- assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
- acquiring non-current assets with a value exceeding the amount of PLN 100,000.00 (one hundred thousand zloty),
- disposing of non-current assets with a value exceeding the amount of PLN 50,000.00 (fifty thousand zloty),
- any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW Bogdanka S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW Bogdanka S.A. ensures that the system of managing the Company is transparent and efficient, and that its affairs are run in compliance with the provisions of law and good practice.

and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Statements of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The commercial power of representation may be recalled by any member of the Management Board.

Tasks and obligations of the members of the Management Board in 2016

In accordance with the Company's Organisational Rules:

The President of the Management Board (D):

- is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards
- represents the Company in relations with third parties
- presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions
- directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
 - company organisation
 - supporting the operations of the Company's governing bodies
 - privatisation, Company restructuring
 - ownership supervision and capital investments
 - internal structural and ownership transformations
 - providing information and reports to investors, shareholders and stock exchange institutions
- Implementing the LW Bogdanka S.A.'s strategy and the Company's long-term plans, as well as implementing strategic management and project management at the Company
 - project management
 - co-operation with the media and the information policy
 - internal audit in the Company
 - HR policy and employee issues
 - future plans with regard to the development and modernisation of the production process
- monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,



Governing Bodies

Management Board

- conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse;
- management of risks at the Company;
- sales and wholesale shipping of coal;
- coal warehousing;
- market analyses;
- sales of construction ceramics.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

The Vice-President for Economic and Financial Affairs (DE)

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

- managing the Company's finances
- pay and insurance policies
- economic and financial analyses
- reporting and statistics
- budgeting and controlling
- supervising Company value management
- supervising financial and accounting services
- supervising the accountancy and settlements with business partners
- economic effectiveness of investment projects
- developing the rules for managing short-term securities
- computerisation of the Company
- inventory taking.

Vice-President of the Management Board, Employee and Social Affairs (DZ)

Vice-President of the Management Board, Employee and Social Affairs, organises and supervises the Company's operations in particular in the following areas:

Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:

- occupational health and safety, training courses
- current records archive and general secretariat

- matters of defence
- social issues
- ethics
- corporate social responsibility
- cooperation with trade union organisations
- personal data protection
- and on the basis of Resolution of the Management Board No. 598/IX/2016 of 14 June 2016 (in accordance with the Act on Protection of Inside Information of 5 August 2010) also covers:
 - protection of inside information.

Indirectly supervises the performance of assignments by subordinate organisational units.

Vice-President of the Management Board, Procurement and Investments (DI)

Vice-President of the Management Board, Procurement and Investments organises and supervises the Company's operations in particular in the following areas:

- investment activity, capex planning, machinery purchases and overhauls as well as maintenance of buildings and structures
- budgeting and estimating costs of services and purchases
- organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues
- managing warehouse materials and logistics (on ground)
- rail transportation.

Vice-President of the Management Board, Production (DP)

Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility organises and supervises the Company's operations, in particular in the following areas:

- maintaining and developing production capacity
- analysis and optimisation of the usage of production capacity, including machinery and equipment
- deposit management planning
- trade coal mining and production
- keeping surveyor and geological records, as well as production records
- properly organising and managing the operation of the mining facility
- organising and planning the production and the development of the mining facility. Developing the concepts of long-term, annual and monthly production plans related to the tasks
- of organising, supervising and controlling the technical and

production activities in the mining facility. Analysing technical advancements and implementing state-of-the-art and innovative solutions

- research and implementation
- environmental protection
- organising, supervising and controlling the technical and production activities of the mine as a whole. Analysing technical advancements and introducing state-of-the-art solutions, as well as technical and technological advances
- working together with Management Board members on the development of growth concepts, long-term economic plans and development production plans
- undertaking activities aimed at improving the work organisation, occupational health and safety, quality and range of production, management of machines and devices as well as energy, water and repair management equipment
- cooperating with the Training Department on employee training and development
- working together with the investment division on investment plans and investment tasks to be performed at the Mine
- undertaking activities related to employee innovation and improvement through innovation
- supervision over subordinate services with respect to:
 - the technology of work
 - preparing operating manuals
 - the adequacy of staff training
 - ensuring that the employees of the mine have their periodic tests conducted regularly
 - the assessment of natural threats
- checking compliance with monthly production plans implemented by individual departments of the Mine, and dividing the bonus fund in accordance with the Collective Bargaining Agreement
- managing the operation of the mining facility in accordance with the rules of mining technology, the Mining and Geological Law as well as the approved Mining Facility Operation Plan in such a manner that human life and health and the public interest are not jeopardised
- using the necessary means to protect and exploit the resources of a deposit, and to protect the surface, surface waters and groundwaters in accordance with the applicable laws and the rules of mining technology



Governing Bodies Management Board, Dividend

- specifying in writing the scope of activities to be carried out by persons whom he intends to entrust with the supervision of the operations in the mining facility and delivering the said specification to those persons against a confirmation of receipt
- facilitating training courses on dangers present in the mining facility and the established work safety instructions
- specifying the rules of going down and up, and assigning supervisors to ensure compliance with the rules
- specifying the conditions for safe cutting, welding or soldering of metals in underground excavations, giving permits to perform these works, and specifying the system for supervising and controlling these works
- specifying the types of work with the use of electric and power devices which may only be performed on a written instruction
- filing applications with the Regional Mining Authority to issue permits for the construction, reconstruction, admission to operation and liquidation of basic facilities in the mine, and to issue permits for the operation of facilities outside the scope of competence of the Regional Mining Authority
- notifying the Regional Mining Authority of any accident or danger which jeopardises the social interest, in particular human life and health, or public utility facilities
- managing a preventive or rescue action in case of danger or accident
- providing the Regional Mining Authority with any materials and documents necessary to exercise control and supervision over the operations of the mining facility, providing explanations, and executing orders given in connection with non-compliance with the law or any threats to human life and health
- regularly analysing the safety level of the mining facility, identifying the causes of any accidents and introducing preventive measures resulting from the analyses
- appointing a commission to carry out technical acceptance of basic machines and devices in the mine
- appointing teams to deal with natural threats that occur in the Mine, and cooperating with such teams on a regular basis
- organising proper supervision over the operation of the mining facility on individual shifts during working days and public holidays
- planning schedules of on-call duties for mining supervisors in the mining facility
- performing other duties specified in the Geological and Mining

Law, and the resulting delegations applicable to Head of Mining Supervision in Mining Facility.

Information about Management Board meetings and the resolutions adopted

In the reporting year 2016 the Management Board appointed for the 9th term held 84 minuted meetings and adopted a total of 1,387 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

Information on powers of proxy granted and revoked

In 2016 the Management Board of the Company granted proxies to Mr Andrzej Cisło and to Mr Krzysztof Bogusz.

In 2016 the Management Board of the Company cancelled a proxy granted to Mr Sławomir Karlikowski due to the fact that he took the position of the Vice-President of the Management Board, Production.

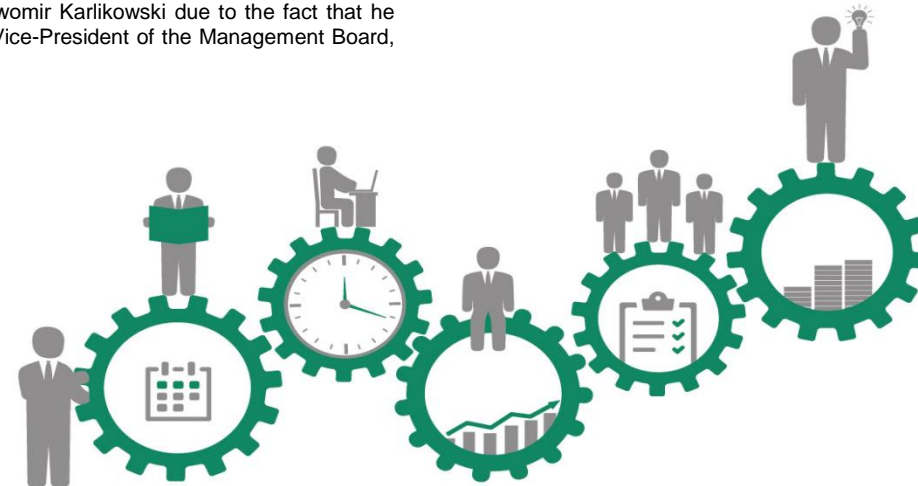
Dividend policy

In the medium and long run, LW Bogdanka S.A. wants to remain a dividend-paying company, and the Management Board intends to ask the General Shareholders Meeting for approval of dividends up to 50% of the net profits shown in the Company's separate financial statements, prepared in accordance with the International Financial Reporting Standards.

In the light of rapid changes in both Polish and global coal markets, it is a priority for the Management Board to ensure financial and liquidity security for the Company. Therefore, the dividends recommended each time by the Management Board will depend on:

- current market situation
- generated operating cash flows
- planned capital expenditure and investments
- projected debt of the Company.

The above dividend payment policy will be reviewed periodically, and future dividend payments will be made in accordance with the decisions of the General Shareholders Meeting.





Governing Bodies

Supervisory Board

Appointment and removal from office of the Supervisory Board members

The rules concerning appointment and removal from office of the Supervisory Board members of LW Bogdanka S.A. are governed by the Articles of Association of LW Bogdanka S.A.

In accordance with the Articles of Association of LW Bogdanka S.A., the Supervisory Board consists of 5 (five) to 9 (nine) members. The members of the Supervisory Board are appointed and removed from office by the General Shareholders Meeting for a joint term of office of three years. Members of the Supervisory Board may be removed from office by the General Shareholders Meeting at any time.

A Supervisory Board member shall file his/her resignation in writing to a member of the Management Board or to a proxy. The Management Board member or the proxy who receives the resignation shall promptly notify the other members of the Management and Supervisory Boards of the same.

The mandates of the Supervisory Board Members expire not later than on the date when the General Shareholders Meeting approves the report on operations and the financial statements for the last full financial year when the Supervisory Board Members performed their function.

Composition

The Supervisory Board of LW Bogdanka S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting.

In 2016 the Company's Supervisory Board operated in the following compositions:

Composition of the Supervisory Board as from 16 Nov. 2015

Dalida Gepfert	Chairman
Paweł Orlof	Deputy Chairman of the Supervisory Board
Krzysztof Matan	Secretary
Magdalena Kaczmarek	Member
Bartosz Krysta	Member
Michał Stopyra	Member

On 9 December 2015 the Company received from Mr Paweł Orlof a statement of resignation from the position of the Member of the Supervisory Board with effect from 8 December 2015.

On 14 January 2016 the Company received from Ms Dalida Gepfert a statement of resignation from the position of the Member of the Company's Supervisory Board with effect from 14 January 2016.

Composition of the Supervisory Board as from 23 Feb. 2016

Mirosław Kowalik	Chairman
Wiesław Piosik	Deputy Chairman of the Supervisory Board
Szymon Jankowski	Secretary
Magdalena Kaczmarek	Member
Przemysław Krasadomski	Member
Michał Stopyra	Member of the Supervisory Board

Composition of the Supervisory Board as from 7 March 2017

Mirosław Kowalik	Chairman
Wiesław Piosik	Deputy Chairman of the Supervisory Board
Szymon Jankowski	Secretary
Magdalena Kaczmarek	Member
Przemysław Krasadomski	Member
Michał Stopyra	Member of the Supervisory Board
Mariusz Romańczuk	Member of the Supervisory Board
Kamil Patyra	Member of the Supervisory Board

The Supervisory Board shall exercise continuous supervision over the Company's activities in all areas of its operations. The Supervisory Board adopts resolutions in matters provided for in the Code of Commercial Companies and Partnerships and the Articles of Association of the Company.

The powers of the Supervisory Board shall include:

- assessment of the Directors' Report on the Company's operations, the financial statements for the preceding financial year, the Directors' Report on the group's operations, and the consolidated financial statements of the group, if such reports are prepared;
- appointment of a chartered auditor to audit the annual financial statements and the consolidated financial statements of the Company's group,
- assessment of motions of the Management Board regarding the distribution of net profit or covering of net losses;
- submission to the General Shareholders Meeting of an annual written report on the results of the assessments referred to in items 1 and 3;
- adopting rules laying down the detailed procedure followed by the Supervisory Board;
- adoption of the uniform text of the Company's Articles of Association prepared by the Management Board;
- granting consent for making an advance payment to the shareholders towards an anticipated dividend;
- approving the Rules of Selecting and Dismissing Supervisory Board Members Selected by the Company's Employees;
- appointing and dismissing members of the Management Board,
- determination of the rules and amounts of remuneration of the Management Board members;
- suspending the Management Board members from office;
- delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
- granting permission to Management Board members for accepting positions on the governing bodies of other entities,
- representing the Company in agreements and disputes between the Company and the Management Board members,
- representing the Company in agreements and disputes between members of the Company's group.



Governing Bodies Supervisory Board

- granting consent for the Company to enter into a significant agreement with a shareholder holding at least 5% of the total vote in the Company or a related entity. A significant agreement within the meaning of the previous sentence shall be an agreement whose value, on the date of the agreement, exceeds 10% of the value of the Company's consolidated equity established on the basis of the latest published financial statements of the Company. The above obligation does not apply to typical transactions and transactions executed on an arm's length basis within the Company's operating activities with entities that form part of the Company's group.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, shall be defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee is the standing committee at the Supervisory Board.

Committees

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2016.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of no less than three members, at least one of whom shall meet the requirement of being an independent member within the meaning of the Company's Articles of Association and the relevant provisions of law.

The task of the Audit Committee is to advise the Board on the internal policy and the budget procedures adopted by the Company and review them, and to provide advice on contacts between the Company and the certified auditor, including:

- monitoring the process of financial reporting
- monitoring the effectiveness of the following systems: internal control, internal audit and risk management
- approving annual audit plans
- monitoring the financial audit
- cooperating with the auditor auditing the Company's financial

statements

- monitoring the independence of the auditor and the entity authorised to audit the Company's financial statements
- providing the Board with recommendations for selecting the auditor
- discussing the nature and scope of each audit of the annual financial statements with the Company's auditor before it is commenced
- providing the Board with information on the work of the Audit Committee, including suggestions (if any) on any specific actions that need to be taken.

The Audit Committee shall be able to contact and communicate itself directly with the Manager of the Company's internal audit unit.

The Audit Committee shall submit a report on its activities to the Board at least once per year, on the date when the authorised corporate body of the Company approves the annual reports.



In 2016 the **Audit Committee** operated in the following compositions:

Composition of the Audit Committee as from 23 Nov. 2015

Dalida Gepfert	Chairman
Magdalena Kaczmarek	Member
Michał Stopyra	Member

On 14 January 2016, Ms Dalida Gepfert submitted a statement of resignation from the position of the Supervisory Board Member and Chairman of the Audit Committee effective from 14 January 2016.

On 3 March 2016, the Supervisory Board of LW Bogdanka S.A. appointed Mr Przemysław Krasadomski as Chairman of the Audit Committee.

Composition of the Audit Committee as from 3 March 2016

Przemysław Krasadomski	Chairman
Magdalena Kaczmarek	Member
Michał Stopyra	Member



General Shareholders Meeting

Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting

The General Shareholders Meeting of LW Bogdanka S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW Bogdanka S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website, in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the Meeting.

Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the Meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW Bogdanka S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.



Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports
- adopt a resolution on the distribution of profit or coverage of loss
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator
- increase in or reduction of the Company's share capital
- issue of bonds of any type
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code
- mandatory redemption of shares in accordance with the Commercial Companies Code
- creation, use and release of capital reserves
- use of statutory reserve funds
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company
- merger, transformation or demerger of the Company
- amendments to the Company's Articles of Association, including changes to the Company's business profile
- dissolving and liquidating the Company
- establishment of another company by the Company
- subscription for or acquisition of shares in another company
- disposal of subscribed for or acquired shares in another company.



General Shareholders Meeting

Information of General Shareholders Meetings held in 2016

In 2016 one Annual and three Extraordinary General Shareholders Meetings were held, while in 2017 one Extraordinary General Shareholders Meeting was held:

Annual General Shareholders Meeting of 22 June 2016, which was held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 22 June 2016:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Considering the Financial Statements and Directors' Report on Operations of LW Bogdanka S.A. for 2015.
- Recognising the Consolidated Financial Statements of the LW Bogdanka Group and the Consolidated Director's Report on Operations of the LW Bogdanka Group for 2015.
- Presenting the Management Board's motion regarding the coverage of net loss for 2015.
- Presentation of the Report of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. for 2015.
- Adopting resolutions on:
 - approval of the Financial Statements of LW Bogdanka S.A. for 2015,
 - approval of the Directors' Report on Operations of LW Bogdanka S.A. for 2015,
 - approval of the Consolidated Financial Statements of the LW Bogdanka Group for 2015,
 - approval of the Directors' Report on Operations of the LW Bogdanka Group for 2015,
 - granting discharge to the members of the Management Board of LW Bogdanka S.A. for the performance of duties in 2015,
 - approval of the Report of the Supervisory Board of LW Bogdanka S.A. for 2015,
 - granting discharge to the members of the Supervisory Board of LW Bogdanka S.A. for the performance of duties in 2015,
 - coverage of net loss for the financial year 2015,
- Miscellaneous.
- Closing the General Shareholders Meeting.

Extraordinary General Shareholders Meeting of 23 February 2016, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 23 February 2016:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting resolutions on changes in the composition of the Supervisory Board.
- Miscellaneous.
- Closing the General Shareholders Meeting.

Extraordinary General Shareholders Meeting of 12 April 2016, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 12 April 2016:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting a resolution on amending the Articles of Association.
- Miscellaneous.
- Closing the General Shareholders Meeting.

Extraordinary General Shareholders Meeting of 17 August 2016, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 17 August 2016:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting resolutions on amendment to the Articles of Association, the Company's entry into the ENEA Group and acceptance of the ENEA Group Code.

- Adopting a resolution on amendment to the Rules of Procedure of the General Shareholders Meeting.
- Adopting a resolution on determining the rules and amounts of remuneration for the members of the Supervisory Board.
- Miscellaneous.
- Closing the General Shareholders Meeting.

Extraordinary General Shareholders Meeting of 7 March 2017, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 7 March 2017:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting a resolution on amendment to the Rules of Procedure of the General Shareholders Meeting.
- Adopting a resolution on the rules for determining the remuneration of Management Board members.
- Adopting a resolution on the rules for determining the remuneration of Supervisory Board members.
- Adopting resolutions on changes in the composition of the Supervisory Board.
- Miscellaneous.
- Closing the General Shareholders Meeting.

Information on adopted resolutions as well as all documents are available at the Company's website www.ri.lw.com.pl.



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:

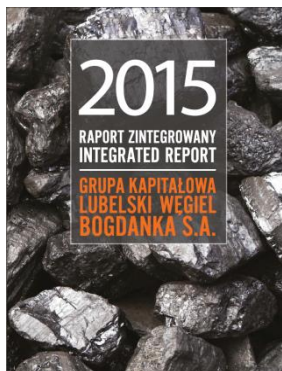
- to strive to increase the safety of workforce;
- to guarantee the safety of local natural environment;
- to ensure safety and support development of local community;
- Transparent and responsible management practices

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 organisations 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 session 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 Integrated Report of the LW Bogdanka Group for 2015 received the Main Award and the Award of the Minister of Economic Development in the 10th edition of the Contest for Social Reports organised by the Responsible Business Forum and Deloitte.

The Company is one of the leaders in the area of non-financial reporting, which is also evidenced by the fact that the Company was actively involved in the works on the "Handbook for Report Makers", prepared by a working group for monitoring CSR trends which operated within the Team for Social Responsibility of Enterprises (an auxiliary body of the Minister of Economy). The Handbook was published in April 2016. It offers a review of the latest non-financial reporting standards, talks about the benefits of applying such standards, and provides easy-to-read guidance on how to prepare yourself for social reporting.

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 S.A. was right to choose and promote management through values," says dr Monika Baczevska-Ciupak, Department of Ethics, Faculty of Philosophy and Sociology, Maria Curie-Skłodowska University (UMCS) in Lublin.

The Code of Ethics established in 2011 is updated to ensure that it reflects the most recent situation in the Company and in the industry as a whole. The documents which have been in effect since 2015 are: "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.

Dedicated training courses on the Code of Ethics are organised for the employees. In 2016, 158 employees, including 79 recently recruited employees, were provided with such training.

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

Trade Unions



Four union organisations operate at the Company. As at 31 December 2016, the size of the individual trade unions was as follows:

- "Solidarność" Independent Self-Governing Trade Union 1,166 members
- Trade Union of Miners in Poland - 1 553 members
- "Kadra" Trade Union - 267 members
- "Przeróbka" Trade Union - 287 members.

At the end of 2016, the number of staff employed at the Company amounted to 4,462 persons. In total, 3,273 employees were members of trade union organisations, which constitutes 72.1% of the total head count.

Cooperation of the Management Board of LW Bogdanka S.A. with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.

Social dialogue

As part of the monitoring of the CSR Strategy, we review the key groups of stakeholders and the current and desired forms of dialogue with them. In the case of these key groups, the communication is very regular, direct and often at the highest level, which enables consultation of relevant matters on a regular basis.

In 2016 over 20 dialogue sessions with the trade unions were

organised to negotiate such issues as the amendments to the Articles of Association and other derivative acts applicable at LWB; 27 meetings of the Social Benefits Commission composed of representatives of the employer and the trade unions, and 2 scheduled meetings of the Conciliation Team for Periodic Assessment of the Impact of Mining on the Surface in the Communes of Cyców, Ludwin and Puchaczów, with the participation of the Director of the Regional Mining Office in Lublin, who chairs the Team.

Regular dialogue sessions and the openness to employees' demands brought a positive effect of the lack of any collective disputes organised at the Company.

Collective disputes

In 2016 no collective disputes took place. Trade unions conducted an on-going social dialogue with the Employer; On 1 February 2016 an agreement was signed with respect to salaries level at the Company in 2015, as well as the manner and dates for its performance.

On 21 June 2016 an agreement was signed with respect to employment and salaries payments as well as benefits related to work in 2016.



Effectiveness of safety management at the workplace

At LW Bogdanka S.A., issues related to occupational health and safety (OHS) management are part of the Integrated Health and Safety, Quality and Environment Management System at LW Bogdanka S.A.

The Company maintains a quality management system compliant with the requirements of the relevant reference standards, which has been confirmed by audits carried out in the organisation. Several (facultative) OHS solutions were implemented in order to improve employee safety. At the moment, the Company is implementing several (facultative) OHS solutions and Kazik machines for collection of personal protective equipment (PPE), organisation of thematic events, the so-called safety days, preparation of internal documents aimed to popularise the OHS rules in the mine.



**TELEMEDYCYNĄ
POLSKA**

lider teleopieki kardiologicznej

Biuro Obsługi Klienta - 32 376 14 05
w dni powszednie w godz. 8.00 - 16.00
Kardiologia Centrum Monitoringu Kardiologicznego
Internistyczny proces
tel. 32 376 14 03 całonocowo, we współpracy z lekarzami


Usługa Kardiotele polega na całonocowej /we wszystkie dni roku/ teleopiece kardiologicznej wraz z możliwością wykonywania, przesyłania i konsultowania badań EKG z lekarzem specjalistą przez telefon. Wykonywane badania EKG są archiwizowane z możliwością wysłania do pacjenta.


Z Kardiotele możesz korzystać zawsze, gdy masz taką potrzebę, gdy czujesz się źle, a także profilaktycznie, aby na bieżąco kontrolować stan swojego serca.

Opłaty za połączenie telefoniczne obciążają linię telefoniczną /numer/, z której realizowane jest połączenie. Koszt połączenia komórkowego (GSM) zgodny z taryfą operatora. Koszty połączenia nie zawierają się w kwocie opłaty abonamentowej.

Przesłanie wyników badań: -bezpłatnie przy transmisji mail-owej lub 1 PLN (słownie 1 złotych) za każdą kartkę + koszt przesyłki.

Aparat do wykonywania EKG znajduje się w Punkcie Wydawania Przyrządów Pomiarowych /lampownia/ na poszczególnych polach.



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.



Since 2015, LW Bogdanka S.A., in cooperation with the Polish Society for the Protection of Birds (OTOP), has promoted the new "Nadrybie" educational path.

The path runs around the Nadrybie Lake – 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 which is 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.

With the signposts and guidebook it is easy for the interested individuals and groups to navigate their way along the path. The place is very popular among the locals, especially primary school children, who appreciate its educational value, and the possibility of having a walk amidst nature.

In addition to the OTOP, the following were engaged in the creation of the path: the Puchaczów Commune Office, the Łęczna District Governor's Office, the Provincial Office of Land Reclamation and Water Facilities, who provided the land for the path, and the Jan and Kazimierz Bogdanowicz Primary School in Nadrybie.

Relations with the local community



From the very beginning of its existence, LW Bogdanka S.A. has been supporting its immediate surroundings and the local community, *inter alia*, by subsidising a 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 sports and cultural activities. In 2016 LW Bogdanka S.A. made cash and in kind donations in the total amount of PLN 447,600 to provide financial support for such projects as the purchase of a new fire rescue vehicle for a Volunteer Fire Brigade which operates in Bogdanka's neighbourhood, and the installation of a sectional speed measurement in a dangerous section of a road which most of the Bogdanka's and external companies' employees use every day.

Inter-Sector Cooperation for Life and Health



An agreement in effect in 2016 was signed by the following entities:

Lubelski Węgiel Bogdanka S.A., the Solidary Miners Foundation, and the Regional Blood Centre in Lublin (RCKiK).

The trilateral agreement is dedicated to the promotion of voluntary blood donation, blood transfusion and registration with the bone marrow donor bank.

LWB has more than thirty years of blood donation tradition, owing to the Zdzisław Gola Honorary Blood Donors Club of the Polish Red Cross operating at the mine and the spontaneous expression of solidarity of our employees with persons in need of blood. The goal of the agreement is to conduct an education and volunteer program consisting in the Company's staff and the local community becoming 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. In 2016 blood and bone marrow

donation actions were organised in Bogdanka's surroundings, the idea of blood donation was promoted, information and educational materials were regularly 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 and their families, accident victims, or persons in a difficult situation. In Autumn 2016 the Foundation obtained the status of a public benefit organisation, which proves its strong commitment and effectiveness when it comes to accomplishing social benefit objectives.

Acting with an aim to fulfil its statutory objectives, the Foundation has subsidised surgeries, medical procedures, treatment, and rehabilitation, 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.

During the course of 2016, the costs of statutory activities amounted to PLN 185,100, which included:

- treatment and rehabilitation PLN 102,100
- social assistance PLN 4,600
- subsidies for equipment PLN 15,000
- subsidies for education and health care PLN 39,500
- other subsidies PLN 23,900.

The Foundation joined the August campaign "Schoolbag Full of Smile" by providing organisational support for a charity event which took place on the premises of the mine.

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

Employee volunteering

Charity fundraising on Bogdanka's premises – in 2016, there were several charity events organised to support the people in need.



The first one was 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.



"Schoolbag Full of Smile" – at the invitation of ENEA S.A., LW Bogdanka S.A. has for the first time joined the "Schoolbag Full of Smile" campaign.

The campaign, organised by Caritas Poland, consisted in collecting school materials necessary to prepare school starters for thousands of schoolchildren from the poorest families. The Company's employees prepared several dozen school starters for the children of the Lublin region.



Charity collection of waste paper – funds raised from the sale of waste paper collected by the employees were transferred to the "Treasury of Good Upbringing", a scholarship fund for the talented schoolchildren maintained by the Happy Childhood Foundation.



Noble Box - In December, just as every year, the LW Bogdanka team joined the "NOBLE BOX" action.

Participation in this project is a tradition, which has evolved into a single, company-wide collection, and several rank and file initiatives organised by individual departments and groups of employees.

One of our boxes went to a multigenerational family from the Cyców Commune.



Positive Twist – a campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In 12 months we collected several hundred kilograms of plastic caps.



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.

Since January 2016, bags with coins of 295 kg in weight have been collected and provided to the Lublin Branch of the Polish Red Cross.

Other CSR Projects



C-Zone Education – there is a dedicated educational zone at the mine, where we organise lessons and tours, during which we talk about the traditions, customs and the characteristics of work at the mine.



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.



"Bogdanka's Photographic Passion – 2017 Calendar" – a contest for the Company's aficionados of photography held between April and August 2016.

Selected photographs will be included in the Company's next year calendar.



Support for Amelia the Dreamer – the Company's employees decided to support the campaign organised to help Amelia Dobek from Lublin who suffers from retinoblastoma – we organised a fundraising event, we also put up a mining lamp and a visit to the mine for auction. In total Bogdanka raised more than PLN 10,000 for Amelia.

Awards and accolades



Five 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 Protection of Birds.



Membership in the WSE group of companies that create the RESPECT Index.

The Main Award and the Award of the Minister of Economic Development in the 10th edition of the Contest for Social Reports organised by the Responsible Business Forum and Deloitte for the Integrated Report of the LW Bogdanka Group for 2015.



Award winner in the 2016 Top Employers of Eastern Poland contest - title of the best employer of the Lublin Province. The award was presented during the Third Eastern Economic Congress in Białystok.



The title of the "Leader of Safety in Industry" - a distinction granted every year to companies, enterprises and institutions in Poland in recognition of their achievements and innovative solutions in the area of ensuring safety in industry.



LW Bogdanka SA was awarded the first prize in the "Industry" category of the Wprost Innovators 2016, the 6th edition of the contest for the most innovative entrepreneurs in Poland.



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

Membership in organisations, participation in industry initiatives

CSR Trends Monitoring Team at the Ministry of Economy



EURACOAL (The European Association for Coal and Lignite)



Vision of Sustainable Development for Polish Business (Vision 2050)



School of Underground Exploitation

Polish Association of Listed Companies



HUGE 2: Hydrogen Oriented Underground Coal Gasification for Europe – Environmental and Safety Aspects” (international consortium headed by the Central Mining Institute in Katowice)



LW Bogdanka: PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004, BS OHSAS 18001:2007; Łęczyńska Energetyka: PN EN ISO 9001:2008 and PN EN ISO 14001:2005



Civic Shareholding. Invest Consciously

LW Bogdanka – Investor Friendly Company



Participation in the “ESG Analysis of Polish Companies” project with respect to non-financial ESG (Environment,

Social, Governance) disclosures of listed companies

The “ESG Analysis of Polish Companies” project organised by the Polish Association of Listed Companies and Crido Business Consulting enables Polish issuers to check how they are judged in the context of non-financial ESG disclosures.



They relate to the environmental protection, social responsibility and corporate governance.

The study also makes it possible to draw comparisons within a certain industry. In 2016 LW Bogdanka S.A. once again took part in that project.

Together for the mining industry - Joint Social Initiatives Group “GÓRNICtwo O.K.”

LW Bogdanka has joined the Górnictwo O.K. project initiated by the AGH University of Science and Technology in Krakow, which aims to implement and communicate socially responsible actions, demonstrate the importance of the CSR strategy in achieving financial objectives of mining companies, and cooperate in the development of the standards for managing the process of exerting an impact on the local environment, market and employees.



The Initiative has attracted companies from the mining sector, cooperating companies, universities and industry-related NGOs. This project, which was initiated during the School of Underground Mining in 2016, is a confirmation that in those challenging times, the mining industry is able to speak with one voice, implement innovative solutions and develop human capital. Meetings organised with industry representatives from the neighbouring countries such as Germany, Czech Republic or Ukraine contribute towards achieving objectives the Initiative has set for itself. The GÓRNICtwo O.K. is also a communication platform between individual companies from the mining industry and the society, which should be a tool for building a positive image of the mining sector in Poland and getting involved in appropriate lobbying exercises.



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** – EBIT increased by depreciation and amortization and impairment losses
- **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
- **LWB** – Lubelski Węgiel Bogdanka S.A.
- **Extraordinary General Shareholders Meeting** – Extraordinary General Shareholders Meeting of LW Bogdanka S.A.
- **NFOŚiGW** - National Environmental Protection Fund
- **OUG** - Regional Mining Authority
- **PGG** - Polska Grupa Górnicza (Polish Mining Group)
- **Supervisory Board of LWB**– Supervisory Board of LW Bogdanka S.A.
- **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
- **SRK** – Spółka Restrukturyzacji Kopalń S.A.
- **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



<u>LW Bogdanka S.A. in figures</u>	2	<u>3. Financial standing</u>	48-61
<u>Letter of the President of the Management Board</u>	3	<u>Production, sales and inventories of coal</u>	49-50
<u>1. Summary of operational activities</u>	4-7	<u>Revenue and key customers</u>	50-51
<u>Selected financial data and key operating data</u>	5	<u>Costs</u>	51-53
<u>Key events in 2016</u>	6-7	<u>Provisions</u>	54
<u>2. Organisation and business activities of LW Bogdanka S.A.</u>	8-47	<u>Selected financial data</u>	55-56
<u>Structure of the Group</u>	9	<u>Balance sheet and cash flow</u>	57-58
<u>Name and registered office</u>	10	<u>Economic ratios</u>	59-60
<u>Business activities of LW Bogdanka S.A.</u>	11-12	<u>Capitals, funds and sources of capital</u>	61
<u>Production potential of LW Bogdanka S.A.</u>	13	<u>4. Shares and shareholding</u>	62-68
<u>Development strategy of LW Bogdanka S.A.</u>	14	<u>Share capital structure and shareholding</u>	63
<u>Investment projects</u>	15-17	<u>Holdings of shares in LW Bogdanka S.A. by members of the Company's bodies</u>	64
<u>Licences</u>	18	<u>Dividend policy</u>	65
<u>Information on significant agreements</u>	19	<u>Price performance of the shares of LW Bogdanka S.A. on the Warsaw Stock Exchange</u>	66
<u>Agreements concluded</u>	20-22	<u>Investor relations</u>	67
<u>Business environment – international market</u>	23	<u>Analysts' recommendations</u>	68
<u>Business environment – domestic market</u>	24-27	<u>5. Governing Bodies</u>	69-77
<u>Risk management and OHS</u>	28-37	<u>the Management Board</u>	70-71
<u>Natural environment</u>	38-39	<u>the Supervisory Board</u>	72-74
<u>Workforce</u>	40-41	<u>Rules of appointment and remuneration; salary levels</u>	75-77
<u>Average monthly remuneration</u>	42	<u>6. Corporate governance</u>	78-94
<u>Marketing activities carried out by LW Bogdanka S.A. in 2016</u>	43-44	<u>Statement on application of corporate governance</u>	79-89
<u>Court cases</u>	45-46	<u>CSR</u>	90-94
<u>Other information</u>	47	<u>Glossary</u>	95-99



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 Facility	Vice-President of the Management Board, Production – Head of Mining Supervision in Mining
Marcin Kapkowski	Vice-President of the Management Board, Procurement and Investments

Bogdanka, 29 March 2017



Thank you!