



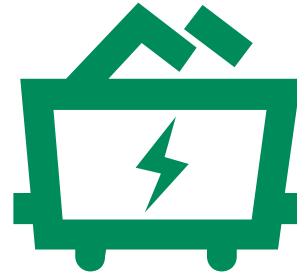
# **Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group in 2016**

Bogdanka, 30 March 2017



**13.2%**

Share in the hard coal market in Poland



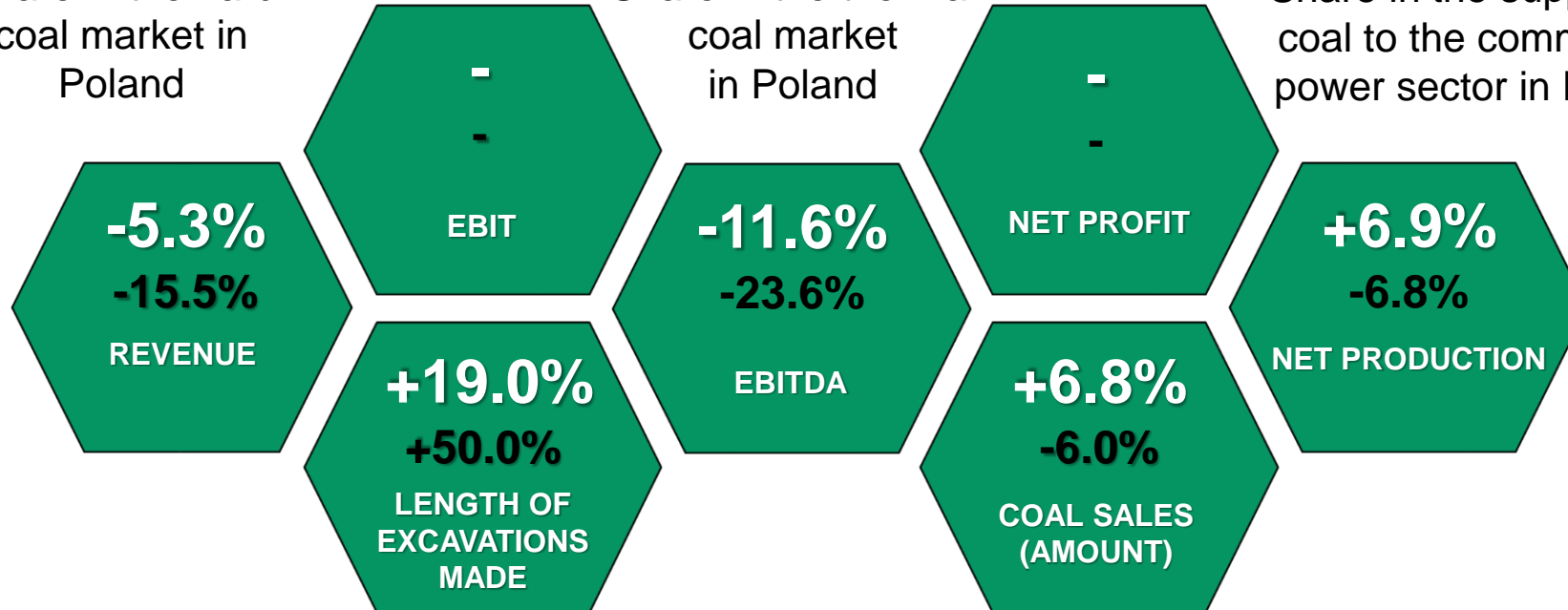
**15.9%**

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	-500,766	82,370	-326,221	237,007
Net profit/(loss)	-411,763	61,833	-279,626	181,992



**Dear Sirs and Madams,**

It is my pleasure to present to you the annual report of the LW Bogdanka Group 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, the Parent 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 us.

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 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 we have 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 237.0 million, EBITDA - PLN 606.5 million, and net profit was almost PLN 182.0 million. EBITDA in 2016 remained at an above-average level of 34.0% 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 the LW Bogdanka Group's development strategy.

This has been appreciated, and our the Parent 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 Group 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 the LW Bogdanka Group'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 Kozienice-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.

The Parent - 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.

*Krzysztof Silega*  
Sincerely,

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



## 1. Summary of operational activities



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## Good financial and operating results are a consequence of optimising the LW Bogdanka Group's production capacity on a difficult market in 2016.

In 2016, the LW Bogdanka Group generated:

- net revenue of **PLN 1,786.3 million** – decrease by 5.3% y/y
- EBITDA of **PLN 606.5 million** – decrease by 11.6% y/y
- net profit of PLN 182.0 million

In Q4 **revenue** amounted to **PLN 471.9 million** (a decrease of 15.5% y/y), **EBITDA** equalled **PLN 174.3 million** (a decrease of 23.6% in comparison with the previous year), while **net profit** totalled **PLN 61.8 million**.

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

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

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

The LW Bogdanka Group's capital expenditure in 2016 amounted to approx. **PLN 307.9 million**, which is **2.4%** 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), the LW Bogdanka Group lowered the ratio of net debt/EBITDA to the level of 0.14.

In 2016, in comparison to 2015, the LW Bogdanka Group 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 Group.



### Q1 2016

#### Changes in the composition of the Parent's Supervisory Board

At the Extraordinary General Shareholders Meeting of the Parent 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 Parent's 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, the Parent 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 Kozienice.

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

On 16 March 2016, the Provincial Administrative Court in Warsaw dismissed the complaint filed by the Parent against the decision of the Minister of Environment of 5 November 2014 to uphold the decision challenged by the Parent which was issued by the Minister of Environment of 5 September 2014 on refusal to grant the Parent a hard coal mining licence for the "Lublin Coal Basin – K-6 and K-7 area." The Parent 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, the Parent 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 Group 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 the Parent

On 24 March 2016, the Parent'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 the Parent

On 12 April 2016, the Extraordinary General Shareholders Meeting of the Parent adopted a resolution on amendments to the LW Bogdanka S.A.'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 the Parent

On 13 May 2016, the Supervisory Board of LW Bogdanka S.A. 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 the Parent 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 LW Bogdanka S.A. will not pay out dividend from capitals created from previous years' profits.

All persons representing the Parent (Management Board and Supervisory Board Members) in 2015 were granted discharge in respect of their duties.

#### Retaining the Investor-Friendly Company certificate

In 2016 the Parent 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 Parent 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, the Parent 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 the Parent on 17 August 2016

The Extraordinary General Shareholders Meeting of the Parent adopted a resolution on the new Articles of Association of LW Bogdanka S.A. After the Articles of Association had been registered by the registry court, the LW Bogdanka Group 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 of the Parent.

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

On 29 September 2016, the Parent 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, the Parent 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, the Parent 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, once again including the Parent. 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, the Parent 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, the Parent 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 the LW Bogdanka Group

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

#### Extraordinary General Shareholders Meeting of the Parent on 7 March 2017

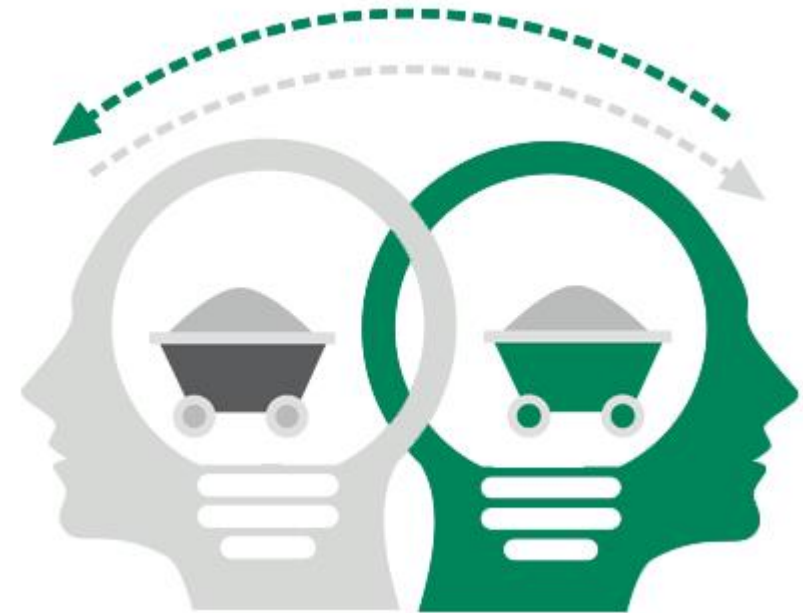
Extraordinary General Shareholders Meeting of the Parent on 7 March 2017 adopted the following resolutions:

- 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

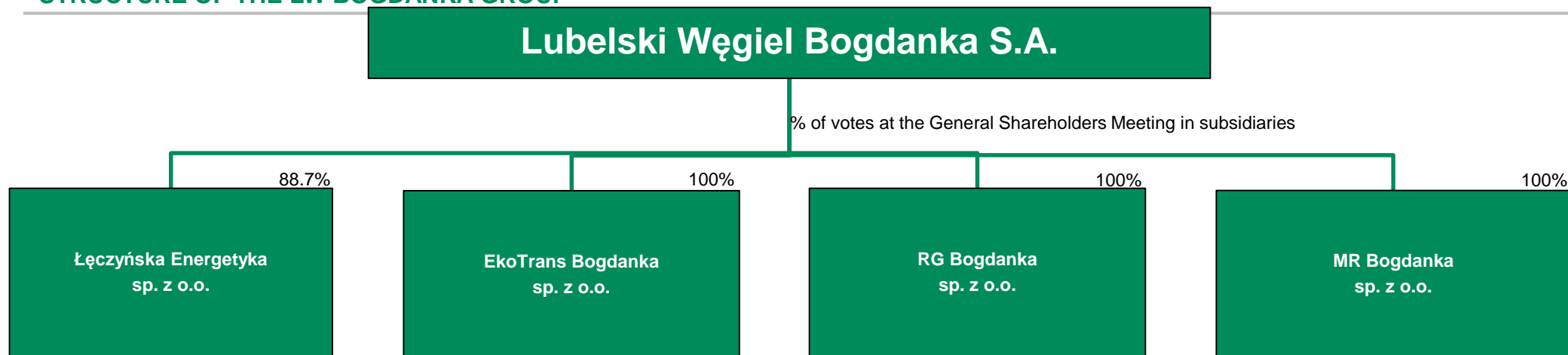
On 10 March 2017 the Management Board of the Parent signed an annex to an agreement on the Bond Issue Program of 30 June 2014, concluded with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego. Therefore, the redemption date of 300 bonds with a nominal value of PLN 1,000,000 (one million) each,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





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		
<b>Łęczyńska Energetyka sp. z o.o.</b>	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
<b>EkoTRANS Bogdanka sp. z o.o.</b>	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-associated shale washing and cleaning
<b>RG Bogdanka sp. z o.o.</b>	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.
<b>MR Bogdanka sp. z o.o.</b>	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, the LW Bogdanka Group 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 Parent 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 the LW Bogdanka Group**

In order to make the rules of management of the LW Bogdanka Group 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 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 the Parent was introduced
- Personal Data Processing Safety Policy was introduced at the Parent

- Instruction specifying the method of managing the computer system used for personal data processing at the Parent was introduced
- and Information Safety Administrator and IT Systems Administrator were appointed.

The Group 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 Parent

### 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](http://www.lw.com.pl); [www.ri.lw.com.pl](http://www.ri.lw.com.pl)  
Industry ID No. (REGON): 430309210  
Tax Reg. No. (NIP): 713-000-57-84  
E-mail: [bogdanka@lw.com.pl](mailto:bogdanka@lw.com.pl)



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

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

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

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

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

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

### History in Brief

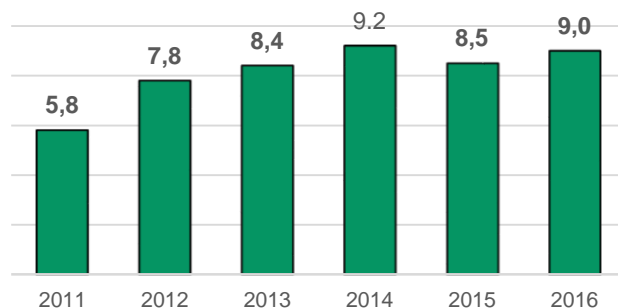
- 17 January 1975 - decision on construction of a pilot and excavation mine in Bogdanka. Bogdanka was one of the seven mines which were to be built in the Lublin Coal Basin, but ultimately it turned out to be the only one to materialise after the project was suspended.
- 1 March 1993 – transformation 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.





## Activities of the LW Bogdanka Group

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.



The Bogdanka Group has three excavation fields:

- Bogdanka
- Nadrybie
- Stefanów

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

- fine coal – 98.5%
- nut coal – 0.8%
- pea coal – 0.7%



### Key customers

As a supplier, the Group 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 LW Bogdanka Group sells its coal mainly to commercial and industrial power plants.

The Parent's key customers 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 Group strives to ensure that its commercial proposal meets the needs of its customers. The Group is aware that products offered by the mine must meet the relevant requirements and the customers' needs, but also need to be affordable.





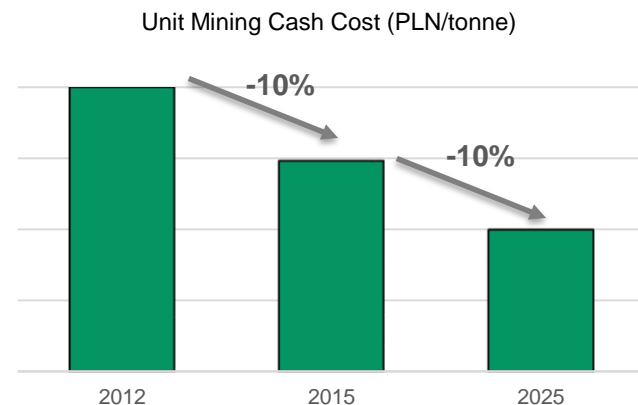
## Activities of the Parent

### Cutting-edge technologies

The LW Bogdanka Group 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. The Parent's underground efficiency rate is twice as high as the average for Poland's coal mining sector.

### Cost control

The Parent continues to be the efficiency leader in Poland's mining sector due to its Cost Optimisation Programme which is consistently pursued by the Parent. Its strategy assumes further 10% reduction of the Unit Mining Cash Cost by 2025, compared to the 2012 level, in real terms. The Parent's strategy assumes further 10% reduction of the Unit Mining Cash Cost by 2025, compared to the 2015 level, in real terms.



### 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. The LW Bogdanka Group also continues to work towards obtaining a mining licence in the K6-K7 area – the Group 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 Group 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:

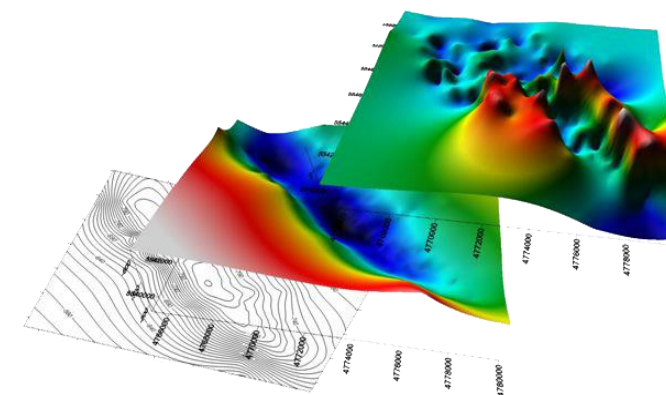
- our staff – highly skilled, sharing our advanced technology-oriented culture, and focused on efficient cooperation and common goals
- our machines and equipment – highly efficient, reliable, energy saving, well chosen to existing geological and mining conditions, and enabling the mechanisation of both 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.

The Parent has 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 the LW Bogdanka Group

The mining area exploited by the LW Bogdanka Group 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, the Parent 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 Parent 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 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 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 Group

### Development strategy of the Parent – 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).

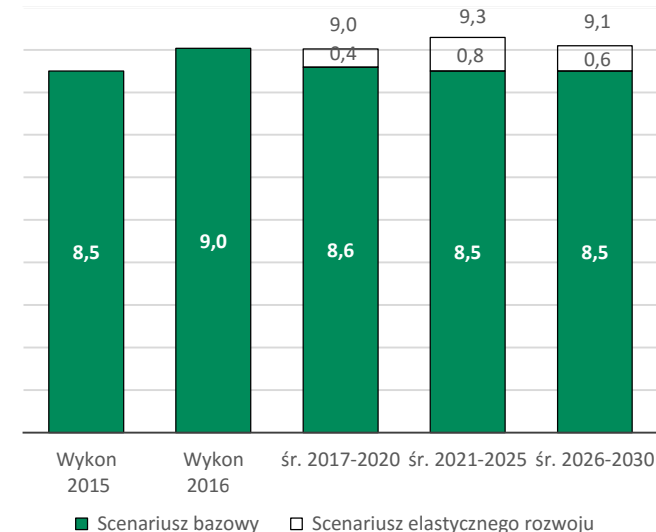
The Parent assumes that it will strengthen its market position by achieving at least a 25% share in the market of fine thermal coal for commercial power plants and, also, its financial position by a further reduction in the UMCC by 10% in real terms by 2025, compared to 2015.

#### 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.



## Development Strategy of the LW Bogdanka Group

### Development strategy of the subsidiaries

#### Development strategy of Łęczyńska Energetyka sp. z o.o.

The Management Board has set the following strategic objectives for the Company to be completed until 2020:

- extension of the Water Treatment Station (WTS) - due to the technological needs of LW Bogdanka S.A., there are plans to build an additional fire-extinguishing water tank on the premises of WTS in Bogdanka (two additional ultrafiltration system modules are to be built in 2017 in order to meet the technological needs of LW Bogdanka S.A.)
- upgrade of the boiler house buildings in Bogdanka - there are plans to continue the upgrade of the existing 6 kV switching station in Bogdanka and the upgrade of the pump system of the boiler house (the hydraulic system of the pump station in Bogdanka's boiler house is to be altered in 2017 (Stage 2))
- construction of a new boiler unit in the boiler house in Bogdanka - due to the requirement to ensure uninterrupted supply of thermal energy to customers, there are plans to build a new boiler in the boiler house.
- upgrade of the sanitary wastewater treatment plant for the facilities in Nadrybie and Stefanów - the current volumes of the sanitary wastewater produced in connection with the exploitation of the Stefanów field require an upgrade of the existing wastewater treatment plant in Nadrybie. Another concept that is taken under consideration is a construction of a new wastewater treatment plant in Stefanów with simultaneous suspension or discontinuation of the existing plant in Nadrybie.
- implementation of an Integrated Information Technology System (ITS) in the Company - this system will enable rationalization of the number of employees at Łęczyńska Energetyka and will simplify and facilitate the flow of information within the organizational structure of the Company and for LW Bogdanka S.A.
- upgrade of the district heating main line between Bogdanka and Łęczna - the scope of the upgrade of the main line in the coming years will depend on the possibility to obtain financing from public aid sources.

#### Development strategy of MR Bogdanka sp. z o.o.

The Company's strategic goals include:

- increase capacity in the area of mining machine manufacturing and refurbishment
- manufacture general purpose steel structures
- manufacture and regenerate mass products used by LW Bogdanka S.A.

The Company's main objectives include:

- modernization and repairs of mining machinery and equipment
- manufacture general purpose steel structures in accordance with all formal and legal requirements
- works related to manufacture and regenerate mass products used by LW Bogdanka S.A.
- provision of underground operation maintenance services to meet the needs of LW Bogdanka S.A.
- repair and adaptation services for the office and administrative infrastructure on the surface
- mining work on holidays.

#### Development strategy of RG Bogdanka sp. z o.o.

The Company conducts and will continue to develop its operations involving auxiliary and preparatory works for the Parent - LW Bogdanka S.A.

#### Development strategy of EkoTrans Bogdanka sp. z o.o.

In 2017 and onwards the Company is planning to conduct business operations related to mining waste management. The Company aims to recover and recycle about 2.7 million tonnes of waste generated by dry and wet coal processing annually.





### Projects completed in 2016

In the period of Q1-Q4 2016 the Parent assumed the performance of specified investment tasks. In this respect, in 2016, capital expenditures 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 Parent 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 at the Parent

**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 LW BOGDANKA S.A.

#### 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.

#### Łęczyńska Energetyka and other Subsidiaries of LW Bogdanka S.A.

##### Łęczyńska Energetyka

Investment tasks implemented in 2014-2016 included: construction of the Water Treatment Station in Bogdanka, alteration of the 6 kV STR-K switchgear in Bogdanka (Stage 1 and 2), alteration of the hydraulic system of the pump station in Bogdanka's boiler house (Stage 1), necessary upgrades of existing buildings and machines, purchase of vehicles for logistics units, purchase of necessary manufacturing machines and equipment.

##### EkoTrans Bogdanka, RG Bogdanka and MR Bogdanka

In 2016 the other Subsidiaries incurred capital expenditure in the total amount of PLN 142,000. These expenses were related to material investments.



### OPERATIONAL INVESTMENTS LW BOGDANKA GROUP



## 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
<b>TOTAL CAPEX in LW Bogdanka S.A.</b>	<b>431,717</b>	<b>301,433</b>	<b>69.8%</b>	<b>377,231</b>
Łęczyńska Energetyka sp. z o.o.	6,200	6,287	101.4%	8,371
Other Subsidiaries	-	142	-	-
<b>TOTAL CAPEX at the LW Bogdanka Group*</b>	<b>437,917</b>	<b>307,862</b>	<b>70.3%</b>	<b>385,602</b>

\* A slight discrepancy between the sum of consolidated capital expenditure of the LW Bogdanka Group, 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 bargages, 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.

#### 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.

#### 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.



### DEVELOPMENT INVESTMENTS LW BOGDANKA S.A.

**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.



### OPERATIONAL INVESTMENTS LW BOGDANKA S.A.

#### Łęczyńska Energetyka and other Subsidiaries of LW Bogdanka S.A.

**Łęczyńska Energetyka** – planned investment expenditure in 2017 amounts to about PLN 8,371,000. Out of this amount, the Company plans to allocate PLN 3,300,000 for the extension of the Water Treatment Station in Bogdanka (WTS), and specifically for the construction of two additional ultrafiltration system modules in order to meet the technological needs of LW Bogdanka S.A. (it is necessary to increase the efficiency of producing fire-extinguishing water).

The most important investment plans for 2017 include an upgrade of the sanitary sewage treatment plant for the purposes of the Nadrybie and Stefanów facilities for the amount of PLN 2,000,000, and the alteration of the hydraulic system of the pump station in Bogdanka's boiler house (Stage 2).

#### Other Subsidiaries of LW Bogdanka S.A.

**EkoTrans Bogdanka, RG Bogdanka and MR Bogdanka** – the other Subsidiaries of LW Bogdanka S.A. do not plan to incur any investment expenditure in 2017.



### OTHER COMPANIES THE LW BOGDANKA GROUP



### Trade agreements

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



Current Report	Business Partner	Agreement Date	Description
8/2016 3 March 2016	Enea Wytwarzanie sp. z o.o.	4 March 2010	Memorandum of understanding to long-term agreement in the form of an annual agreement. The annual agreement specifies prices and supply volumes applicable in 2016.
36/2016 29 September 2016		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	Continued cooperation with ENGIE Energia Polska S.A. 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 the LW Bogdanka Group, the Issuer (the Parent) is not formally related to other recipients.



## Information on financial instruments, bonds

### Information on derivative financial instruments

As at 31 December 2016, the LW Bogdanka Group did not hold any open financial instruments.

### Bonds

Only the Parent issued bonds.

As at 31 December 2016, the Parent 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 by the Parent, 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 Parent'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 16 and 18 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 30 March 2017, the LW Bogdanka Group sees no threat as to the possibility of acquiring additional debt financing, but points out to the risk that the costs of its acquisition and servicing may be higher than those currently incurred.

The Group's current interest-bearing debt (loan and the issued bonds of the total value of PLN 623,355,000) as at 31 December 2016 accounted for 27.2% of its equity and 16.4% of the balance-sheet total.

### Lease and rental agreements in 2016.

In 2016 total revenue of the LW Bogdanka Group 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 concerning the subsidiaries' loans and borrowings

In 2016 the Parent 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 LW Bogdanka Group did not contract or grant any loans or terminate any agreements concerning loans.

#### Information on sureties and guarantees provided and received

In 2016 the LW Bogdanka Group did not grant (or receive) any sureties.

#### Guarantees granted by the LW Bogdanka Group

In 2016 the LW Bogdanka Group did not provide any guarantees.

#### Loan and borrowing agreements signed by Subsidiaries

In accordance with an agreement of 9 June 2014, Łęczyńska Energetyka sp. z o.o. was granted a loan (of PLN 26.580,000) by the Provincial Fund for Environmental Protection and Water Management in Lublin, which was allocated to financing the construction of the Water Treatment Station in Bogdanka for the purposes of the existing infrastructure. The loan bears interest of 0.7 of the rediscount rate set by the Monetary Policy Council, not less than 4% annually.

In 2016, related expenses amounted to PLN 4,984 thousand. The remainder of the loan, i.e. PLN 21,596,000, was used in 2014-2015. The repayment will be performed until 31 July 2024.

In 2016 the Subsidiaries: EkoTrans Bogdanka sp. z o.o., RG Bogdanka sp. z o.o., MR Bogdanka sp. z o.o., did not grant, incur or terminate agreements regarding credit facilities and loans.



Guarantees received by the LW Bogdanka Group

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



### Transactions with related entities

In 2016 the Parent and its subsidiaries did not conclude transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

The following table presents main agreements in effect in 2016 entered into between the Parent 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"><li>• heat energy supplies</li><li>• for water supplies and disposal of sewage, maintenance services and others</li><li>• sale of thermal coal and electrical power</li><li>• lease, rent, and lending for use</li><li>• heating of inlet air on shaft 2.2</li><li>• service and operation supervision</li><li>• provision of investor supervision for the construction of the Water Treatment Station in Bogdanka</li><li>• completion of central air-conditioning in the Bogdanka Field</li></ul>	<ul style="list-style-type: none"><li>• reconstruction of a section of access heading 1 on level 960 in the Bogdanka Field</li><li>• reconstruction of a section of southern diversion on level 960 in the Bogdanka Field</li><li>• performance of works and provision of services in LW Bogdanka S.A. mine</li><li>• providing explosion works</li><li>• higher mining supervision services</li><li>• lease, rental and lending for use</li><li>• auxiliary works, haulage services</li></ul>	<ul style="list-style-type: none"><li>• delivery of elements of steel structures of adventitious equipment</li><li>• delivery of rolling stock units</li><li>• provision of services in the mechanical departments of machine operation underground</li><li>• performance of works in the LW Bogdanka S.A. mine</li><li>• supply of energy to the workshop-storage building</li><li>• repairs of machines and equipment, and their subassemblies</li><li>• delivery of casing pipes and connectors</li><li>• delivery of shaft 1.2 lining</li><li>• performance of fitting and welding works</li><li>• delivery of elements of machines, equipment and steel structures</li><li>• provision of repair and construction services</li><li>• higher mining supervision services</li><li>• repairs of transport units</li><li>• contracts for delivery of dwangs and spare parts</li><li>• lease, rental and lending for use</li></ul>	<ul style="list-style-type: none"><li>• disposal of non-dangerous waste (waste rock)</li><li>• lease, rental and lending for use</li></ul>



For more information about transactions with the Parent's subsidiaries, other Enea Group companies, and companies controlled by the State Treasury which is the majority shareholder of Enea S.A., see Note 32 of the Financial Statements of the LW Bogdanka Group 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 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





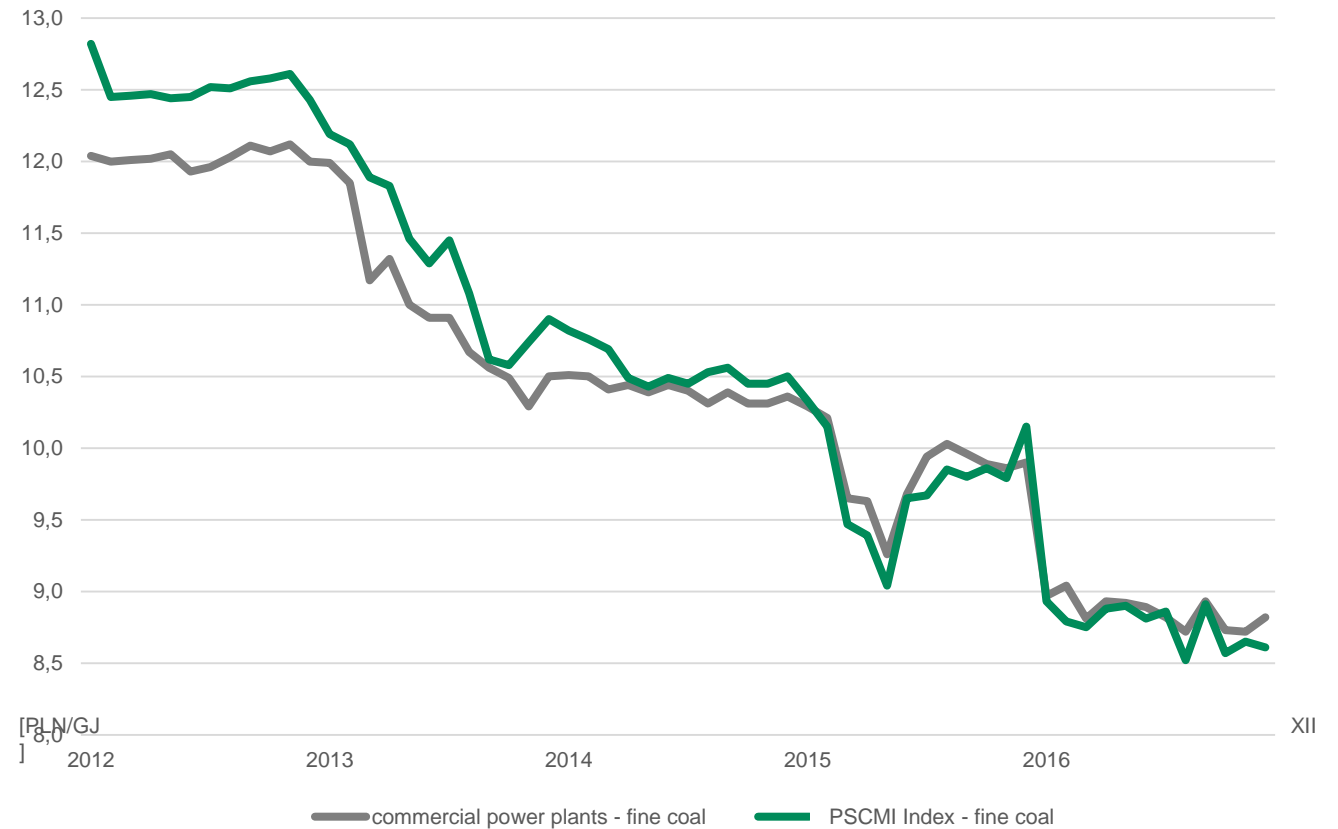
### Fine thermal coal prices and PSCMI index in Poland's market between January 2012 and December 2016

#### 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

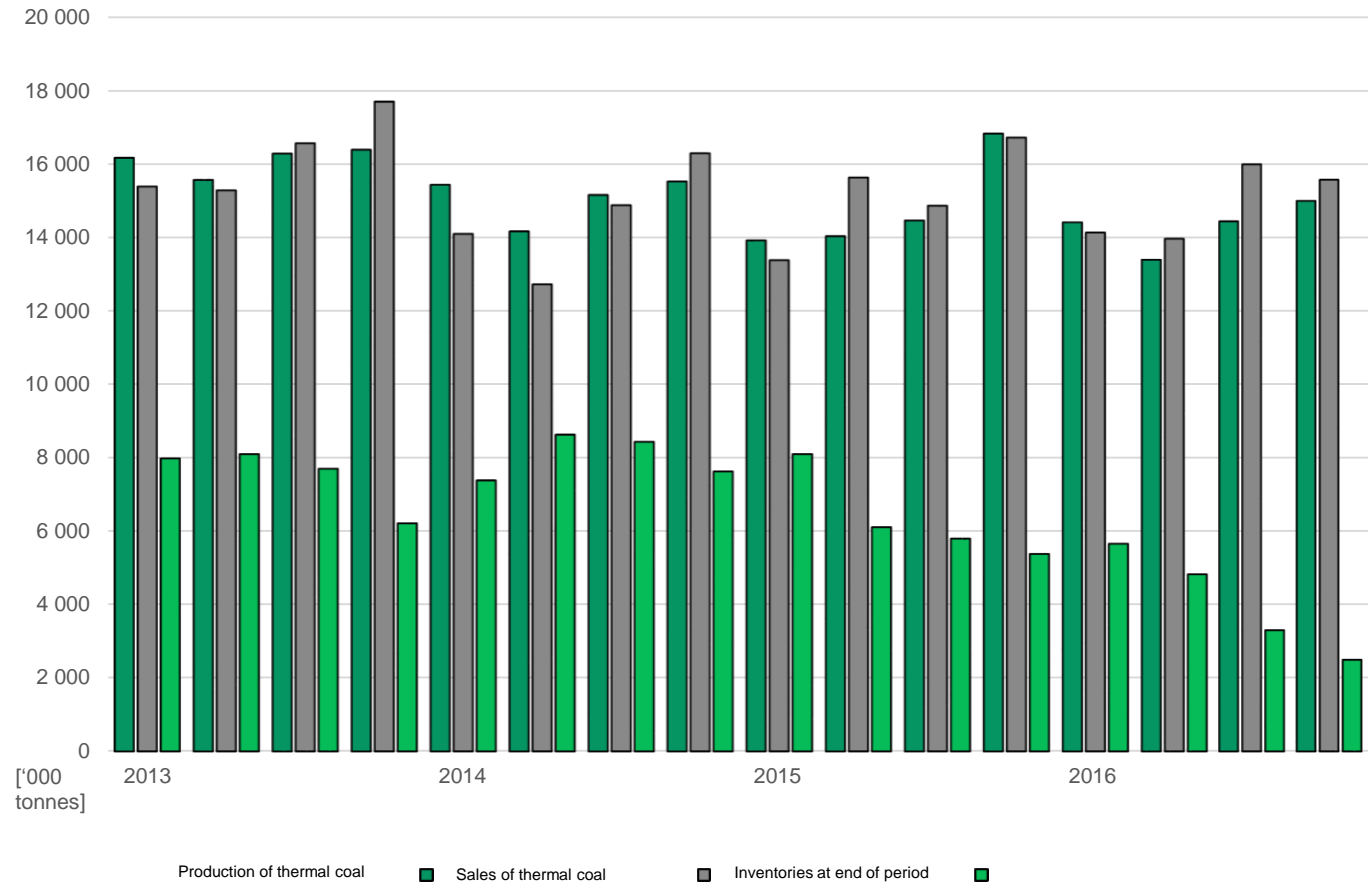
**Sales of thermal coal market in Poland**

- 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

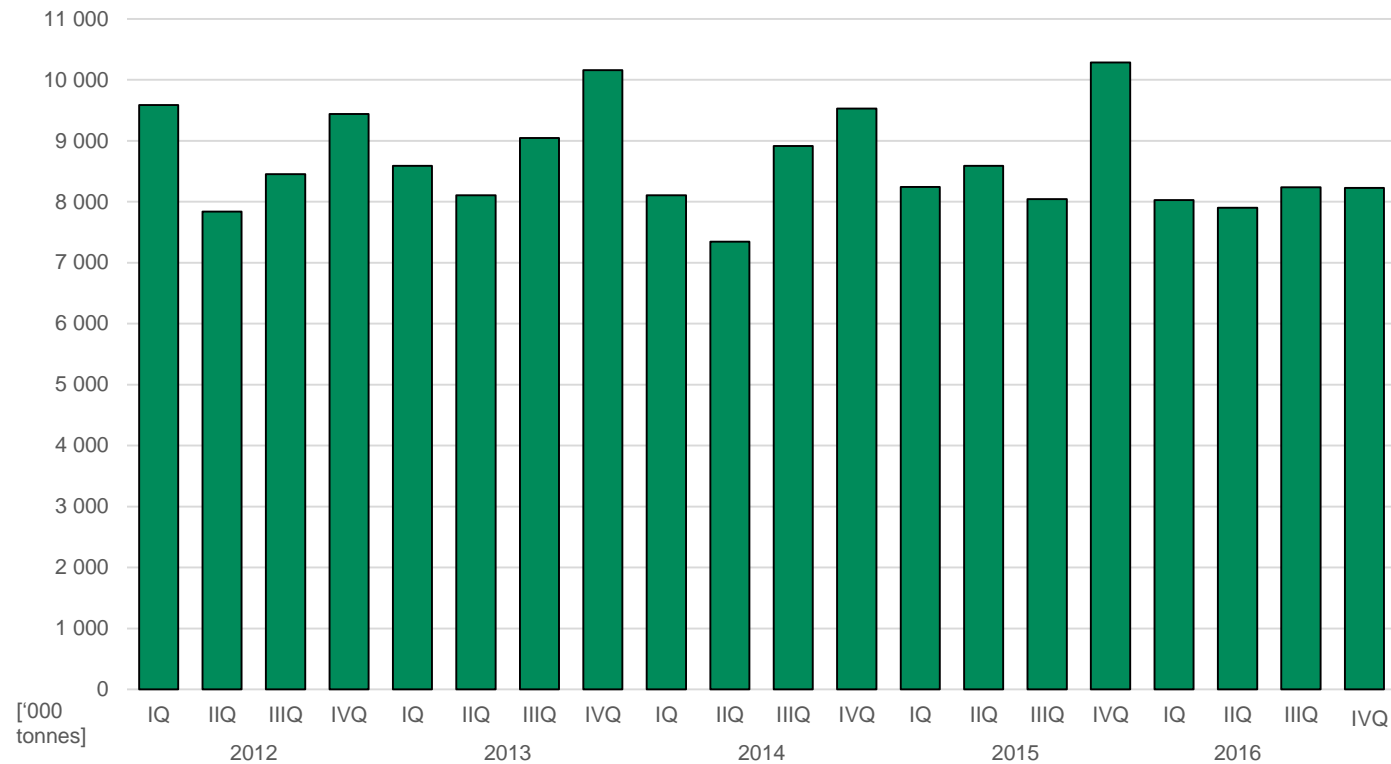
**Sales of thermal coal market in Poland**

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**

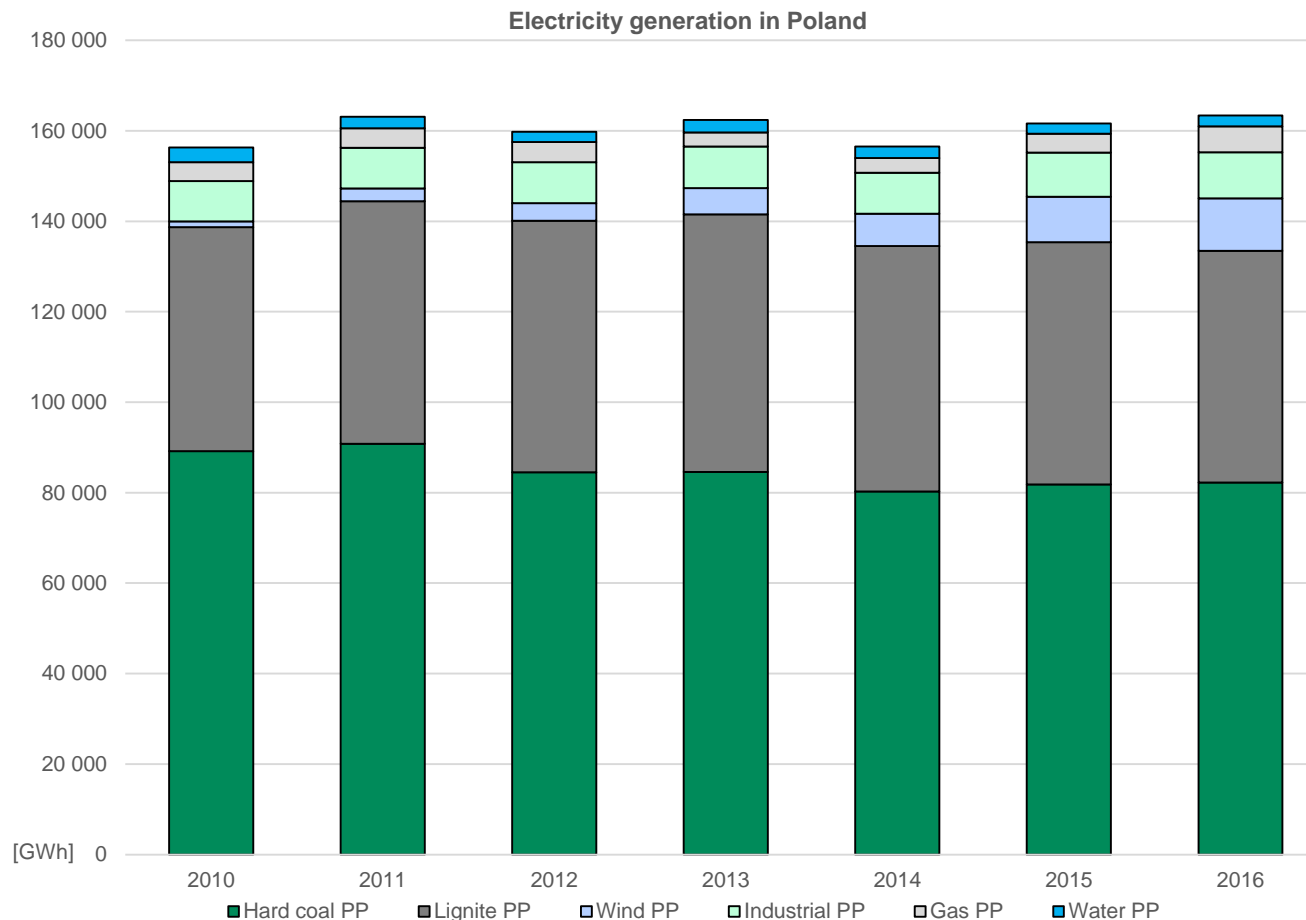
- Lignite was used to produce 51,204 GWh of electricity (over 4% less than in 2015)
- In 2016 lignite experienced the largest drop among the fuel mix components. Its share fell by more than 4% compared to 2015.

**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 the LW Bogdanka Group, will affect the achieved results

**Risk management**

The key objectives of the management of the LW Bogdanka Group's risks are to:

- ensure security of the Group'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
- the LW Bogdanka Group Corporate Risk Management Model – ERM procedures
- the LW Bogdanka Group Risk Register
- the LW Bogdanka Group Risk Map
- list of strategic risks of the LW Bogdanka Group
- Programs of strategic risk mitigating measures at the Parent and the Group.

**Risk management process**

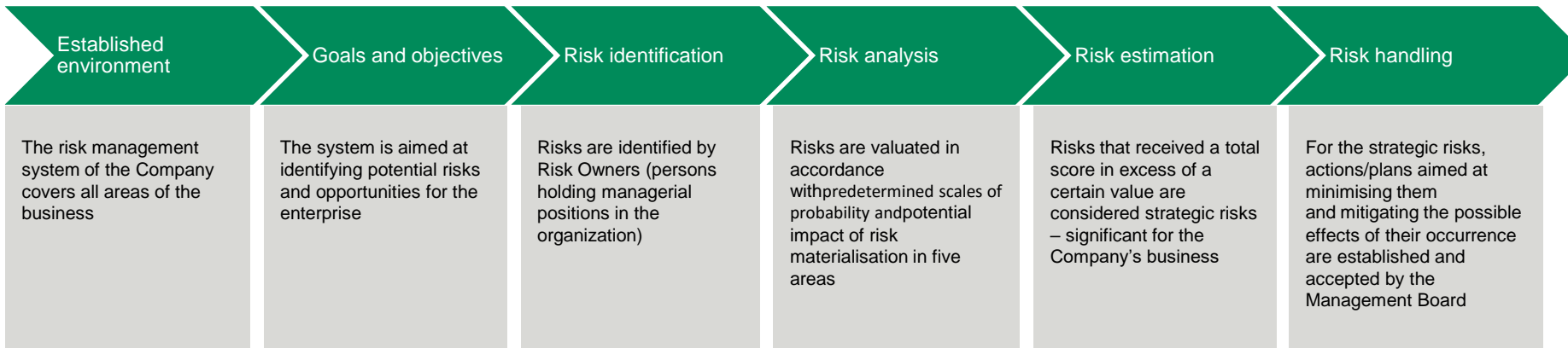
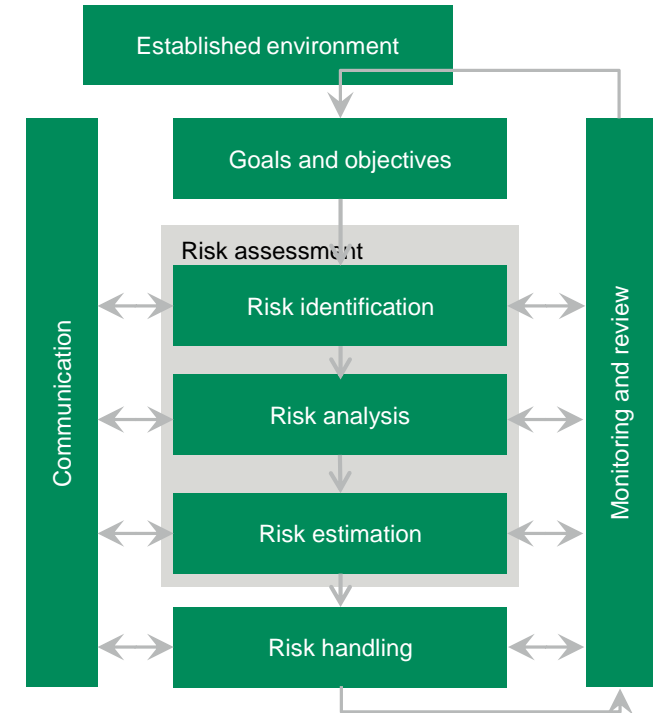
An important role in the risk management system of the Group is played by the Enterprise Risk Management Committee appointed by the Management Board of the Parent, which Committee has its own specific powers at every stage of ERM operation, and which performs functions that involve accepting and issuing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

The Parent 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 Group with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

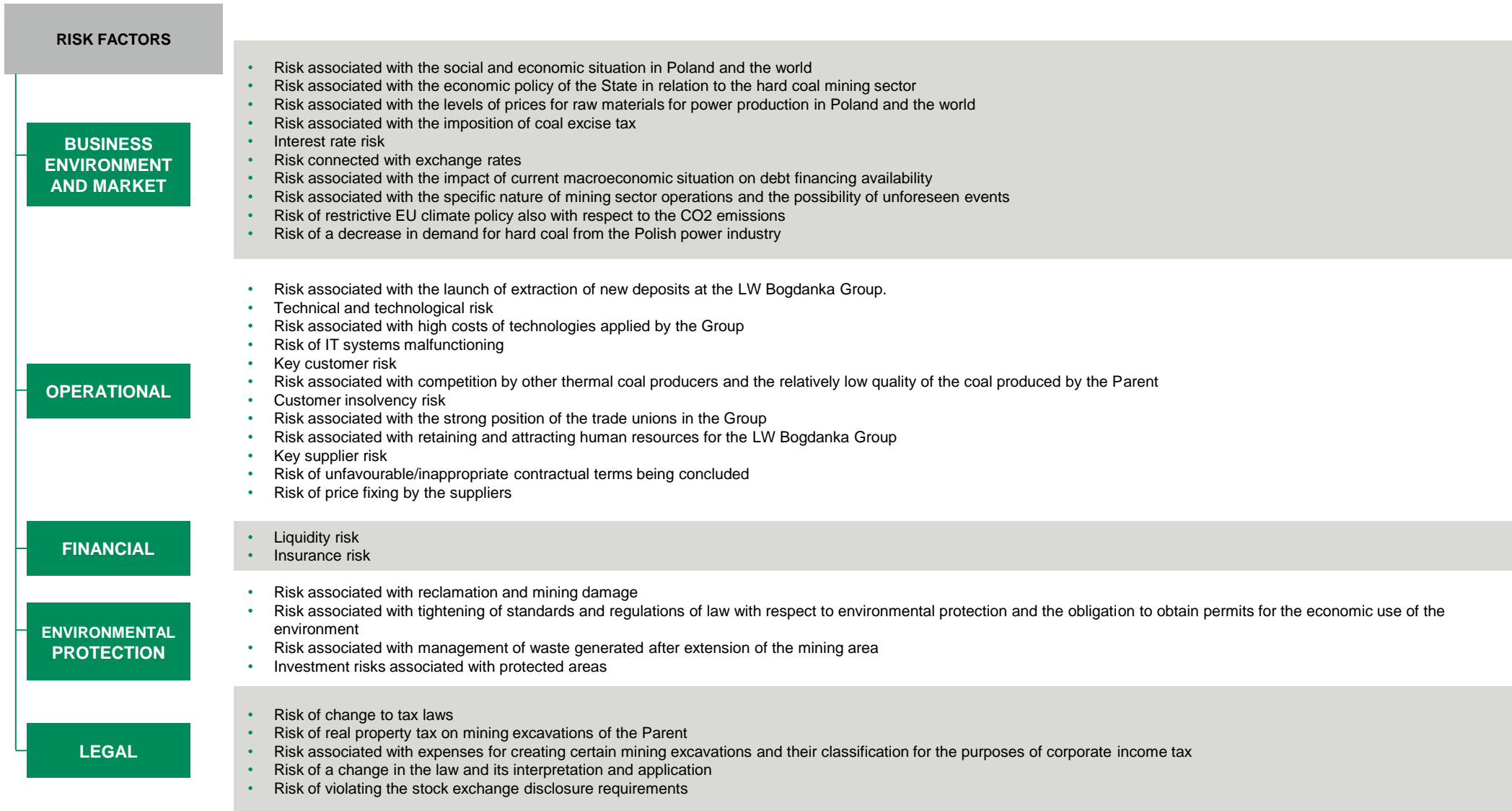
The risk management system involves the participation of:

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





## Main risks to the Group by category





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

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

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

- the rate of increase in domestic and global GDP, including the rate of increase in industrial production
the demand for electricity and heat energy
prices of raw materials on global markets
the level of inflation
the rate of unemployment
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 the LW Bogdanka Group. 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 combing 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 the LW Bogdanka Group's market standing.

Countermeasures: monitoring the process of implementing the



power production in Poland and the world

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

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

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 Group is limited, because the Parent 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. and Łęczyńska Energetyka sp. z o.o. are parties to financial agreements based on variable interest rates. The risk refers also to current debt, as well as new loans to be contracted and existing loans to be refinanced.

An increase in interest rates may bring about a growth of finance costs of the Group, and consequently, have an adverse effect on the financial results (alternatively, a possible decrease in interest rates may cause the Group's finance costs to fall, and therefore, bring a positive effect on the 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 within the Group mainly concerns the Parent, and it relates to purchases of specialist equipment which is provided only by foreign manufacturers. It may also occur when coal is exported abroad.

Countermeasures: entering into forward transactions.



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

In connection with loan agreements in effect and the Bond Issue Program, the Group is able to meet its debt financing needs without entering into new agreements. For more information refer to page 20 of the Report.

The Group's current interest-bearing debt (loan and the issued bonds of the total value of PLN 623,355,000) as at 31 December 2016 accounted for 27.2% of its equity and 16.4% of the balance-sheet total.

Countermeasures: loan agreements concluded and the Bond Issue Program.





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

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

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

These include:

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

The consequences may include:

- temporary suspension of operating activities, losses relating to property or financial assets
- 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 the LW Bogdanka Group, and in consequence, may have a negative impact on its financial results.

Countermeasures:

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



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

The current market situation, where large quantities of coal are piled on heaps of coal producers and buyers, may translate into a drop in the buyers' demand for coal. The downward trend affecting the demand for thermal fine coal may continue until 2018, which is certain to impact the Parent's (LW Bogdanka's) coal pricing policy. The risk for the Group 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 Parent's coal for commercial power production relating to existing and prospective power units within the area of its operations.





Risks directly associated with the Group's operations

Risk associated with the launch of extraction of new deposits at the Parent

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

Restriction of the mining capacity may bring the following consequences:

- shorten the life of the mining plant and/or
• reduce the assumed level of extraction of hard coal, and therefore
• decrease future financial results of 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 19 of the Report.

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



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. 2015 saw the commencement of mining from seam 391 which 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 the Group 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 Group could have an adverse effect on financial results.

Deterioration of the financial/economic situation of any of the main customers may also carry some risk. Countermeasures:

- 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 Group

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

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

Another risk factor is connected with less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content). Countermeasures: product tailored to the needs of a buyer, looking for new buyers, reducing a unit cost of production. Countermeasures: product tailored to the needs of a buyer, looking for new buyers, reducing a unit cost of production.







Risks directly associated with the Group's operations

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of the LW Bogdanka Group payable by its customers and the surplus of Group's receivables in comparison to liabilities. As of the end of 2016, trade debtors and other current accounts receivable of the Group accounted for 6.6% of the carrying value and 12.7% of its revenue. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 83.9%.

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 in the hard coal mining sector 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, six trade union organisations operate at the Group associating 65.63% of the Group's employees (there are four trade union organisations at LW Bogdanka associating 72.10% of the employees). Strong position of the trade unions creates a risk that the costs of remuneration may increase in the future in connection with negotiated wage agreements, and in consequence adversely affect financial results achieved by the LW Bogdanka Group. Furthermore, possible protests and/or strikes organised by the trade unions could affect the Group's 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 Group. These are especially valuable employees because of their knowledge and experience. Their sudden departure in a short period of time could disrupt the generational continuity which is being rebuilt, and in turn, disrupt the mild gradual staff turnover. Countermeasure: building generational continuity.



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

Countermeasures:

- rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures

- according to the procedures of public tenders and others
• training in the logistics of concluding contracts and market analysis, negotiations and trading, in particular at the international level.



Risk of price fixing by the suppliers

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

Countermeasures:

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





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 Group's cash at hand as at 31 December 2016 amounted to PLN 541,106,000. The current liquidity ratio for the Group is 1.29, and quick liquidity ratio is 1.18. In 2016, net flows from operating activities generated by LW Bogdanka S.A. stood at a level of PLN 675,791,000 with capital expenditure of PLN -285,364,000 (drop by approx. 35.2% 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 Parent obtained debt financing in the form of an overdraft credit facility and a bond issue program. The issue is discussed in more detail on page 20 of the Report.



Insurance risk

The Group is exposed to insurance risk. Both within standard scope applicable to all entities conducting business activity, and within the scope typical for the mining sector.

In 2015, an insurance review was carried out at the Group, which in turn lead to updating the existing insurance programme. The implementation of the programme was completed in December 2016 when the Parent 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 Group 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.



Risk associated with reclamation and mining damage

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

Countermeasures: repair works, protecting buildings against the results of mining damage, reimbursing the costs incurred by investors in connection with adjusting new buildings under construction on the mining land to the current conditions, 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 the LW Bogdanka Group, and in particular the operations of the Parent, have a significant impact on the environment. Therefore, the Company must hold specific permits and observe standards of using the environment detailed in applicable laws (including BAT requirements - Best Available Techniques).

In particular with respect to the following:

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

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



Risk 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 3 years of storing.

works connected with increasing the height of the existing yard (to 250 MASL), and undertook measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment will involve the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste.

Countermeasures: The Group performs works connected with increasing the height of the existing mining waste utilisation facility. Such course of action will make it possible, without undue haste, to continue the work on acquiring new land to execute the next phases of extension of the yard and handle any formal and legal issues connected with this project. The Parent has also purchased a plot of land adjacent to the mining waste treatment facility and started preparatory works related to neutralisation of waste, to be allocated to future waste placement. Moreover, the Parent is taking intense actions related to the recovery 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 investment 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.

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.

Moreover, on 28 September 2016, the Parent and the subsidiaries RG Bogdanka, MR Bogdanka and Ekotrans Bogdanka entered into a Tax Group agreement for a period of 3 years, starting from 1 January 2017.



Risk of real property tax on mining excavations of the Parent

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

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

Countermeasures:

- monitoring any amendments to tax laws
• training courses for employees so as to ensure that

- employees are as competent as possible in this area
• comparing any new issues with the latest tax rulings and relevant case law
• using the services of consulting companies

For more information refer to the Financial Statements, 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 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.

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 the Parent is listed on the Warsaw Stock Exchange, it 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 Parent's operations with respect to disclosure requirements





### Location of the LW Bogdanka Group

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

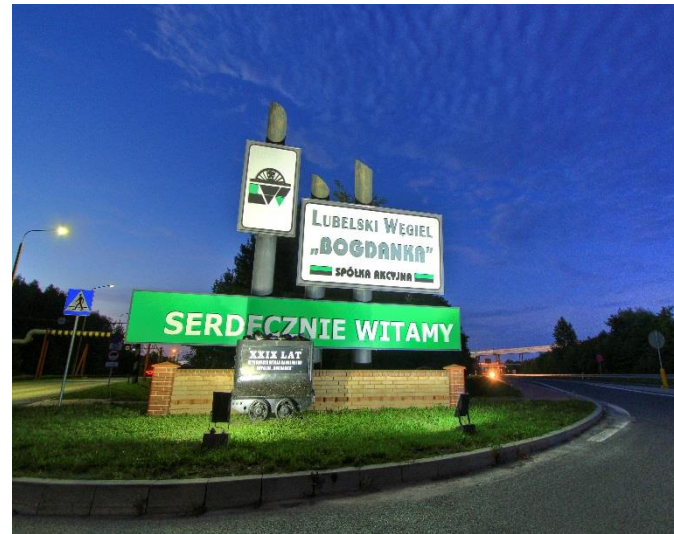
The immediate vicinity features:

- 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 Group 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 - the Parent

### Air protection

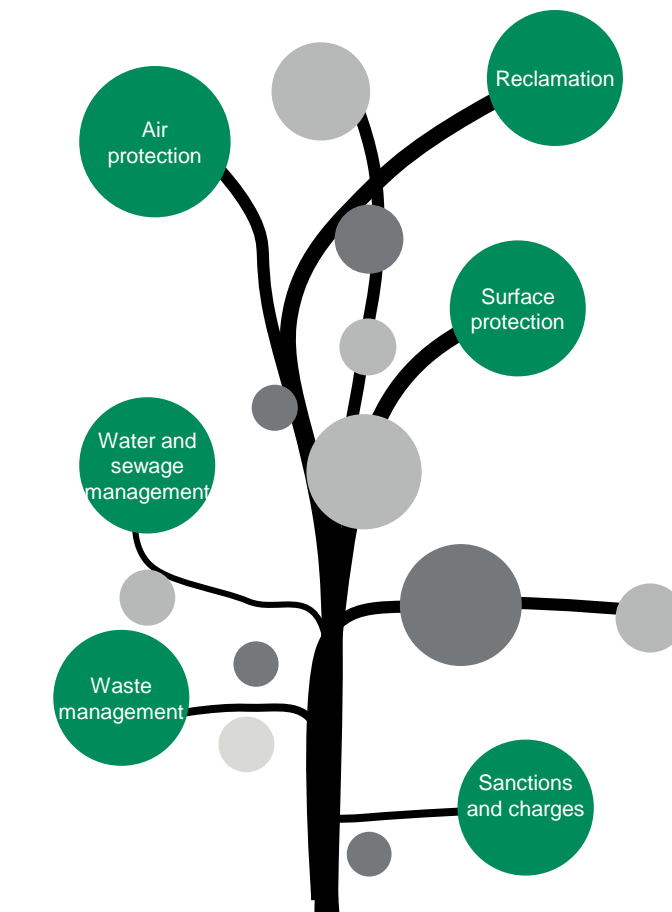
- The Parent does not have an organised emitter that would emit dust and gases to the atmosphere
- a non-organised emitter at LW Bogdanka is the mining waste disposal facility which may be a source of dust on dry and windy days
- non-organised emission to the air is caused by welding processes and fuel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

**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 m<sup>3</sup>/day.
- the content of chlorides and sulphates in mine water is 1,035mg/dm<sup>3</sup>.

### 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.



- The Parent 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.).

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 Parent 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.

The Parent complies with environmental standards, and did not incur any penalties in 2016 for violation of environmental rules laid down in the applicable laws.

## NATURAL ENVIRONMENT

### Natural environment issues - Łęczyńska Energetyka sp. z o.o. and other Subsidiaries

#### Environmental protection activities by Łęczyńska Energetyka

##### Air protection

In 2016, Łęczyńska Energetyka sp. z o.o. operated the following boiler houses:

- in Bogdanka (power 57 MW, coal co-burned with biomass)
- in Zawadów (power 0.25 MW, coal and waste wood)
- boiler house Pasternik in Łęczna (power 4.0 MW, light fuel oil, a reserve boiler house).

With respect to air protection, the Company holds relevant decisions of the Ministry.

##### Water and sewage management

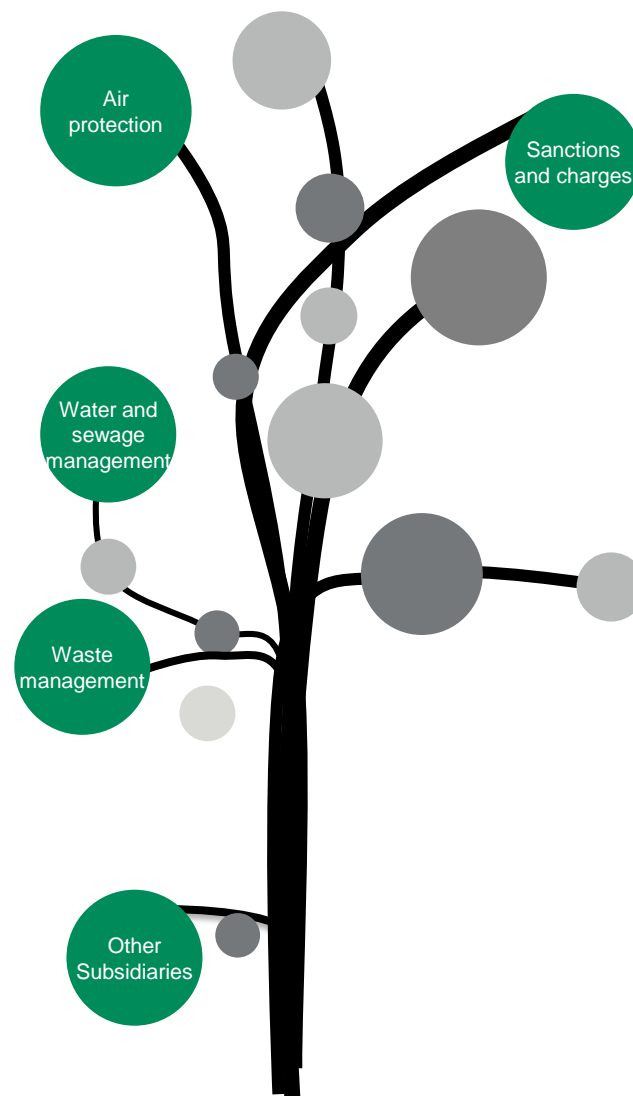
Currently, Łęczyńska Energetyka runs three potable water intakes: in Bogdanka, Nadrybie and Stefanów, and two wastewater treatment plants:

- a mechanical / biological plant in Bogdanka with the capacity of 700 m<sup>3</sup>/24 hours
- a mechanical / biological plant (Bioblok) in Nadrybie with the capacity of 400 m<sup>3</sup>/24 hours

##### Waste management

Łęczyńska Energetyka conducts waste management in accordance with decisions that it has at its disposal. The waste generated is as follows:

- slags, furnace ashes, and dusts from boiler houses
- ash and slag mixtures from liquid waste discharge of combustion waste
- sediments from the wastewater treatment plant in Bogdanka and Nadrybie
- screenings from the waste treatment plant
- sand from the sand trap
- used oil
- other solvents and solvent mixtures
- waste printer toner
- fluorescent and mercury lamps, monitors
- chemical reagent packagings
- non-segregable municipal waste, plastic packaging, used cleaning materials and sorbent
- steel and cast iron scrap, non-ferrous metals scrap
- concrete waste and concrete rubble from demolished structures and repairs
- brick rubble, glass
- packaging containing residues of or contaminated by dangerous substances
- used electronic devices (computers etc.).



#### Environmental protection activities of EkoTrans Bogdanka, RG Bogdanka, and MR Bogdanka

EkoTrans BOGDANKA provides services to the mine with respect to transportation and management of spoil arising during coal-associated shale cleaning and washing.

RG Bogdanka and MR Bogdanka were not engaged in any environmental protection activities.

[PLN]	2014	2015	2016
Emissions of pollution from boiler houses:			
• in Bogdanka	93,080	88,283	85,592
• in Łęczna	-	-	-
• in Zawadów	1,792	1,489	4,584
For underground water intake and sewage discharge in Bogdanka, Nadrybie and Stefanów	75,624	89,806	38,812
<b>Łęczyńska Energetyka sp. z o.o.</b>	<b>170,496</b>	<b>179,578</b>	<b>128,988</b>

#### Environmental protection sanctions and charges to which Łęczyńska Energetyka is exposed

Charges for the economic use of natural environment

An initial estimate of the total charge for business use of the environment in the financial year 2016 was lower than in the previous year by 28.2%. The final figure of the charge in question will be known by the end of March 2016. The analysis of individual components of charges for the protection of the environment has demonstrated the following:

- decrease in the charge for emissions from the boiler house in Bogdanka by 3.0% in comparison to 2015 mainly due to a reduction in the emission of nitrogen oxides and particulates
- increase in the charge for emissions from the boiler house in Zawadów by 207.9% due to the fact that the type of the fuel burned was changed from wood to coal
- decrease in the charge for the use of the environment in terms of water intake and wastewater discharge by 56.8% mainly due to reduced extraction of underground water from from intakes in Bogdanka and Stefanów.

No fines for exceeding set emission limits were imposed on the Company. The volume of CO<sub>2</sub> emissions amounted to 47,392 Mg, while the limit granted for 2016 stood at 16,541 Mg (the deficiency was remedied with emission allowances bought on the market).

## EMPLOYMENT

### Workforce changes

#### Workforce at the Group

2016 brought a 2.6% decrease in workforce in the Group. Most cases of staff leaving were due to retirement.

In 2016 the personnel employed at the Parent accounted for 87.6% of total employment in the Group. Workers accounted for 86.6% of all employees. In comparison with 2015, the number of underground staff went down by 120 people, i.e. -3.2 p.p.

Underground personnel constituted the main group employed in the Group, i.e. almost 72.0%.

#### HR policy implemented in 2016

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

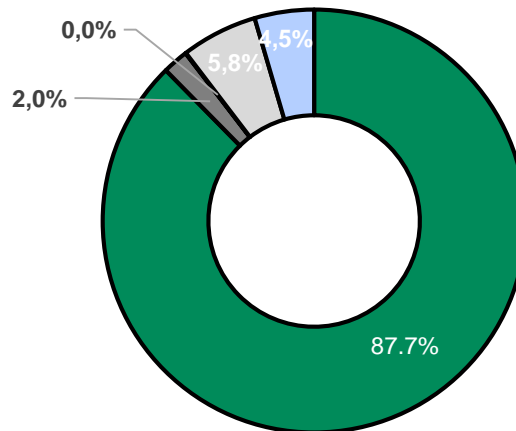
In particular, it aims at selecting and shaping the employee's competencies in such a way as to prepare them as best as possible for effective implementation of the Group's goals and objectives, while having a sense of self-fulfilment and satisfaction from their work.

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.

#### Procedure of increasing qualifications, training and development of human resources

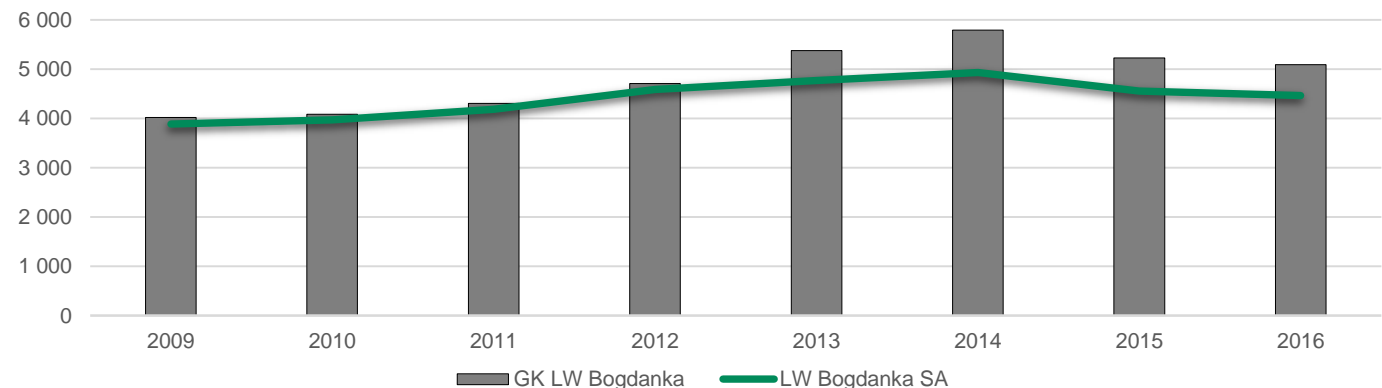
All employees have equal access to training and opportunities to improve their qualifications. In 2016, the LW Bogdanka Group organised internal and external training. Employees took part, out of their own initiative and upon consent of their superior, in external training and conferences to expand their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



Workforce structure at the Group broken down into companies

- LW Bogdanka SA
- Łęczyńska Energetyka sp. z o.o.
- EkoTrans sp. z o.o.
- RG Bogdanka sp. z o.o.
- MR Bogdanka sp. z o.o.

[people - as at 31 December]	2009	2010	2011	2012	2013	2014	2015	2016	Structure	Change 2016/2015
<b>Total</b>										
LW Bogdanka S.A.	3,885	3,968	4,184	4,587	4,768	4,930	4,555	4,462	87.6%	-2.0%
Łęczyńska Energetyka sp. z o.o.	131	119	119	118	116	114	106	100	2.0%	-5.7%
EkoTrans sp. z o.o.	-	-	-	-	2	2	2	2	0.0%	0.0%
RG Bogdanka sp. z o.o.	-	-	-	-	491	532	339	297	5.8%	-12.4%
MR Bogdanka sp. z o.o.	-	-	-	-	-	217	228	231	4.6%	1.3%
<b>LW Bogdanka Group</b>	<b>4,016</b>	<b>4,087</b>	<b>4,303</b>	<b>4,705</b>	<b>5,377</b>	<b>5,795</b>	<b>5,230</b>	<b>5,092</b>	<b>100.0%</b>	<b>-2.6%</b>

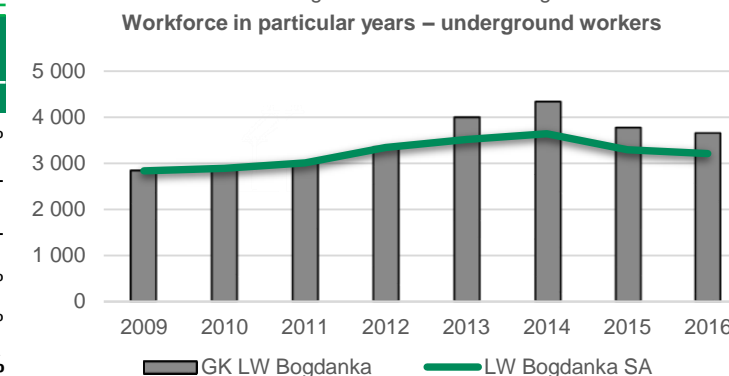
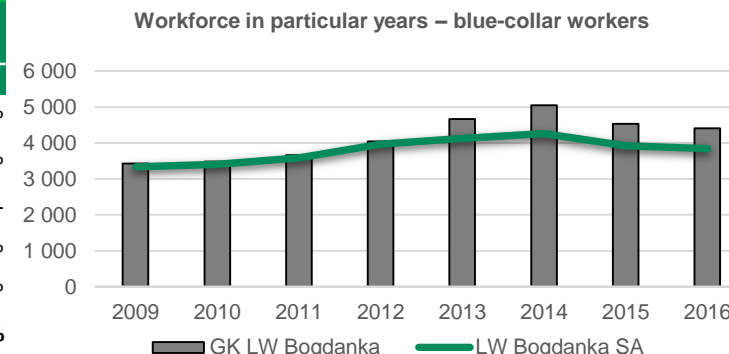
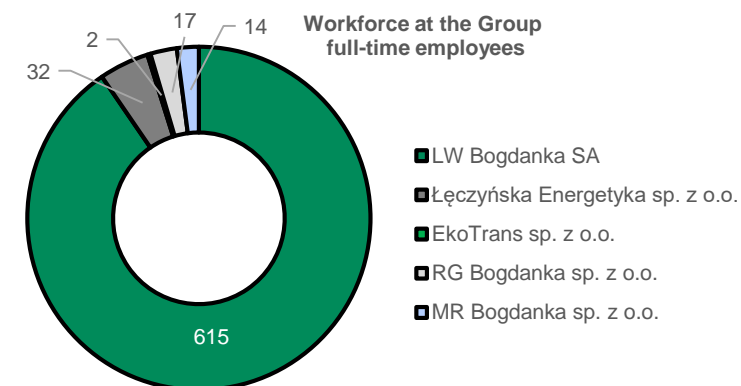


Workforce changes

[people]	2009	2010	2011	2012	2013	2014	2015	2016	Structure	Change 2016/2015
<b>Full-time employees</b>										
LW Bogdanka S.A.	549	564	596	621	643	665	628	615	12.1%	-2.1%
Łęczyńska Energetyka sp. z o.o.	40	43	44	44	43	42	34	32	0.6%	-5.9%
EkoTrans sp. z o.o.	-	-	-	-	2	2	2	2	-	-
RG Bogdanka sp. z o.o.	-	-	-	-	19	21	20	17	0.3%	-15.0%
MR Bogdanka sp. z o.o.	-	-	-	-	-	11	12	14	0.3%	16.7%
<b>LW Bogdanka Group</b>	<b>589</b>	<b>607</b>	<b>640</b>	<b>665</b>	<b>707</b>	<b>741</b>	<b>696</b>	<b>680</b>	<b>13.3%</b>	<b>-2.3%</b>

[people]	2009	2010	2011	2012	2013	2014	2015	2016	Structure	Change 2016/2015
<b>Blue-collar workers</b>										
LW Bogdanka S.A.	3,336	3,404	3,588	3,966	4,125	4,265	3,927	3,847	75.5%	-2.0%
Łęczyńska Energetyka sp. z o.o.	91	76	75	74	73	72	72	68	1.3%	-5.6%
EkoTrans sp. z o.o.	-	-	-	-	-	-	-	-	-	-
RG Bogdanka sp. z o.o.	-	-	-	-	472	511	319	280	5.5%	-12.2%
MR Bogdanka sp. z o.o.	-	-	-	-	-	206	216	217	4.3%	0.5%
<b>LW Bogdanka Group</b>	<b>3,427</b>	<b>3,480</b>	<b>3,663</b>	<b>4,040</b>	<b>4,670</b>	<b>5,054</b>	<b>4,534</b>	<b>4,412</b>	<b>86.6%</b>	<b>-2.7%</b>

[people]	2009	2010	2011	2012	2013	2014	2015	2016	Structure	Change 2016/2015
<b>Underground workers</b>										
LW Bogdanka S.A.	2,838	2,895	3,010	3,343	3,515	3,641	3,295	3,214	63.1%	-2.5%
Łęczyńska Energetyka sp. z o.o.	-	-	-	-	-	-	-	-	-	-
EkoTrans sp. z o.o.	-	-	-	-	-	-	-	-	-	-
RG Bogdanka sp. z o.o.	-	-	-	-	470	525	323	281	5.5%	-13.0%
MR Bogdanka sp. z o.o.	-	-	-	-	-	153	148	151	3.0%	2.0%
<b>LW Bogdanka Group</b>	<b>2,838</b>	<b>2,895</b>	<b>3,010</b>	<b>3,343</b>	<b>3,985</b>	<b>4,319</b>	<b>3,766</b>	<b>3,646</b>	<b>71.6%</b>	<b>-3.2%</b>





## Average monthly remuneration

The average monthly remuneration in the LW Bogdanka Group reached the amount of PLN 6,879 gross, and was 0.5% higher than the average remuneration in 2015. The amount of remuneration includes annual bonuses paid from the special purpose provision in 2016 in relation to the closing of 2015.

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).

Average remuneration at the LW Bogdanka Group\*

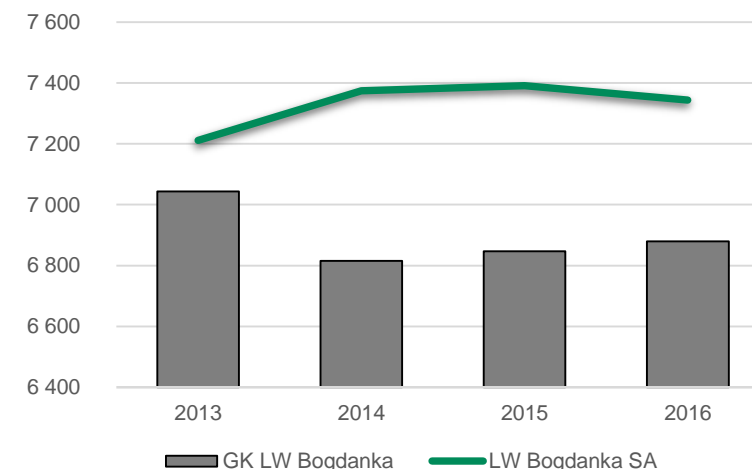
[PLN]	2013	2014	2015	2016	Change 2016/2015
	<b>Total</b>				
LW Bogdanka S.A.	7,211	7,374	7,391**	7,344	-0.6%
Łęczyńska Energetyka sp. z o.o.	3,976	4,333	4,824	4,868	0.9%
EkoTrans sp. z o.o.	7,982	7,491	7,706	9,574	24.2%
RG Bogdanka sp. z o.o.	2,948	3,102	2,880	3,248	12.8%
MR Bogdanka sp. z o.o.	-	3,148	3,245	3,715	14.5%
<b>LW Bogdanka Group</b>	<b>7,043</b>	<b>6,815</b>	<b>6,847*</b>	<b>6,879</b>	<b>0.5%</b>

\* payroll fund charged to the costs of the Group Companies

\*\* 2015 remuneration was adjusted by a one-off payment made in 2016 from the provision for an increase in the payroll fund created at the end of 2015



Average remunerations 2013-2016





## The Group's marketing activities 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 the LW Bogdanka Group 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 LW Bogdanka Group has sponsored for several years is Carnival 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 Group as an employer and trade unions and maintaining good social relations within the Group. Easing any social tensions and building an atmosphere of good will around the Group'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 Group — 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 Group'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
- achieving the influence of the dynamic and modern image of sport on the image of the Group. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines
- promotion of the image of the Group and its shareholders by sponsorship. Promotion of the Group's products within the message directed to the target group, which is to be influenced by sponsoring
- boosting the Group's image on the capital market. Creating the image of the Group 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 Group on the capital market
- conducting appropriate public relations for the Group on both the national and regional level. Strengthening the importance of the Group 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
<b>TOTAL</b>		<b>6,139</b>





### The Group's marketing activities in 2016, as well as court and out of court proceedings

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 Parent's promotion was aimed at fostering a positive corporate image of the Group 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 Group 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 the LW Bogdanka Group 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 LW Bogdanka Group 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 Group and their photographs published in the press demonstrated the Group'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 Parent'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 Group's concern about its environment, thereby increasing the level of employees' identification with the Group'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 Group among private customers.

#### Donations

The LW Bogdanka Group 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 LW Bogdanka Group 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 Group also sponsors sporting and cultural activity. This philosophy benefits the Group 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 Parent in 2016 amounted to PLN 447,600.

#### Court and out of court proceedings

As of the date of submitting this Report, the Group 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 the LW Bogdanka Group's equity
- two or more proceedings concerning liabilities or claims worth, respectively, a total of at least 10% of the LW Bogdanka Group's equity.

#### Arrangement proceedings

In 2016, the LW Bogdanka Group was not a party in arrangement proceedings.

More information on proceedings to which LW Bogdanka was a party is available in the Directors' Report on Operations of LW Bogdanka S.A. for the period from 1 January 2016 to 31 December 2016.





Information on the auditor responsible for auditing the report and rules for preparing the annual consolidated 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 the LW Bogdanka Group and the auditor is 3 years. The agreement remains in force and effect until 2017.

**Basis of preparation of the Annual Consolidated Financial Statements**

The consolidated financial statements of the LW Bogdanka Group for the period from 1 January 2016 to 31 December 2016 were prepared on the basis of the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission.

The consolidated 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 consolidated financial statements were prepared using the same accounting principles for the current and comparative periods.

**Differences between financial results and projected results for 2016 published earlier**

In 2016 the LW Bogdanka Group did not publish projections of the separate or consolidated financial results of the Group.

* Deloitte Polska sp. z o.o. sp.k. (PLN '000)	2015	2016
• audit of the annual financial statements	106	105
• review of financial statements	69	70
• other attestation services	-	20
• other certifying services (verification of ratios)	39	36
<b>Total</b>	<b>214</b>	<b>231</b>





### 3. Financial standing



Production, sale and inventories of coal

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

The LW Bogdanka Group monitors on an ongoing basis the level of costs, ratios and the level of accumulated cash. The current agreements (ensuring access to the bond market, overdrafts and loans) together with the cash at disposal are more than enough to meet the ongoing financing needs.

Works are consistently conducted to optimise the mining process (in terms of the technologies employed) and, simultaneously, a cost reduction program is being implemented (decrease of the coal extraction unit cost). All works (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.

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

Production, sale and inventories of coal

In the fourth quarter of 2016, the production of commercial coal in the Parent 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 the Parent.

Production of commercial coal by the Parent.

['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 by the Parent

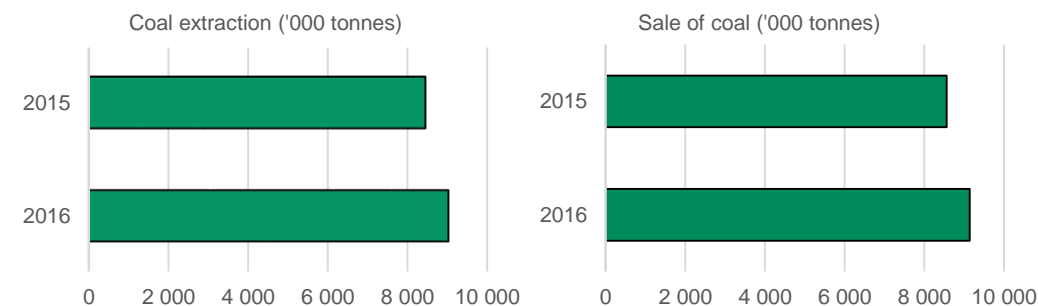
[%]	Q4 2015	Q4 2016	2015	2016
Fine coal	98.7%	97.9%	98.5%	98.5%
Nut coal	0.7%	1.3%	0.6%	0.8%
Pea coal	0.6%	0.8%	0.9%	0.7%
Total	100.0%	100.0%	100.0%	100.0%

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 dropped 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.

Commercial coal sales at the Parent

['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%



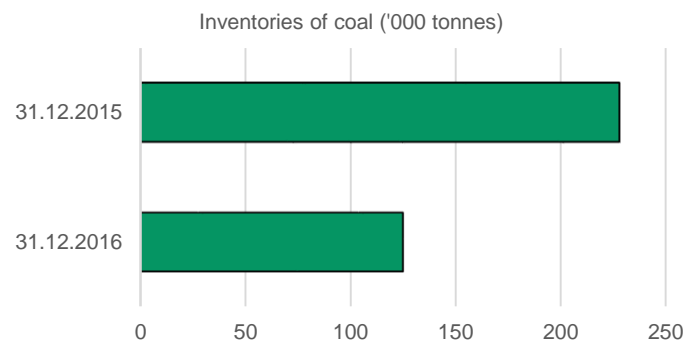


Revenue and key customers

As at the end of Q4 2016, the inventories of coal at the Parent 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 471,878,000, which represents a decrease by 15.5% compared to Q4 2015. The revenue for January-December 2016 amounted to PLN 1,786,265,000 compared to PLN 1,883,371,000 in the analogous period of 2015, which means a drop in revenue by 5.3% y/y.

The main source of revenue on sales of the LW Bogdanka Group is the production and sale of thermal coal performed by the Parent. In each of the compared reporting periods this activity generates nearly 95% of the the LW Bogdanka Group's revenue.

In the consolidated annual financial statements published by the LW Bogdanka Group, for presentation purposes, data concerning revenue on coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained by the Parent during drilling of excavations. Bearing in mind the above, the values indicated in the consolidated income statement for

the period from 1 January to 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 95% of coal sales (in terms of value) in the period from 1 January 2016 to 31 December 2016 was effected between the Parent and Enea Wytwarzanie sp. z o.o., ENGIE Energia Polska S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty - Zakłady Azotowe Puławy S.A. and EDF Paliwa sp. z o.o. For the period from 1 January 2015 to 31 December 2015 the share of the above customers in revenue of the sales of coal was similar.

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

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

Dynamics of changes in product range with respect to revenue

	[PLN '000]	Q4 2015	Q4 2016	Change	Change %	2015	2016	Change	Change %
Sale of coal		536,777	451,759	-85,018	-15.8%	1,808,804	1,724,416	-84,388	-4.7%
Other activities		17,752	17,507	-245	-1.4%	63,770	50,180	-13,590	-21.3%
Sale of goods and materials		3,858	2,612	-1,246	-32.3%	12,797	11,669	-1,128	-8.8%
<b>Total revenue</b>		<b>558,387</b>	<b>471,878</b>	<b>-86,509</b>	<b>-15.5%</b>	<b>1,885,371</b>	<b>1,786,265</b>	<b>-99,106</b>	<b>-5.3%</b>

In Q4 2016 revenue on other operations (which includes revenue of subsidiaries) were PLN 17,507,000 (3.7% of total revenue), compared to PLN 17,752,000 (3.2% of revenue) in the analogous period of 2015 (-1.4% y/y). A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by the Parent for the benefit of some customers,
- revenue of Łęczyńska Energetyka on sales of heat energy to external companies
- revenue on industrial services provided to companies performing works contracted by the Parent.
- revenue on lease of non-current assets.



Sales and supplies at the LW Bogdanka Group

In the period from 1 January 2016 to 31 December 2016, income on other operations was PLN 50,180,000 compared to PLN 63,770,000 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 the Parent 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 by the Parent.

Revenue - structure by product types

[%]	Q4 2015	Q4 2016	2015	2016
Sale of coal	96.1%	95.7%	95.9%	96.5%
Other activities	3.2%	3.7%	3.4%	2.8%
Sale of goods and materials	0.7%	0.6%	0.7%	0.7%
<b>Total revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The activities of the Group are primarily concentrated 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 1.7% (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	558,387	100.0%	443,563	94.0%	1,882,628	99.9%	1,755,040	98.3%
Foreign sales	0	0.0%	28,315	6.0%	2,743	0.1%	31,225	1.7%
<b>Total revenue</b>	<b>558,387</b>	<b>100.0%</b>	<b>471,878</b>	<b>100.0%</b>	<b>1,885,371</b>	<b>100.0%</b>	<b>1,786,265</b>	<b>100.0%</b>

Suppliers

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

The principal suppliers for the LW Bogdanka Group include companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January 2016 and 31 December 2016, the value of the turnover with any supplier did not exceed 10% of the Group's total revenue.







## FINANCIAL STANDING

### Provisions

#### Provisions at the LW Bogdanka Group

##### Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2015	As at 31 Dec. 2016	Change 2016/2015 [%]
Employee benefits	251,537	266,981	6.1%
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	13,914	-53.5%
<b>TOTAL</b>	<b>462,728</b>	<b>455,256</b>	<b>-1.6%</b>

The total provisions as at 31 December 2016 amounted to PLN 455,256,000, which means a decrease by 1.6% compared to the value as at the end of 2015. Employee provisions grew by 6.1% and amounted to PLN 266,981,000 as at 31 December 2016. In 2016, in the employee provisions a provision was made by the Parent 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 +2,212,000 compared to PLN +27,543,000 in Q4 2015. The change in provisions in the period from 1 January to 31 December 2016 was PLN -7,472,000, while in the same period of the previous year it was PLN +38,810,000.

[PLN '000]	Change in Q4 2015	Change in Q4 2016	Change 2016/2015 [%]	Change in 2015	Change in 2016	Change 2016/2015 [%]
Employee benefits	10,292	8,314	-19.2%	24,813	15,444	-37.8%
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	-147.1%	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	1,537	-24.0%	4,612	-15,993	-
<b>TOTAL</b>	<b>27,543</b>	<b>2,212</b>	<b>-92.0%</b>	<b>38,810</b>	<b>-7,472</b>	<b>-</b>

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

Item	Change of provisions in Q4 2016	Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Including:		
				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	8,314	18,973	1,746	-	-1,866	-10,539
Provision for real property tax	2,192	2,192	-	-	-	-
Provision for the mine closure costs and land reclamation	-6,798	-274	1,032	-7,556	-	-
Mining damage	-3,363	915	-	-	-	-4,278
Provision for Social Insurance Institution (ZUS) claim for accident contributions	330	-	330	-	-	-
Other	1,537	1,483	87	-	-	-33
<b>TOTAL</b>	<b>2,212</b>	<b>23,289</b>	<b>3,195</b>	<b>-7,556</b>	<b>-1,866</b>	<b>-14,850</b>

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

Item	Change of provisions in 2016	Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Including:		
				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	15,444	51,135	6,348	-	7,771	-49,810
Provision for real property tax	8,575	8,575	-	-	-	-
Provision for the mine closure costs and land reclamation	-12,756	1,336	3,645	-17,737	-	-
Mining damage	-4,057	915	-	-	-	-4,972
Provision for Social Insurance Institution (ZUS) claim for accident contributions	1,315	-	1,315	-	-	-
Other	-15,993	-7,043	-5,919	-	-	-3,031
<b>TOTAL</b>	<b>-7,472</b>	<b>54,918</b>	<b>5,389</b>	<b>-17,737</b>	<b>7,771</b>	<b>-57,813</b>

## Financial highlights

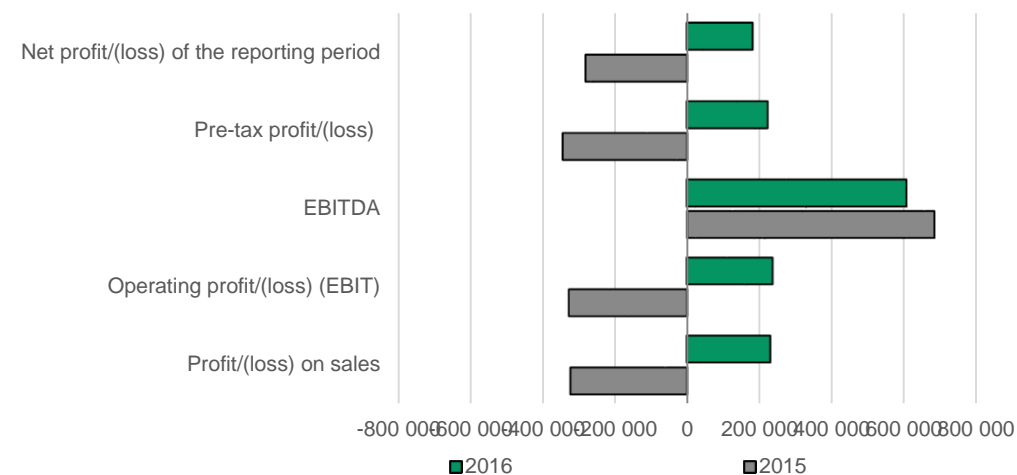
### Financial highlights of the LW Bogdanka Group

Analysis of the separate income statement

[PLN '000]	Q4 2015	Q4 2016	Change	2015	2016	Change
Revenue	558,387	471,878	-15.5%	1,885,371	1,786,265	-5.3%
Costs of products, goods and materials sold, selling and administrative expenses	1,055,035	393,347	-62.7%	2,207,341	1,555,454	-29.5%
<b>Profit/(loss) on sales</b>	<b>-496,648</b>	<b>78,531</b>	-	<b>-321,970</b>	<b>230,811</b>	-
Gross sales margin	-88.9%	16.6%	105.5 p.p.	-17.1%	12.9%	30.0 p.p.
Other income	401	4,854	1,110.5%	2,831	17,866	531.1%
Other costs	1,418	339	-76.1%	2,017	2,145	6.3%
<b>Net operating profit/(loss)</b>	<b>-497,665</b>	<b>83,046</b>	-	<b>-321,156</b>	<b>246,532</b>	-
Other net losses	-3,101	-676	-78.2%	-5,065	-9,525	88.1%
<b>Operating profit/(loss) (EBIT)</b>	<b>-500,766</b>	<b>82,370</b>	-	<b>-326,221</b>	<b>237,007</b>	-
EBIT margin	-89.7%	17.5%	107.2 p.p.	-17.3%	13.3%	30.6 p.p.
<b>EBITDA*</b>	<b>228,177</b>	<b>174,260</b>	<b>-23.6%</b>	<b>686,298</b>	<b>606,539</b>	<b>-11.6%</b>
EBITDA margin	40.9%	36.9%	-4.0 p.p.	36.4%	34.0%	-2.4 p.p.
Finance income	1,475	2,424	64.3%	6,110	14,567	138.4%
Finance costs	7,945	7,041	-11.4%	22,938	27,929	21.8%
<b>Pre-tax profit/(loss)</b>	<b>-507,236</b>	<b>77,753</b>	-	<b>-343,049</b>	<b>223,645</b>	-
Pre-tax profit margin	-90.8%	16.5%	107.3 p.p.	-18.2%	12.5%	30.7 p.p.
Income tax	-95,473	15,920	-	-63,423	41,653	-
<b>Net profit/(loss) for the financial year</b>	<b>-411,763</b>	<b>61,833</b>	-	<b>-279,626</b>	<b>181,992</b>	-
Net sales margin	-73.7%	13.1%	86.8 p.p.	-14.8%	10.2%	25.0 p.p.

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

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





### Financial highlights

#### Revenue

The value of revenue for the Q4 2016 went down by -15.5% compared to the same period of the previous year and amounted to PLN 471,878,000.

In the period between 1 January 2016 and 31 December 2016 the LW Bogdanka Group generated revenue at a level of PLN 1,786,265,000 compared to PLN 1,885,371,000 in the same period of 2015 (decrease by 5.3%).

#### 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 62.7% compared by the same period of the previous year and amounted to PLN 393,347,000 (an impairment loss made in 2015 of PLN 624,772,000 made by the Parent had the main influence on the drop of the costs - overestimated basis effect). In the course of four quarters of 2016 the discussed costs dropped by 29.5% year on year (for a reason analogous to that observed in Q4).

#### Profit/(loss) on sales

In the fourth quarter of 2016 the Group generated profit amounting to PLN 78,531,000, and in the same quarter of 2015, in connection with impairment loss at the Parent, the LW Bogdanka Group incurred a loss on sales of PLN 496,648,000.

The Group closed 2016 with a profit on sales in the amount of PLN 230,811,000, versus the loss on sales of PLN 321,970,000 in four quarters 2015.

#### Other income

In Q4 2016 other income amounted to PLN 4,854,000 compared to PLN 401,000 a year before (of which a dominant item were liquidated damages received). The dominant item in the value for four quarters of 2016 (PLN 17,866,000) is the release of unused provision for claims (PLN 10,125,000) and damages received (PLN 5,737,000).

#### Other costs and other net losses

During 2016 and in 2015, other costs amounted to slightly above 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 676,000 compared to PLN 3,101,000 in Q4 2015 – which means their decrease by PLN 2,425,000.

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 9,525,000. Dominant item is the impairment loss of construction in progress of PLN 7,352,000.

#### EBIT

Operating profit/(loss) in Q4 2016 amounted to PLN 82,370,000, compared to the loss of PLN 500,766,000 in Q4 2015. EBIT margin in the fourth quarter of 2016 was 17.5%, i.e. it was higher by 107.2 p.p. than in the fourth quarter of the previous year. EBIT margin for four quarters of 2016 was

13.3%, i.e. it was higher by 30.6 p.p. versus the same period of 2015.

#### EBITDA

EBITDA in Q4 2016 dropped by 23.6% compared to Q4 2015 and amounted to PLN 174,260,000. EBITDA margin in Q4 2016 was 36.9% and was lower than in the same analysed period of 2015.

For four quarters of 2016, the Group's EBITDA margin amounted to 34.0%, i.e. less by 2.4 p.p. compared to the same period of 2015. EBITDA for the four quarters of 2016 was PLN 606,539,000 compared to PLN 686,298,000 in the same period of 2015.

#### Finance income

Finance income in Q4 2016 amounted to PLN 2,424,000. For four quarters of 2015 finance income was PLN 14,567,000, i.e. (138.4% 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 Group.

#### Finance costs

In Q4 2016 finance costs amounted to PLN 7,041,000 and were lower by 11.4% than the costs in the same period of 2015.

The finance costs for the twelve months of 2016 amounted to PLN 27,929,000 compared to PLN 22,938,000 in 2015 (increase by 21.8%). As at 31 December 2016 total debt of the Group amounted to PLN 623,355,000, including that of the Parent of PLN 600,080,000 compared the Group's debt of PLN 721,395,000 as at 31 December 2015. The amount of capitalised finance costs also changed.

#### Profit before taxation

In Q4 2016 the Group generated pre-tax profit of PLN 77,753,000 compared to the loss of PLN 507,236 in Q4 2015.

Profit before taxation for four quarters of 2016 amounted to PLN 223,645,000 against PLN - 343,049,000 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 Group generated net profit of PLN 61,833,000 compared to the loss of PLN 411,763,000 in Q4 2015.

The Group's net profit for four quarters amounted to PLN 181,992,000, compared to the loss of PLN 279,626,000 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

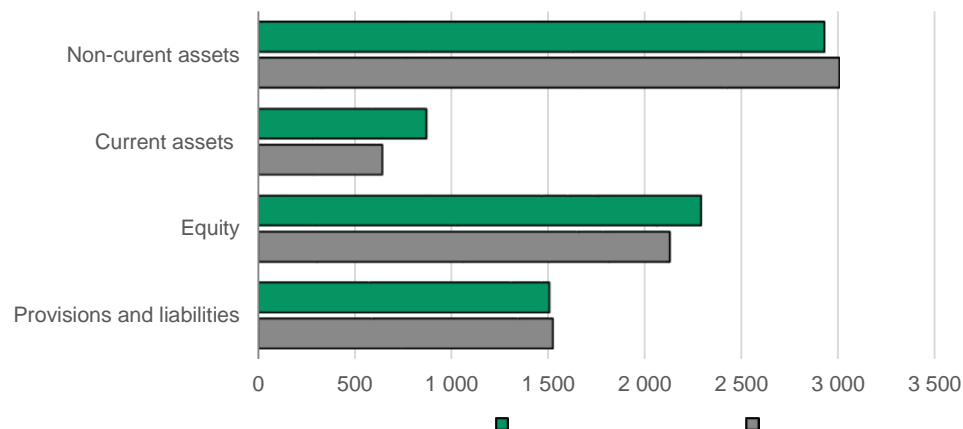
Balance sheet

Selected financial data

[PLN '000]	31 Dec. 2015	31 Dec. 2016	Change
Total assets	3,644,024	3,800,289	4.3%
ROA	-7.0%	4.9%	11.9 p.p.
Non-current assets	3,003,073	2,929,788	-2.4%
Current assets	640,951	870,501	35.8%
Equity	2,122,622	2,292,407	8.0%
Return on Equity (ROE)	-12.0%	8.2%	20.2 p.p.
Provisions and liabilities	1,521,402	1,507,882	-0.9%

\* - 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 3,800,289,000 (i.e. by PLN 156,256,000) compared to the value as at 31 December 2015, with non-current assets going down by PLN 73,285,000 and current assets going up by PLN 229,550,000. In current assets, the value of inventories went down by 30.6%, trade and other receivables going up by 1.6%, and cash and cash equivalents going up by 106.5%.

As at 31 December 2016 ROA increased by 11.9 p.p. and as at the balance-sheet day was 4.9%. The main reason of negative profitability in 2015 is an impairment loss, already described, of property, plant and equipment and intangible assets (impact on the result before taxation of PLN -624,772,000).



Equity and liabilities

The equity went up by 8.0%. It was mainly caused by recognising net total income in the amount of PLN 175,698,000 for the twelve months of 2016 and accounting for impact of the Management Options Scheme on equity.

Provisions and liabilities went down by 0.9% compared to the value as at 31 December 2015, with current liabilities going up by 85% (increase in liabilities on bond issue and trade liabilities), while non-current liabilities dropped by 32% (liabilities on bond issue went down, and trade liabilities went up).

The ratio as at 31 December 2016 was 20.2 p.p. compared to 31 December 2015. As at 31 December 2016, the ratio was 8.2% versus -12.0% as at 31 December 2015.



Cash flows

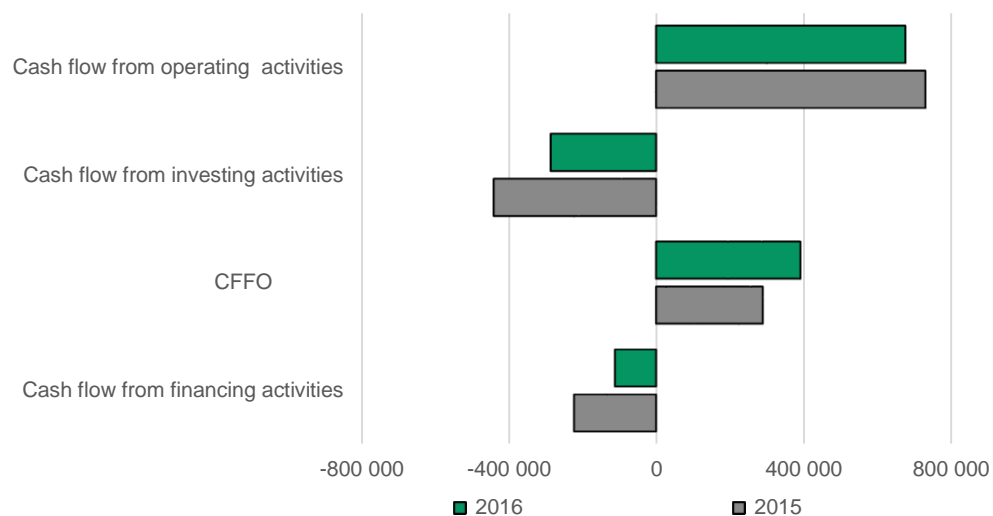
Cash flows

Annual unit cash flow

[PLN '000]	Q4 2015	Q4 2016	Change	2015	2016	Change
Cash flow from (used in) operating activities	225,009	163,256	-27.4%	729,575	675,791	-7.4%
Cash flow from (used in) investing activities	-76,298	-66,073	-13.4%	-440,680	-285,364	-35.2%
<b>CFFO*</b>	<b>148,711</b>	<b>97,183</b>	<b>-34.6%</b>	<b>288,895</b>	<b>390,427</b>	<b>35.1%</b>
Cash flow from (used in) financing activities	-122,450	-3,820	-96.9%	-222,339	-111,358	-49.9%

\*total cash flow from operating and investing activity

Analysis of the annual separate statement of cash flows



In Q4 2016 the Group generated net cash flow from operating activities lower by 27.4% than in Q4 2015 - in the period from 1 October 2016 to 31 December 2016 it amounted to PLN 163,256,000 compared to PLN 225,009,000 a year before. During four quarters of 2016, the LW Bogdanka Group generated cash flow from operating activities in the amount of PLN 675,791,000 (-7.4% y/y). Cash flow from investing activities decreased its value (in absolute values) in Q4 2016 by 13.4% (to PLN -66,073,000) relative to the analogous period of 2015. Cumulative for 12 months of 2016 cash flow from investing activity was lower by 35.2% 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	41.8%	39.7%	-2.1 p.p.
Ratio (debt plus employee liabilities)/EBITDA	1.42	1.47	3.5%
Net debt ratio/EBITDA*	0.67	0.14	-79.1%
Debt to equity ratio	71.7%	65.8%	-5.9 p.p.
Fixed capital to non-current assets ratio	103.6%	100.2%	-3.4 p.p.
Current debt ratio	11.1%	19.7%	8.6 p.p.
Non-current debt ratio	30.7%	20.0%	-10.7 p.p.

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

#### Overall debt ratio

The overall debt ratio as at 31 December 2016 went down by 2.1 p.p. compared to 31 December 2015 and reached 39.7% - the share of borrowed capital in the overall financing sources of the Group decreased.

The level of the Group's debts as at 31 December 2016 did not pose any risk to the Group's operation and its ability to settle liabilities in a timely manner. On the basis of medium and long-term forecasts, the financial needs of the Group are analysed in order to ensure liquidity and an appropriate level of cash.

#### 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, debt fell by more - in nominal terms (including amounts payable to employees) than EBITDA (cumulatively for the last four quarters).

#### 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 0.67 as at 31 December 2015 to 0.14 as at 31 December 2016. Net debt went down by about PLN 377 million with a decrease in EBITDA by about PLN 80 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 5.9 p.p. and was 65.8% - liabilities dropped by ca. PLN 14 million along with an increase in equity by ca. PLN 170 million.

#### Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 100.2% (as at 31 December 2016) compared to 103.6% (as at 31 December 2015) - in the analysed period the value of non-current assets dropped by approx. PLN 73 million, while fixed capitals (equity plus non-current liabilities less provisions) decreased by approx. PLN 175 million.

#### Liquidity ratios

##### Liquidity ratios

[days]	31 Dec. 2015	31 Dec. 2016	Change
Current liquidity ratio	1.98	1.29	-34.8%
Quick liquidity ratio	1.66	1.18	-28.9%

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

The drop of the discussed liquidity ratios is a result of reclassification, in the Parent's balance sheet, 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	22	4.8%
2. Debtors collection rate*	$\frac{\text{average receivables}}{\text{revenue}}$	52	50	-3.8%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}}$	64	75	17.2%
4. Operating cycle	1+2	73	72	-1.4%
5. Cash conversion cycle	4-3	9	-3	-

\* Trade debtors and other receivables

\*\* Trade and other liabilities

### Inventory turnover ratio

The inventory turnover ratio as at 31 December 2016 fell to 22 days, compared to the previous year. In year-on-year terms, an average level of inventories slightly decreased with a concurrent significant decrease in costs of products, goods and materials sold (due to impairment loss of property, plant and equipment and intangible assets made in 2015).

### Debtors collection ratio

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 50 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 28 million, with the revenue going down by PLN 99 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 11 days to 75 days, compared to the end of 2015. In the period under analysis, the LW Bogdanka Group had a level of current trade creditors lower by approx. 69 million with lower (by PLN 626 million) costs of products, goods and materials sold (due to impairment loss).

### Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 72 days, compared to 73 days as at 31 December 2015. The time necessary for realising the Group's current assets got shorter by 1 day on the average.

### Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2016 was -3 days (as at 31 December 2015: 9 days). The negative value of the cash conversion cycle means that the Group trade credit (financing with the non-interest-bearing borrowed capital).

### Assessment of factors an untypical events affecting the operating profit

In 2016, the most important unusual event which affected the consolidated operating result was a release of the unused provision for the Consortium of BUDIMEX S.A., Ferrovial Agroman S.A. and Mostostal Kraków in the total amount of PLN 16,590,000. The consolidated 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 Group's operations.

### Overview of significant off-balance sheet items of the LW Bogdanka Group in subjective, objective and value terms

In 2016 no material off-balance sheet items occurred.

### Investments and capital investments of LW Bogdanka Group

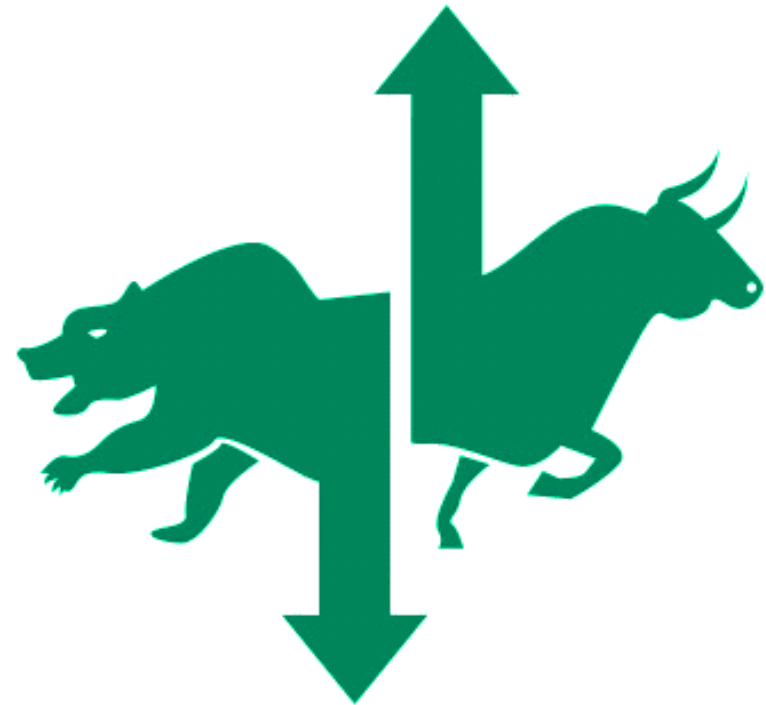
In 2016 the Group made no significant capital investments.

The value of cash held by the Group as at the end of 2016 stood at PLN 652,324,000, of which PLN 624,650,000 was held by the Parent. The amount PLN 652,324,000 includes:

- PLN 111,218,000 disclosed in non-current assets,
- PLN 541,106,000 disclosed in current assets.

The amount of PLN 111,218,000 covers assets accumulated by the Parent in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in a bank deposit).

The amount of PLN 541,106,000 includes financial resources (available cash) kept in short- and medium-term bank deposits (including overnight deposits) – the amount of deposited cash varies depending on internal income and expenditure forecasts. In accordance with the adopted Strategy, the Parent maintains the amount of available cash at the levels equal to the value of average monthly sales revenue (1/12 of forecast annual sales revenue). Financial resources gathered at the Parent amount to PLN 513,432,000, and in the Subsidiaries – PLN 27,674,000.



## 4. Shares and shareholding





## Share capital structure and shareholding in the Parent

### Share capital structure

The Parent's share capital amounts to PLN 170,067,950

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. The Parent'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 Parent 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 Parent are mainly financial investors in the form of pension and investment funds.

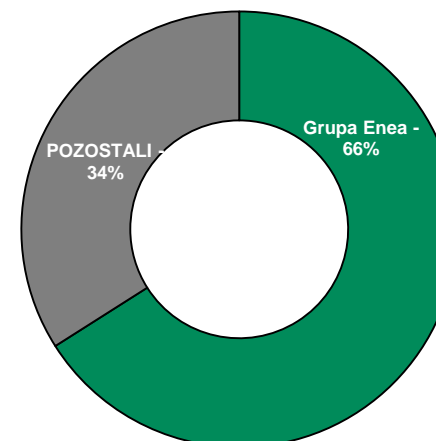
### Shareholding structure

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

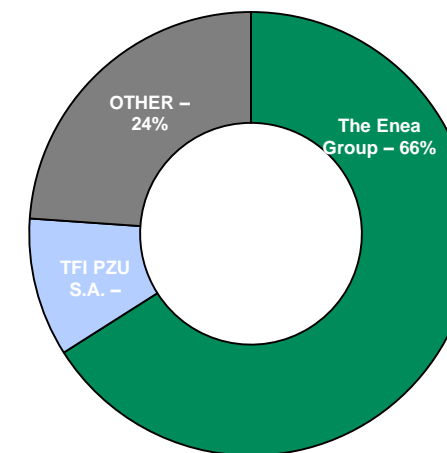
Shareholder	Number of shares/ number of votes at the Shareholders Meeting	Share capital interest/ interest in the total number of votes
<b>Shareholding structure of LW Bogdanka S.A. as at 31 December 2016</b>		
Enea Group	22,448,834	66.0%
TFI PZU S.A.	1,750,033	5.1%
Other	9,814,723	28.9%
<b>TOTAL</b>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

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

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

### Changes in the shareholding structure by the date of the Report

On 30 January 2017, the Parent was informed by Towarzystwo Funduszy Inwestycyjnych PZU S.A. that the TFI PZU investment funds increased their share in the total vote at LW Bogdanka S.A.'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 Parent's bodies

#### Holdings of shares in LW Bogdanka S.A. as well as shares in related entities of the Parent 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 the Parent 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 Patyra	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 Parent

#### Shares in related entities of the Parent

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 Group 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 of the Parent

### Dividend policy

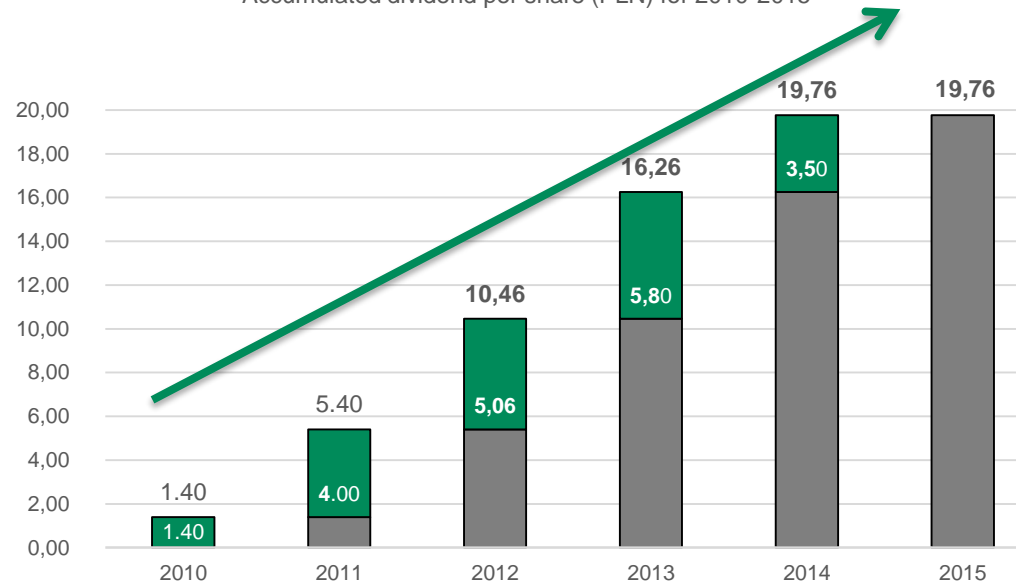
In the medium and long run, the Parent wants to remain a dividend-paying company, and the Management Board of LW Bogdanka S.A. intends to ask the General Shareholders Meeting for approval of dividends up to 50% of the net profits shown in the Company's separate financial statements, prepared in accordance 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 Group. Therefore, the dividends recommended each time by the Management Board will depend on:

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

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%	-



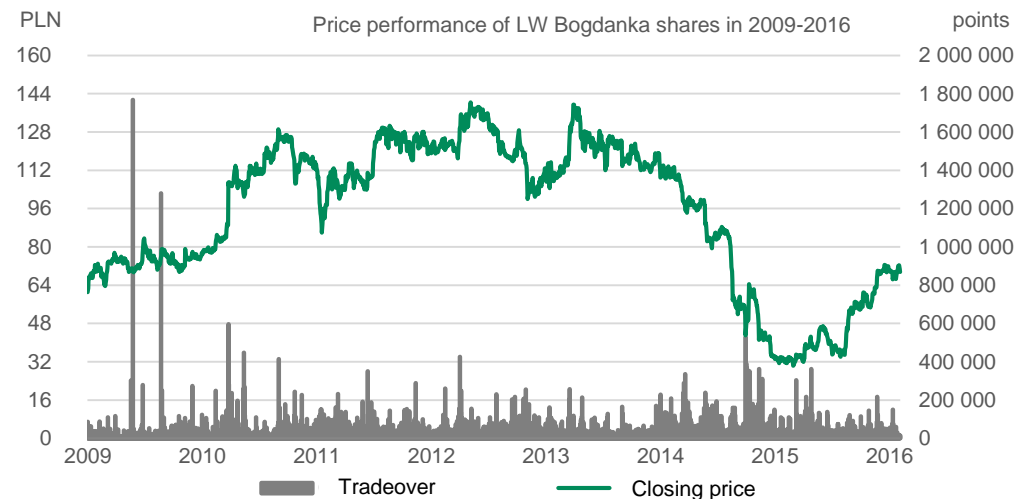
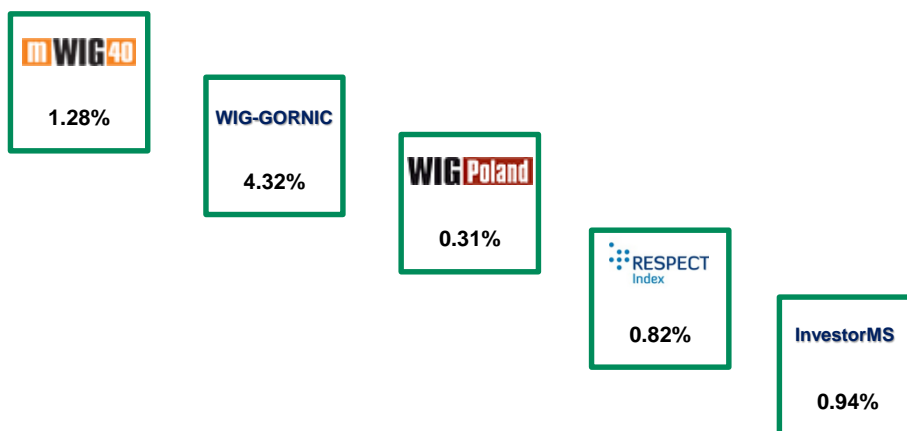
Price performance of the shares of LW Bogdanka S.A. on the Warsaw Stock Exchange

Participation of the LW Bogdanka's shares in indices

The Parent 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 Górnictwo – 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 Parent'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 the LW Bogdanka Group. 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.

# The LW Bogdanka Group complies with 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.

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

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

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



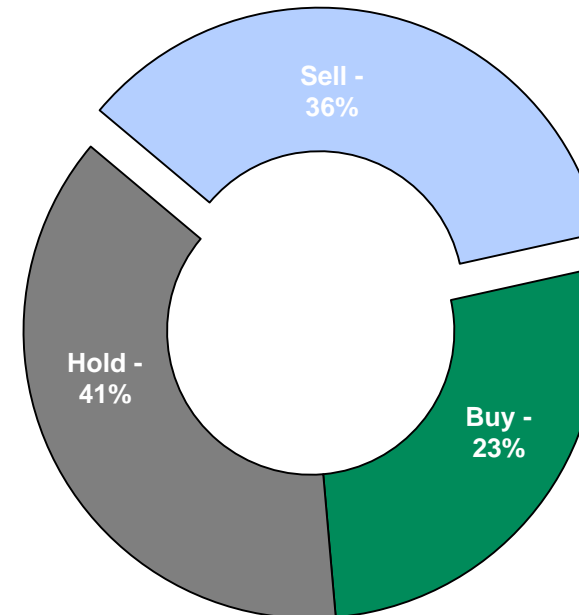
Analysts recommendations

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 Management Board of the Parent



### 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 Management Board of the Parent

Date	Event
<b>24 March 2016</b>	<p>The Supervisory Board of the Parent 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"><li>• Zbigniew Stopa – President of the Management Board</li><li>• Waldemar Bernaciak – Vice-President of the Management Board, Trade and Logistics</li><li>• Piotr Janicki – Vice-President of the Management Board, Economic and Financial Affairs</li><li>• Jakub Stęchły – Vice-President of the Management Board, Procurement and Investments.</li></ul>
	<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"><li>• Krzysztof Szlaga – President of the Management Board</li><li>• Stanisław Misterek – Vice-President of the Management Board, Economic and Financial Affairs</li><li>• Adam Partyka – Vice-President of the Management Board, Employee and Social Affairs.</li></ul>
<b>13 May 2016</b>	<p>The Supervisory Board of the Parent adopted resolutions on the appointment of the following persons effective from 23 May 2016:</p> <ul style="list-style-type: none"><li>• Sławomir Karlikowski – Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility</li><li>• Marcin Kapkowski – Vice-President of the Management Board, Procurement and Investments.</li></ul>

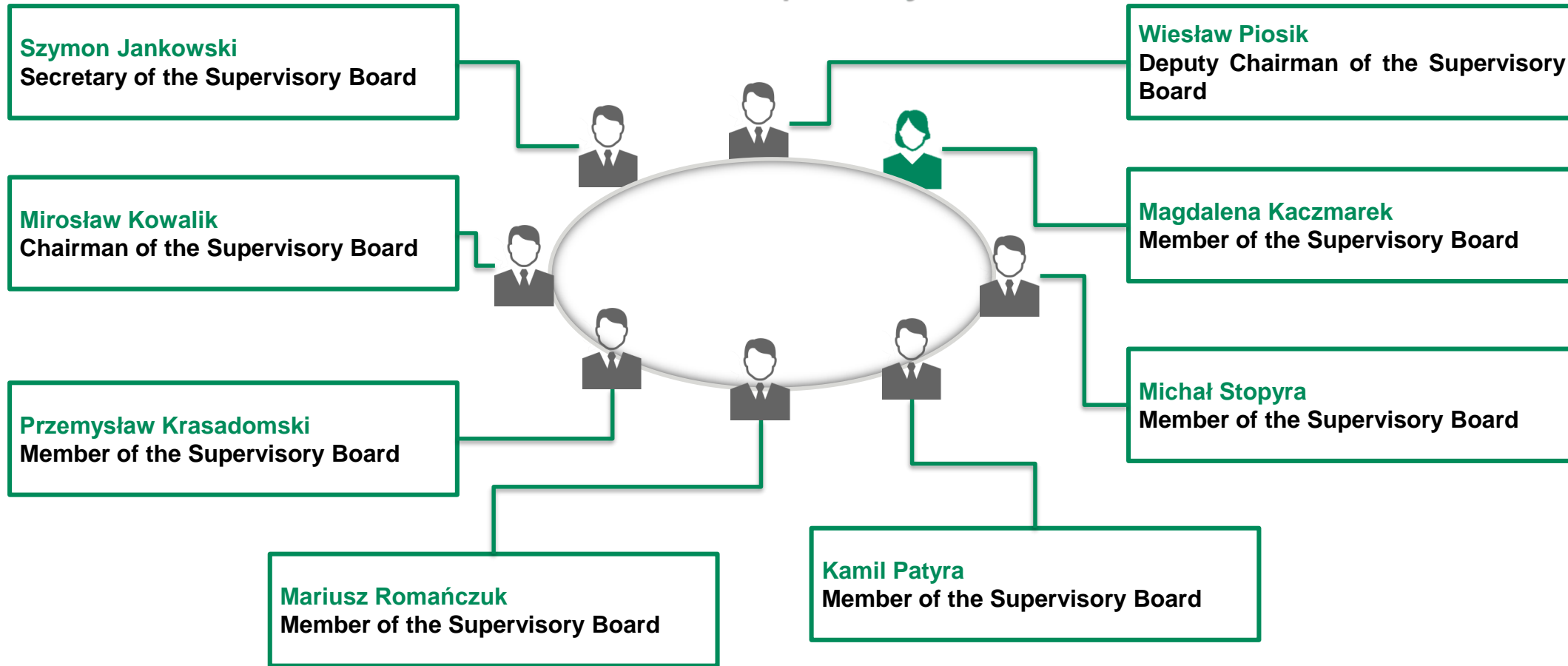




Composition of the Parent's Supervisory Board as at 30 March 2017

### 12.5% - independent members in the Supervisory Board of LWB

### 12.5% - women in the Supervisory Board of LWB





### Composition of the Parent'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 Parent's Supervisory Board

Date	Event
14 January 2016	Dalida Gepfert resigned from her function at the Supervisory Board of LW Bogdanka.
23 February 2016	<p>The Extraordinary General Shareholders Meeting removed the following persons:</p> <ul style="list-style-type: none"><li>• Bartosz Krysta</li><li>• Krzysztof Matan</li></ul> <p>The Extraordinary General Shareholders Meeting appointed the following four persons as the Parent's Supervisory Board members:</p> <ul style="list-style-type: none"><li>• Szymon Jankowski</li><li>• Mirosław Kowalik</li><li>• Przemysław Krasadomski</li><li>• Wiesław Piosik</li></ul> <p>The Extraordinary General Shareholders Meeting removed the following persons:</p> <ul style="list-style-type: none"><li>• Szymon Jankowski</li><li>• Magdalena Kaczmarek</li><li>• Mirosław Kowalik</li><li>• Przemysław Krasadomski</li><li>• Wiesław Piosik</li><li>• Michał Stopyra.</li></ul>
7 March 2017	<p>The Extraordinary General Shareholders Meeting appointed the following persons to the Supervisory Board of the Parent for a joint term of office of three years:</p> <ul style="list-style-type: none"><li>• Szymon Jankowski</li><li>• Magdalena Kaczmarek</li><li>• Mirosław Kowalik</li><li>• Przemysław Krasadomski</li><li>• Kamil Patyra</li><li>• Wiesław Piosik</li><li>• Mariusz Romańczuk</li><li>• Michał Stopyra.</li></ul>





## Rules of appointment and remuneration; salary levels

### Rules of appointment and description of powers of the governing bodies of the Group

Detailed information can be found in Chapter 6. Corporate Governance on pages 76-81.

### Rules of remuneration of the Management Board Members

The rules of remuneration of the Members of the Management Board of the Parent 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 Parent 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 Parent 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 Parent 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 Parent 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 Group;
- the Service Agreement is terminated by the Parent 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 Group;
- 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 of the Parent 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 another 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 Group. The Group 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 by the Parent to the Members of the Management Board in 2016 amounted to PLN 5,458,550.35. For fulfilling their duties in the Group, Members of the Management Board received remuneration under an Employment Contract and the Service Agreement:

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

Gross remuneration paid to the Parent's proxies in 2016 amounted to PLN 1,611,810.34. Within the duties at the Parent, 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 of the Parent 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 Parent's 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 Parent's development.

By virtue of its resolution of 13 May 2016, the Parent'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.

Having assessed the financial statements for 2016, the Parent's Supervisory Board will state whether the criteria for exercising the Options by persons covered by the Management Options Scheme for 2016 have been fulfilled.

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 of the Parent

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 Parent, 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 Parent 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 the Parent's Supervisory Board Members.

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

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

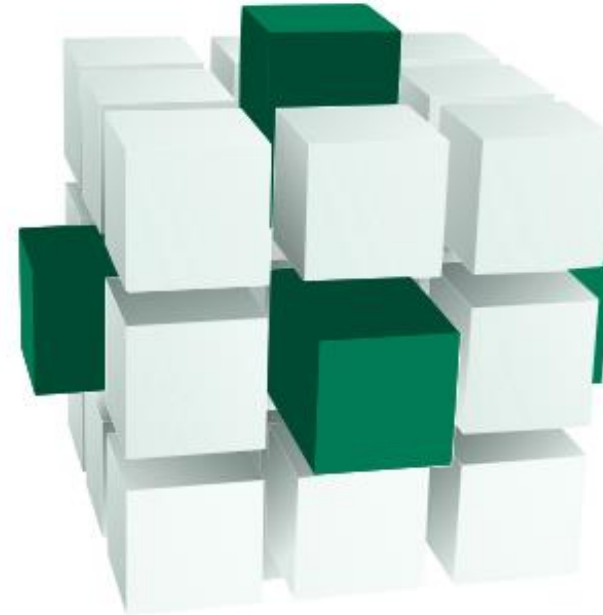
Name and surname	Remuneration
Jankowski Szymon	PLN 39,082.49
Krasadomski Przemysław	PLN 39,082.49
Kaczmarek Magdalena	PLN 0.00
Kowalik Mirosław	PLN 0.00
Piosik Wiesław	PLN 0.00
Stopyra Michał	PLN 45,157.79
Matan Krzysztof	PLN 0.00
Krysta Bartosz	PLN 0.00
Gepfert Dalida	PLN 0.00

Other benefits and sources of remuneration

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

No pension schemes apply in the Group, 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, the LW Bogdanka Group 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](http://www.corp-gov.gpw.pl).

#### Corporate governance rules departed from

The intention of the Parent’s Management Board is to apply all corporate governance rules. However, due to the fact that some of the rules may cause excessive financial strain on the Parent that would dominate the potential benefits arising from market needs, in 2016 the Parent 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 Parent operates.

Although diversity policy principles have not been implemented in the Parent, in matters related to human resources it 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 Parent’s Supervisory Board are made by the General Shareholders Meeting of LW Bogdanka S.A., therefore the Parent 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 Parent’s Supervisory Board are made by the General Shareholders Meeting of LW Bogdanka S.A., and the Chair of the Audit Committee is appointed by the Supervisory Board from among its members, therefore the Parent 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 Parent 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 Parent has surrendered the above principle due to the technical and legal risk that the Parent 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 Parent 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

The LW Bogdanka Group 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 Group'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 Parent'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 intended for implementation of the following control aims have been implemented in the LW Bogdanka Group:

- 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 Parent;
- 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 the LW Bogdanka Group are maintained using the FINANSE IT system, forming 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 Group'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 Group'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 Parent'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 the Parent.

The Group 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 the Parent and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board of the Parent. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include

ensuring that the financial statements and the Directors' report on the Group'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 the LW Bogdanka Group is based on the principle of independence and covers all of the Group'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 Group, the financial statements are audited by an independent auditor, who issues relevant opinions. The auditor is appointed by the Parent'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 the Parent

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%
<b>Total</b>	<b>34,013,590</b>	<b>100.0%</b>

\* 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**

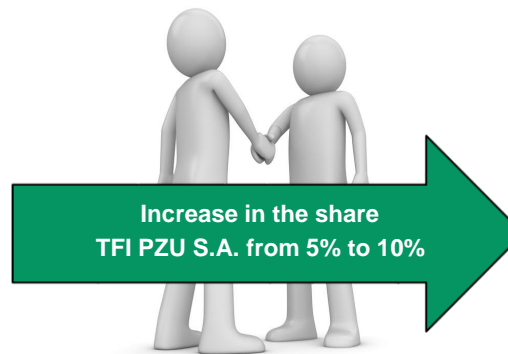
A detailed description of the share capital structure, shareholding structure, changes in its structure in 2016 as well as possible changes in the structure is described in Chapter 4. Shares and shareholding

**Owners of all the securities which entitle to special control rights**

The Parent has not issued any securities which would entitle shareholders to special control rights.

**Restrictions on exercising the voting right**

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



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%
<b>Total</b>	<b>34,013,590</b>	<b>100.0%</b>

\* 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 Group's securities**

The Articles of Association of the Parent do not provide for any restrictions on transferring ownership of the Companies' securities.

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

Amendments to the Articles of Association of the Parent shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Articles of Association of LW BOGDANKA S.A. as well as 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 of the Group  
Management Board of the Parent**

**Appointment of Management Board members**

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

Pursuant to the Articles of Association of the Parent, the Management Board shall be 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.

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Parent'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 Parent'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
Ślawomir 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 – President of the Management Board**

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 of the Group Management Board of the Parent

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

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and 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 Parent's Articles of Association and the principles of good practice, which the Parent undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Parent'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 Parent'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 Parent'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 Parent, the following issues shall require a resolution of the Management Board:

- adopting the Rules of Procedure for the Management Board,
- adopting the Parent'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 the Parent 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.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Group's activities as well as the risk connected with the Group'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 Parent'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 Parent's governing bodies
  - privatisation, restructuring of the Parent
  - 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 Group's strategy and the Group'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 Parent
  - HR policy and employee issues
  - future plans with regard to the development and modernisation of the production process at the Parent
  - monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,



### Governing Bodies of the Group Management Board of the Parent

- 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 Parent's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Parent's Articles of Association, the Parent'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 Parent's operations in the following areas:

- managing the Parent's finances
- pay and insurance policies
- economic and financial analyses
- reporting and statistics
- budgeting and controlling
- supervising the Parent's 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
- developing IT infrastructure of the Parent
- 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 Parent'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 Parent'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 the Parent's 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 of the Group Management Boards of the Parent and Subsidiaries

- 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 the Parent's 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 of the Parent, 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 Parent's ordinary management and at the request of individual Management Board members.

#### Information on powers of proxy granted and revoked at the Parent

In 2016 the Management Board of the Parent granted proxies to Mr Andrzej Cisko and to Mr Krzysztof Bogusz.

In 2016 the Management Board of the Parent 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.

#### Management Boards of the Subsidiaries

Łęczyńska Energetyka sp. z o.o.	
Dariusz Stawowy	President of the Management Board – Managing Director
RG Bogdanka sp. z o.o.	
Sławomir Kozak	President of the Management Board
MR Bogdanka sp. z o.o.	
Jaremi Gall	President of the Management Board
EkoTrans sp. z o.o.	
Marek Saba	President of the Management Board





## Governing bodies

### Supervisory Board of the Parent

#### Appointment and removal from office of the Supervisory Board members

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

In accordance with the Articles of Association of the Parent, 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 of the Parent 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 of the Parent are appointed and removed by the General Shareholders Meeting.

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

#### Composition of the Supervisory Board as from 16 Nov. 2015

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

On 9 December 2015 the Parent received from Mr Paweł Orłof 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 Parent received from Ms Dalida Gepfert a statement of resignation from the position of the Member of the 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

#### Description of activities

The Supervisory Board exercises continuous supervision over the Parent'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 responsibilities of the Supervisory Board of the Parent 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 LW Bogdanka 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 Parent'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 Parent'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 Parent in agreements and disputes between the Parent and the Management Board members,
- representing the Parent in agreements and disputes between the LW Bogdanka Group entities,



**Governing bodies****Supervisory Boards of the Parent and Subsidiaries**

- granting consent for the Parent 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 Parent's consolidated equity established on the basis of the latest published financial statements of the Parent. The above obligation does not apply to typical transactions and transactions executed on an arm's length basis within the Parent's operating activities with entities that form part of the LW Bogdanka 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 Parent'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 Parent 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 Group's financial statements

- monitoring the independence of the auditor and the entity authorised to audit the Group'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 Group'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 Parent'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 the Parent 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

**Compositions of Supervisory Boards of Subsidiaries of LW Bogdanka S.A.****Łęczyńska Energetyka sp. z o.o.**

Zbigniew Pietrzak	Chairman
Teodor Kosiarski	Deputy Chairman
Krzysztof Ancuta	Secretary

**RG Bogdanka sp. z o.o.**

Dawid Osowski	Chairman
Anna Telecka	Deputy Chairman
Krzystian Haraszczuk	Secretary
Bogna Bender-Motyka	Member

**MR Bogdanka sp. z o.o.**

Ryszard Metelski	Chairman
Edyta Jasińska	Deputy Chairman
Krzysztof Wlizio	Secretary

**ekoTRANS Bogdanka sp. z o.o.**

Waldemar Piotruk	Chairman
Laurencja Helena Łyszczarz	Deputy Chairman
Sebastian Buczak	Secretary
Lech Skoczyński	Member



### General Shareholders Meeting of the Parent

#### **Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders 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 the Parent 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 Parent 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 Parent's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Parent'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 Parent. 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 of the Parent

#### Information of General Shareholders Meetings held at the Parent in 2016

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

**Annual General Shareholders Meeting of 22 June 2016**, which was held in the Parent'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 Parent'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 Parent'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 Parent'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 Parent'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 Parent's website [www.ri.lw.com.pl](http://www.ri.lw.com.pl).



## Cooperation of the Group with representatives of the employees and local community

The dominant values cherished by the LW Bogdanka Group 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 Parent 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

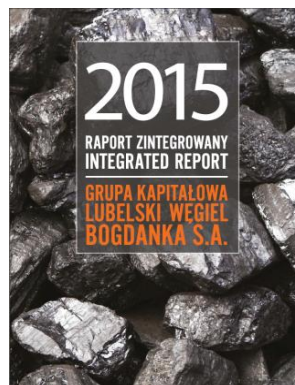
The LW Bogdanka S.A.'s CSR activities are implemented in accordance with the recommendations of the standard PN-ISO 26000, developed by the International Organisation for Standardisation in 2010, which is a guide for organisations in terms of the application of the principles of social and environmental responsibility.



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, the LW Bogdanka Group 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 Group is one of the leaders in the area of non-financial reporting, which is also evidenced by the fact that it 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 the LW Bogdanka Group is based on policies and procedures such as: LW Bogdanka Group Corporate Risk Management Policy, Group Corporate Risk Management Model – ERM Procedures, LW Bogdanka Group Risk Register, LW Bogdanka Group Risk Map, List of Strategic Risks of the LW BOGDANKA Group, and Programs of Strategic Risk Mitigating Measures at the Parent.

- 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.

## Cooperation of the Group with representatives of the employees and local community

### Trade Unions



In the coal mining sector, trade unions hold a significant position and play an important role in determining staff and payroll policy. As at the day of submitting this Report, six trade union organisations operate at the LW Bogdanka Group, associating approx. 65.6% of the Group's employees (at the Parent there are four trade union organisations associating 72.1% of staff).

Cooperation of the Management Board of the BOGDANKA Group 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 the Parent; 27 meetings of the Social Benefits Commission composed of representatives of LW Bogdanka S.A. 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 Group.

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

The Group 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 Group. 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  
POLSKĄ**

lider teleopieki kardiologicznej

Num. Obsługi Klienta - 33 376 14 05  
w dni powszednie w godz. 8.00 - 16.00

Kardiologia Centrum Monitoringu Kardiologicznego  
telemedycyny polskiej  
tel. 33 376 18 00 całonocowo, we wszystkich dniach roku

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Usługa Kardiotele polega na całodobowej /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.

Opiłaty 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.**






**TELEMEDYCYNĄ  
POLSKĄ**



## Cooperation of the Group 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, the Parent, in cooperation with the Polish Society for the Protection of Birds (OTOP), has promoted the new "Nadrybie" educational path. It 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, the LW Bogdanka Group 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 Group also sponsors sporting and cultural activity. In 2016 the Parent 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 Group'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.

The LW Bogdanka Group 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 Group'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.



### Cooperation of the Group 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)



#### 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 the LW Bogdanka Group once again took part in that project.



Vision of Sustainable Development for Polish Business (Vision 2050)



School of Underground Exploitation

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



The LW Bogdanka Group 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.

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)



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.



Civic Shareholding. Invest Consciously

LW Bogdanka – Investor Friendly Company



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





## 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



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### SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Krzysztof Szlaga	President of the Management Board
Stanisław Misterek	Vice-President of the Management Board, Economic and Financial Affairs
Adam Partyka	Vice-President of the Management Board, Employee and Social Affairs
Sławomir Karlikowski 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!**