



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

for the first half of 2017

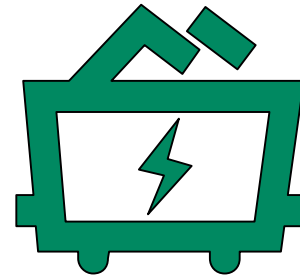


Bogdanka, 7 September 2017



**14.4%**

Share in the hard coal market in Poland



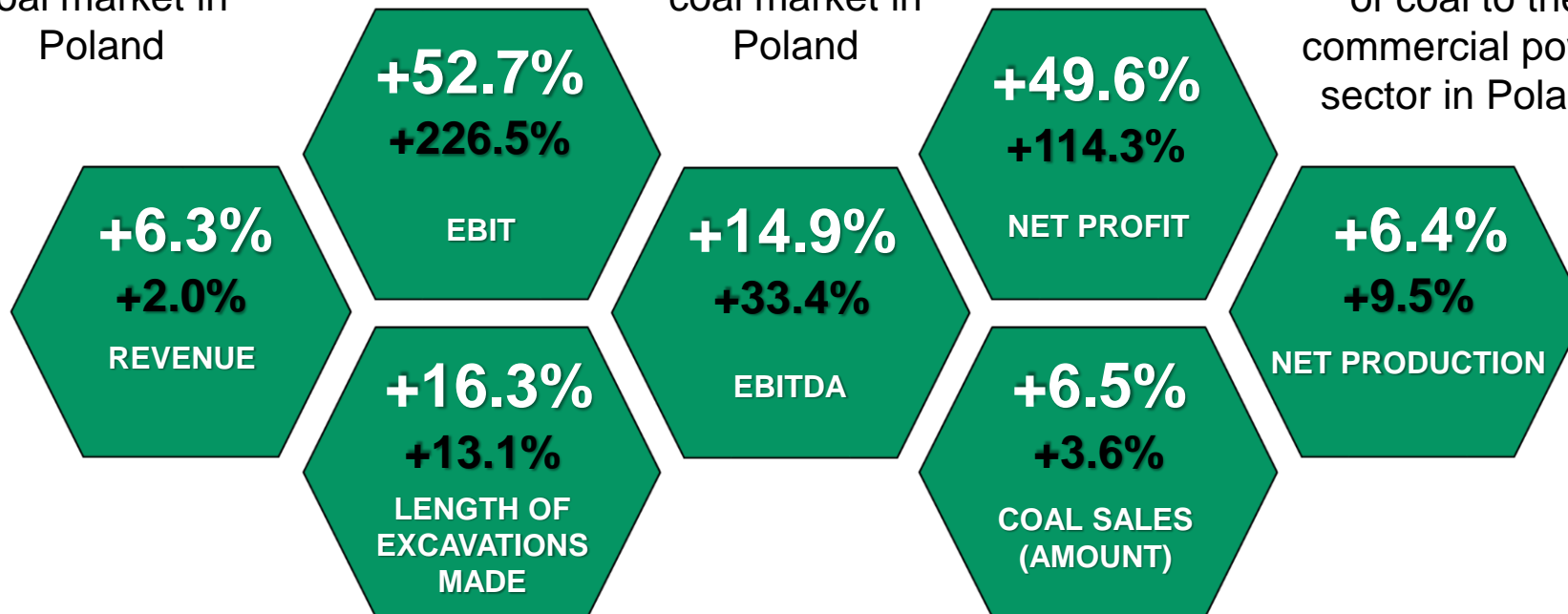
**18.0%**

Share in the thermal coal market in Poland



**26.2%**

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



□ Change H1 2017/H1 2016

■ Change Q2 2017/Q2 2016



# 1. Summary of operational activities



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The LW Bogdanka Group achieved good financial and operating results, because it was able to ensure the optimal use of its production capacity on the difficult market in H1 2017 and a systematic cost control.

In H1 2017 the LW Bogdanka Group generated:

- net revenue of **PLN 902.1 million** – increase by **6.3% y/y**
- EBITDA of **PLN 318.6 million** – increase by **14.9% y/y**
- net profit of **PLN 112.1 million** – increase by **49.6% y/y**

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

<ul style="list-style-type: none"> <li>• high production (+6.4%) and sales (+6.5%) of coal in H1 2017</li> <li>• high output (67.5%) in H1 2017</li> <li>• increase in prices of thermal coal on the market</li> </ul>	<ul style="list-style-type: none"> <li>• low level of inventories</li> </ul>

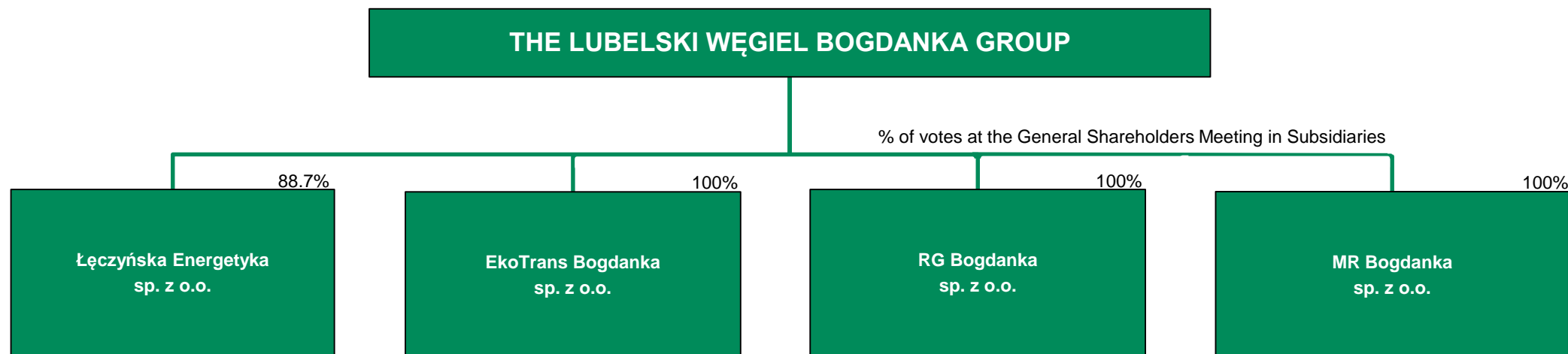
The Parent was consistently pursuing its cost optimisation policy, which in H1 2017 allowed it to reduce costs by type **by more than PLN 8 million** in comparison to H1 2016, with production going up by 6.4% y/y.

The LW Bogdanka Group improved **the ratio of net debt/EBITDA by 50%** (compared to the end of 2016) from the level of **0.14 to the level of 0.07**, which is related to a significant improvement of the Company's cash situation and the optimisation of capital expenditure.

In the previous half of the year in comparison to the same period of 2016, the Group increased the extraction of thermal coal **to 4.6 million tonnes of coal**. This level is related to the production plan for 2017 and means a quantitative increase by 6.4% y/y.



## **2. Organisation and business activities of the LW Bogdanka Group**



Company name	Parent's share in the share capital		Share capital	Main activity
	31 Mar. 2017	30 Jun. 2017 and 7 Sep. 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 Parent 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 the structure of the LW Bogdanka Group

In H1 2017 there were no changes in the structure of the LW Bogdanka Group or the Group's organisational and capital relations to other entities. In the period in question there were no changes to the structure of the LW Bogdanka Group that would result from merger of business entities, acquisition or sale of the Group's undertakings, long-term investments, division, restructuring or discontinuation of activities.



## Basic information and key events in H1 2017

### Lubelski Węgiel Bogdanka Spółka Akcyjna

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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 2016, item 1578, as amended)
- Act of 9 June 2011 – Geological and Mining Law (Dz. U. [Journal of Laws] of 2016, item 1131, 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.

### Key events in the first half of 2017 and events until the publication date

#### Q1 2017

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

On 30 January 2017, the Parent was informed that the TFI PZU investment funds increased their share in the total vote at the Parent'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, appointed by the General Shareholders Meeting, 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 Programme 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 from the initial date - 30 June to 30 March 2017, and on that day the bonds were redeemed.

### Agreement on salary levels in 2017

On 28 March 2017, the Parent's Management Board entered into an agreement with the representatives of all trade union organisations, regarding an increase in salaries at LW Bogdanka S.A. The agreement provides for an increase in an average salary in 2017 by 2.0% in relation to salary of the previous year on condition that the adopted production plan is fulfilled.

### Q2 2017 and events until the publication date Annual General Shareholders Meeting of LW Bogdanka S.A. of 26 June 2017

The Annual General Shareholders Meeting of LW Bogdanka S.A. adopted a resolution pursuant to which the net profit generated by the Parent in 2016 in the amount of PLN 175,896,313.75 was distributed as follows:

- the amount of PLN 34,013,590.00 – to a dividend, i.e. PLN 1.00 per share

- the remainder, i.e. PLN 141,882,723.75 – to the Company's reserve capital.

The Annual General Shareholders Meeting of LW Bogdanka S.A. also set the following dates:

- dividend date – to 13 July 2017
- dividend payment date – to 2 August 2017.

The dividend is in line with the dividend policy as announced by the Company in the Development Strategy of LW Bogdanka S.A. Mining Area of the Enea Group until 2025 (under the 2030 framework).

The Annual General Shareholders Meeting also adopted a new Enea Group Code.

All persons representing LW Bogdanka S.A. (Management Board and Supervisory Board Members) in 2016 were granted discharge in respect of their duties.

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

On 14 July 2017 the Company received a Court's decision regarding amendments to the Company's Articles of Association, adopted by virtue of a Resolution No. 28 of the Annual General Shareholders Meeting of LW Bogdanka S.A. of 26 June 2017. The amendments related to the possibility to appoint one member of the Supervisory Board by the State Treasury represented by the Minister of Energy.

### DECREASE IN SHAREHOLDING BY TFI PZU S.A.

On 29 August 2017, the Company was informed by Towarzystwo Funduszy Inwestycyjnych PZU S.A. that the TFI PZU S.A. investment funds decreased their share in the total vote at the Company's General Shareholders Meeting below 10%. In relation to the above information, on 23 August 2017, TFI PZU S.A. held 3,320,620 shares in the Company, representing 9.8% of share in the Company's share capital.

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

On 29 August 2017 the Company received from Mr Wiesław Piosik a statement of resignation from the position of the Member of the Supervisory Board with effect from 25 August 2017. Mr Wiesław Piosik did not state the reasons for his resignation.



## Development Strategy of the Parent

### Development strategy of LW Bogdanka S.A.

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) at a level of 10.9%
- return on assets (ROA) at a level of 8.5%
- and an increase in nominal EBITDA by 44.0% (compared to 2015 value adjusted by the impairment loss).

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.

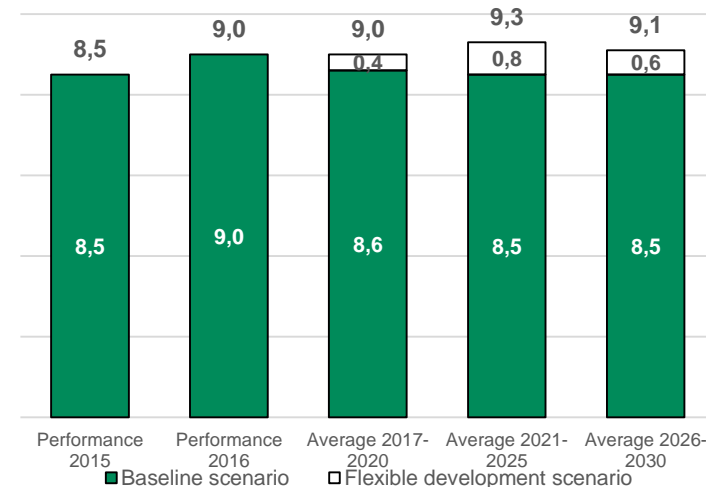
### During the implementation of the Strategy, the Management Board will focus on the key areas of operations of the Parent, which include:

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 by 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 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.



## Tasks completed in H1 2017

The plan for the first half of 2017 included the following task groups:

- building new excavations and modernisation of the existing ones in the Bogdanka, Nadrybie and Stefanów Fields
- maintenance of machinery, including the purchase of machines and equipment and repair and upgrade of machines
- obtaining new licences
- other development investments: ICT, administration, transport etc.

### Maintenance of machinery

**Upgrades and repairs of machines and equipment** – the amount of PLN 4,584,000 was assigned for the renovation of wall conveyor.

**Purchases of machines and devices subject to assembly** – PLN 5,357,000 was spent for a purchase and assembly of a main conveyor 1600.

**Acquisition of new licenses** – the Parent is attempting to obtain mining licences for Ostrów area.

### Other development investments

**Development of the mining waste treatment facility in Bogdanka** – PLN 294,000 was assigned, inter alia, for the purchase of land; an agreement for construction and assembly works was signed - development Stage I, part 2.

**MCPP replacement projects** – the project includes modernisation of steel structures, modernisation of stone loading unit and adjustment of bridge 207.2.

### ICT

**Alarm and monitoring systems** – PLN 867,000 was spent to underground fire network monitoring. Tasks pursued as part of the following projects: the “Integrated Production Management System” and the “Smart Solutions Mine” are continued.

### Transport

**Expenditure for purchases of vehicles** – renewal of car fleet.

### Other

**Construction of facilities** – PLN 1,000,000 was spent for the construction of a tower crane.



Capital expenditure incurred by LW Bogdanka for excavations in H1 2017

Excavations and works - total	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 excavations:	natural	9,580	33,046	158.037	124.991
Basic excavations	linear	3,940			
Reconstructions	linear / natural	638			

Over the period of H1 2017, 14,964 m of roadway excavations were made. Fractions are not included in the values indicated in the tables, because they are directly recognised in the costs. However, fractions are included in the total length. In this case, this is about 806 m.

Reconstruction of excavations was performed in accordance with the adopted schedules. The total expenditure on reconstruction of the corridor workings in that period amounted to PLN 15,783,000. The total expenditure incurred on the new excavations and on the modernization of the existing ones amounts to PLN 109,208,000.

Selected capital expenditure in the LW Bogdanka Group

[PLN '000]	PTE 2017	Performed H1 2017	Performed H1 2017 [%]
New excavations and upgrades of existing ones	289,659	124,991	43.2%
Maintenance of machinery	40,243	9,941	24.7%
Obtaining new licences	18,660	1	0.0%
Other development investments	11,614	1,119	9.6%
ICT	8,686	1,069	12.3%
Administration	20	17	85.0%
Transport	489	353	72.2%
Other	7,860	1,078	13.7%
<b>TOTAL CAPEX in LW Bogdanka S.A.</b>	<b>377,231</b>	<b>138,569</b>	<b>36.7%</b>
Łęczyńska Energetyka sp. z o.o.	8,371	860	10.3%
Other subsidiaries	-	172	-
<b>TOTAL CAPEX AT THE LW BOGDANKA GROUP</b>	<b>385,602</b>	<b>139,601</b>	<b>36.2%</b>

The above amount of capital expenditure includes capitalised borrowing costs of PLN 2,023,000.



### Trade agreements and transactions with related entities

#### Trade agreements

The Parent has no information about significant agreements concluded in 2017 between the shareholders. No agreements significant for the Group's operations were signed by the LW Bogdanka Group in H1 2017.

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

#### Transactions with related entities

In H1 2017 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 2017 entered into between LW Bogdanka S.A. and its Subsidiaries.



Agreements between LW Bogdanka S.A. and Łęczyńska Energetyka sp. z o.o.	Agreements between LW Bogdanka S.A. and RG Bogdanka sp. z o.o.	Agreements between LW Bogdanka S.A. and MR Bogdanka sp. z o.o.	Agreements between LW Bogdanka S.A. and EKOTRANS Bogdanka sp. z o.o.
<ul style="list-style-type: none"> <li>heat energy supplies</li> <li>water supplies and disposal of sewage, maintenance services of central heating, usable warm water and technological heat system devices</li> <li>sale of thermal coal and electrical power</li> <li>lease, rental and lending for use</li> <li>heating of inlet air on shaft 2.2 service and maintenance supervision</li> <li>rental of premises from Łęczyńska Energetyka for PSG and POS departments</li> <li>weighing service</li> <li>cold water supplies and waste water disposal from buildings in Zawadów</li> <li>service and maintenance of wastewater pump station, sewage disposal installation and network</li> </ul>	<ul style="list-style-type: none"> <li>performance of mining works and provision of services in the LW Bogdanka S.A. mine on business days, Saturdays and holidays</li> <li>providing explosion works</li> <li>lease, rental and lending for use</li> <li>auxiliary works, haulage services</li> <li>provision of higher-rank mining supervision services in the mining facility</li> <li>provision of telecommunication and Internet access services</li> </ul>	<ul style="list-style-type: none"> <li>delivery of elements of steel structures of adventitious equipment</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>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>repairs of transport units</li> <li>lease, rent, and lending for use</li> <li>provision of telecommunication and Internet access services</li> <li>weighing service</li> <li>performance of works on Saturdays, Sundays and holidays</li> <li>provision of higher-rank supervision services</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> <li>rental of office space in a multi-functional building</li> <li>use of subscription</li> </ul>

In 2016, LW Bogdanka S.A. entered into a power purchase agreement with Enea S.A., which became the Parent as a consequence of acquiring the majority of shares in LW Bogdanka S.A. For more information about agreements with the Enea Group and companies controlled by the State Treasury see Note 25 of the Financial Statements of the LW Bogdanka Group for H1 2017.



**Decline in thermal coal prices**

**Situation on the international market**

**Europe**

- The average coal price (CIF ARA) in Q2 2017, was approx. USD 77 /tonne, i.e. +57.1% vs. Q2 2016 (USD 49 /tonne) and +28.3% vs. 2016 (USD 60 /tonne).
- As at the end of July, inventories of coal in ARA ports was 4.6 millions of tonnes and was lower by approx. 1.3 million tonnes (-22%) compared to April 2017.

**China**

- In H1 2017 mines of total volume of 111 million tonnes were closed (which was a 74% completion of production exclusions planned for 2017). Concurrently, mining in newly opened mines was increased by approx. 90 million tonnes. Plans for H2 2017 assume opening of new mines producing additional 250 million tonnes (according to plans, new production capacities will outperform the closed mines by approx. 200 million tonnes).
- Coal production in Q1 2017 was approx. 891 million tonnes; this represents an increase of approx. 10% over Q1 2017.
- In H1 2017 a total of approx. 1.700 million tonnes of coal were produced, which means +5% compared to H1 2016.
- Main reasons for such increase in production included high temperatures in China, lower production of electricity by water power plants as well as increasing the number of working days in mines (y/y by as many as 54 days, 330 days in 2017 compared to 276 days in 2016).

**Columbia**

- In Q2 2017 Columbia exported approx. 20.6 million tonnes of coal, which represents a drop of -6% over Q1 2017.
- In H1 2017 approx. 42.6 million tonnes of coal were exported, which means +1.3% compared to H1 2016.

**Situation on the domestic market**

- In Q2 2017, the average price of fine thermal coal for commercial power plants was PLN 9.10 per GJ, and comparing to Q1 2017 the price increased by approx. 1.9%.
- Comparing Q2 2017 to Q2 2016, average prices grew by approx. 2.1%.
- Average heating value of fine coal for commercial power plants was about 21.3 GJ /tonne.
- Price of fine coal for commercial power plants declined by about 12.8% between January 2014 and June 2017.
- In Q2 2017, the average price quoted by the PCSMI 1 index was approx. PLN 9.12 per GJ, i.e. +2.4% comparing to Q1 2017 and +2.9% comparing to Q2 2016.



sources: Argus Media, Argus Coal Daily International, www.bloomberg.com, www.theguardian.com, ARP, ARE



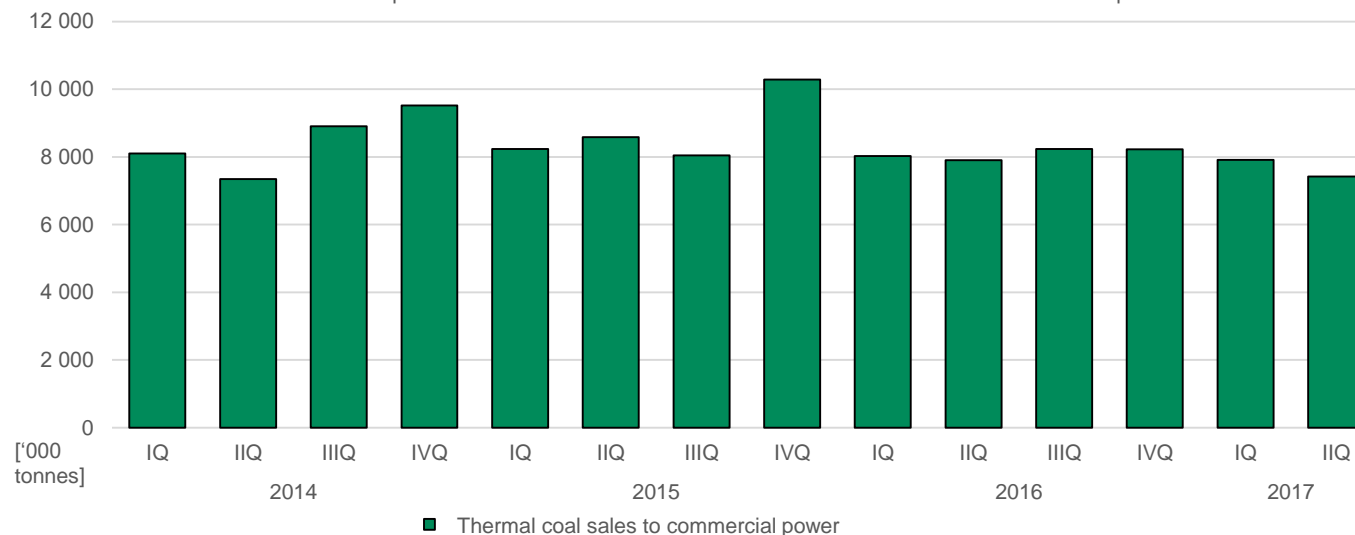
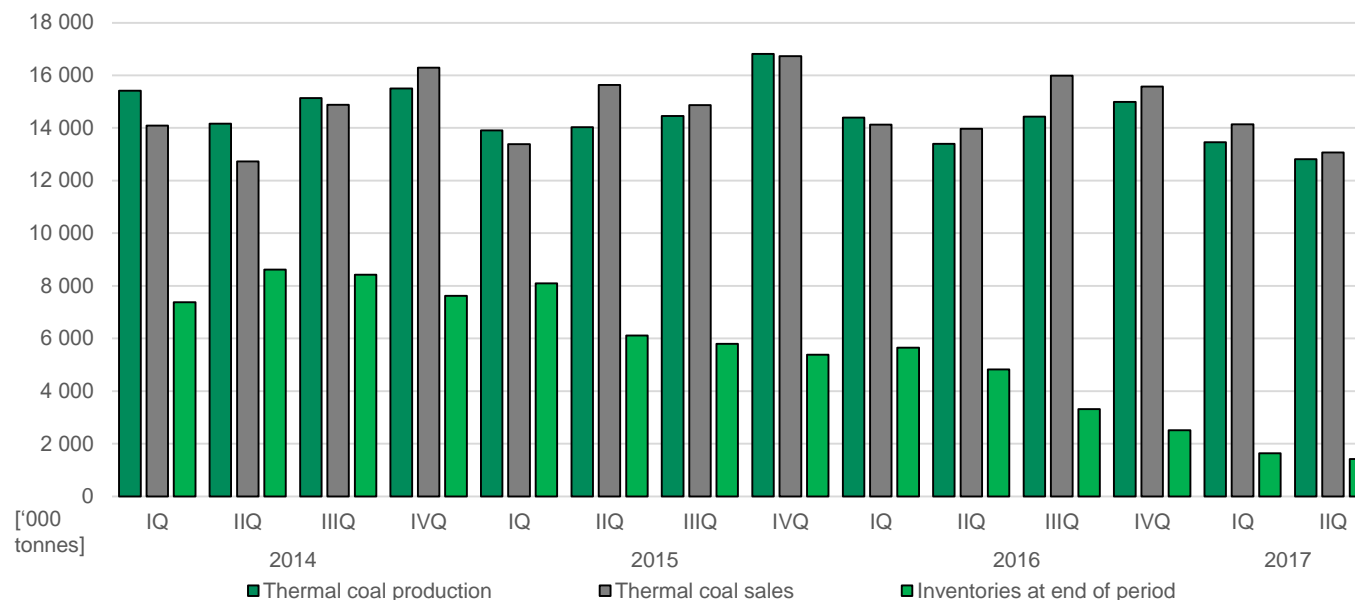
**Production, sales and inventories of thermal coal at the end of H1 2017 in the domestic market**

**Situation in Poland:**

- Thermal coal production in Q2 2017 was 12.8 million tonnes – a decrease by 4.3% (13.4 million tonnes) compared to the same period of 2016.
- Thermal coal sales in Q2 2017 were 13.1 million tonnes – an increase by 6.4% (14.0 million tonnes) compared to the same period of 2016.
- Inventories of thermal coal sales as at the end of June 2017 were 1.4 million tonnes, which in comparison to Q2 2016 represents a decrease by 70.5% (4.8 million tonnes).
- Exports of thermal coal sales in Q2 2017 amounted to 1.0 million tonnes and were lower by 11.1% (0.9 million tonnes) compared to the same period of 2016.
- Imports of thermal coal in Q2 2017(1.7 milion tonnes) were higher by 21.4% (1.4 million tonnes) compared to Q2 2016.

**Commercial Power Plants are the main recipients of thermal coal in Poland:**

- In Q2 2017, about 7.4 million tonnes were sold to commercial power plants.
- This is about 0.5 million tonnes less than in the same period of 2016 (down by approx. 6,1%).



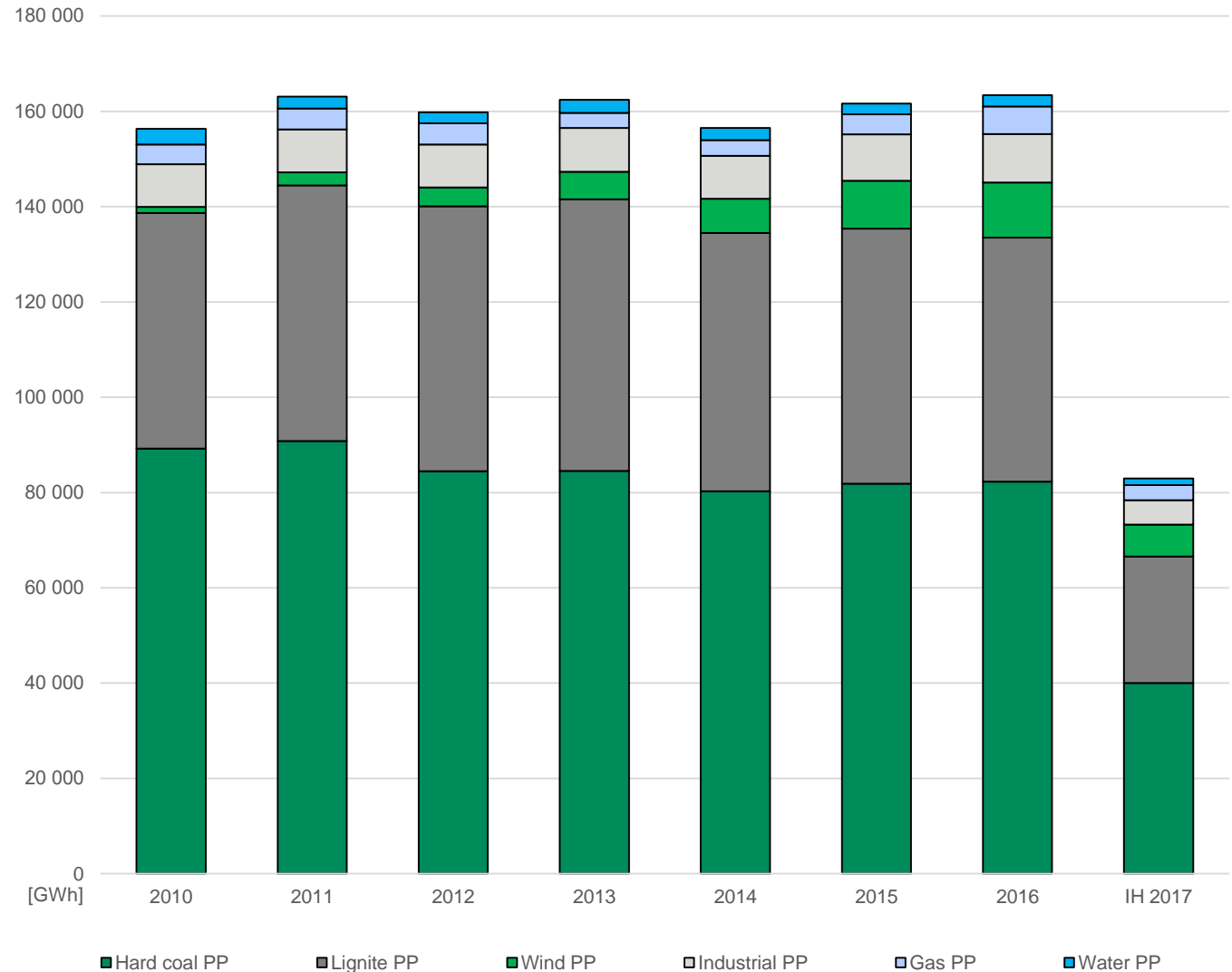
sources: ARP, ARE, www.pse.pl, www.tge.pl, Company



**Electricity generation in Poland**

**Electricity generation in Poland**

- In Q2 2017, electricity generation totalled about 38,682 GWh, which represents an increase of 1,075 GWh compared to the same period of 2016.
- In cumulative terms, since the beginning of 2017, 937 GWh have been produced, which in comparison with the same period 2016, represents a growth of 2,378 GWh (+3.0%).
- Hard coal was used to generate about 18,379 GWh, i.e. nearly 47.5% of total electricity output in Poland.
- In Q2 2017, hard coal was used to produce about 3.6% less electricity than in Q2 2016.



sources: ARP, ARE, [www.pse.pl](http://www.pse.pl), [www.tge.pl](http://www.tge.pl), Company

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

### Risk management

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

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

Systems in place:

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

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

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

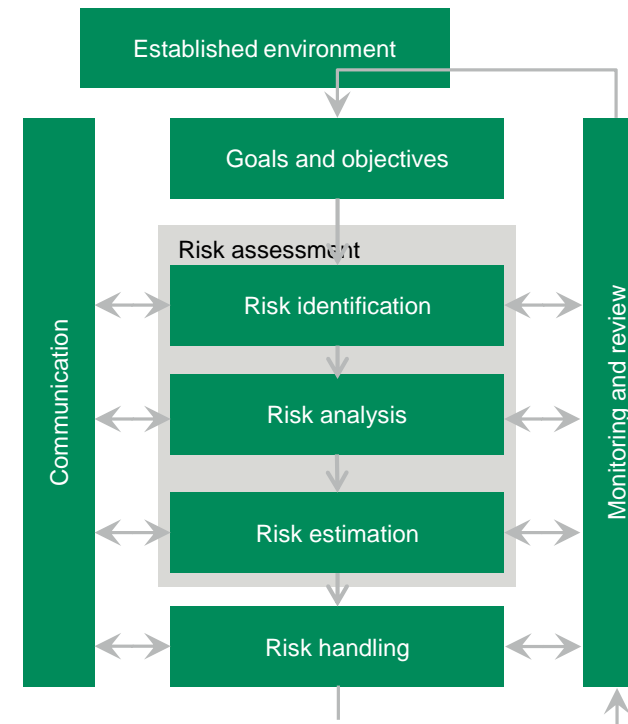
An important role in the risk management system of the Company is played by the Enterprise Risk Management Committee appointed by the Management Board, which has its own specific competences at every stage of ERM. Its functions involve accepting and issuing opinions on identified risks and measures aimed at reducing those risks.

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

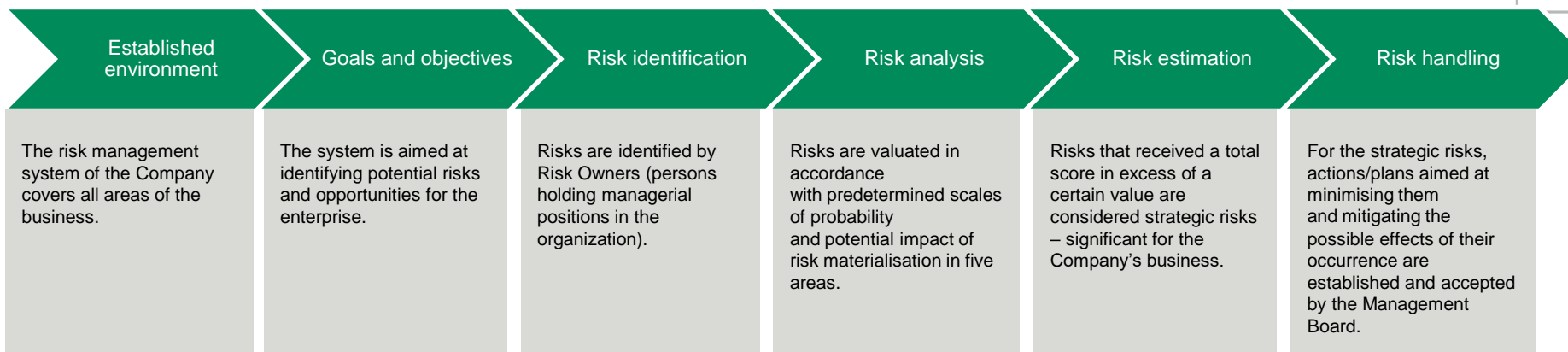
In subsequent periods, the system will be further adapted to the needs of the Company with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

The risk management system involves the participation of:

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



### Risk management process





### Main risks to the Group by category

#### RISK FACTORS

##### BUSINESS ENVIRONMENT AND MARKET

- Risk associated with the social and economic situation in Poland and the world
- Risk associated with the economic policy of the State in relation to the hard coal mining sector
- Risk associated with the levels of prices for raw materials for power production in Poland and the world
- Risk associated with the imposition of coal excise tax
- Interest rate risk
- Risk connected with exchange rates
- Risk associated with the impact of current macroeconomic situation on debt financing availability
- Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events
- Risk of restrictive EU climate policy also with respect to the CO2 emissions
- Risk of a decrease in demand for hard coal from the Polish power industry

##### OPERATIONAL

- Risk associated with the launch of extraction of new deposits at LW Bogdanka S.A.
- Technical and technological risk
- Risk associated with high costs of technologies applied by the Group
- Risk of IT systems malfunctioning
- Key customer risk
- Risk of difficulties in supplies performed through rail transport
- Customer insolvency risk
- Risk associated with the strong position of the trade unions in the Group
- Risk associated with retaining and attracting human resources for the LW Bogdanka Group
- Key supplier risk
- Risk of unfavourable/inappropriate contractual terms being concluded
- Risk of price fixing by the suppliers

##### FINANCIAL

- Liquidity risk
- Insurance risk

##### ENVIRONMENTAL PROTECTION

- Risk associated with reclamation and mining damage
- Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment
- Risk associated with management of waste generated after extension of the mining area
- Investment risks associated with protected areas

##### LEGAL

- Risk of change to tax laws
- Risk of real property tax on mining excavations of LW Bogdanka S.A.
- Risk associated with expenses for creating certain mining excavations and their classification for the purposes of corporate income tax
- Risk of a change in the law and its interpretation and application
- Risk of violating the stock exchange disclosure requirements

## 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 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. On 1 April 2017, the process of acquisition of the Katowicki Holding Węglowy's production assets by Polska Grupa Górnicza [Polish Mining Group] was finalised, which resulted in establishing the largest, on an European scale, hard coal enterprise. The target amount of coal to be produced by PGG is 34 million tonnes. Establishing one big entity combining former mines, i.e. KW and KHW, as well as the situation and infrastructure of its mines, entail uncertainty as to reaching the planned level of thermal coal production in Poland. Restructuring processes will shape the coal market, including the situation of the LW BOGDANKA Group.

Countermeasures: monitoring the process of implementing the restructuring plan for the hard coal sector in Poland.



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

The levels of prices of raw materials for power production are mainly affected by thermal coal prices 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.

The beginning of 2016 saw increases in thermal coal in the international market, followed by – since the beginning of 2017 – increases in thermal coal in the Polish market; however average prices of thermal coal in Poland are still far from high levels recorded before the falls occurring in 2013–2016.

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 LW Bogdanka S.A. sells most of its coal volumes for electrical power generation purposes.

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



### Interest rate risk

LW Bogdanka S.A. 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 its financial results).

The risk may potentially increase if the share of debt financing continues to grow, in particular given an adverse EU sentiment to coal market (higher bank margins). Countermeasures: monitoring and repayment 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. This risk may also occur when coal is exported abroad.

Countermeasures: entering into forward transactions and prepayment agreements.



### 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. For more information refer to page 39 of the Report.

The Group's current interest-bearing debt (loan and the issued bonds of the total value of PLN 321,760,000) as at 30 June 2017 accounted for 13.7% of its equity and 9.0% of the balance-sheet total.

Countermeasures: monitoring of loan agreements and the bond issue programme, monitoring of the financial market.







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, 80% 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 making decisions on 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 trend of falling demand for thermal fine coal, which has been present in the market for a certain time finally stopped in mid-2016 and a reverse trend can be observed now. The policy of the Minister of Energy towards coal mining sector, lower pressure on the renewable energy sources and reduced mining in the Silesian mines are factors which are favourable for the development of demand on the domestic market from the part of the Polish energy sector. A positive influence on the reduction of demand-related risk is also exerted by higher demand for coal on the part of international markets, e.g. Ukraine. Furthermore, the risk for the Company has been significantly reduced due to the functioning within the Enea Group and by contracting most of the production at least 5 years.

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



## Risks directly associated with the Group's operations

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

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

Restriction of the mining capacity may bring the following consequences:

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

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

Countermeasures: further steps to obtain exploration licence for the "Ostrów" area (an application for the exploration licence was filed at the Ministry of Environment in July this year) and further steps to obtain mining licences for the K-6-7 area.



### Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). In this group of risks, there is also a risk of unexpected, usually local, deterioration of the quality of the deposit.

Countermeasures:

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



### Risk associated with high costs of technologies applied by the Group

The technology of thermal coal extraction involves the use of highly specialised machines and equipment. In order to ensure continuity of production, 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. 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. In March 2017, in another area of the mine (field IV) a new mining wall was launched - in a new seam 389, located at a deeper level than the main seam 385, but slightly higher than seam 391.

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 Enea Group companies and to a relatively small group of large contracting parties.

The risk of losing key customers has been significantly mitigated thanks to synergies worked out within the Enea Group and the conclusion in 2016 of long-term agreements with key customers ensuring purchases for at least 5 years. The Company also continues its efforts to attract new customers and expands its sales market outside Poland. Currently the Company's situation (functioning within a fuel and energy group) as well as the demand-supply situation in the Polish coal market guarantees a relatively high certainty as to the sales of thermal coal produced by the Group. Reduced production in the Silesian mines and equity links among the majority of coal producers and their customers, significantly lowered the risk of a strong price and volume competition on part of domestic producers.



### Risk of difficulties in supplies performed through rail transport

To date, the Company has performed a majority of its coal supplies through electrified railway No. 7, which is the best manner of supplies to its key customers. Since mid-2017 a comprehensive modernisation of railway line No. 7 (sections Lublin – Puławy and Dęblin – Pilawa) has been underway and is scheduled for completion at the end of 2018; therefore the recipients of the Company's coal will be forced to use alternative railway routes. While line No. 7 is closed, the rail transport will be directed mainly via Lublin – Łuków (line No. 30) and Rejowiec – Zwierzyniec – Stalowa Wola (lines Nos. 66 and 69). The change of the routes and the necessity to use diesel rail vehicles for the transport will result in lengthening the delivery times thus adversely affecting the logistics processes. Possible transport delays may indirectly affect the Company's financial result.

Countermeasures: monitoring of works performed on line No. 7, permanent cooperation with carriers, customers of coal and the manager of railway infrastructure for the purpose of optimal use of alternative railways.



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 June 2017, trade debtors and other current accounts receivable of the Group accounted for 9.9% of the carrying value and 39.2% 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 64.1% of the Group's employees (there are four trade union organisations at LW Bogdanka associating 71.9% 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 the Group

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

Countermeasures: building generations continuity, implementation of the generation change programme.



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





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.

In the case of the Group, cash at hand as at 30 June 2017 amounted to PLN 275,269,000. The current liquidity ratio for the Group is 1.36, and quick liquidity ratio is 1.24. In H1 2017, net flows from operating activities generated by LW Bogdanka S.A. stood at a level of PLN 198,466,000 with investment outlays of PLN -158,873,000.

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 39 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. The Parent is conducting works connected with increasing the height of the existing yard (to 250 MASL), and continues 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 and developing the height of the existing mining waste utilisation facility. Such course of action will make it possible to continue the work on acquiring new land to execute the next phases of extension of the yard. Following the purchase of a plot of land adjacent to the mining waste treatment facility the Parent, as part of development activities, started works related to placing waste. The Company obtained a permit for facility development regarding plot no. 289/6 with an area of 6.80 ha.



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. Frequent amendments to tax regulations and rigorous and stringent provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

Countermeasures:

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



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

In accordance with 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 H1 2017 fiscal proceedings were pending against the Parent in order to determine the amount of real property tax due for the period between 2004 and 2015, instigated by the Heads of Puchaczów, Cyców and Ludwin Communes.

Countermeasures:

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



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



### Risk 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. The created pits are recorded in the accounting books as non-current assets or directly as operating costs and the point when such costs are incurred. The pits comprising a fixed underground mine infrastructure are classified by the Company as non-current assets.

While the exploitation and movement excavations are classified as operating costs at the time when such costs are incurred - cost excavations. Some of the cost excavations were performed earlier than 1 year ago. In the light of the current tax laws, one cannot exclude a possibility of other qualification of this type of costs for the purposes of corporate persons income tax than the one performed by the Company, which could potentially mean decreasing the cost base for tax purposes in past and current settlements of the income tax and a potential payment of additional amounts of the tax.

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



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

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

negatively affect the Group's bottom line and development prospects.

Countermeasures: using the services of legal advisors and consulting companies, and seeking opinions of various bodies specialising in a given subject matter. Where applicable, the 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.





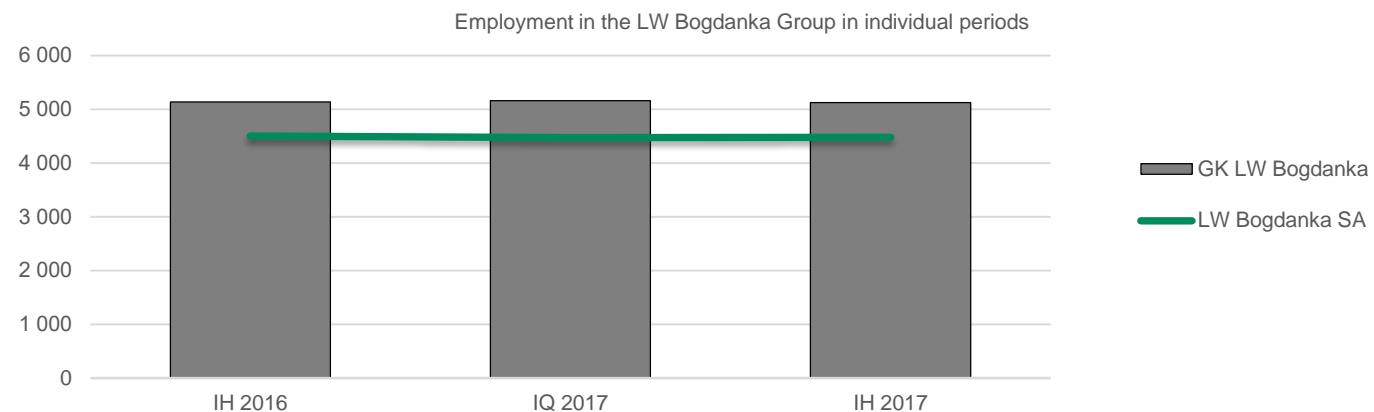
Workforce changes

Workforce at the Group

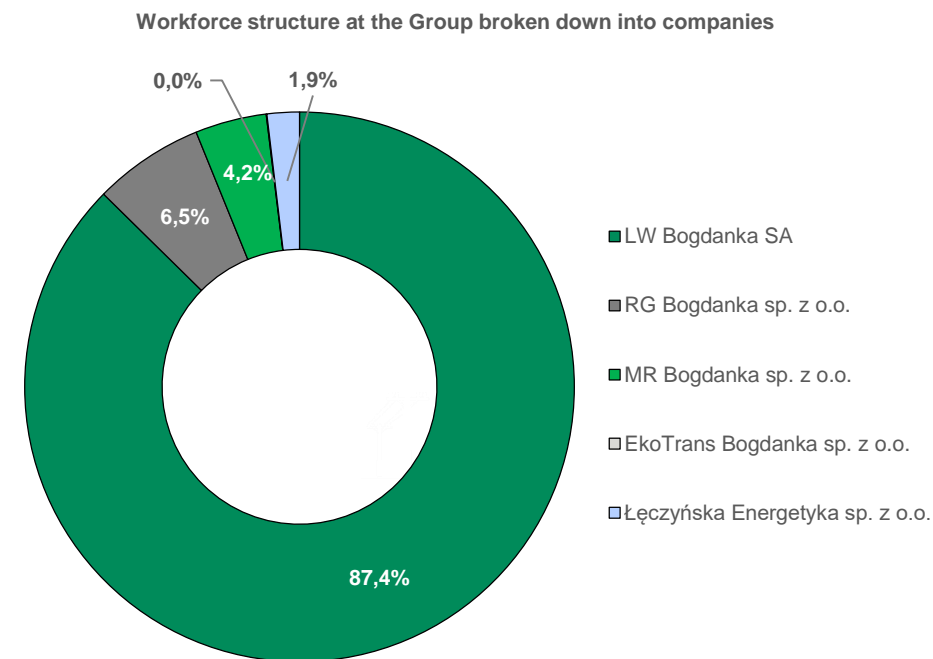
The Group's headcount in H1 2017 decreased by nearly 15 people, i.e. by 0.3% versus the end of H1 2016. Comparing the workforce in Q2 2017, comparing to the level of employment at the end of Q1 2017, it decreased by 34 people, i.e. by 0.7%. The turnover in employment primarily results from natural process of personnel retiring and the necessity to adjust the manpower to the current production needs of the Group.

Workforce of the Parent

In H1 2017, 119 employees were hired to LW BOGDANKA S.A., while 104 employees left the Company.



EMPLOYMENT	30 Jun. 2016	31 Mar. 2017	30 Jun. 2017	Workforce structure at the Group	Change H1 2017/ H1 2016	Change H1 2017/ Q1 2017
<b>Workforce at the Group calculated per full-time employees</b>						
Total workers	3,885.0	3,845.0	3,847.0	-	-1.0%	0.1%
Underground workers	2,942.0	2,898.0	2,905.0	-	-1.3%	0.2%
Surface workers	943.0	947.0	942.0	-	-0.1%	-0.5%
Full-time employees underground	307.0	310.0	313.0	-	2.0%	1.0%
Full-time employees on the surface	307.6	315.6	316.6	-	2.9%	0.3%
Total underground	3,249.0	3,208.0	3,218.0	-	-1.0%	0.3%
<b>LW Bogdanka S.A.</b>	<b>4,499.6</b>	<b>4,470.6</b>	<b>4,476.6</b>	<b>87.4%</b>	<b>-0.5%</b>	<b>0.1%</b>
RG Bogdanka Sp. z o.o.	318.0	350.0	332.0	6.5%	4.4%	-5.1%
MR Bogdanka sp. z o.o.	218.0	235.3	216.6	4.2%	-0.6%	-7.9%
EkoTrans Bogdanka sp. z o.o.	2.0	2.0	2.0	-	-	-
Łęczyńska Energetyka sp. z o.o.	100.5	99.5	96.5	1.9%	-4.0%	-3.0%
<b>LW Bogdanka Group</b>	<b>5,138.1</b>	<b>5,157.4</b>	<b>5,123.7</b>	<b>100.0%</b>	<b>-0.3%</b>	<b>-0.7%</b>





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

### 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 Group pursuing its economic objectives in line with the expectations of the society and the requirements of the environment.

The Parent is consistently implementing the "Corporate Social Responsibility Strategy for 2014-2017". In a nutshell, the approach to social responsibility management can be defined as follows: "Safety of workforce, protection of local community and natural environment. Sustainable and foreseeable development and growth in value of the Company". Actions undertaken within the Strategy correspond to the following 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 the local community;
- to follow transparent and responsible management practices.

While implementing CSR projects, LW Bogdanka S.A. is guided by the recommendations of the PN-ISO 26000 standard, which was developed in 2010 by the International Organisation for Standardisation, and constitutes a guide for organizations as to the application of the principles of social and environmental responsibility. ISO 26000 contains Guidance on Social Responsibility, defined as the responsibility of the organization for the impact that its decision and activities have on the society and the environment, through transparent and ethical behaviour in key areas, such as:

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

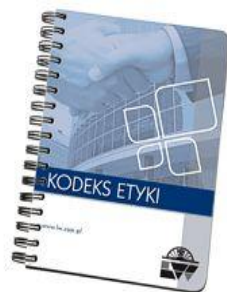


### Management approach

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 Group. Integrated Management System – operational management at the LW Bogdanka Group 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 a 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 existing Code of Ethics, which was for the first time published in 2011, is modified and improved on an ongoing basis in response to the constant monitoring of the Group's situation and its activities. Currently the following documents are in effect: "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. In Q1 2017 a group of employees was subject to a test of understanding of ethical matters and the effectiveness of the Code of Ethics; furthermore, training materials regarding mobbing counteracting were made available to the employees.

### Close to nature



In addition to activities related to meeting legal requirements as regards the protection of natural undertakes other pro-environmental initiatives. Together with the Polish Society for the Protection of Birds (OTOP), it created and manages the "Nadrybie" educational path, outlined around the Nadrybie Reservoir. 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.

The trail was set out on the path with educational boards, a survey of the fauna and flora was conducted and a guide for self-sightseeing was published and made available to the public free of charge.

The inhabitants of the nearby villages use this infrastructure to spend time in the natural environment. Many groups of students from nearby schools visit the educational path in Nadrybie to attend special natural science lessons and extra-curriculum classes.

As a founder and co-organiser (along with the Polish Society for the Protection of Birds (OTOP)) of the Nadrybie educational path, the Bogdanka Group plans to continue the development of its infrastructure and to intensify educational measures carried out within this area. In H1 2017, the Company adopted a work plan assuming a new inventory-taking in the Nadrybie reservoir, supplementation of infrastructure as well as organisation of classes for children run by a guide. Moreover, works have been started on the second edition of the guide to the ecological path.



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

### Relations with the local community

From the very beginning of its existence, the LW Bogdanka Group has been supporting the local community, including a wide range of 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 its efforts to support health and safety, the Group co-financed the purchase of a pulse oximeter for the Children's Research Hospital in Lublin and it supports two MONAR centres located in close vicinity to Bogdanka. The Bogdanka Group is also involved in educational activities related to autism, and has supported the participation of preschool children from Łączna in the celebration of an International Autism Day taking place on the Tadeusz Kościuszko square in Łęczna.

### 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.

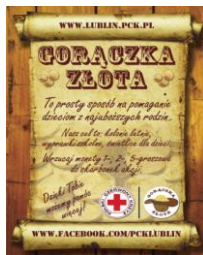
Acting with an aim to fulfil its statutory objectives, the Foundation has financed surgeries, medical procedures, treatment, and rehabilitation, purchase of medical equipment and devices (a wheelchair, equipment for testing vibrations, a defibrillator, a lift for a disabled person, barrier-free environment, etc.) and access-friendly infrastructure (such as bathrooms and barrier-free architecture) for the disabled. During H1 2017, the costs of statutory activities amounted to PLN ok. 120,000.

Additionally, as part of the trilateral Memorandum of Understanding for the promotion of blood donation, the Foundation, jointly with LW BOGDANKA S.A. and the Regional Blood Centre in Lublin organised a blood donation session in Bogdanka.

### Employee volunteering



Positive Twist – a continuing campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In H1 2017 several hundred kilogrammes of plastic bottle caps were collected.



In June 2017, the first edition of the Gold Rush project was completed; the project involves "getting rid" of small coins (1, 2, and 5 grosz) sitting in the wallets.

Participation in the project was the initiative of the mine's Honorary Blood Donors Club. A record-breaking, in the scale of the whole province, amount of coins was collected, i.e. almost 500 kg. The funds will be used to finance holiday trips, after school clubs or for those in care of the Lublin Branch of the Polish Red Cross, etc.

### Other CSR projects and initiatives



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

We share our traditions, knowledge and history with everyone interested. In 2017, approx. 140 students from the Lublin Province have learnt about the occupation of a miner and the work in a mine.



**Joint Social Initiatives Group - Górnictwo O.K.** – is a project 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.

In February 2017, during a special session during the 26th School of Underground Mining, a LW Bogdanka representative talked to the members of the Górnictwo O.K. initiative about Bogdanka's good practice in pursuing the objectives of sustainable development.



**The working group for education and popularisation of the CSR working at the Team for Sustainable Development and Corporate Social Responsibility, a body ancillary to the Minister of Economic Development and Finance** – its purpose is to support small and medium enterprises in the process of carrying out a responsible business.

### Awards and accolades



Award for LW Bogdanka S.A. in the Report of the Responsible Business Forum "Responsible Business in Poland. Good Practice 2016".



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



Recognition for charity activities received from the Children's Research Hospital in Lublin.



LW Bogdanka S.A. was in the group of laureates of the 1st edition of the Transparent Company of the Year ranking. Bogdanka received the title as a company making part of the mWIG40 index.



On 19 April the LW Bogdanka Group's Integrated Report for 2015 was awarded the main prize in the prestigious contest for the Deloitte Central European Sustainability Report Award, commonly referred to as the Green Frog Award (GFA).

### Sustainable development report of the LW BOGDANKA Group for 2016



In July 2017, the LW Bogdanka Group published another sustainable development report. The Integrated Report for 2016 combines both financial and non-financial results. The Report has been developed based on the GRI G4 guidelines, with the use of The International Integrated Reporting Framework.





### 3. Financial standing



Coal production and sales

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

Works are consistently conducted to optimise the mining process (in terms of the technologies employed) and, simultaneously, a cost reduction program is being implemented (decrease of the coal extraction unit cost). All works (including new excavation planning, extraction and sale of commercial coal) take into account existing and future market risks. Works to prepare new excavations for operational exploitation are carried out in such a manner so as to ensure the continuity of extraction. International and domestic 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 up the information, there are no premises indicating possible inability to settle contracted liabilities in future.

On 10 March 2017 the Management Board of the Parent signed an annex to an agreement on the Bond Issue Programme 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 from the initial date - 30 June to 30 March 2017, and on that day the bonds were redeemed.

Production, sale and inventories of coal

In the second quarter of 2017, the production of commercial coal in the Parent increased by 9.5% compared to the same period of 2016 and amounted to 2,136,000 tonnes. In the period from January to June 2017, the production of commercial coal was 4,558,000 tonnes, i.e. it was more by 6.4% than in the same period of 2016.

Production of commercial coal by the Parent.

['000 tonnes]	Q2 2016	Q2 2017	Change	Change %
Production of commercial coal	1,950	2,136	186	9.5%

['000 tonnes]	H1 2016	H1 2017	Change	Change %
Production of commercial coal	4,285	4,558	273	6.4%

Structure of commercial coal production by the Parent

[%]	Q2 2016	Q2 2017	H1 2016	H1 2017
Fine coal	98.8%	98.3%	99.1%	98.3%
Nut coal	0.7%	0.4%	0.4%	0.6%
Pea coal	0.5%	1.3%	0.5%	1.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

In analysed periods the structure of production did not change significantly – thermal fine coal remained the dominant assortment (its share in the production was in the range of approx. 98-99%).

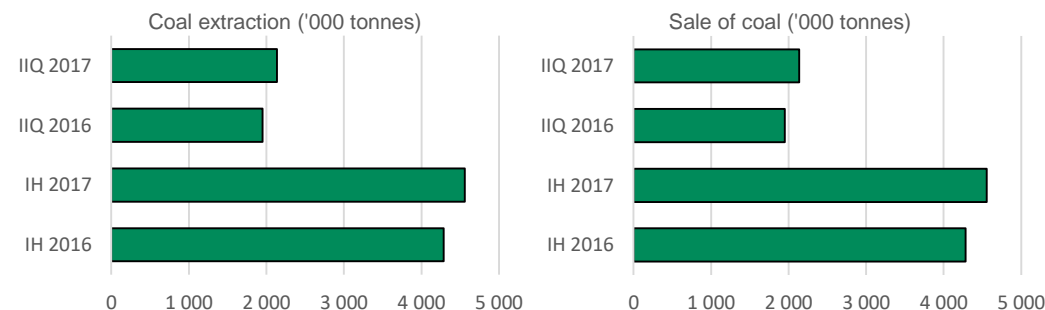
Commercial coal sales at the Parent

['000 tonnes]	Q2 2016	Q2 2017	Change	Change %
Sale of commercial coal	2,195	2,273	78	3.6%

['000 tonnes]	H1 2016	H1 2017	Change	Change %
Sale of commercial coal	4,379	4,662	283	6.5%

In Q2 2017, the sales of coal grew by 3.6% compared to Q2 2016. In the period from January to June 2017, the sales of commercial coal amounted to 4,662,000 tonnes, i.e. they were higher by 6.5% than in the same period of 2016.

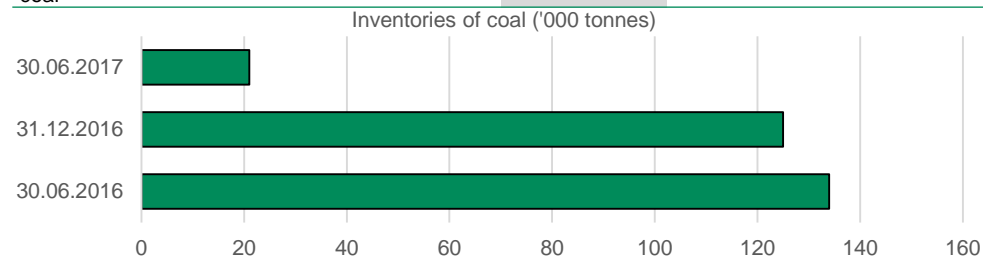


Inventories of coal, revenue and key customers

**Inventories**

As at the end of Q2 2017, the inventories of coal at the Parent amounted to 21,000 tonnes which means a drop by 104,000, i.e. by 83.2%, compared to 31 December 2016. The level of coal inventories as presented for the end of Q2 2017 corresponds to less than 1 day of commercial coal production (on the basis of an average 6-month daily production).

['000 tonnes]	30 Jun. 2016	31 Dec. 2016	30 Jun. 2017	Change [%] 30 Jun. 2017 / 31 Dec. 2016	Change [%] 30 Jun. 2017 / 30 Jun. 2016
Inventories of coal	134	125	21	-83.2%	-84.3%



The information on coal market in Poland is presented in this Report on pages 11-13.

**Revenue and key customers**

In Q2 2017, the LW Bogdanka Group generated revenue in the amount of PLN 436,920,000, which represents an increase by 2.0% compared to Q2 2016. In the first half of the year the Group's revenue was PLN 902,086,000 compared to PLN 848,945,000 in the same period of 2016.

The main source of revenue on sales of the LW Bogdanka Group both in Q2 and in H1 was the production and sale of thermal coal performed by the Parent. In each of the compared reporting periods, this activity generates more than 96% of the Group's revenue.

In the condensed interim consolidated financial statements published by the LW Bogdanka Group, for presentation purposes, data concerning revenue on coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained by the Parent during drilling of excavations. Bearing in mind the above, the values indicated in the consolidated income statement for the period from 1 January to 30 June 2017, revenue were adjusted by PLN 33,046,000, while in the same period of the previous year – by PLN 32,129,000.

Approximately 92% of coal sales (in terms of value) in the period from 1 January 2017 to 30 June 2017 was effected between the Parent and Enea Wytwarzanie sp. z o.o., ENGIE Energia Polska S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty - Zakłady Azotowe Puławy S.A. and EDF Paliwa sp. z o.o. For the first nine months of 2016 the share of the above customers in coal sales stood at a level of approx. 96%. For the analogous period of 2016 the share of the above customers in coal sales stood at a level of approx. 96%.

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q2 2016	Q2 2017	Change	Change %	H1 2016	H1 2017	Change	Change %
Sale of coal	414,632	426,165	11,533	2.8%	819,652	874,994	55,342	6.8%
Other activities	10,602	6,987	-3,615	-34.1%	23,058	20,860	-2,198	-9.5%
Sale of goods and materials	3,142	3,768	626	19.9%	6,235	6,232	-3	0.0%
<b>Total revenue</b>	<b>428,376</b>	<b>436,920</b>	<b>8,544</b>	<b>2.0%</b>	<b>848,945</b>	<b>902,086</b>	<b>53,141</b>	<b>6.3%</b>

In the period from 1 January 2017 to 30 June 2017, income on other operations (which includes the revenue of subsidiaries) amounted to PLN 20,860,000 compared to PLN 23,058,000 in the same period of the previous year. In Q2 2017 revenue on other operations were PLN 6,987,000 (1.6% of total revenue), compared to PLN 10,602,000 (2.5% of revenue) in the analogous period of 2016 (-34.1% y/y). A significant share in that group of revenue was held by:

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

The share of revenue from the sale of goods and materials in Q2 2017 slightly changed compared to Q2 2016 and was 0.9% (change by +19.9% y/y). During the first half of 2017, the sale of goods and materials was recorded at a similar level than that in the first half of 2016. In the analysed periods of 2017 and 2016, the dominant position in this group of revenue was revenue from the sales of scrap by the Parent, which was the main factor of change in revenue in this group (which refers to Q2 2017).

[%]	Q2 2016	Q2 2017	H1 2016	H1 2017
Sale of coal	96.8%	97.5%	96.6%	97.0%
Other activities	2.5%	1.6%	2.7%	2.3%
Sale of goods and materials	0.7%	0.9%	0.7%	0.7%
<b>Total revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



Suppliers, costs in LW Bogdanka S.A.

Geographical structure of revenue

The activities of the Group are primarily concentrated in Poland. The share of exports in overall sales was insignificant both in Q2 2017 and Q2 2016. In the first half of 2017 the share of exports in the total revenue was 2.8% (PLN 24,981,000), while a year before the figure was 0.1% (PLN 989,000). In the analysed periods exports referred solely to the export of coal.

[PLN '000]	Q2 2016	Structure	Q2 2017	Structure	H1 2016	Structure	H1 2017	Structure
Domestic sales	428,369	100.0%	436,920	100.0%	847,956	99.9%	877,105	97.2%
Foreign sales	7	0.0%	0	0.0%	989	0.1%	24,981	2.8%
<b>Total revenue</b>	<b>428,376</b>	<b>100.0%</b>	<b>436,920</b>	<b>100.0%</b>	<b>848,945</b>	<b>100.0%</b>	<b>902,086</b>	<b>100.0%</b>

Suppliers

The granting of contracts by entities conducting business activities involving mining hard coal 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 excavations, 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 2017 and 30 June 2017, the value of the turnover with any supplier did not exceed 10% of the Group's total revenue.

Costs

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

Costs by type  
Q2 2017

In Q2 2017 costs by type incurred by LW BOGDANKA S.A. amounted to PLN 410,075,000 (PLN - 2,362,000 y/y), which means that they were lower by 0.6% than in Q2 2016. The drop in costs in Q2 2017 was mainly due to lower costs of depreciation/amortisation, materials and energy used, entertainment and advertising costs and other costs, with a concurrent increase external services, employee benefits as well as taxes and charges.

The value of depreciation and amortisation went down by 6.3% (to PLN 78,973,000) primarily due to a drop in natural depreciation (lower gross mining, higher share in the cutting machine walls).

Total cost of materials and energy consumption went down by 0.6% (PLN -654,000) compared to Q2 2016, and amounted to PLN 104,532,000. In the period under analysis, the value of used materials has not changed. The value of the purchased energy (understood as a sum of electric energy and heat energy, potable water, industrial water and gas) decreased due to a lower use of electric energy.

Compared to Q2 2016, the value of outsourced services in Q2 2017 went up from PLN 95,745,000 to PLN 97,087,000 (+1.4%). In the period under analysis, the value of services related to drilling excavations has increased.

In Q2 2017, compared to Q2 2016, the value of employee benefits increased by PLN 6,582,000. In Q2 2017 a slight drop was recorded in the average employment level (compared to Q2 2016) with a concurrent increase in the average monthly salary level, related to payments of compensations under the Voluntary Redundancy Programme.

The value of taxes, fees and charges went slightly up in Q2 2017 to PLN 7,911,000 from PLN 7,324,000 in Q2 2016 – the exploitation fee (in relation to an increased mining) and payments to the National Disabled Persons Rehabilitation Fund increased.

The value of other costs in Q2 2017 dropped from PLN 5,391,000 (in Q1 2016) to PLN 553,000 – a change in settlement period of insurance policies took place.

Having adjusted costs by type of the change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, cost of own production sold was obtained in the amount of PLN 380,719,000 for Q2 2017. As compared to the previous year, it is lower by 10.4% (with a simultaneous y/y increase by 3.6% in the amount of coal sold).





Costs in LW Bogdanka S.A.

Costs by type

[PLN '000]	Q2 2016	Q2 2017	Change	H1 2016	H1 2017	Change
Net production [in '000 tonnes]	1,950	2,136	9.5%	4,285	4,558	6.4%
Sales [in '000 tonnes]	2,195	2,273	3.6%	4,379	4,662	6.5%
Amortisation/depreciation	84,308	78,973	-6.3%	176,218	166,932	-5.3%
Materials and energy consumption	105,186	104,532	-0.6%	211,021	217,192	2.9%
External services	95,745	97,087	1.4%	189,898	197,325	3.9%
Employee benefits	113,623	120,205	5.8%	241,526	236,178	-2.2%
Entertainment and advertising costs	860	814	-5.3%	3,590	3,054	-14.9%
Taxes, fees and charges	7,324	7,911	8.0%	17,967	19,252	7.2%
Other costs	5,391	553	-89.7%	9,404	1,382	-85.3%
<b>Total costs by type</b>	<b>412,437</b>	<b>410,075</b>	<b>-0.6%</b>	<b>849,624</b>	<b>841,315</b>	<b>-1.0%</b>
Cost of own work	-49,160	-59,984	22.0%	-96,028	-118,207	23.1%
Accruals and deferrals	12,699	24,334	91.6%	30,803	38,322	24.4%
Value of coal obtained from excavations	-16,167	-12,640	-21.8%	-37,129	-33,046	-11.0%
Provisions and other presentation adjustments between costs by type and by function	24,087	-3,933	-116.3%	2,159	8,660	301.1%
<b>Total production cost</b>	<b>383,896</b>	<b>357,852</b>	<b>-6.8%</b>	<b>749,429</b>	<b>737,044</b>	<b>-1.7%</b>
Change in inventory of products	37,829	19,418	-48.7%	12,923	16,716	29.4%
Costs of goods and materials sold	2,955	3,449	16.7%	6,041	5,813	-3.8%
<b>Own cost of sales, including:</b>	<b>424,680</b>	<b>380,719</b>	<b>-10.4%</b>	<b>768,393</b>	<b>759,573</b>	<b>-1.1%</b>
Costs of products, goods and materials sold	399,023	351,384	-11.9%	712,562	692,765	-2.8%
Selling costs	8,508	8,559	0.6%	18,359	22,117	20.5%
Administrative expenses	17,149	20,776	21.1%	37,472	44,691	19.3%

H1 2017

In H1 2017, the LW Bogdanka Group incurred costs by type in the amount of PLN 841,315,000 (PLN - 8,309,000 y/y), i.e. by 1.0% less than in H1 2016. The decrease in costs recorded in H1 2017 was influenced by lower amortisation/depreciation, employee benefits, entertainment and advertising costs and other costs.

The value of depreciation and amortisation went down by 5.3% (to PLN 166,932,000) primarily due to a drop in natural depreciation (lower gross mining, higher share in the cutting machine walls).

Total cost of materials and energy consumption went up by 2.9% (PLN +6,171,000) compared to the first half of 2016, and totalled PLN 217,192,000. In the period under analysis the value of materials used increased – a detailed analysis of materials groups indicates an increased use of components needed for the construction of the new underground infrastructure (in H1 2017 15.0 km of galleries were constructed (along with extensions) compared to 12.9 km in the previous year which means an increase by 16.3%). The value of the purchased energy (understood as a sum of electric energy and heat energy, potable water, industrial water and gas) increased due to a higher use of heat energy with a concurrent drop in the value of the electric energy.

Compared to H1 2016, the value of outsourced services in H1 2017 went up from PLN 189,898,000 to PLN 197,325,000 (+3.9%). In the period under analysis, the value of drilling and mining services (drilling excavations) has increased.

In 2017, compared to 2016, the value of employee benefits dropped by PLN 5,348,000. In H1 2017 an average employment dropped compared to the same period of 2016, and further in 2016 an annual bonus was paid to the employees (overestimated basis effect).

The value of taxes, fees and charges went up in H1 2017 to PLN 19,252,000 from PLN 17,967,000 in H1 2016 – the exploitation fee (in relation to an increased mining) and payments to the National Disabled Persons Rehabilitation Fund increased.

The value of other costs fell down from PLN 9,404,000 (H1 2016) to PLN 1,382,000 (H1 2017). As in Q1 2016 insurance policies expired and the tender procedure for a new policy has not been completed (a new contract has not been awarded), in 2016 the Parent concluded short-term policies for a joint term of 9 months (effective until November 2016). In November 2016 a new property policy and third-party liability has been concluded for 18 months (effective until May 2018). Given the above, the costs of the insurance policy for 2017 are recognised in prime costs in Q4 2016 (as in previous periods the policy is settled through accruals and deferrals).

Having adjusted costs by type of the change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, cost of own production sold was obtained in the amount of PLN 759,573,000 for H1 2017. As compared to the previous year, it is lower by 1.1% (with a simultaneous y/y increase by 6.5% in the amount of coal sold).

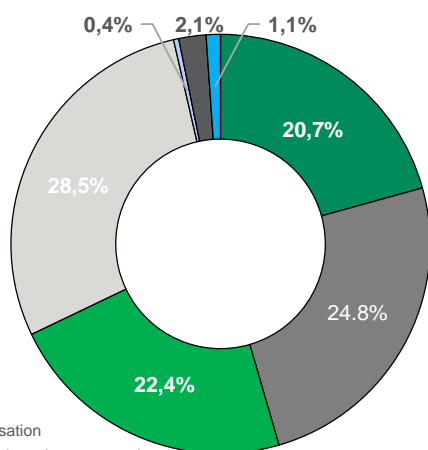


Costs in LW Bogdanka S.A.

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In H1 2017 (compared to the same period of the previous year) the share of materials and energy consumption went up (to 25.7%) and so did the share of outsourced services (to 23.5%), while the share of employee benefits and amortisation/depreciation dropped (to 28.1% and 19.8%, respectively). Costs of employee benefits, outsourced services and materials and energy used accounted for almost 78% of costs between 1 January 2017 and 30 June 2017, while in the comparable period of 2016 it was almost 76% of total costs of the Company.

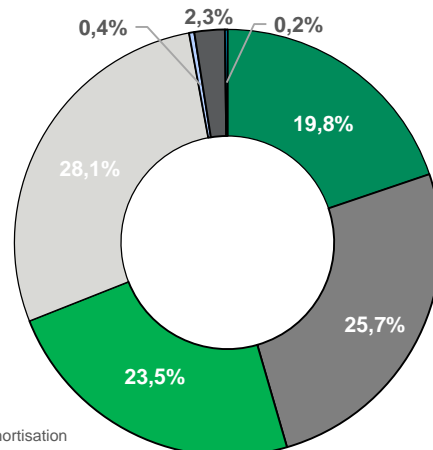
In H1 2017 (compared to the same period of the previous year), similarly as in Q2 alone, the share of materials and energy consumption and outsourced services went up, while the share of employee benefits and amortisation/depreciation dropped.

Structure of costs by type H1 2016



- Amortisation
- Materials and energy used
- External services
- Employee benefits
- Entertainment and advertisement
- Taxes and charges
- Other

Structure of costs by type H1 2017



- Amortisation
- Materials and energy used
- External services
- Employee benefits
- Entertainment and advertisement
- Taxes and charges
- Other

Costs by function

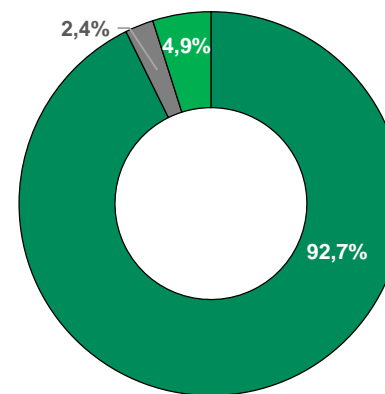
Own cost of production sold (by function) in Q2 2017 was PLN 380,719,000 and was lower by 10.4% (PLN 43,961,000) than the cost incurred in Q2 2016 - the drop y/y is mainly a result of lower production costs of LW Bogdanka S.A. and the fact that in 2017 production worth PLN 190,418,000 was allocated from inventories to the sale (comparing to PLN 37,829,000 in 2016).

Own cost of production sold (by function) in H1 2017 was PLN 759,573,000 and was lower by 1.1% (PLN 8,820,000) than the cost incurred in H1 2017 - the drop y/y is mainly a result of lower production costs of LW Bogdanka S.A. (by PLN 12,385,000) and the fact that in 2017 production worth PLN 16,716,000 was allocated from inventories to the sale (comparing to PLN 12,923,000 in 2016).

Costs by function

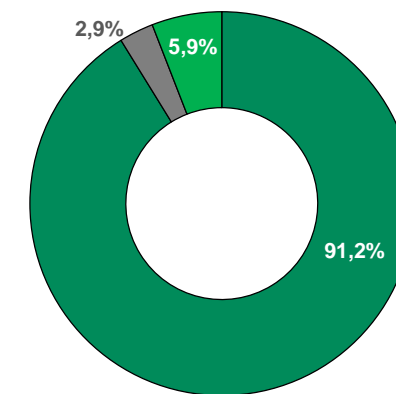
[PLN '000]	Q2 2016	Q2 2017	Change	H1 2016	H1 2017	Change
Net production [in '000 tonnes]	1,950	2,136	9.5%	4,285	4,558	6.4%
Sales [in '000 tonnes]	2,195	2,273	3.6%	4,379	4,662	6.5%
Costs of products, goods and materials sold	399,023	351,384	-11.9%	712,562	692,765	-2.8%
Selling costs	8,508	8,559	0.6%	18,359	22,117	20.5%
Administrative expenses	17,149	20,776	21.1%	37,472	44,691	19.3%
<b>Own cost of sales</b>	<b>424,680</b>	<b>380,719</b>	<b>-10.4%</b>	<b>768,393</b>	<b>759,573</b>	<b>-1.1%</b>

Structure of costs by function H1 2016



- Costs of products, goods and materials sold
- Selling costs
- Administrative costs

Structure of costs by function H1 2017



- Costs of products, goods and materials sold
- Selling costs
- Administrative costs

Provisions

Provisions at the LW Bogdanka Group

Balance-sheet provisions

[PLN '000]	As at 30 Jun. 2016	As at 31 Dec. 2016	As at 30 Jun. 2017	Change in H1 2017/ Q4 2016	Change in H1 2017/ H1 2016
Employee benefits	260,767	266,981	304,242	14.0%	16.7%
Provision for real property tax	28,100	32,456	37,560	15.7%	33.7%
Provision for the mine closure costs and land reclamation	123,385	117,423	117,420	0.0%	-4.8%
Mining damage	8,145	4,440	4,241	-4.5%	-47.9%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	19,383	20,042	20,685	3.2%	6.7%
Other	12,230	13,914	12,736	-8.5%	4.1%
<b>TOTAL</b>	<b>452,010</b>	<b>455,256</b>	<b>496,884</b>	<b>9.1%</b>	<b>9.9%</b>

The total provisions as at 30 June 2017 amounted to PLN 496,884,000, which means an increase by 9.9% compared to the value as at 30 June 2016.

Comparing to 30 June 2016, employee provisions grew by 16.7% and amounted to PLN 304,242,000 as at 30 June 2017. As a consequence of actuarial revaluation of provisions, mainly the value of provision for coal allowance has increased; in addition, a provision of PLN 10,000,000 was created for the Voluntary Redundancy Programme.

Changes in provisions

[PLN '000]	Change % Q2 2016	Change % Q2 2017	Change in Q2 2017/ Q2 2016	Change in H1 2016	Change in H1 2017	Change in H1 2017/ H1 2016
Employee benefits	15,494	28,153	81.7%	9,230	37,261	303.7%
Provision for real property tax	2,125	2,337	10.0%	4,219	5,104	21.0%
Provision for the mine closure costs and land reclamation	-7,627	-704	-90.8%	-6,794	-3	-99.9%
Mining damage	-252	-96	-61.9%	-352	-199	-43.5%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	328	327	-0.3%	656	643	-2.0%
Other	-19,074	-1,303	-93.2%	-17,677	-1,178	-93.3%
<b>TOTAL</b>	<b>-9,006</b>	<b>28,714</b>	<b>-</b>	<b>-10,718</b>	<b>41,628</b>	<b>-</b>

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

[PLN '000]	Change of provisions in Q2 2017	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee benefits	28,153	5,625	1,740	-	33,476	-12,688
Provision for real property tax	2,337	1,723	614	-	-	-
Provision for the mine closure costs and land reclamation	-704	421	881	-2,006	-	-
Mining damage	-96	-	-	-	-	-96
Provision for Social Insurance Institution (ZUS) claim for accident contributions	327	-	327	-	-	-
Other	-1,303	735	75	-	-	-2,113
<b>TOTAL</b>	<b>28,714</b>	<b>8,504</b>	<b>3,637</b>	<b>-2,006</b>	<b>33,476</b>	<b>-14,897</b>

[PLN '000]	Change of provisions in H1 2017	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee benefits	37,261	20,630	3,481	-	33,476	-20,326
Provision for real property tax	5,104	3,447	1,657	-	-	-
Provision for the mine closure costs and land reclamation	-3	863	1,763	-2,629	-	-
Mining damage	-199	-	-	-	-	-199
Provision for Social Insurance Institution (ZUS) claim for accident contributions	643	-	643	-	-	-
Other	-1,178	786	149	-	-	-2,113
<b>TOTAL</b>	<b>41,628</b>	<b>25,726</b>	<b>7,693</b>	<b>-2,629</b>	<b>33,476</b>	<b>-22,638</b>

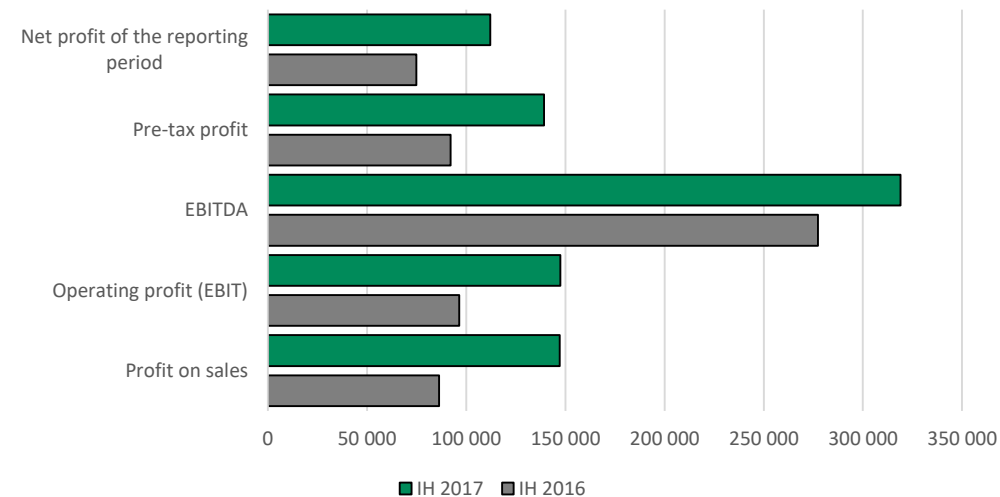
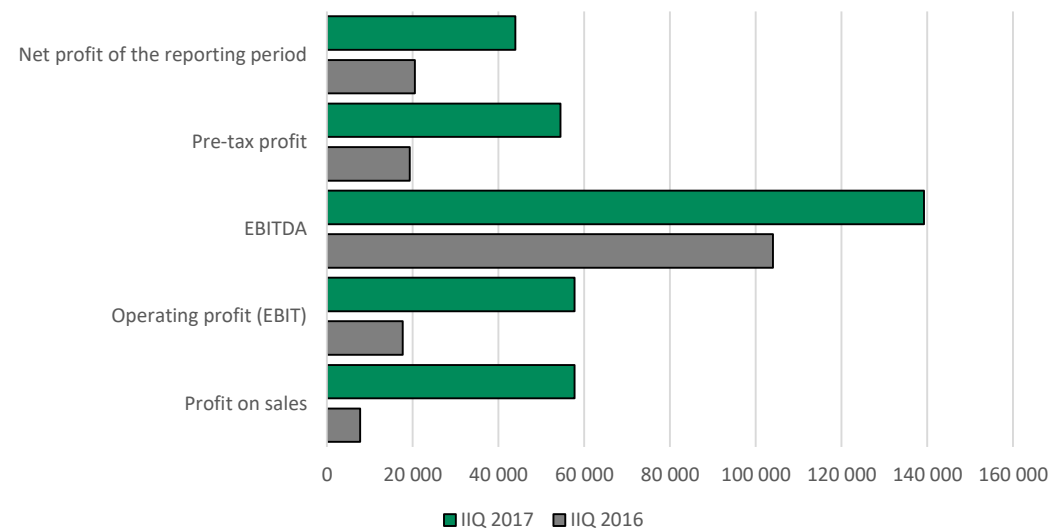
## Financial highlights

### Financial highlights of the LW Bogdanka Group

Analysis of the consolidated income statement

[PLN '000]	Q2 2016	Q2 2017	Change	H1 2016	H1 2017	Change
Revenue	428,376	436,920	2.0%	848,945	902,086	6.3%
Costs of products, goods and materials sold, selling and administrative expenses	420,654	379,163	-9.9%	762,607	754,999	-1.0%
<b>Profit on sales</b>	<b>7,722</b>	<b>57,757</b>	<b>648.0%</b>	<b>86,338</b>	<b>147,087</b>	<b>70.4%</b>
Gross sales margin	1.8%	13.2%	11.4 p.p.	10.2%	16.3%	6.1 p.p.
Other income	11,679	531	-95.5%	12,738	1,759	-86.2%
Other costs	825	154	-81.3%	1,408	209	-85.2%
<b>Net operating profit</b>	<b>18,576</b>	<b>58,134</b>	<b>213.0%</b>	<b>97,668</b>	<b>148,637</b>	<b>52.2%</b>
Other net profits/(losses)	-896	-403	-55.0%	-1,103	-1,163	5.4%
<b>Operating profit (EBIT)</b>	<b>17,680</b>	<b>57,731</b>	<b>226.5%</b>	<b>96,565</b>	<b>147,474</b>	<b>52.7%</b>
EBIT margin	4.1%	13.2%	9.1 p.p.	11.4%	16.3%	4.9 p.p.
<b>EBITDA</b>	<b>104,034</b>	<b>138,815</b>	<b>33.4%</b>	<b>277,379</b>	<b>318,635</b>	<b>14.9%</b>
EBITDA margin	24.3%	31.8%	7.5 p.p.	32.7%	35.3%	2.6 p.p.
Finance income	8,655	1,554	-82.0%	10,270	4,073	-60.3%
Finance costs	7,039	4,854	-31.0%	14,710	12,254	-16.7%
<b>Profit before taxation</b>	<b>19,296</b>	<b>54,431</b>	<b>182.1%</b>	<b>92,125</b>	<b>139,293</b>	<b>51.2%</b>
Pre-tax profit margin	4.5%	12.5%	8.0 p.p.	10.9%	15.4%	4.5 p.p.
Income tax	-1,212	10,486	-	17,171	27,169	58.2%
<b>Net profit for the financial year</b>	<b>20,508</b>	<b>43,945</b>	<b>114.3%</b>	<b>74,954</b>	<b>112,124</b>	<b>49.6%</b>
Net sales margin	4.8%	10.1%	5.3 p.p.	8.8%	12.4%	3.6 p.p.

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







### Financial highlights

#### Revenue

The value of revenue for Q2 2017 increased by 2.0% compared to the same period of the previous year, and amounted to PLN 436,920,000.

In the period between January and June 2017 the Group generated revenue in the amount of PLN 902,086,000 compared to PLN 848,945,000 in the same period of 2016.

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

In Q2 2017 the costs of products, goods and material sold plus selling costs and administrative expenses went down by 9.9% compared by the same period of the previous year and amounted to PLN 379,163,000. In the first half of 2017, the costs in question went down by 1.0% y/y.

#### Profit on sales

In Q2 2017, the LW Bogdanka Group's profit on sales increased by 648.0% compared to Q2 2016. The Group generated profit in the amount of PLN 57,757,000. Profit on sales for H1 2017 of PLN 147,087,000 is higher than the result for H1 2016 by 70.4%.

#### Other income

In the second quarter of 2017 other income amounted to PLN 531,000 compared to PLN 11,679,000 a year before. The decrease is a result of a release (in 2016) of the provision for damages for Budimex following a ruling issued by the Court of Appeals, which was advantageous for the Parent (overestimated basis effect).

#### Other costs and other net profits/losses

In Q2 2017 other operating cost amounted to PLN 154,000 compared to PLN 825,000 of the same period of 2016. In 2016 the Group paid significantly higher damages and slightly higher amounts of donations. Between January and June 2017 net losses amounted to PLN 1,163,000 and remained at almost identical level as in the analogous period of 2016 (PLN 1,103,000).

#### EBIT

The operating result in Q2 2017 amounted to PLN 57,731,000 and was higher by 226.5% compared to Q2 2016. EBIT margin in Q2 2017 was 13.2%, i.e. it was higher by 9.1 p.p. than in the second quarter of the previous year. EBIT margin in H1 2017 was higher by 4.9 p.p. compared to the same period of 2016, and accounted for 16.3%.

#### EBITDA

EBITDA in Q2 2017 increased by 33.4% compared to Q2 2016 and amounted to PLN 138,815,000. EBITDA margin in Q2 2017 equalled 31.8%, which shows an increase compared to the same period of 2016.

In H1 2017, EBITDA amounted to PLN 318,635,000, and the Group achieved an EBITDA margin of 35.3%, i.e. 2.6 p.p. more y/y than in the analogous period of 2016 (while the EBITDA figure increased in the analysed period by 14.9%).

#### Finance income

Finance income in Q2 2017 amounted to PLN 1,554,000. With respect to Q2 2016 a decrease of 82.0% was recorded. The decrease is primarily attributable to the recognition, in finance income in Q2 2016, a release of a provision for interest on claims of Budimex in the amount of PLN 6,465,000 and slightly lower interest income on bank deposits in relation to a lower average level of cash available in the LW Bogdanka Group.

#### Finance costs

In Q2 2017 finance costs amounted to PLN 4,854,000 and were lower by 31.0% than the costs in the same period of 2016. The above was a result of lower interest costs on bonds, which was related to the redemption, effected on 30 March 2017, of bonds issued under the Programme of 30 June 2014 in the amount of PLN 300,000,000. The finance cost for the six months of 2017 amounted to PLN 12,125,000 compared to PLN 14,710,000 in 2016 (decrease by 16.7%).

Total debt of the Group amounted to PLN 321,760,000, including that of the Parent of PLN 300,021,000 as at 30 June 2017.

#### Profit before taxation

In Q2 2017 the LW Bogdanka Group generated pre-tax profit of PLN 54,431,000 compared to the generated profit of PLN 19,296 in Q2 2016 (+182.1%). Profit before taxation for H1 2017 amounted to PLN 139,293,000 against PLN 92,125,000 in the same period of 2016.

#### Net profit for the financial year

In Q2 2017 the Group generated net profit higher by 114.3% than in Q2 2016 – it amounted to PLN 43,945,000 in 2017 compared to PLN 20,508,000 in 2016. The net profit for the first half of 2017 was PLN 112,124,000 compared to PLN 74,954,000 (an increase by 49.6%).

In the analysed period the net profit for the reporting period attributable to owners of the Parent was PLN 43,910,000 compared to PLN 20,357,000 in an analogous period of the previous year.



## Balance sheet

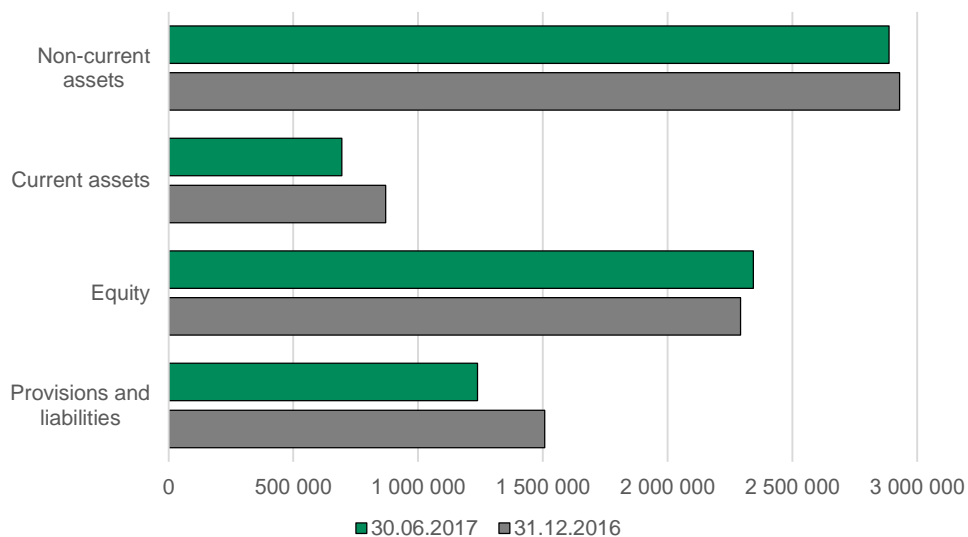
### Balance sheet

Selected financial data

[PLN '000]	31 Dec. 2016	30 Jun. 2017	Change
Total assets	3,800,289	3,581,570	-5.8%
Return on Assets (ROA)*	4.9%	5.9%	1.0 p.p.
Non-current assets	2,929,788	2,886,612	-1.5%
Current assets	870,501	694,958	-20.2%
Equity	2,292,407	2,342,945	2.2%
Return on Equity (ROE)*	8.2%	9.5%	1.3 p.p.
Provisions and liabilities	1,507,882	1,238,625	-17.9%

\* the calculations include net result for the last four quarters and an average level of assets and equity (as at 30 June 2017 + as at 31 December 2016)/2

Analysis of the quarterly consolidated statement of financial position



### Assets

The balance-sheet total as at 30 June 2017 went down to PLN 3,581,570,000 (i.e. by PLN 218,719,000) compared to the value as at 31 December 2016, with non-current assets going down by PLN 43,176,000 and current assets – by PLN 175,543,000. Within current assets, the value of inventories went down by 10.5%, trade and other receivables going up by 44.9%, and cash and cash equivalents going down by 49.1%.

As at 30 June 2017 ROA increased by 1.0 p.p. comparing to the level recorded on 31 December 2016 and was 5.9% (net result of the Group for last four quarters, i.e. the period from 1 July 2016 to 30 June 2017, was included in the calculations as at 30 June 2017).



### Equity and liabilities

The equity went up by 2.2%. It was a result of adding net comprehensive income for H1 2017 to equity, and settling the profit/loss for 2016 (PLN 34,014,000 designated for dividend, and PLN 141,882,000 for capitals).

Provisions and liabilities went down by 17.9% compared to the value as at 31 December 2016, with current liabilities going down by 21.8% (the drop in current liabilities was mainly due to the repayment bonds worth PLN 300,000,000 and a reclassification of bonds worth PLN 150,000,000 to current liabilities from the group of non-current liabilities).

At 30 June 2017 an increase in ROE was recorded (by 1.3 p.p.) compared to the end of 2016. The value of the ratio as at 30 June 2017 was 9.5% compared to 8.2% as at 31 December 2016.



Cash flow

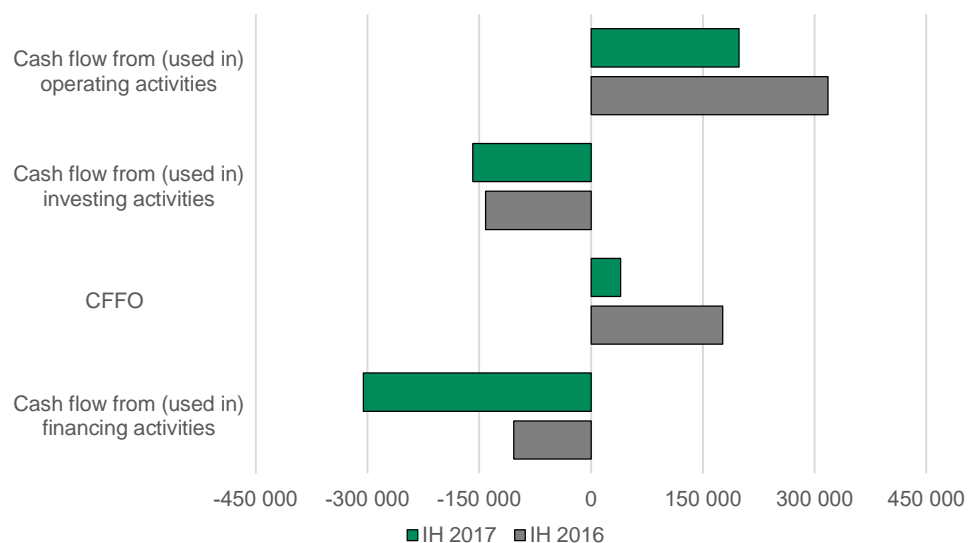
Cash flow

Consolidated cash flow

[PLN '000]	Q2 2016	Q2 2017	Change	H1 2016	H1 2017	Change
Cash flow from (used in) operating activities	159,100	22,981	-85.6%	317,885	198,466	-37.6%
Cash flow from (used in) investing activities	-71,981	-67,167	-6.7%	-141,355	-158,873	12.4%
<b>CFFO*</b>	<b>87,119</b>	<b>-44,186</b>	<b>-</b>	<b>176,530</b>	<b>39,593</b>	<b>-77.6%</b>
Cash flow from (used in) financing activities	-104,407	-1,627	-98.4%	-103,738	-305,430	194.4%

\*total cash flow from operating and investing activity

Analysis of the consolidated statement of cash flows



In Q2 2017 the Group generated net cash flow from operating activities lower by 85.6% than in Q2 2016 - in the period April - June 2017 it amounted to PLN 22,981,000 compared to PLN 159,100,000 a year before. During the entire first half the Group generated cash flow from operating activities of PLN 198,466,000 (-37.6% y/y).

Cash flow from investing activities decreased its value (in absolute values) in Q2 2017 by 6.7% (to PLN 67,167,000) relative to the analogous period of 2016. Cumulative for 6 months of 2017 cash flow from investing activity was higher by 12.4% from cash flow from the analogous period last year, and amounted to PLN 158,873,000.

In the period April-June 2017, the Group recorded negative cash flow from financing activities of PLN -1,627,000 (loans and borrowings worth PLN 759,000 were repaid, interest of PLN 868,000 was paid). In the period 1 January - 30 June 2017, the Group recorded negative cash flow from financing activities of PLN -305,430,000 (bonds worth PLN 300,000,000 were redeemed, loans and borrowings worth PLN 1,518,000 were repaid and interest of PLN 3,912,000 was paid).





Debt and liquidity ratios

Debt and financing structure

[PLN '000]	31 Dec. 2016	30 Jun. 2017	Change
Overall debt ratio	39.7%	34.6%	-5.1 p.p.
Ratio (debt plus employee liabilities)/EBITDA	1.47	0.97	-34.0%
Net debt ratio/EBITDA*	0.14	0.07	-50.0%
Debt to equity ratio	65.8%	52.9%	-12.9 p.p.
Fixed capital to non-current assets ratio	100.2%	99.7%	-0.5 p.p.
Current debt ratio	19.7%	16.3%	-3.4 p.p.
Non-current debt ratio	20.0%	18.3%	-1.7 p.p.

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

Overall debt ratio

The overall debt ratio as at 30 June 2017 went down by 5.1 p.p. compared to 31 December 2016 and reached 34.6% - the share of borrowed capital in the overall financing sources of the Group decreased (in March 2017 bonds worth PLN 300,000,000 were redeemed).

The level of the Group's debts as at 30 June 2017 did not pose any risk to the Group's operation and its ability to settle liabilities in a timely manner. The Group's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and cash at proper levels.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q2 2017 dropped by 34.0% to 0.97. When comparing data as at 30 June 2017 to 31 December 2016, a significant fall of debt has been recorded (bonds worth PLN 300,000,000 were redeemed) with a concurrent increase in EBITDA by PLN 41,256,000 (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 0.14 as at 31 December 2016 to 0.07 as at 30 June 2017. The value of net debt dropped by ca. PLN 36 million to a level of PLN 46,491,000, while EBITDA increased by PLN 41,256,000 (EBITDA cumulatively for the last four quarters) to a level of PLN 647,795,000.

Debt to equity ratio

Debt to equity ratio as at 30 June 2017 decreased in relation to 31 December 2016 by 12.9 p.p. and was 52.9% - liabilities dropped by PLN 269,257,000 along with an increase in equity by PLN 50,538,000.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 99.7% (as at 30 June 2017) compared to 100.2% (as at 31 December 2016) – in the analysed period the value of non-current assets dropped by PLN 43,176,000; fixed capitals (equity plus non-current liabilities less provisions) decreased by PLN 55,711,000.



Liquidity ratios

[days]	31 Dec. 2016	30 Jun. 2017	Change
Current liquidity ratio	1.29	1.36	5.4%
Quick liquidity ratio	1.18	1.24	5.1%

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

## Turnover ratios

### Turnover ratios

[PLN '000]		31 Dec. 2016	30 Jun. 2017	Change
1. Inventory turnover	<u>Average inventories</u> costs of goods, products and materials sold	22	18	-18.2%
2. Debtors collection rate*	<u>Average debtors</u> revenue	50	60	20.0%
3. Creditors payment rate**	<u>Average creditors</u> costs of goods, products and materials sold	75	77	2.7%
4. Operating cycle	1+2	72	78	8.3%
5. Cash conversion cycle	4-3	-3	1	-

\* Trade and other receivables

\*\* Trade and other liabilities

### Inventory turnover ratio

The inventory turnover ratio as at 30 June 2017 dropped to 18 days, compared 31 December 2016. Disposal of inventories takes on average 4 days less. The level of coal inventories presented at the end of Q2 2017 corresponds to less than 1 day of commercial coal production (on the basis of average daily production for six months).

### Debtors collection ratio

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 60 days (as at 30 June 2017), compared to 50 days (as at 31 December 2016). The increase in the ratio's value is attributable to a higher average level of receivables with a relatively lower average level of the revenue.

### 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 2 days to 77 days, compared to the end of 2016.

### Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period lengthened to 78 days. On average after 78 days, the Group's current assets are converted into cash.

### Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 30 June 2017 was 1 day (as at 31 December 2016 – -3 days). Lowering of the ratio is a result of slower debtors collection ratio within the Enea Group.

### Information on LW Bogdanka Group companies subject to consolidation

The Subsidiaries: Łęczyńska Energetyka, EkoTRANS Bogdanka, RG Bogdanka and MR Bogdanka were included in the Consolidated Quarterly Report of the LW Bogdanka Group for H1 2017, by the full consolidation method.

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

In H1 2017 no material off-balance sheet items occurred and a detailed description of contingent items is provided in Note 23 of the Condensed Interim Consolidated Financial Statements for the first half of 2017.



### Investments and capital investments of LW Bogdanka Group

The value of cash held by the Group as at the end of June 2017 amounted to PLN 387,466,000, out of which the funds of PLN 358,700,000 belonged to the Parent.

The amount of PLN 387,466,000 is disclosed as follows:

- PLN 112,197,000 disclosed in non-current assets,
- PLN 275,269,000 is disclosed in current assets.

The amount of PLN 112,197,000 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 275,269,000 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 at least the value of average monthly sales revenue (1/12 of forecast annual sales revenue). The funds accumulated at the Parent amount to PLN 246,503,000, while the funds accumulated at subsidiaries amount to PLN 28,766,000 (primarily to Łęczyńska Energetyka).



Information on financial instruments, bonds

Information on derivative financial instruments

As at 30 June 2017, the LW Bogdanka Group did not hold any open financial instruments.

Bonds

At the LW Bogdanka Group, only the Parent issued bonds. As at 30 June 2017, the Parent had a Programme Agreement signed on 23 September 2013 regarding the bond issue programme of up to PLN 300,000,000 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

Use of proceeds from bond issue

In accordance with the Programme Agreement relating to bond issue, the objective of the Issue means refinancing of the existing debt, financing the current operations and investment needs of the Issuer (but it does not constitute the objective of the issue within the meaning of the Bonds Act)."

The proceeds from the bond issue were used in compliance with the purpose of the issue. Investment projects carried out with the use of these proceeds are described on page 9 of the Report.

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

The LW Bogdanka Group did not publish projections of financial results for 2017



Assessment of the possibilities of investment plans execution

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

Rules governing the preparation of the Consolidated and Condensed Interim Financial Statements

Condensed interim financial statements of LW Bogdanka S.A. and condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2017 were prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" The financial statements were prepared using the same accounting principles for the current and comparative periods.

The issue is discussed in more detail in Note 2, page 12, of the Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group for the first half of 2017 .

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

As of the date of preparing the Directors' Report on Operations of the Group for H1 2017 LW Bogdanka and its subsidiaries were not parties to proceedings pending before a court, a relevant authority for arbitration proceedings or a public administration authority, concerning:

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

Agreement date	Agreement value [PLN '000]	Value of acquired bonds [PLN '000]	Remaining value of bonds to be acquired [PLN '000]	Remaining value to be repaid [PLN '000]
23 September 2013	300,000	300,000	-	300,000



Agreements concerning the subsidiaries' loans and borrowings

In H1 2017 the Parent had one loan agreement in effect.

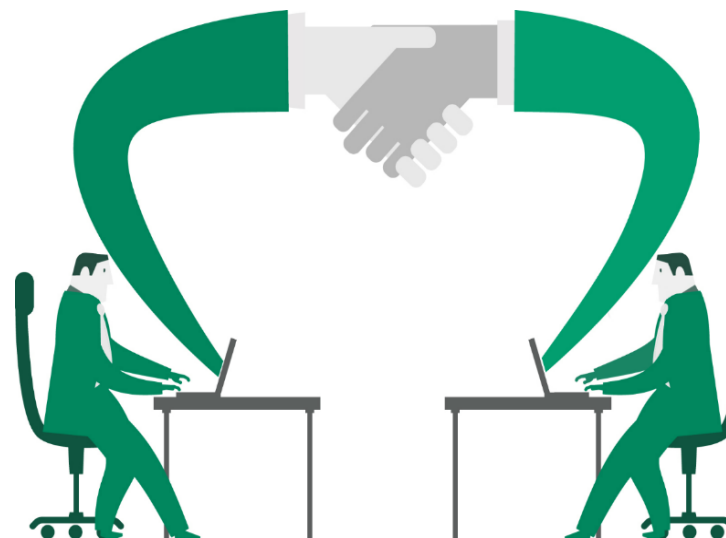
Start date	End date	Lender	Amount of loan granted [PLN '000]	Interest rate	Debt (loans) as at 30 June 2017 [PLN '000]	Repayment period
16 December 2016	30 November 2018	mBank S.A.	100,000	WIBOR 1M + margin	-	Overdraft

Information on LW Bogdanka S.A. or its subsidiary granting sureties for a credit facility or loan or granting guarantees

In the period from 1 January 2017 to 30 June 2017, neither LW Bogdanka nor its subsidiaries granted sureties for a credit facility or loan, nor did they grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Parent's equity.

Transactions with related entities

In H1 2017 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. Information about all agreements that are significant from the point of view of the Issuer's operations is published in the form of current reports available at <http://ri.lw.com.pl/raporty-biezace>.



Loan and borrowing agreements signed by Subsidiaries

Łęczyńska Energetyka Sp. z o.o. continues the repayment of the loan granted in accordance with an agreement of 9 June 2014, Łęczyńska Energetyka sp. z o.o. was granted a loan (of PLN 26,580,000) by the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) in Lublin, which was allocated to financing the construction of the Water Treatment Station in Bogdanka, completed in February 2016. The loan bears interest of 0.7 of the rediscount rate set by the Monetary Policy Council, not less than 4.0% annually. In 2014-2016, 100% of the granted loan amount was used, and its repayment will be gradually performed until 31 July 2024.

Except for the above loan, between 1 January and 30 June 2017 Łęczyńska Energetyka sp. z o.o. did not use any third-party financing for its operations.

In H1 2017, the following 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
27 October 2015	31 January 2018	Bank PEKAO S.A.	to secure performance of an agreement with UTA Polska sp. z o.o.	bank guarantee	up to PLN 50,000



## 4. Shares and shareholding



## Share capital structure and shareholding

### Share capital structure

The Parent's share capital amounts to PLN 170,067,950 and is divided into 34,013,590 shares with a par value of PLN 5 per share.

On 4 January 2012, a total of 3,208,111 employee shares were introduced to the Warsaw Stock Exchange, and 34,754 employee shares were introduced on 4 February 2013. 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.

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 Issuer are mainly institutional investors in the form of pension and investment funds.

### Treasury shares

In H1 2017 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

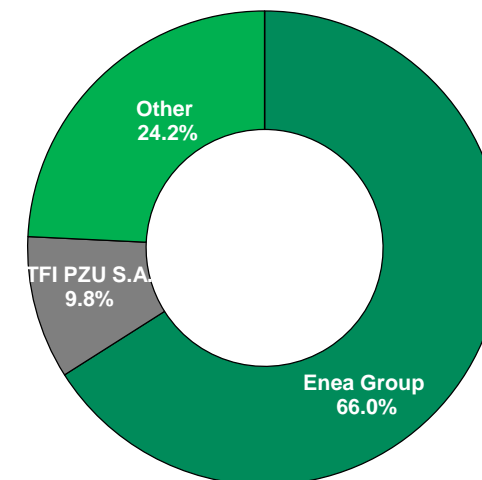
According to the information of the Parent, the Issuer's shareholding structure has not changed since the publication of the Quarterly Consolidated Directors' Report for the Operations of the LW Bogdanka Group for Q1 2017.

### Shareholding structure

The table below shows a shareholding structure of the Parent as at 25 May 2017 and as the date of publishing this Report, i.e. 7 September 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 25 May 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>
<b>Shareholding of LW Bogdanka S.A. as at 7 September 2017</b>		
Enea Group	22,448,834	66.0%
TFI PZU S.A.	3,320,620	9.8%
Other	8,244,136	24.2%
<b>TOTAL</b>	<b>34,013,590</b>	<b>100.0%</b>

Shareholding of LW Bogdanka S.A. as at 7 September 2017



### Participation of the LW Bogdanka's shares in indices

The Parent was first listed on the Warsaw Stock exchange on 25 June 2009. In H1 2017, LW Bogdanka S.A. formed part of the following indices:

- WIG – includes all companies listed on the WSE Main Market that meet the baseline criteria of the participation in indices;
- WIG30 – includes 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.

Analysts' recommendations and price performance of the shares

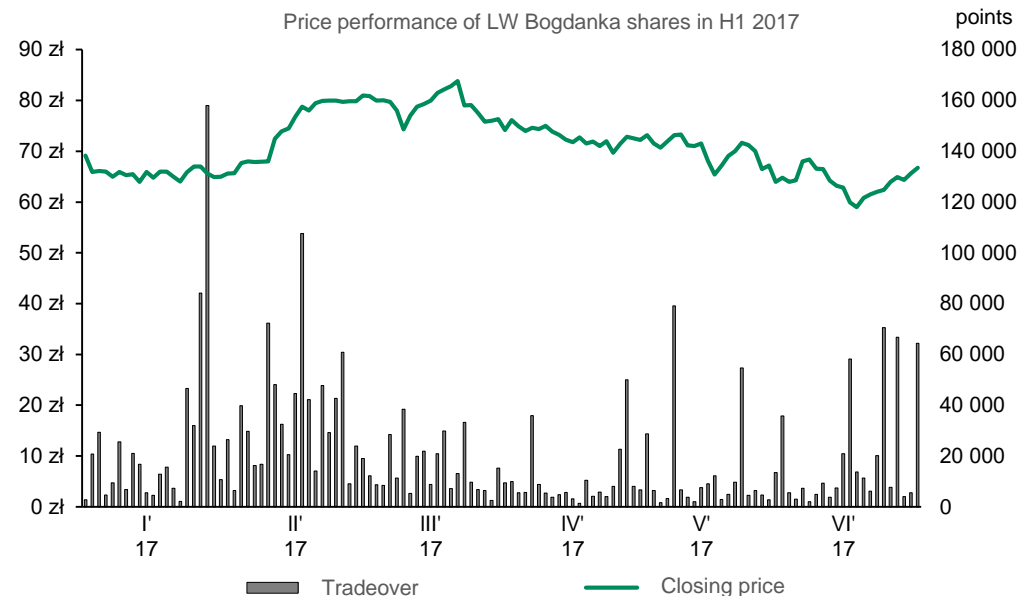
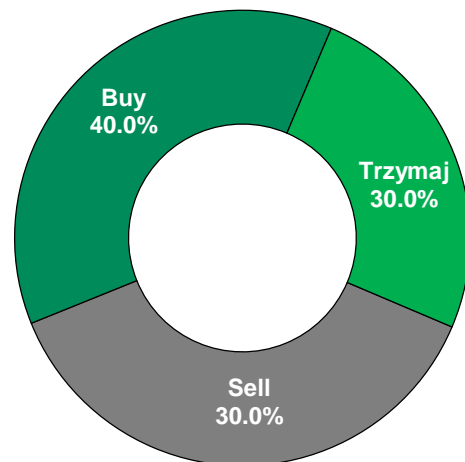
Participation of the Parent's shares in indices as at 7 September 2017



Analysts' recommendations issued for LW Bogdanka S.A. in 2017

Date	Institution	Recommendation	Target price	Price on the date of issue
25 January	BZ WBK	Sell	PLN 23.00	PLN 64.85
15 February	BDM DM	Buy	PLN 89.49	PLN 74.50
15 February	BOŚ DM	Buy	PLN 80.10	PLN 67.91
16 February	PKO BP	Hold	PLN 77.00	PLN 76.80
5 April	PEKAO IB	Hold	PLN 81.80	PLN 74.90
7 April	Societe Generale	Sell	PLN 64.00	PLN 74.60
20 April	BOŚ DM	Buy	PLN 82.00	PLN 71.92
26 April	DM Trigon	Sell	PLN 65.00	PLN 72.75
25 May	PEKAO IB	Hold	PLN 41.70	PLN 81.80
17 July	BOŚ DM	Buy	PLN 80.00	PLN 69.50

In 2017, 70% of analysts recommended "BUY" or "HOLD" shares of LW Bogdanka S.A.



Key share indicators:	H1 2016	H1 2017
Maximum price [PLN]	46.90	83.80
Minimum price [PLN]	30.39	59.00
Last price [PLN]	36.14	66.75
Average price [PLN]	37.53	70.98
Capitalisation at end of period [PLN million]	1,229.25	2,270.41
Book value [PLN million]	2,292.41	2,342.95
Price/earnings ratio	13.34	16.30
Price/book value	0.54	0.97
Average volume per session [pcs]	47,922	20,249
Average spread [bp]	34,013,590	34,013,590

## 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	Nominal value of the shares	Number of the Company's shares as at	Nominal value of the shares	Number of shares in Subsidiaries
	7 September 2017	(PLN)	25 May 2017	(PLN)	
Krzysztof Szlaga	0	0	0	0	0
Marcin Kapkowski	0	0	0	0	0
Sławomir Karlikowski	0	0	0	0	0
Stanisław Misterek	247	1,235	247	1,235	0
Adam Partyka	253	1,265	253	1,265	0
SUPERVISORY BOARD					
Name and surname	Number of the Company's shares as at	Nominal value of the shares	Number of the Company's shares as at	Nominal value of the shares	Number of shares in Subsidiaries
	7 September 2017	(PLN)	25 May 2017	(PLN)	
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
Michał Stopyra	0	0	0	0	0
Mariusz Romańczuk	0	0	0	0	0
Kamil Patyra	0	0	0	0	0
TOTAL	Number of the Company's shares as at	Nominal value of the shares	Number of the Company's shares as at	Nominal value of the shares	Number of shares in Subsidiaries
	7 September 2017	(PLN)	25 May 2017	(PLN)	
	500	2,500	500	2,500	0

\*As declared of Management Board and Supervisory Board Members of the Issuer

### 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 Parent, 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.



## 5. Governing Bodies



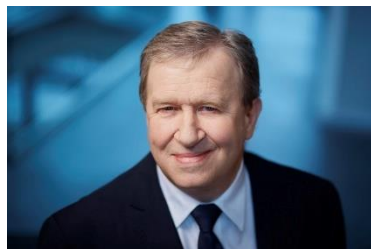
## Composition of the Management Board of the Parent



### 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

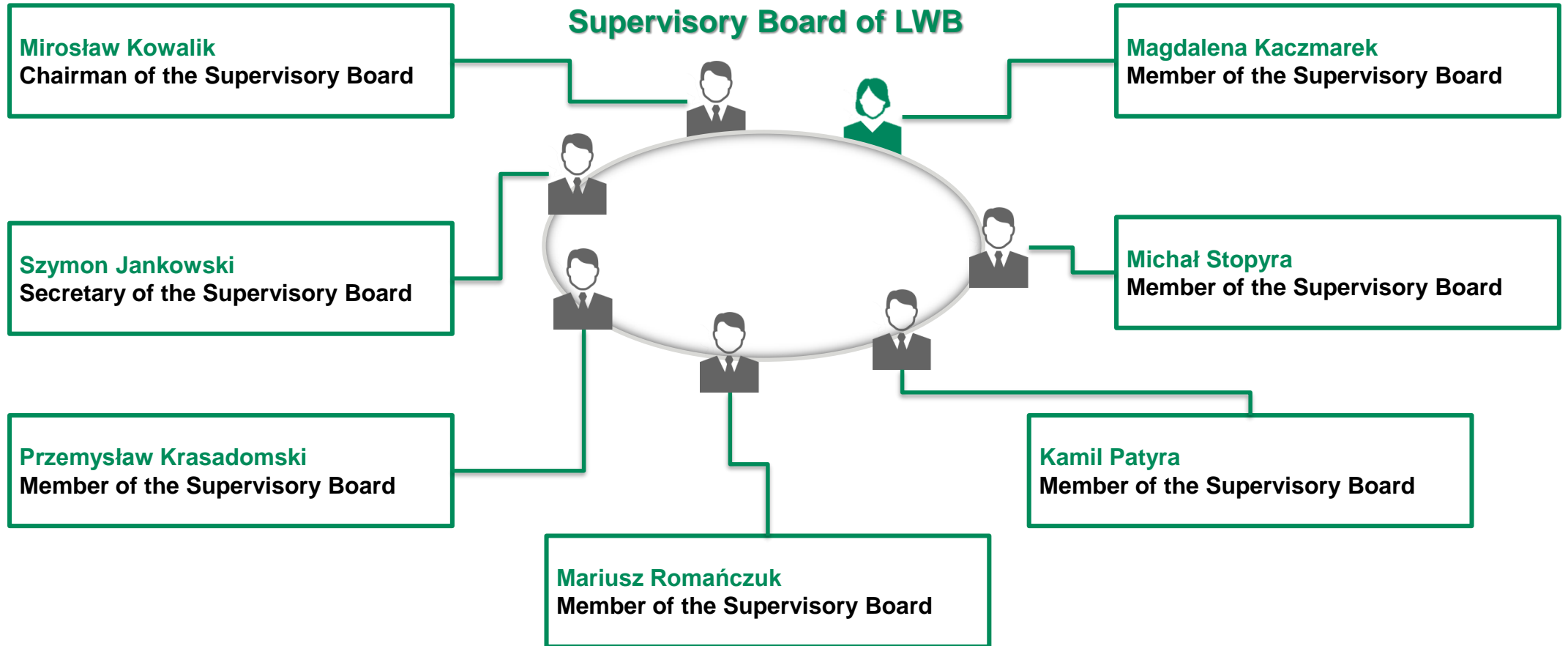
Mr Marcin Kapkowski is an automation engineer by trade. In 2001 he graduated from the Faculty of Electrical Engineering at the Technical University of Częstochowa. In the last 15 years, he has attended and completed numerous courses and business trainings. Mr Marcin Kapkowski worked with SANDVIK international 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.



Composition of the Parent's Supervisory Board as at 7 September 2017

**14.3% - independent members in the Supervisory Board of LWB**

**14.3% - women in the Supervisory Board of LWB**





### Composition of the Parent's Supervisory Board as at 7 September 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.

**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** is a 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.

**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.

**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.



## Glossary







- **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
- **PFRON** – the National Fund for the Disabled
- **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.
- **WFOŚiGW** – the Provincial Fund for Environment Protection and Water Management
- **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, 6 September 2017*



**Thank you!**